42nd
Annual Report
2012

BCM

BIBOJEE GROUP

BABRI

COTTON MILLS LIMITED

بسم الله الرحمن الرحيم

CONTENTS

COMPANY'S PROFILE

BOARD OF DIRECTORS	Mr. Raza Kuli Khan Khattak Chairman/Chief Executive Lt. Gen. (Retd.) Ali Kuli Khan Khattak Mr. Ahmed Kuli Khan Khattak Mrs. Zeb Gohar Ayub Mrs. Shahnaz Sajjad Ahmad Dr. Shaheen Kuli Khan Khattak Mr. Muhammad Ayub Khan (NIT) Ch. Sher Muhammad	
AUDIT COMMITTEE	Mrs. Shahnaz Sajjad Ahmad	Chairman
	Mr. Muhammad Ayub Khan	Member
	Ch. Sher Muhammad	Member
HUMAN RESOURCE AND REMUNERATION COMMITTEE	Ch. Sher Muhammad	Chairman
	Mr. Raza Kuli Khan Khattak	Member
	Mr. Muhammad Ayub Khan	Member
COMPANY SECRETARY	Mr. Arshian Mahboob, FCA, FPA	
CHIEF FINANCIAL OFFICER	Mr. Arshian Mahboob, FCA, FPA	
INTERNAL AUDITOR	Mr. Tahir Farzand ACCA, CIA	
AUDITORS	M/s Hameed Chaudhri & Co., Chartered Accountants	
SHARE REGISTRARS	Hameed Majeed Associates (Pvt) Ltd., 5th Floor, Karachi Chambers, Hasrat Mohani Road, Karachi Tel : (021) 32424826, 32412754 Fax: (021) 32424835	
BANKERS	National Bank of Pakistan Faysal Bank Limited	
REGISTERED OFFICE & MILLS	Habibabad, Kohat Tel : (0922) 516315 - 517498 Fax : (0922) 516335 E-mail : info@bcm.com.pk Website : www.bcm.com.pk	

VISION STATEMENT

To be market leaders in yarn, building company's image through innovation and competitiveness, ensuring satisfaction to customers and stakeholders and to fulfill social obligations.

MISSION STATEMENT

As lead producers of quality yarn we will build on our core competencies and achieve excellence in performance. We aim at exceeding expectations of all stakeholders. We target to achieve technological advancements and to inculcate the most efficient, ethical and time tested business practices in our management.

We will strive to innovate and introduce alternate uses of our products, to broaden our customer base and to help strengthen the physical infrastructure of the country.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 42nd Annual General Meeting of the shareholders of Babri Cotton Mills Limited (the Company) will be held at the registered office of the Company at Habibabad, Kohat on Monday 22nd October, 2012 at 11:00 a.m. to transact the following business:

A. ORDINARY BUSINESS

1. To confirm minutes of the Annual General Meeting held on October 29, 2011.
2. To receive, consider and adopt the audited accounts of the Company for the year ended June 30, 2012 together with the Directors' and Auditors' reports thereon.
3. To appoint Auditors for the year ending June 30, 2013 and to fix their remuneration.

B. SPECIAL BUSINESS

To consider and pass the following resolutions as Special Resolutions with or without modification;

(I) “**Resolved** that permission is hereby granted to issue 7,432,700 non-voting cumulative convertible unlisted redeemable preference shares of Rs. 10/- (Rupees; Ten only) otherwise than as right to M/S National Bank of Pakistan against the overdue principal portion of demand finance to the extent of Rs. 74,327,000/- (Rupees; Seventy four million three hundred twenty seven thousand only) bearing dividend rate of 10.80% per annum in accordance with section 87 of the Companies Ordinance, 1984 and the restructuring agreement of demand finance facilities (Finance Facilities Agreement dated 12th January, 2011) with National Bank of Pakistan subject to any regulatory approvals required under the law”.

(ii) “**Further Resolved** that the Chief Executive Officer and Company Secretary (the “Authorized Officers”) of the Company be and are hereby authorized and empowered, jointly or severally, on behalf of the Company to take all steps and actions necessary, ancillary and incidental in respect of issuance of Preference Shares including taking necessary permissions from the Regulatory Authorities, if any, and to sign, execute and amend such documents, papers, instruments etc., as may be necessary or expedient for the purpose of giving effect to the spirit and intent of the aforesaid resolution.”

A Statement under Section 160 (1) (b) of the companies, ordinance 1984 setting forth all material facts pertaining to the special business is annexed to this notice.

4. To consider any other business with the permission of the Chair.

By Order of the Board,

Arshian Mahboob FCA
Company Secretary

Kohat
Dated: September 29, 2012

NOTES:

1. The share transfer books of the Company will remain closed from October 11, 2012 to October 22, 2012 (both days inclusive).

2. A member entitled to attend and vote at this meeting may appoint another member as his/her proxy to attend the meeting and vote for his/her behalf. Proxy instrument in order to be effective must be received at the registered office of the Company duly stamped and signed not less than 48 hours before the time of holding the meeting.

3. Individual shareholder/proxy shall produce his/her original national identity card or original passport at the time of attending the meeting and nominee of corporate entity shall produce the board of directors' resolution/power of attorney containing specimen signature of the nominee attending the meeting.

4. The shareholders registered on CDC are also requested to bring their Participants' ID numbers and accounts numbers in CDC. Further, CDC Account Holders will have to follow the guidelines as laid down in Circular 1 dated January 26, 2000 issued by Securities and Exchange Commission of Pakistan for attending the meeting and appointment of proxies.

5. Shareholders are requested to notify the change of their addresses, if any, to Share Registrar, M/s Hameed Majeed Associates (Pvt.) Limited, 5th Floor, Karachi Chamber, Hasrat Mohani Road, Karachi. Tel No. 021-32424826

<u>Statement under Section 160 (1) (b) of the Companies Ordinance, 1984</u>

1. The preference shares (PS) are being issued to M/S National Bank of Pakistan (NBP) at issue price of Rs.10/- per share carrying the preferred dividend rate of 10.80% per annum. The proceeds will be used to re-pay the overdue principal amount of demand finance of NBP in line with the Finance Facilities Agreement executed between the Company and NBP on 12th January 2011.
2. NBP allowed the Company to repay the overdue principal amount of Rs. 74.732 million along with mark-up due thereon from time to time under the Khyber Pakhtunkhwa Relief Package issued by the State bank of Pakistan through its circular/notification Ref. # SMEFD Circular No. 11 dated 01 July, 2010 (the KPK Package) in 10 equal half-yearly installments with a grace period of 3 years. In case the KPK Package expired/terminated before the repayment of the aforesaid amount, the Company will repay the remaining overdue principal amount through the proceeds of issuance of un-listed non-voting cumulative convertible/redeemable PS of Rs. 10/- each.
3. The KPK package expired on 31 December, 2011 and subsequently no renewal was done. Therefore, the Company has to fulfill its commitment for the issuance of PS in order to repay the overdue principal portion amount of Rs. 74.732 million through the proceeds of the said issue.
4. In case, the profits in any year are insufficient to pay the dividend on PS, the dividend on PS (together with any previously accumulated and unpaid dividend) will be accumulated and payable in the next year. For sake of clarification, there will be no compounding on the accumulated dividends.

5. The PS holders will have the option to serve a notice to the Company to convert up to 20% of the PS into the OS of the Company if not redeemed during the fourth year from the date of issuance of such shares .After the expiry of 4th year, if 20% preference shares or any part thereof remains unredeemed then after a grace period of further 3 years, the PS holder will have the right to give notice of conversion by providing 2 month's notice to the company.
6. If the PS holders do not opt to redeem the shares when their redemption falls due, NBP would have the right to get the same unredeemed shares converted into ordinary shares after a further period of 3 years and any accumulated dividends shall be paid by the company.
7. The Company will have the option to redeem the issue in full or in part at any time after the issuance of Preference Shares within 3 years from the date of issue. After the expiry of 3 years from the date of issue , the company will redeem 20% of the total issued preferred share in the 4th year from the issuance of such share and shall also be flexible incase gross profit improves or is disturbed which shall be confirmed from that year's annual audited accounts.
8. The directors have no direct or indirect interest in the above mentioned issuance of PS.
9. The Finance Facilities Agreement executed with NBP dated 12th January, 2011 and other necessary documents are available for inspection at the registered office of the Company at Habibabad, Kohat during office hours.

DIRECTORS' REPORT TO THE SHAREHOLDERS

The directors of your Company are pleased to present the 42nd annual report along with audited financial statements for the year ended June 30, 2012.

General Overview

Textile industry continued to suffer on account of deterioration in the economy as the country faced rising fiscal deficit, energy and political crisis. Energy crisis remained the single most damaging factor as the unresolved issue of circular debt and ever increasing gas shortage affected the industry which is already under the burden of high cost of production.

The Company's performance was not only affected by the over all economic and industry situation but expiry of Khyber Pkhtunkhwa Relief Package (KPK Package) on December 31, 2011 also increased the finance cost which badly affected the Company's cash flows.

Financial Results
Current year's results compared with previous year are given as under:

	Year ended June 30,	
	2012	**2011**
	(Rupees in thousands)	
Sales	1,663,021	1,705,170
Gross Profit	177,873	199,633
Operating Profit	115,641	143,820
Finance Cost	63,988	22,696
Profit before Taxation	61,963	131,960
Profit after Taxation	88,036	122,571
	----------Rupees----------	
Earning per share	**24.11**	35.24

After deduction of tax, net profit earned by your company for the year ended 2011-2012 is Rs.88.036 million compared to Rs.122.571 million in the last year ended June 30, 2011. Gross profit for the current year is Rs.177.873 million (10.69 %) as compared to Rs.199.633 million (11.70 %) in the previous year. Decrease in profitability as well as in revenue is mainly due to decrease in yarn rates as compared to previous year and massive increase in cost of production especially rising energy cost. Further, depreciation of Pak Rupee against US Dollar has badly affected the whole textile industry during the current year.

Financial cost has major hike of 41.292 million as compared with the previous year which is mainly on account of expiry of KPK Package at the end of half year ended December 31, 2011.

The Company has also accounted for its share of profit of Janana De Malucho Textile Mills Limited (an Associated Company) amounting Rs.10.310 million during the current year as against profit of Rs. 10.836 million in 2011.

We have produced 4,237,412 Kgs yarn during the current financial year as against 3,962,261 kgs yarn in the year 2011. Average count spun during the year was 53.66 as against 56.57 in 2011.

The break-up value of company's share (excluding surplus on revaluation of fixed assets) stands at Rs. 98.53 per share as at June 30, 2012 (2011: Rs.72.61 per share).

Status of Financial Facilities

The company has obligation to issue unlisted non-voting cumulative convertible / redeemable preference shares of Rs. 10 each to National Bank of Pakistan against overdue principal amount of Rs. 74.372 million as the KPK Package has expired on December 31, 2011(refer content of note 12.2 of current year's financial statements). Proceedings for issuance of preference shares will be initiated after obtaining necessary approval of shareholders in the upcoming annual general meeting of the Company.

The issuance of preference shares shall have positive effect on the Company's financial position by reduction in the finance cost as the fixed dividend rate of 10.80% on preference shares is lower than prevailing interest rate. Further, the company has fulfilled its financial commitments during the year under review and subsequently as well.

Future Prospects

The challenges facing the future of Pakistani textile industry are formidable, however, the future does not look bleak. The prospects of cotton crop are bright and it is hoped that economies of the advanced countries will come out of their recession which will increase demands for our textile goods. If the European Union decreases its duties on our textile goods it will be an added fillip for us. Also if the Government of Pakistan gives us some concessions as it had given a couple of years ago to textile industry in Khyber Pakkhtunkhwa, it will further brighten our future.

The management is fully abreast with the conditions and would be putting its best efforts to ensure continued growth, operational efficiency and optimum results for the Company and its valued stack holders.

Appropriation for Dividend

Keeping in view the financial commitments of the company and difficult ecnomomic/industry scenario, the Board of Directors has decided not to recommend any dividend for the year under review.

Corporate and Financial Reporting Frame Work

The Board regularly reviews the Company's strategic direction and set annual plans and performance targets. The targets are regularly checked to find out whether they are being achieved by the management. The Board assures the share holders that the Company is abiding with the provisions of Code of Corporate Governance implemented through the listing regulations of the Karachi Stock Exchange (Guarantee) Limited. The board further states that:

a) There has been no material departure from the best practices of the corporate governance, as detailed in the listing regulations of The Karachi Stock Exchange (Guarantee) Limited.

b) The financial statements, prepared by the management of the Company, present fairly its state of affairs, the results of its operations, cash flows and changes in equity.

c) Appropriate accounting policies have been consistently applied in preparation of these financial statements and accounting estimates are based on reasonable and prudent judgments.

d) International accounting standards, as applied in Pakistan, have been followed in preparation of these financial statements and departures there from have been adequately disclosed.

e) The system of internal controls is sound in design and has been effectively implemented and monitored.

f) There are no significant doubts upon the Company's ability to continue as a going concern.

g) Summary of key operating and financial data of the past six years in annexed.

h) Pattern of share holdings of the Company as at June 30, 2012 is annexed.

i) No trades in shares of the Company were carried out by Directors, Chief Executive Officer, Chief Financial Officer, Company Secretary and their spouses and minor children during the year.

j) The Board in compliance with the Code of Corporate Governance has established Audit Committee and Human Resource & Remuneration Committee comprising of three members each.

Board meetings and attendance by each director

During the year four board meetings were held. The number of meetings attended by each director during the year is given here under.

Name of Directors	Number of meetings attended
Mr. Raza Kulli Khan Khattak	4
Lt. Gen (Retd.) Ali Kuli Khan Khattak	4
Mr. Ahmed Kuli Kahn Khattak	4
Mrs. Zeb Gohar Ayub	2
Mrs. Shahnaz Sajjad Ahmed	4
Dr. Shaheen Kuli Khan Khattak	2
Mr. Muhammad Ayub (NIT)	4
Ch. Sher Muhammad	4

Leave of absence was granted to the directors unable to attend the board meetings.

Key Operating and Financial Data (Six Years Summary)
Key operating and financial data of last six years in enclosed.

Pattern of Shareholding
The statement of pattern of shareholding of the Company as at June 30, 2012 is enclosed. This statement is prepared in accordance with the Code of Corporate Governance and the provisions of Companies Ordinance, 1984 read with Companies (Amendment) Ordinance, 2002.

Appointment of Auditors
The Company's auditors M/s Hameed Chaudhri & Co., Chartered Accountants, HM House, 7 Bank Square, Lahore retire and being eligible, offer themselves for reappointment. The Board and Board Audit Committee have recommended that the retiring auditors be re-appointed.

Acknowledgment
We appreciate the efforts and, with thanks, place on record the continued support extended to us by our customers, suppliers, bankers and other stake holders. The valuable services rendered by our teams of work force and management are gratefully acknowledged.

For & on behalf of the Board of Directors,

RAZA KULI KHAN KHATTAK
Chairman

Dated: September 22, 2012

SUMMARY OF KEY OPERATING AND FINANCIAL DATA

		2007	2008	2009	2010	2011	2012
CAPACITY AND PRODUCTION							
Spindle Installed	Nos.	54,288	54,288	44,400	53,040	53,040	**53,040**
Average spindle worked during the year	Nos.	52,404	51,039	44,094	49,285	51,314	**52,103**
Production for the year	Lbs in million	8.815	7.893	7.438	8.322	8.735	**9.341**
Average count spun during the year		56.52	59.92	60.41	56.52	56.57	**53.66**
PROFIT AND LOSS ACCOUNT							
Net sales	Rs. In Million	746.626	739.868	746.961	1,195.591	1,705.170	**1,663.021**
Gross Profit	Rs. In Million	74.759	45.627	51.207	275.022	199.633	**177.873**
	%age	10.01	6.17	6.86	23.00	11.71	**10.69**
Operating Profit	Rs. In Million	54.332	22.440	25.333	234.337	143.820	**115.641**
	%age	7.28	3.03	3.39	19.60	8.43	**6.95**
Profit / Loss Before Taxation	Rs. In Million	(14.309)	(44.157)	(104.001)	154.897	131.960	**61.963**
	%age	(1.92)	(5.97)	(11.07)	12.96	7.74	**3.72**
Profit / Loss After taxation	Rs. In Million	(11.094)	(29.926)	(73.683)	102.343	122.571	**88.036**
	%age	(1.48)	(4.04)	(9.86)	8.56	7.19	**5.29**
Earning / Loss Per Share	Rs.	(5.55)	(13.40)	(25.44)	30.73	35.24	**24.11**
BALANCE SHEET							
Share Holders' Equity (excluding surplus on revaluation of fixed assets)	Rs. In Million	96.233	95.640	28.724	133.425	265.191	**359.851**
Term Finance Certificates	Rs. In Million	0	0	0	0	56.481	**44.714**
Demand Finances	Rs. In Million	217.250	217.250	217.250	217.250	214.467	**183.368**
Liabilities Against Assets Subject To Finance Lease	Rs. In Million	86.882	86.498	86.064	86.064	59.401	**43.032**
Operating Fixed Assets	Rs. In Million	825.406	794.266	1,000.084	1,005.891	1,035.313	**1,344.558**
Addition in Fixed Assets	Rs. In Million	57.863	4.777	15.607	39.930	70.369	**49.024**
Current Assets	Rs. In Million	281.218	358.720	349.881	349.792	434.382	**391.668**
Current Liabilities (other than current portion of long term liabilities)	Rs. In Million	415.851	498.524	526.995	367.322	379.195	**329.883**
Others							
Breakup Value Per Share	Rupees	48.12	33.02	9.92	46.07	72.61	**98.53**
Employees At Year End	Nos.	1,363	1,224	879	1,143	1,078	**980**

Pattern of Shareholdings as at June 30, 2012

Company's incorporation number: P-189/19701006 **Registration number: 0003265**

Number of Shareholders	Shareholding From	Shareholding To	Shares Held
995	1	100	24,611
372	101	500	84,519
111	501	1,000	80,980
124	1,001	5,000	258,784
32	5,001	10,000	218,880
11	10,001	15,000	140,004
6	15,001	20,000	105,246
3	20,001	25,000	64,723
1	25,001	30,000	27,400
1	50,001	55,000	54,100
2	55,001	60,000	114,714
1	65,001	70,000	66,700
1	80,001	85,000	80,578
1	140,001	145,000	144,421
1	320,001	325,000	321,778
1	585,001	590,000	587,493
1	1,275,001	1,280,000	1,277,247
1,664			**3,652,178**

Categories of shareholders	Shares held	Percentage
Directors, Chief Executive Officer and their spouse and minor children	69,496	1.90
Associated Companies, Undertakings and Related Parties	2,066,799	56.59
NIT & ICP	82,062	2.25
Banks, Development Finance Institutions, Non- Banking Financial Institutions	399,190	10.93
Insurance Companies	5,692	0.16
Modarabas & Mutual Funds	1,150	0.03
General Public - Local	1,002,626	27.45
Others Companies	22,285	0.61
The Karachi Stock Exchange (Guarantee) Limited	1,150	0.03
Administrator Abandoned Properties	1,728	0.05

Date: September 14, 2012

Arshian Mahboob
Company Secretary

DETAILS OF PATTERN OF SHAREHOLDING AS PER REQUIREMENTS OF CODE OF CORPORATE GOVERNANCE

	Categories of shareholders		Shares held
1	**Directors, CEO and their spouse and minor children**		
	Mr. Raza Kuli Khan Khattak	(Chairman/Chief Executive)	13,982
	Lt. Gen. (Retd.) Ali Kuli Khan Khattak	(Director)	12,832
	Mr. Ahmed Kuli Khan Khattak	(Director)	13,981
	Mr. Ch. Sher Muhammad	(Director)	2,875
	Mrs. Zeb Gohar Ayub	(Director)	11,842
	Mrs. Shahnaz Sajjad Ahmad	(Director)	6,992
	Dr. Shaheen Kuli Khan Khattak	(Director)	6,992
2	**Associated Companies, Undertaking and Related Parties**		
	Bannu Woollen Mills Limited		144,421
	Bibojee Services (Pvt) Limited		1,277,247
	Janana De Malucho Textile Mills Limited		587,493
	Waqf-e-Kuli Khan		57,638
3	**NIT & ICP**		
	Investment Corporation of Pakistan		1,291
	National Bank of Pakistan (Trustee Department)		80,578
	IDBP (ICP UNIT)		193
4	**Banks, Development Financial Institutions, Non Banking Finance Institutions**		399,190
5	**Insurance Companies**		
	The New Jubilee Insurance Co Ltd		57
	The Crescent Star Insurance Co Ltd		5,635
6	**Modarabas & Mutual Funds**		1,150
7	**General Public (Local)**		1,002,396
8	**Executives**		230
9	**Others Companies**		22,285
10	**The Karachi Stock Exchange (Guarantee) Limited**		1,150
11	**Administrator Abandoned Properties**		1,728
12	**Shareholders holding 10% or more voting interests**		
	Bibojee Services (Pvt.) Limited		1,277,247
	Janana De Malucho Textile Mills Limited		587,493

Statement of Compliance with the Code of Corporate Governance

For the year ended 30 June, 2012

This statement is being presented to comply with the Code of Corporate Governance contained in the listing regulations of Karachi Stock Exchange (Guarantee) Limited for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The company has applied the principles contained in the CCG in the following manner:

1. The company encourages representation of independent non-executive directors and directors representing minority interests on its board of directors. At present the board includes:

Category	Names
Independent Director	Mr. Muhammad Ayub
Executive Director	Mr. Raza Kuli Khan Khattak
Non-Executive Directors	Lt. Gen. (Retd.) Ali Kuli Khan Khattak Mr. Ahmed Kuli Khan Khattak Mrs. Zeb Gohar Ayub Mrs. Shahnaz Sajjad Ahmed Dr. Shaheen Kuli Khan Khattak Ch. Sher Muhammad

The independent director meets the criteria of independence under clause i (b) of the CCG.

2. The directors have confirmed that none of them is serving as a director on more than ten listed companies, including this company (excluding the listed subsidiaries of listed holding companies where applicable).
3. All the resident directors of the company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancy occurred during the year.
5. The company has prepared a “Code of Conduct” and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.
6. The board has developed a vision/mission statement, overall corporate strategy and significant policies of the company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, other executive and non-executive directors, have been taken by the board/shareholders.
8. The meetings of the board were presided over by the Chairman and the board met at least once in every quarter. Written notices of the board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The board arranged no training program for its directors during the year as all the directors held adequate exposure to discharge their duties and responsibilities.

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10. The board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.
11. The directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the company were duly endorsed by CEO and CFO before approval of the board.
13. The directors, CEO and executives do not hold any interest in the shares of the company other than that disclosed in the pattern of shareholding.
14. The company has complied with all the corporate and financial reporting requirements of the CCG.
15. The board has formed an Audit Committee. It comprises three members, of whom all are non-executive directors and the chairperson of the committee is non-executive director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the company and as required by the CCG. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The board has formed a Human Resource and Remuneration Committee. It comprises three members, of whom two are non-executive directors and the chairman of the committee is an independent director.
18. The board has set up an effective internal audit function.
19. The statutory auditors of the company have confirmed that they have been given a satisfactory rating under the quality control review program of the ICAP, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of company's securities, was determined and intimated to directors, employees and stock exchange.
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange.
23. We confirm that all other material principles enshrined in the CCG have been complied with, except for which are not yet applicable during the current financial year, toward which reasonable progress is being made by the company to seek compliance by the end of next accounting year.

Kohat
Dated: September 22, 2012

(Raza Kuli Khan Khattak)
Chief Executive Officer

REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of **BABRI COTTON MILLS LIMITED** (the Company) to comply with the Listing Regulations of the Karachi Stock Exchange, where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried-out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Further, Listing Regulations of the Karachi Stock Exchange require the Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried-out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price, recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried-out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended 30 June, 2012.

Hameed Chaudhri & Co.

HAMEED CHAUDHRI & CO.,
CHARTERED ACCOUNTANTS
Audit Engagement Partner: Nafees ud din

LAHORE; September 22, 2012

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **BABRI COTTON MILLS LIMITED** (the Company) as at 30 June, 2012 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

(a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

(b) in our opinion:

(i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

(ii) the expenditure incurred during the year was for the purpose of the Company's business; and

(iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 30 June, 2012 and of the profit, its cash flows and changes in equity for the year then ended; and

(d) in our opinion, no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Hameed Chaudhri & Co.

HAMEED CHAUDHRI & CO.,
CHARTERED ACCOUNTANTS
Audit Engagement Partner: Nafees ud din

LAHORE; September 22, 2012

BALANCE SHEET AS AT 30 JUNE, 2012

	Note	2012 (Rupees in thousand)	2011 (Rupees in thousand)
Equity and Liabilities			
Share Capital and Reserves			
Authorised capital	7	250,000	250,000
Issued, subscribed and paid-up capital	8	36,522	36,522
Reserves	9	106,130	106,290
Unappropriated profit		217,199	122,379
		359,851	265,191
Term Finance Certificates	10	35,301	47,068
Surplus on Revaluation of Property, Plant and Equipment	11	630,544	439,563
Non-current Liabilities			
Demand finances	12	152,332	183,430
Liabilities against assets subject to finance lease	13	21,516	43,032
Staff retirement benefits - gratuity	14	38,995	40,756
Deferred taxation	15	150,158	47,322
		363,001	314,540
Current Liabilities			
Trade and other payables	16	88,096	74,466
Accrued interest / mark-up	17	18,565	21,850
Short term finances	18	223,222	259,824
Current portion of non-current liabilities	19	61,965	56,818
Taxation	20	0	23,055
		391,848	436,013
Contingencies and Commitments	21		
		1,780,545	1,502,375

	Note	2012 (Rupees in thousand)	2011 (Rupees in thousand)
Assets			
Non-current Assets			
Property, plant and equipment	22	1,344,558	1,035,313
Investments in an Associated Company	23	42,609	31,120
Advances to employees	24	647	550
Security deposits		1,063	1,010
		1,388,877	1,067,993
Current Assets			
Stores, spares and loose tools	25	11,087	13,758
Stock-in-trade	26	338,540	371,318
Trade debts	27	1,372	0
Advances to employees	28	2,820	1,192
Advance payments		2,394	1,021
Prepayments		322	258
Other receivables		875	0
Sales tax refundable		12,120	9,100
Mark-up subsidy receivable	29	0	23,315
Income tax refundable, advance tax and tax deducted at source		20,031	13,780
Cash and bank balances	30	2,107	640
		391,668	434,382
		1,780,545	1,502,375

The annexed notes form an integral part of these financial statements.

Raza Kuli Khan Khattak
Chief Executive

Lt. Gen (Retd)
Ali Kuli Khan Khattak
Director

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE, 2012

	Note	2012	2011
		(Rupees in thousand)	
Sales	31	**1,663,021**	1,705,170
Cost of Sales	32	**1,485,148**	1,505,537
Gross Profit		**177,873**	199,633
Distribution Cost	33	**13,037**	5,103
Administrative Expenses	34	**44,994**	40,911
Other Operating Expenses	35	**7,614**	13,052
Other Operating Income	36	**(3,413)**	(3,253)
		62,232	55,813
Profit from Operations		**115,641**	143,820
Finance Cost	37	**63,988**	22,696
		51,653	121,124
Share of Profit of an Associated Company	23	**10,310**	10,836
Profit before Taxation		**61,963**	131,960
Taxation			
- Current	20	**0**	17,077
- Prior year	20	**(23,055)**	(1,101)
- Deferred	15	**(3,018)**	(6,587)
		(26,073)	9,389
Profit after Taxation		**88,036**	122,571
Other Comprehensive Income		**0**	0
Total Comprehensive Income		**88,036**	122,571
		------- Rupees -------	
Earnings per Share	38	**24.11**	35.24

The annexed notes form an integral part of these financial statements.

Raza Kuli Khan Khattak
Chief Executive

Lt. Gen (Retd)
Ali Kuli Khan Khattak
Director

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE, 2012

	2012	2011
	(Rupees in thousand)	
Cash flow from operating activities		
Profit for the year - before taxation and share of profit in an Associated Company	51,653	121,124
Adjustments for non-cash charges and other items:		
Depreciation	35,263	34,326
Loss on sale of operating fixed assets - net	1,615	997
Loss arisen upon extinguishment of demand finances against issuance of ordinary shares	0	434
Payable balances written-back	0	(12)
Amortisation of gain on forward foreign exchange contracts	(160)	(168)
Amortisation of restructuring cost on demand finances	(63)	0
Staff retirement benefits - gratuity (net)	(1,761)	19,554
Finance cost	63,661	21,928
Profit before working capital changes	150,208	198,183
Effect on cash flow due to working capital changes		
Increase / (decrease) in current assets:		
Stores, spares and loose tools	2,671	(3,580)
Stock-in-trade	32,778	(48,826)
Trade debts	(1,372)	0
Advances to employees	(1,628)	485
Advance payments	(1,373)	2,571
Prepayments	(64)	(98)
Other receivables	(875)	0
Sales tax refundable	(3,020)	(4,038)
Mark-up subsidy receivable	23,315	44,385
Decrease in trade and other payables	13,630	9,284
	64,062	183
Cash generated from operations	214,270	198,366
Taxes paid	(6,251)	(7,083)
Advances to employees - net	(97)	196
Net cash generated from operating activities	207,922	191,479
Cash flow from investing activities		
Fixed capital expenditure	(49,024)	(69,441)
Sale proceeds of operating fixed assets	5,341	5,624
Security deposits	(53)	(100)
Net cash used in investing activities	(43,736)	(63,917)
Cash flow from financing activities		
Term finance certificates redeemed	(11,767)	0
Demand finances repaid	(31,035)	0
Lease finances - net	(16,369)	(26,663)
Short term finances - net	(36,602)	(17,220)
Finance cost paid	(66,946)	(84,074)
Net cash used in financing activities	(162,719)	(127,957)
Net increase / (decrease) in cash and cash equivalents	1,467	(395)
Cash and cash equivalents - at beginning of the year	640	1,035
Cash and cash equivalents - at end of the year	2,107	640

The annexed notes form an integral part of these financial statements.

Raza Kuli Khan Khattak
Chief Executive

Lt. Gen (Retd)
Ali Kuli Khan Khattak
Director

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE, 2012

	Share capital	Reserves: Share premium reserve	Reserves: General reserve	Reserves: Gain on hedging instru- ments	Reserves: Sub-total	(Accum-ulated loss) / unappro-priated profit	Total
	---------------------------- Rupees in thousand						----------------------------
Balance as at 30 June, 2010	28,960	19,440	88,000	3,362	110,802	(6,337)	133,425
Transactions with owners							
Nominal value of ordinary shares issued as fully paid bonus shares	4,344	(4,344)	0	0	(4,344)	0	0
Nominal value of ordinary shares issued upon extinguishment of long term liabilities	3,218	0	0	0	0	0	3,218
Total comprehensive income for the year	0	0	0	0	0	122,571	122,571
Amortisation of gain on forward foreign exchange contracts	0	0	0	(168)	(168)	0	(168)
Transfer from surplus on revaluation of property, plant and equipment (net of deferred taxation):							
- on account of incremental depreciation for the year	0	0	0	0	0	4,625	4,625
- upon sale of revalued assets	0	0	0	0	0	380	380
Effect of items directly credited in equity by an Associated Company	0	0	0	0	0	1,140	1,140
Balance as at 30 June, 2011	36,522	15,096	88,000	3,194	106,290	122,379	265,191
Total comprehensive income for the year	0	0	0	0	0	88,036	88,036
Amortisation of gain on forward foreign exchange contracts	0	0	0	(160)	(160)	0	(160)
Transfer from surplus on revaluation of property, plant and equipment (net of deferred taxation):							
- on account of incremental depreciation for the year	0	0	0	0	0	4,356	4,356
- upon sale of revalued assets	0	0	0	0	0	1,249	1,249
Effect of items directly credited in equity by an Associated Company	0	0	0	0	0	1,179	1,179
Balance as at 30 June, 2012	**36,522**	**15,096**	**88,000**	**3,034**	**106,130**	**217,199**	**359,851**

The annexed notes form an integral part of these financial statements.

Raza Kuli Khan Khattak
Chief Executive

Lt. Gen (Retd)
Ali Kuli Khan Khattak
Director

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE, 2012

1. CORPORATE INFORMATION

Babri Cotton Mills Limited (the Company) was incorporated in Pakistan on 26 October, 1970 as a Public Company. Its shares are quoted on Karachi Stock Exchange (Guarantee) Limited. It is principally engaged in manufacture and sale of yarn. The Company's registered office and Mills are located at Habibabad, Kohat.

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board as are notified under the provisions of the Companies Ordinance, 1984 (the Ordinance) and the requirements of the Ordinance and the directives issued by the Securities and Exchange Commission of Pakistan (SECP). Where the requirements of the Ordinance or the directives issued by the SECP differ with the requirements of IFRSs, the requirements of the Ordinance or the directives issued by the SECP shall prevail.

3. BASIS OF MEASUREMENT

3.1 Accounting convention

These financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies.

3.2 Functional and presentation currency

These financial statements are presented in Pak Rupees, which is the functional currency of the Company. All financial information presented in Pak Rupees has been rounded-off to the nearest thousand, unless otherwise stated.

4. STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED APPROVED ACCOUNTING STANDARDS

4.1 Amended standards that are effective in the current year and are relevant to the Company

The following amendments to the approved accounting standards are mandatory for the periods beginning on or after 01 July, 2011 and are relevant to the Company:

(a) IFRS 7 (Amendment), 'Financial Instruments: Disclosures'. The amendment emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with the financial instruments. The amendment has only resulted in additional disclosures with respect to financial instruments, which have been duly incorporated in these financial statements.

(b) IAS 1 (Amendment), 'Presentation of Financial Statements'. The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. Accordingly, the Company has presented analysis of other comprehensive income for each component of equity in the statement of changes in equity.

(c) IAS 24 (Revised), ‘Related Party Disclosures’, issued in November, 2009 supersedes IAS 24 ‘Related Party Disclosures’ issued in 2003. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The application of the revised standard has no material impact on the Company's financial statements.

(d) IAS 34 (Amendment), ‘Interim Financial Reporting’. This amendment provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around the circumstances likely to affect fair values of financial instruments and their classification, transfers of financial instruments between different levels of the fair value hierarchy, changes in classification of financial assets and changes in contingent liabilities and assets. The amendment pertains to interim reporting and was duly incorporated in the Company’s condensed interim financial information for the period of six months ended 31 December, 2011.

4.2 New accounting standards, amendments to approved accounting standards and interpretations that are effective in current financial year but are not relevant to the Company

There are other new standards, amendments to approved accounting standards and interpretations that are mandatory for the periods beginning on or after 01 July, 2011; however, these are currently not considered to be relevant to the Company or do not have any impact on the Company’s financial statements and therefore have not been detailed in these financial statements.

4.3 Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Company

The following amendments and interpretations to existing standards have been published and are mandatory for the Company's accounting periods beginning on or after 01 July, 2012 and have not been early adopted by the Company:

(a) IFRS 7 (Amendments), ‘Financial Instruments: Disclosures’ (effective for the periods beginning on or after 01 January, 2013). The amendments contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting agreement or similar arrangement. This amendment is only expected to result in additional disclosures and will not impact the Company’s financial results.

(b) IFRS 9, ‘Financial Instruments’ (effective for the periods beginning on or after 01 January, 2015). This is the first standard issued as part of a wider project to replace IAS 39 (Financial Instruments: Recognition and Measurement). IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets at (i) amortised cost and (ii) fair value. The basis of classification depends on entity’s business model and the contractual cash flow characteristics of the financial asset. The Company is yet to assess the full impact of IFRS 9; however, initial indications are that it may not significantly affect the Company’s financial assets.

(c) IFRS 13, 'Fair Value Measurement' (effective for the periods beginning on or after 01 January, 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. It is unlikely that this standard will have a significant affect on the Company's financial statements.

(d) IAS 1 (Amendments), 'Presentation of Financial Statements' (effective for the periods beginning on or after 01 July, 2012).The main change resulting from these amendments is a requirement for the entities to group items presented in other comprehensive income (OCI) on the basis of whether they can be potentially reclassified to profit or loss subsequently (reclassification adjustments). Since, the Company currently does not have any items of OCI, the amendments are not expected to have an affect on the Company's financial statements.

(e) IAS 19 (Amendments), 'Employee Benefits' (effective for the periods beginning on or after 01 January, 2013). The amendments (i) eliminate the 'corridor method' for recognising actuarial gains and losses and make it mandatory for all the actuarial gains and losses to be recognised immediately, (ii) streamline the presentation of changes in assets and liabilities arising from defined benefit plans by reclassifying their presentation in other comprehensive income and (iii) enhance disclosure requirements for providing better information about the characteristics of the defined benefit plans and the risks that entities are exposed to through participation in these plans. The Company is yet to assess the full impact of these amendments.

There are other new accounting standards, amendments to approved accounting standards and interpretations that are not yet effective; however, they are currently not considered to be relevant to the Company and therefore have not been detailed in these financial statements.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set-out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

5.1 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred and are subsequently measured at amortised cost using the effective interest rate method. Borrowings are classified as current liabilities unless the Company has an unconditional / contractual right to defer settlement of the liability for at least twelve months after the balance sheet date.

5.2 Staff retirement benefits (defined benefit plan)

The Company operates an un-funded retirement gratuity scheme for its eligible employees. Provision for gratuity is made annually to cover obligation under the scheme in accordance with the actuarial recommendations. Latest actuarial valuation was conducted on 30 June, 2012 on the basis of the projected unit credit method by an independent Actuary.

5.3 Trade and other payables

Liabilities for trade and other payables are carried at cost, which is the fair value of consideration to be paid in the future for goods and services received, whether or not billed to the Company.

5.4 Taxation

(a) Current and prior year

Provision for current year's taxation is determined in accordance with the prevailing law of taxation on income enacted or substantively enacted by the end of the reporting period and is based on current rates of taxation being applied on the taxable income for the year, after taking into account tax credits and rebates available, if any, and taxes paid under the Final Tax Regime. The tax charge also includes adjustments, where necessary, relating to prior years which arise from assessments finalised during the year.

(b) Deferred

Deferred tax is recognised using the balance sheet liability method on all temporary differences arising between the tax basis of assets and liabilities and their carrying amounts appearing in the financial statements. Deferred tax liability is recognised for all taxable temporary differences. Deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that temporary differences will reverse in the future and taxable income will be available against which the temporary differences can be utilised.

Deferred tax asset and liability is measured at the tax rate that is expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the balance sheet date.

5.5 Dividend and appropriation to reserves

Dividend distribution to the Company's shareholders and appropriation to reserves are recognised in the period in which these are approved.

5.6 Property, plant and equipment and depreciation

These, other than freehold land, buildings on freehold land, plant & machinery, generators and capital work-in-progress, are stated at cost less accumulated depreciation and any identified impairment loss. Freehold land is stated at revalued amount whereas buildings on freehold land, plant & machinery and generators are stated at revalued amounts less accumulated depreciation and any identified impairment loss. Capital work-in-progress is stated at cost. Cost of some items of plant & machinery consists of historical cost and exchange fluctuation effects on foreign currency loans capitalised during prior years. Borrowing costs are also capitalised for the period upto the date of commencement of commercial production of the respective plant & machinery, acquired out of the proceeds of such borrowings.

Property, plant and equipment, as detailed in note 22.1, have been revalued during the current year. Surplus arisen on revaluation of these assets has been credited to surplus on revaluation of property, plant and equipment account in accordance with the requirements of section 235 of the Companies Ordinance, 1984 and shall be held on the balance sheet till realisation. Revaluation is carried-out with sufficient regularity to ensure that the carrying amount of assets does not differ materially from the fair value. To the extent of incremental depreciation charged on the revalued assets, the related surplus on revaluation of these assets (net of deferred taxation) is transferred directly to equity.

Depreciation is taken to profit and loss account applying reducing balance method so as to write-off the depreciable amount of an asset over its remaining useful life at the rates stated in note 22. The assets' residual values and useful lives are reviewed at each financial year-end and adjusted if impact on depreciation is significant.

Depreciation on additions to property, plant and equipment is charged from the month in which an asset is acquired or capitalised while no depreciation is charged for the month in which the asset is disposed-off.

Normal repairs and replacements are taken to profit and loss account. Major improvements and modifications are capitalised and assets replaced, if any, other than those kept as stand-by, are retired.

Gain / loss on disposal of property, plant and equipment, if any, is taken to profit and loss account.

5.7 Assets subject to finance lease

Leases where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Assets subject to finance lease are initially recognised at the lower of present value of minimum lease payments under the lease agreements and the fair value of the assets. Subsequently these assets are stated at cost less accumulated depreciation and any identified impairment loss.

The related rental obligations, net of finance charges, are included in liabilities against assets subject to finance lease. The liabilities are classified as current and long-term depending upon the timing of the payment.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the balance outstanding. The interest element of the rental is charged to profit over the lease term.

Depreciation on assets subject to finance lease is charged to income at the rates stated in note 22 applying reducing balance method to write-off the cost of the asset over its estimated remaining useful life in view of certainty of ownership of assets at the end of lease period.

Depreciation on additions to leased assets is charged from the month in which an asset is acquired while no depreciation is charged for the month in which the asset is disposed-off.

Finance cost and depreciation on leased assets are charged to income currently.

5.8 Investments in Associated Companies

Investments in Associated Companies are accounted for by using equity basis of accounting, under which the investments in Associated Companies are initially recognised at cost and the carrying amounts are increased or decreased to recognise the Company's share of profit or loss of the Associated Companies after the date of acquisition. The Company's share of profit or loss of the Associated Companies is recognised in the Company's profit or loss. Distributions received from Associated Companies reduce the carrying amount of investments. Adjustments to the carrying amounts are also made for changes in the Company's proportionate interest in the Associated Companies arising from changes in the Associated Companies' equity that have not been recognised in the Associated Companies' profit or loss. The Company's share of those changes is recognised directly in equity of the Company.

The carrying amount of investments is tested for impairment, by comparing its recoverable amount (higher of value in use and fair value less cost to sell) with its carrying amount and loss, if any, is recognised in profit or loss.

5.9 Stores, spares and loose tools

Stores, spares and loose tools are stated at the lower of cost and net realisable value. The cost of inventory is based on moving average cost. Items in transit are stated at cost accumulated upto the balance sheet date. The Company reviews the carrying amount of stores, spares and loose tools on a regular basis and provision is made for identified obsolete and slow moving items.

5.10 Stock-in-trade

Basis of valuation are as follows:

Particulars	**Mode of valuation**
Raw materials	
-At mills	- At lower of annual average cost and net realisable value.
-In transit	- At cost accumulated to the balance sheet date.
Work-in-process	- At cost.
Finished goods	- At lower of cost and net realisable value.
Waste	- At net realisable value.

- Cost in relation to work-in-process and finished goods consists of prime cost and appropriate production overheads. Prime cost is allocated on the basis of moving average cost.
- Provision for obsolete and slow moving stock-in-trade is determined based on the management's assessment regarding their future usability.
- Net realisable value signifies the selling price in the ordinary course of business less cost of completion and cost necessary to be incurred to effect such sale.

5.11 Trade debts and other receivables

Trade debts are initially recognised at original invoice amount, which is the fair value of consideration to be received in future and subsequently measured at cost less provision for doubtful debts, if any. Carrying amounts of trade debts and other receivables are assessed at each reporting date and a provision is made for doubtful debts and receivables when collection of the amount is no longer probable. Debts and receivables considered irrecoverable are written-off.

5.12 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents consist of cash-in-hand and balances with banks.

5.13 Impairment loss

The carrying amounts of the Company's assets are reviewed at each balance sheet date to identify circumstances indicating occurrence of impairment loss or reversal of provisions for impairment losses. If any indications exist, the recoverable amounts of such assets are estimated and impairment losses or reversals of impairment losses are recognised in the profit and loss account. Reversal of impairment loss is restricted to the original cost of the asset.

5.14 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

5.15 Foreign currency translations

Transactions in foreign currencies are accounted for in Pak Rupees at the exchange rates prevailing on the date of transactions. Assets and liabilities in foreign currencies are translated into Pak Rupees at the exchange rates prevailing on the balance sheet date except where forward exchange rates are booked, which are translated at the contracted rates. Exchange differences, if any, are taken to profit and loss account.

5.16 Derivative financial instruments

In relation to fair value hedges, which meet the conditions for special hedge accounting, any gain or loss from remeasuring the hedging instruments at fair value is recognised immediately in the profit and loss account. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the profit and loss account.

In relation to cash flow hedges, if a hedge of a forecast transaction which subsequently results in the recognition of a non-financial asset, the associated gains and losses (that were recognised directly in equity) are taken to profit and loss account in the same period during which the asset acquired effects the profit and loss account.

5.17 Financial instruments

Financial assets and financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument and derecognised when the Company loses control of contractual rights that comprise the financial assets and in the case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on derecognition of financial assets and financial liabilities is included in the profit and loss account for the year.

Financial instruments carried on the balance sheet include deposits, trade debts, other receivables, mark-up subsidy receivable, bank balances, term finance certificates, demand finances, liabilities against assets subject to finance lease, trade & other payables, accrued interest / mark-up and short term finances. All financial assets and liabilities are initially measured at cost, which is the fair value of consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value or cost as the case may be. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

5.18 Off-setting of financial assets and liabilities

Financial assets and liabilities are off-set and the net amount is reported in the financial statements only when there is a legally enforceable right to set-off the recognised amounts and the Company intends either to settle on a net basis or to realise the assets and to settle the liabilities simultaneously.

5.19 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Revenue is measured at the fair value of consideration received or receivable on the following basis:

- Sales are recorded on dispatch of goods.
- Return on deposits is accounted for on 'accrual basis'.
- Dividend income and entitlement of bonus shares are recognised when right to receive such dividend and bonus shares is established.

5.20 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed-out in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

5.21 Segment reporting

Segment information is presented on the same basis as that used for internal reporting purposes by the Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance of the operating segments. On the basis of its internal reporting structure, the Company considers itself to be a single reportable segment; however, certain information about the Company’s products, as required by the approved accounting standards, is presented in note 44 to these financial statements.

6. ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectation of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Company's financial statements or where judgment was exercised in application of accounting policies are as follows:

a) Staff retirement benefits - gratuity

The present value of this obligation depends on a number of factors that is determined on actuarial basis using a number of assumptions. Any change in these assumptions will impact carrying amount of this obligation. The present value of the obligation and underlying assumptions are stated in note 14.

b) Taxation

In making the estimate for income taxes payable by the Company, the management looks at the applicable law and decisions of appellate authorities on certain issues in the past.

c) **Property, plant and equipment**

The Company reviews appropriateness of the rates of depreciation, useful lives and residual values for calculation of depreciation on an on-going basis. Further, where applicable, an estimate of recoverable amount of asset is made if indicators of impairment are identified.

d) **Stores & spares and stock-in-trade**

The Company estimates the net realisable value of stores & spares and stock-in-trade to assess any diminution in the respective carrying values. Net realisable value is determined with reference to estimated selling price less estimated expenditure to make sale.

e) **Provision for impairment of trade debts**

The Company assesses the recoverability of its trade debts if there is objective evidence that the Company will not be able to collect all the amount due according to the original terms. Significant financial difficulties of the debtors, probability that the debtor will enter bankruptcy and default or delinquency in payments are considered indications that the trade debt is impaired.

7. AUTHORISED SHARE CAPITAL

2012	2011		**2012**	2011
---- Numbers ----			**(Rupees in thousand)**	
17,500,000	17,500,000	Ordinary shares of Rs.10 each	**175,000**	175,000
7,500,000	7,500,000	Redeemable cumulative preference shares of Rs.10 each	**75,000**	75,000
25,000,000	25,000,000		**250,000**	250,000

8. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2,896,000	2,896,000	Ordinary shares of Rs.10 each fully paid in cash	**28,960**	28,960
434,400	434,400	Ordinary shares of Rs.10 each issued as fully paid bonus shares	**4,344**	4,344
321,778	321,778	Ordinary shares of Rs.10 each issued to a Bank by conversion of long term liabilities	**3,218**	3,218
3,652,178	3,652,178		**36,522**	36,522

8.1 Ordinary shares held by the Associated Companies and an Associate at the year-end:	**2012**	2011
	---- Numbers ----	
Bibojee Services (Pvt.) Ltd.	**1,277,247**	1,277,247
Bannu Woollen Mills Ltd.	**144,421**	144,421
Janana De Malucho Textile Mills Ltd.	**587,493**	587,493
Waqf-e-Kuli Khan	**57,638**	57,638
	2,066,799	2,066,799

	Note	2012	2011
		(Rupees in thousand)	
9. RESERVES			
Capital reserve	9.1	**15,096**	15,096
General reserve		**88,000**	88,000
Gain on remeasurement of forward foreign exchange contracts - cash flow hedge		**3,034**	3,194
		106,130	106,290

9.1

This represents share premium received @ Rs.6 per share on 1,000,000 right shares issued by the Company during the financial years ended 30 September, 1992 & 30 September, 1993 and @ Rs.15 per share on 896,000 ordinary shares issued as otherwise than right in accordance with the provisions of section 86(1) of the Companies Ordinance, 1984 during the financial year ended 30 June, 2008. The Company, during the preceding year, had issued 434,400 bonus shares out of this reserve.

10. TERM FINANCE CERTIFICATES - Secured

	Note	2012	2011
Balance of term finance certificates as at 30 June,	12.2(d)	**44,714**	56,481
Less: current portion grouped under current liabilities		**9,413**	9,413
		35,301	47,068

11. SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT - Net

11.1 The Company had revalued its freehold land on 30 September, 1998, 30 September, 2004, 31 January, 2007 and 27 June, 2009. Buildings on freehold land, plant & machinery and generators had been revalued on 30 September, 2004 and 31 January, 2007. These fixed assets were revalued by Independent Valuers on the basis of market value / depreciated market values and resulted in revaluation surplus aggregating Rs.506.250 million.

11.2 The Company, as at 30 June, 2012, has again revalued its freehold land, buildings on freehold land, plant & machinery and generators (owned and leased). The revaluation exercise has been carried-out by independent Valuers - SAS International Corporation (Muccadum & Valuators), Gulberg, Lahore. Freehold land has been revalued on the basis of current market value whereas buildings on freehold land, plant & machinery and generators have been revalued on the basis of depreciated market values. The net appraisal surplus arisen on latest revaluation aggregating Rs.302.440 million has been credited to this account to comply with the requirements of section 235 of the Companies Ordinance, 1984. The year-end balance has been arrived at as follows:

	Note	2012	2011
		(Rupees in thousand)	
Opening balance		**486,885**	494,585
Add: surplus arisen on revaluation carried-out during the year	22.1	**302,440**	0
Less: transferred to unappropriated profit:			
- on account of incremental depreciation for the year		**(6,701)**	(7,116)
- upon sale of revalued assets		**(1,922)**	(584)
		780,702	486,885
Less: deferred tax on:			
- opening balance of surplus		**47,322**	50,017
- surplus on revaluation carried-out during the year		**105,854**	0
- incremental depreciation for the year		**(2,345)**	(2,491)
- sale of revalued assets		**(673)**	(204)
		150,158	47,322
Closing balance		**630,544**	439,563

12. DEMAND FINANCES - Secured

National Bank of Pakistan (NBP)

	2012	2011
Balance of rescheduled demand finances as at 30 June,	**182,997**	214,032
Restructuring cost balance as at 30 June,	**371**	434
	183,368	214,466
Less: current portion grouped under current liabilities	**31,036**	31,036
	152,332	183,430

12.1 NBP, during November, 2007, had clubbed Demand Finance I, Demand Finance II, Demand Finance III and Demand Finance IV into one Rescheduled Demand Finance of Rs.217.250 million.

12.2 **(a)** The Company and NBP had entered into a finance facilities agreement on 12 January, 2011 whereby the Company was allowed to pay / settle the portion of aggregate outstanding amount of the rescheduled demand finance (RDF) through conversion of loan into ordinary shares, proceeds of issuance of preference shares and term finance certificates (TFCs).

(b) The Company is liable to repay the following amounts to NBP in respect of finance facilities availed from it:

	Amount payable Rupees in thousand
RDF	**217,250**
Overdue mark-up on finance facilities	**56,481**
	273,731

The aggregate outstanding amount was Rs.273.731 million plus an amount of Rs.5 million being the up-front payment that the Company had already paid.

(c) Rescheduled Demand Finance

(i) NBP had allowed the Company to convert the overdue principal portion of outstanding RDF amounting Rs.3.218 million into 321,778 ordinary shares of Rs.10 each at the conversion rate of Rs.10 per share under section 87 of the Companies Ordinance, 1984. The Company had issued these shares during the preceding financial year.

(ii) NBP has allowed the Company to repay the remaining portion of overdue principal amount of Rs.74.372 million along with mark-up to be due thereon from time to time under the Khyber Pakhtunkhwa Relief Package issued by State Bank of Pakistan through its circular / notification Ref. # SMEFD Circular No.11 dated 01 July, 2010 (the KPK Package) in 10 equal half-yearly instalments with a grace period of three years.

In case the KPK Package expires / terminates before the repayment of the aforesaid amount, the Company will repay the remaining overdue principal amount through the proceeds of issuance of unlisted non-voting cumulative convertible / redeemable preference shares of Rs.10 each. NBP will have the option to redeem and convert these preference shares into ordinary shares at the rate of Rs.10 per share. After the expiry of KPK Package on 31 December, 2011, procedures to obtain necessary approvals regarding issuance of these shares will be initiated in the upcoming annual general meeting of the Company's shareholders.

(iii) NBP has allowed the Company to repay the portion of principal amount of Rs.139.660 million under the KPK Package as a demand finance facility in 9 equal semi-annual instalments of Rs.15.518 million commenced from July, 2011. After the expiry of KPK Package on 31 December, 2011, the Company is liable to repay the remaining portion as a demand finance facility along with mark-up to be due thereon from time to time.

(d) Mark-up portion of finance facilities

NBP allowed the Company to repay the aggregate overdue (frozen) mark-up of Rs.56.481 million in respect of finance facilities through the proceeds of issuance of privately placed TFCs with nil mark-up rate. NBP had subscribed these TFCs during the preceding financial year. Significant terms and conditions of this TFCs issue are as follows:

Total issue size	Rs. 56.481 million
Instrument	Unrated, unlisted and secured TFCs issued as redeemable capital under section 120 of the Companies Ordinance, 1984.
Purpose of issuance of TFCs	To pay overdue mark-up of NBP (TFC holder) against demand finance facilities availed by the Company during the period from December, 2008 to December, 2010.
Tenor	6 years from the issue date i.e. 12 January, 2011.
Security	First charge on fixed assets of the Company for Rs.700 million.
Profit rate	Nil
Profit payment	None
Principal repayment	6 years with the condition that at least 10% of the original TFCs amount is redeemed each year. The redemption has been linked to gross profit and cash flows of the Company. As per the indicative redemption schedule, the total principal amount of TFCs of Rs.56.481 million will be redeemed in 6 equal annual instalments of Rs.9.413 million commenced from January, 2012.
Redemption reserve	No redemption reserve has been created for redemption of TFCs. In view of projected financial cash flows, the Company is expected to have adequate funds to meet its financial obligations.

Enhanced redemption of TFCs	If the Company generates excess cash flows due to any reason other than the increase due to gross profit margin, the Company would be allowed to make excess payment without any prepayment charges. In case the increased cash flows are due to increase in gross profit, the Company would repay its obligation first towards TFCs and then preference shares as follows : - no extra payment will be required if the gross profit margin remains between 8% to 11%. - with the increase in gross profit margin beyond 11%, additional cash flows would be utilised for enhanced redemption of TFCs beyond the minimum 10% allowed repayment each year.
Transfer of TFCs	The TFCs are transferable in the manner as provided in the Companies Ordinance, 1984.

(e) Mark-up rate

The Company and NBP had agreed that during the validity of KPK Package, the Company would pay mark-up on demand finance facility at the KPK rate i.e. 7.5% per annum. After the expiry / termination of KPK Package, the Company will pay mark-up on demand finance facility at the base rate (6-months KIBOR) plus 1.75% per annum. Mark-up is payable with effect from 01 January, 2011 on quarterly basis; payment has commenced from March, 2011.

After the expiry of KPK Package on 31 December, 2011, the Company is paying mark-up on demand finance facility at the rate specified in the aforementioned paragraph. Mark-up rate during the period from 01 January, 2012 to 30 June, 2012 was 13.77% per annum.

(f) Mechanism for alteration in the existing repayment schedule

If the Company generates excess cash flows due to any reason other than operations i.e. sale of fixed assets, sale of investments and issuance of securities / equity injection etc., the Company would be allowed to make excess payments above the regular payments without any prepayment charges. The application of this clause would be as follows :

If the gross profit as per annual audited financial statements of the Company remains between 8% and 11% of net sales	The repayment of principal amount of instalments will be as per the existing repayment schedule.
If gross profit is above 11% of net sales as per annual audited financial statements of the Company	Following percentage of the principal portion of one instalment amount payable during a particular year will be added to the existing instalment amount:
If gross profit increases	
- from 11% to 12% per annum	25% (say if principal portion is Rs.100, the Company will pay Rs.125)
- from 11% to 13% per annum	50% (say if principal portion is Rs.100, the Company will pay Rs.150)
- from 11% to 14% per annum	75% (say if principal portion is Rs.100, the Company will pay Rs.175)
- from 11% to 15% per annum	100% (say if principal portion is Rs.100, the Company will pay Rs.200)

Any enhanced payment will be adjusted in the last instalment's principal.

If gross profit is below 8% of net sales as per annual audited financial statements of the Company	Following percentage of the instalment amount will be allowed to be deferred from the instalment falling due in that particular year:
If gross profit decreases	
- from 8% to 7% per annum	25% (say if instalment payable is Rs.100, the Company will pay Rs. 75 only)
- from 8% to 6% per annum	50% (say if instalment payable is Rs.100, the Company will pay Rs.50 only)
- from 8% to 5% per annum	75% (say if instalment payable is Rs.100, the Company will pay Rs.25 only)
- from 8% to 4% per annum	100% (say if instalment payable is Rs.100, the Company will pay nil amount)

Any short payment due to this condition shall stand payable immediately after the last instalment of the existing scheduled instalments.

13. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE- Secured

Particulars	Upto one year	From one to five years	2012	Upto one year	From one to five years	2011
	------------------ Rupees in thousand ------------------					
Minimum lease payments	**25,725**	**22,552**	**48,277**	24,670	48,929	73,599
Less: finance cost allocated to future periods	**4,209**	**1,036**	**5,245**	8,301	5,897	14,198
Present value of minimum lease payments	**21,516**	**21,516**	**43,032**	16,369	43,032	59,401

13.1 These lease finance facilities were again rescheduled by Faysal Bank Limited (FBL) during the financial year ended 30 June, 2009 as detailed below:

Line No.	Amount of facility	Purpose of facility	Expiry of facility	Mark-up rate	Grace period	Principal repayment	Security
1	Rs.41.179 million	Restructuring of corporate lease finance facility availed for purchase of new gas generator sets.	January, 2014	12-months average asking KIBOR + 2.25% p.a. and payable on bi-annual basis.	12 months commenced from February, 2009.	To be repaid in 8 equal semi-annual instalments commenced from July, 2010.	Title and insurance of leased assets in FBL's name.
2	Rs.9.768 million	Restructuring of corporate lease finance facility availed for purchase of auto coners.	March, 2014	6-months average asking KIBOR + 3% p.a. and payable on bi-annual basis.	12 months commenced from March, 2009.	To be repaid in 8 equal semi-annual instalments commenced from September, 2010.	Title and insurance of leased assets in FBL's name.
3	Rs.11.210 million	Restructuring of corporate lease finance facility availed for purchase of misc. machinery and equipment.	January, 2014	6-months average asking KIBOR + 2.85% p.a. and payable on bi-annual basis.	12 months commenced from January, 2009.	To be repaid in 8 equal semi-annual instalments commenced from July, 2010.	Title and insurance of leased assets in FBL's name.
4	Rs.6.514 million	Restructuring of corporate lease finance facility availed for purchase of electric panel and air compressor.	February, 2014	6-months average asking KIBOR + 2.85% p.a. and payable on bi-annual basis.	12 months commenced from February, 2009.	To be repaid in 8 equal semi-annual instalments commenced from August, 2010.	Title and insurance of leased assets in FBL's name.
5	Rs.7.153 million	Restructuring of corporate lease finance facility availed for purchase of new laboratory equipment.	February, 2014	6-months average asking KIBOR + 2.85% p.a. and payable on bi-annual basis.	12 months commenced from February, 2009.	To be repaid in 8 equal semi-annual instalments commenced from August, 2010.	Title and insurance of leased assets in FBL's name.
6	Rs.11.520 million	Restructuring of corporate lease finance facility availed for purchase of used auto coners.	March, 2014	6-months average asking KIBOR + 3% p.a. and payable on bi-annual basis.	12 months commenced from March, 2009.	To be repaid in 8 equal semi-annual instalments commenced from September, 2010.	10% security deposit, title and insurance of leased assets in FBL's name.

13.2 200,000 NIT Units, in the name of Company's Chief Executive, are under lien in favour of FBL; these Units will be released only upon complete and final settlement of entire outstanding portfolio.

13.3 The interest rates on lease finance facilities during the year ranged from 7.5% to 16.79% (2011: 7.5%) per annum.

14. STAFF RETIREMENT BENEFITS - Gratuity

The future contribution rates of this scheme include allowance for deficit and surplus. Projected unit credit method, based on the following significant assumptions, is used for valuation:

	2012	2011
- discount rate	**13%**	14%
- expected rate of growth per annum in future salaries	**12%**	13%
- average expected remaining working life time of employees	**11 years**	12 years

The amount recognised in the balance sheet is as follows:	**2012**	2011
	(Rupees in thousand)	
Present value of defined benefit obligation	**43,012**	46,136
Unrecognised actuarial loss	**(6,681)**	(5,380)
Payable to outgoing members	**2,664**	0
Net liability at end of the year	**38,995**	40,756
Net liability at beginning of the year	**40,756**	21,202
Charge to profit and loss account	**12,660**	25,787
Payments made during the year	**(14,421)**	(6,233)
Net liability at end of the year	**38,995**	40,756
The movement in the present value of defined benefit obligation is as follows:		
Opening balance	**46,136**	22,514
Current service cost	**6,132**	5,379
Interest cost	**6,459**	2,702
Past service cost - vested benefits	**0**	17,706
Benefits paid	**(14,421)**	(6,233)
Benefits payable to outgoing members	**(2,664)**	0
Actuarial loss	**1,370**	4,068
Closing balance	**43,012**	46,136
Expense recognised in profit and loss account		
Current service cost	**6,132**	5,379
Interest cost	**6,459**	2,702
Past service cost	**0**	17,706
Actuarial loss recognised	**69**	0
Charge for the year	**12,660**	25,787

Comparison of present value of defined benefit obligation and experience adjustment on obligation for five years is as follows:

	2012	2011	2010	2009	2008
	Rupees in thousand				
Present value of defined benefit obligation	**43,012**	46,136	22,514	21,583	28,226
Experience adjustment on obligation	**1,370**	4,068	0	(1,848)	(346)

The Company's policy with regard to actuarial gains / losses is to follow the minimum recommended approach under IAS 19 (Employee Benefits).

15. DEFERRED TAXATION - Net

This is composed of the following:	Note	2012	2011
		(Rupees in thousand)	
Taxable temporary differences arising in respect of:			
- accelerated tax depreciation allowances		**127,960**	116,387
- surplus on revaluation of property, plant & equipment		**150,158**	47,322
		278,118	163,709
Deductible temporary difference arising in respect of:			
- staff retirement benefits - gratuity		**(13,648)**	(14,264)
- provision for doubtful debts		**(801)**	(801)
- unused tax losses		**(106,078)**	(84,245)
- minimum tax recoverable against normal tax charge in future years		**(7,433)**	(17,077)
		(127,960)	(116,387)
		150,158	47,322

16. TRADE AND OTHER PAYABLES

	Note	2012	2011
Due to Associated Companies		**466**	0
Creditors		**12,810**	11,292
Advances from customers		**3,066**	827
Accrued expenses		**53,969**	39,824
Interest free security deposits - repayable on demand		**100**	100
Workers' (profit) participation fund	**16.1**	**2,881**	6,657
Waqf-e-Kuli Khan	**35.1**	**5,076**	4,083
Workers' welfare fund		**6,342**	5,247
Sales tax payable		**0**	3,812
Income tax deducted at source		**667**	25
Unclaimed dividends		**2,431**	2,431
Others		**288**	168
		88,096	74,466

16.1 Workers' (profit) participation fund (the Fund)*

	Note	2012	2011
		(Rupees in thousand)	
Opening balance		**6,657**	7,490
Add: interest on funds utilised in the Company's business		**569**	621
Less:			
- paid to workers		**7,163**	8,033
- deposited with the Government Treasury		**63**	78
		7,226	8,111
		0	0
Add: allocation for the year		**2,881**	6,657
Closing balance		**2,881**	6,657

* The Fund's audit for the year ended 30 June, 2011 was carried-out by M/s Inaam Ul Haq & Co., Chartered Accountants, 33-A, Behind Queens Centre, Lahore.

17. ACCRUED INTEREST / MARK-UP

		2012	2011
Interest / mark-up accrued on:			
- demand finances		**6,265**	7,297
- short term finances		**9,636**	12,564
Lease finance charges		**2,664**	1,989
		18,565	21,850

18. SHORT TERM FINANCES - Secured

Short term finance facilities available from National Bank of Pakistan (NBP) under mark-up arrangements aggregate Rs.630 million (2011: Rs.630 million) and are secured against pledge of raw material stocks, first charge on current and fixed assets of the Company and personal guarantees of two directors of the Company. These facilities, during the year, carried mark-up at the rates ranging from 7.5% to 15.28% (2011: 7.50%) per annum. Facilities available for opening letters of credit and guarantee from NBP aggregate Rs.285 million (2011: Rs.285 million) out of which the amount remained unutilised at the year-end was Rs.180.688 million (2011: Rs.264.364 million). These facilities are secured against lien on import documents, first charge on current and fixed assets of the Company and personal guarantees of two directors of the Company.

These facilities are available upto 31 December, 2012.

19. CURRENT PORTION OF NON-CURRENT LIABILITIES

	Note	2012	2011
Term finance certificates	10	**9,413**	9,413
Demand finances	12	**31,036**	31,036
Liabilities against assets subject to finance lease	13	**21,516**	16,369
		61,965	56,818

20. TAXATION - Net

	Note	2012	2011
		(Rupees in thousand)	
Opening balance		**23,055**	5,978
Add: provision made / (written-back) during the year:			
- current	20.2	**0**	17,077
- prior years	20.2	**(23,055)**	(1,101)
		(23,055)	15,976
Less: adjustments against completed assessments		**0**	(1,101)
		0	23,055

20.1 The income tax assessments of the Company have been finalised by the Income Tax Department or deemed to be assessed under section 120 of the Income Tax Ordinance, 2001 (the Ordinance) upto the year ended 30 June, 2011.

20.2 Due to location of the mills in the most affected area, the income of the Company is exempt from tax under clause 126F of the second schedule to the Ordinance starting from the tax year 2010. As per management's contention, exemption available under clause 126F is a specific exemption granted by the Federal Board of Revenue to the specific areas of Khyber Pakhtunkhwa. The Company has filed a writ petition before the Islamabad High Court, Islamabad praying exemption from levy of minimum tax under section 113 of the Ordinance. The Peshawar High Court, Peshawar, in an identical writ petition concerning exemption of minimum tax filed by a Group Company, has granted exemption from levy of minimum tax. The management is confident that Islamabad High Court will also grant exemption from levy of minimum tax; accordingly, no provision for minimum tax for the current year has been made in these financial statements as well as provisions for minimum tax made during the financial years ended 30 June, 2010 and 30 June, 2011 aggregating Rs.23.055 million have been written-back in these financial statements. An adverse judgment by the Islamabad High Court will create tax liability under section 113 of the Ordinance aggregating Rs.39.712 million including Rs.23.055 million for prior years.

20.3 The Deputy Commissioner Inland Revenue, for the Tax Year 2006, has raised tax demands under sections 161 / 205 of the Ordinance aggregating Rs.5.468 million. The Company has filed an appeal before the Commissioner Inland Revenue (Appeals) against the abovementioned order, which is pending adjudication. Further a rectification application has been also filled before the Commissioner Inland Revenue.

21. CONTINGENCIES AND COMMITMENTS

21.1 Counter guarantee given by the Company to a commercial bank outstanding as at 30 June, 2012 was for Rs.32 million (2011: Rs.20 million).

21.2 Also refer contents of notes 20.2 and 20.3.

21.3 Commitments against irrevocable letters of credit outstanding at the year-end were for:

	2012	2011
- raw materials	**71,061**	0
- capital expenditure	**1,251**	636
	72,312	636

22. PROPERTY, PLANT AND EQUIPMENT

	Owned													Leased		
			Buildings on freehold land													
					Residential											
	Freehold land	Roads, paths and culverts on freehold land	Factory	Non - factory	officers	workers	Plant & machinery	Generat-ors	Tools & equip-ment	Furnitu-re & fixtur-es	Office equip-ment	Arms	Vehic-les	Plant & machin-ery	Generat-ors	Total
	Rupees in thousand															
As at 30 June, 2010																
Cost / Revaluation	355,320	120	101,380	5,021	904	14,637	603,127	35,945	1,693	2,103	1,111	16	12,174	49,000	75,000	1,257,551
Accumulated depreciation	0	99	20,336	1,569	146	4,896	186,926	7,049	1,060	1,270	632	15	7,710	7,886	12,066	251,660
Book value	355,320	21	81,044	3,452	758	9,741	416,201	28,896	633	833	479	1	4,464	41,114	62,934	1,005,891
Year ended 30 June, 2011:																
Additions	0	0	1,985	0	0	0	65,449	0	0	237	138	13	2,547	0	0	70,369
Disposals:																
Cost	0	0	0	0	0	0	(19,780)	0	0	(4)	0	0	(260)	0	0	(20,044)
Depreciation	0	0	0	0	0	0	13,181	0	0	3	0	0	239	0	0	13,423
Depreciation for the year	0	1	4,110	172	38	487	21,385	1,445	32	46	29	1	1,378	2,056	3,146	34,326
Book value	355,320	20	78,919	3,280	720	9,254	453,666	27,451	601	1,023	588	13	5,612	39,058	59,788	1,035,313
Year ended 30 June, 2012:																
Additions	0	0	5,497	0	0	0	33,989	5,861	44	58	741	0	2,834	0	0	49,024
Revaluation adjustments:																
Cost / revaluation	0	0	23,589	9,084	107	0	18,278	0	0	0	0	0	0	801	0	51,859
Depreciation	0	0	28,415	1,905	220	2,968	213,057	(23,286)	0	0	0	0	0	11,894	15,408	250,581
Disposals:																
Cost	0	0	0	0	0	0	(7,016)	(10,160)	0	(20)	0	0	(1,525)	0	0	(18,721)
Depreciation	0	0	0	0	0	0	5,033	6,050	0	11	0	0	671	0	0	11,765
Depreciation for the year	0	1	3,969	164	36	463	22,960	1,372	31	51	40	1	1,232	1,953	2,990	35,263
Book value	355,320	19	132,451	14,105	1,011	11,759	694,047	4,544	614	1,021	1,289	12	6,360	49,800	72,206	1,344,558
As at 30 June, 2011																
Cost / Revaluation	355,320	120	103,365	5,021	904	14,637	648,796	35,945	1,693	2,336	1,249	29	14,461	49,000	75,000	1,307,876
Accumulated depreciation	0	100	24,446	1,741	184	5,383	195,130	8,494	1,092	1,313	661	16	8,849	9,942	15,212	272,563
Book value	355,320	20	78,919	3,280	720	9,254	453,666	27,451	601	1,023	588	13	5,612	39,058	59,788	1,035,313
As at 30 June, 2012																
Cost / Revaluation	355,320	120	132,451	14,105	1,011	14,637	694,047	31,646	1,737	2,374	1,990	29	15,770	49,801	75,000	1,390,038
Accumulated depreciation	0	101	0	0	0	2,878	0	27,102	1,123	1,353	701	17	9,410	1	2,794	45,480
Book value	355,320	19	132,451	14,105	1,011	11,759	694,047	4,544	614	1,021	1,289	12	6,360	49,800	72,206	1,344,558
Depreciation rate (%)		5	5	5	5	5	5	5	5	5	5	5	20	5	5	

22.1 Revaluation surplus / (deficit) on each class of assets, as a result of latest revaluation as detailed in note 11.2, has been determined as follows:

Particulars	Owned							Leased		Total
	Freehold land	Buildings on freehold land				Plant & machinery	Generators	Plant & machinery	Generators	
		Factory	Non-factory	Residential						
				Officers	Workers					
	---------- Rupees in thousand ----------									
Cost / revaluation as at 30 June, 2012	355,320	108,862	5,021	904	14,637	675,769	31,646	49,000	75,000	1,316,159
Accumulated depreciation to 30 June, 2012	0	28,415	1,905	220	5,846	213,057	3,816	11,894	18,203	283,356
Book value before revaluation adjustments as at 30 June, 2012	355,320	80,447	3,116	684	8,791	462,712	27,830	37,106	56,797	1,032,803
Revalued amounts	355,320	132,451	14,105	1,011	11,759	694,047	4,544	49,801	72,205	1,335,243
Revaluation surplus / (deficit)	0	52,004	10,989	327	2,968	231,335	(23,286)	12,695	15,408	302,440

22.2 Had the operating fixed assets been recognised under the cost model, the carrying amounts of each revalued class of operating fixed assets would have been as follows:

	2012	2011
	(Rupees in thousand)	
Owned		
- freehold land	**3,642**	3,642
- buildings on freehold land	**56,146**	53,339
- plant & machinery	**397,606**	384,939
- generators	**23,865**	21,511
Leased		
- plant & machinery	**29,671**	31,233
- generators	**43,612**	45,908
	554,542	540,572

22.3 Depreciation for the year has been apportioned as under:

	2012	2011
- cost of sales	**33,986**	32,937
- administrative expenses	**1,277**	1,389
	35,263	34,326

22.4 Disposal of operating fixed assets

Particulars	Cost / revauation	Accumulated depreciation	Book value	Sale proceeds	Gain / (loss)	Sold through negotiations to:
	------- Rupees in thousand -------					
Plant and machinery						
03 Murata cone winding machines	2,191	1,493	698	608	(90)	Malik Doubling, Gujranwala.
03 SACM simplex machines	3,566	2,664	902	1,056	154	Chaudhry Traders, Samundri Road, Faisalabad.
02 Toyoda drawing machines	1,242	872	370	162	(208)	Muhammad Tariq, Samundri Road, Faisalabad.
01 Waves refrigerator	17	4	13	13	0	Mr. Manzoor Elahi, ex-employee.
	7,016	5,033	1,983	1,839	(144)	
Generator						
01 Mitsubishi diesel generator	10,160	6,050	4,110	2,315	(1,795)	Bannu Woollen Mills Ltd. (an Associated Company).
Furniture & fixtures	20	11	9	9	0	Mr. Manzoor Elahi and Muhammad Ashfaq (ex-employees).
Vehicles						
Nissan Sunny	1,225	372	853	926	73	Mr. Manzoor Elahi, ex-employee.
Mercedes Benz	300	299	1	252	251	Muhammad Aly Saifullah Khan, H.No.27, St.No.19, F-6/2, Islamabad.
	1,525	671	854	1,178	324	
	18,721	11,765	6,956	5,341	(1,615)	

23. INVESTMENTS IN AN ASSOCIATED COMPANY - Quoted

	2012	2011
	(Rupees in thousand)	
Janana De Malucho Textile Mills Ltd. (JDM)		
341,000 (2011: 341,000) ordinary shares of Rs.10 each - cost Equity held: 7.13% (2011: 7.13%)	4,030	4,030
Post acquisition profit brought forward including effect of items directly credited in equity by JDM	28,269	16,254
Profit for the year - net of taxation	10,310	10,836
	42,609	31,120

23.1 Market value of the Company's investment in JDM as at 30 June, 2012 was Rs.6.970 million (2011: Rs.4.801 million).

23.2 Summarised financial information of JDM, based on the audited financial statements for the year ended 30 June, 2012, is as follows:

	2012	2011
- equity as at 30 June,	600,802	437,831
- total assets as at 30 June,	3,183,565	2,725,271
- total liabilities as at 30 June,	1,280,291	1,273,397
- revenue for the year ended 30 June,	2,314,948	2,134,841
- profit before taxation for the year ended 30 June,	109,559	111,058
- profit after taxation for the year ended 30 June,	144,662	152,048

24. ADVANCES TO EMPLOYEES - Secured

	Note	2012	2011
		(Rupees in thousand)	
Advances to employees		**1,152**	1,092
Less: recoverable within one year grouped under current assets		**505**	542
		647	550

24.1 These have been advanced as financial assistance for various purposes and are secured against lien on employees' retirement benefits.

24.2 These interest free advances are recoverable in instalments which vary from case to case.

24.3 The fair value adjustments as required by IAS 39 (Financial instruments: Recognition and Measurement) arising in respect of staff loans are not considered material and hence not recognised.

25. STORES, SPARES AND LOOSE TOOLS

		2012	2011
Stores		**3,402**	3,617
Spares		**7,603**	10,044
Loose tools		**82**	97
		11,087	13,758

26. STOCK-IN-TRADE

	Note	2012	2011
Raw materials including in-transit inventory valuing Rs.25.521 million (2011: nil)	**26.1**	**246,570**	284,550
Work-in-process		**40,401**	40,386
Finished goods		**51,569**	46,382
		338,540	371,318

26.1 Raw material stocks valuing Rs.214.198 million (2011: Rs.252.733 million) were pledged with National Bank of Pakistan as at 30 June, 2012 as security for short term finance facilities (note 18).

27. TRADE DEBTS - Unsecured

		2012	2011
Balance at the year-end		**3,662**	2,290
Less: provision made against doubtful debts		**2,290**	2,290
		1,372	0

28. ADVANCES TO EMPLOYEES

Unsecured - Considered good	Note	2012 (Rupees in thousand)	2011
Advances to:			
- executives		**31**	268
- other employees		**2,789**	924
		2,820	1,192

29. MARK-UP SUBSIDY RECEIVABLE

The Federal Government, during the preceding year, had included the entire Textile Sector of Khyber Pakhtunkhwa in the Prime Minister's Fiscal Relief Package to rehabilitate the economic life in FATA / PATA / Khyber Pakhtunkhwa. The Company, in terms of SMEFD Circular No.11 dated 01 July, 2010 read with SMEFD Circular Letter No.13 of 2010 dated 31 August, 2010, was eligible to avail mark-up rate differential on business loans comprising of demand finances, lease finances and short term finances outstanding as at 31 December, 2009. The Company's claims for the current financial year aggregating Rs.20.716 million have been processed by the banks and credits there against given to the Company during the year. The subsidy received has been accounted for by adjusting the relevant expenses (note 37). The relief package was available upto 31 December, 2011.

30. CASH AND BANK BALANCES

	Note	2012	2011
Cash-in-hand		**141**	31
Cash at banks on:			
- current accounts		**1,739**	350
- dividend accounts		**58**	60
- PLS account	**30.1**	**64**	97
- PLS security deposit account	**30.1**	**105**	102
		1,966	609
		2,107	640

30.1 These carry profit at the rate of 5% (2011: 5%) per annum.

31. SALES - Net

	2012	2011
Local		
Yarn	**1,615,459**	1,622,345
Waste	**29,574**	92,837
	1,645,033	1,715,182
Export - comber noil waste	**26,505**	0
	1,671,538	1,715,182
Less: sales tax	**8,517**	10,012
	1,663,021	1,705,170

32. COST OF SALES

	Note	2012	2011
		(Rupees in thousand)	
Raw materials consumed	32.1	**1,046,516**	1,136,503
Packing materials consumed		**26,205**	23,146
Salaries, wages and benefits	32.2	**151,400**	162,502
Power and fuel		**185,095**	148,720
Repair and maintenance:			
- stores consumed		**32,941**	31,836
- expenses		**9,227**	10,982
		42,168	42,818
Depreciation		**33,986**	32,937
Insurance		**4,980**	4,367
		1,490,350	1,550,993
Adjustment of work-in-process			
Opening		**40,386**	37,405
Closing		**(40,401)**	(40,386)
		(15)	(2,981)
Cost of goods manufactured		**1,490,335**	1,548,012
Adjustment of finished goods			
Opening stock		**46,382**	3,907
Closing stock		**(51,569)**	(46,382)
		(5,187)	(42,475)
Cost of goods sold		**1,485,148**	1,505,537

32.1 Raw materials consumed

	2012	2011
Opening stock	**284,550**	281,180
Purchases	**1,008,144**	1,139,550
	1,292,694	1,420,730
Closing stock	**246,570**	284,550
	1,046,124	1,136,180
Cess on cotton consumed	**392**	323
	1,046,516	1,136,503

32.2 These include Rs.11,300 thousand (2011: Rs.22,835 thousand) in respect of staff retirement benefits - gratuity.

33. DISTRIBUTION COST

	Note	2012	2011
Freight, loading, travelling and conveyance		**2,769**	1,528
Salaries and benefits	33.1	**3,916**	3,312
Export expenses		**1,629**	0
Commission		**4,476**	86
Others		**247**	177
		13,037	5,103

33.1 These include Rs.301 thousand (2011: Rs.479 thousand) in respect of staff retirement benefits - gratuity.

34. ADMINISTRATIVE EXPENSES

	Note	2012	2011
		(Rupees in thousand)	
Salaries and benefits	34.1	**31,125**	26,832
Printing and stationery		**712**	671
Communication		**908**	781
Travelling and conveyance		**1,492**	1,800
Rent, rates and taxes		**2,388**	1,746
Insurance		**337**	338
Advertisement		**30**	177
Repair and maintenance		**1,223**	641
Vehicles' running		**2,811**	4,244
Guest house expenses and entertainment		**744**	527
Subscription		**237**	213
Auditors' remuneration:			
- statutory audit		**500**	500
- half yearly review		**110**	100
- consultancy charges		**50**	50
- certification charges		**0**	30
- out-of-pocket expenses		**25**	25
		685	705
Legal and professional charges (other than Auditors')		**1,025**	847
Depreciation		**1,277**	1,389
		44,994	40,911

34.1 These include Rs.1,061 thousand (2011: Rs.2,472 thousand) in respect of staff retirement benefits - gratuity.

35. OTHER OPERATING EXPENSES

	Note	2012	2011
Donations		**30**	30
Donation to Waqf-e-Kuli Khan	35.1	**1,993**	2,838
Workers' (profit) participation fund	16.1	**2,881**	6,657
Workers' welfare fund		**1,095**	2,530
Loss on sale of operating fixed assets - net	22.4	**1,615**	997
		7,614	13,052

35.1 The amount has been donated to Waqf-e-Kuli Khan, (a Charitable Institution) administered by the following directors of the Company:

- Mr. Raza Kuli Khan Khattak
- Lt. General (Retd.) Ali Kuli Khan Khattak
- Mrs. Zeb Gohar Ayub Khan
- Mr. Ahmad Kuli Khan Khattak
- Mrs. Shahnaz Sajjad Ahmad
- Dr. Shaheen Kuli Khan Khattak

36. OTHER OPERATING INCOME

	Note	2012	2011
		(Rupees in thousand)	
Income from financial assets			
Return on bank deposits		**511**	427
Amortisation of gain on forward foreign exchange contracts		**160**	168
Income from non-financial assets			
Salvage sales		**2,679**	2,646
Payable balances written-back		**0**	12
Amortisation of restructuring cost on demand finances		**63**	0
		3,413	3,253

37. FINANCE COST - Net

	Note	2012	2011
Mark-up on demand finances		**28,137**	31,792
Less: mark-up subsidy		**(8,039)**	(22,873)
		20,098	8,919
Lease finance charges		**7,964**	11,482
Less: mark-up subsidy		**(2,443)**	(9,061)
		5,521	2,421
Mark-up on short term finances		**47,707**	45,733
Less: mark-up subsidy		**(10,234)**	(35,766)
		37,473	9,967
Interest on workers' (profit) participation fund	**16.1**	**569**	621
Loss arisen upon extinguishment of demand finances against issuance of ordinary shares		**0**	434
Bank charges		**327**	334
		63,988	22,696

38. EARNINGS PER SHARE

There is no dilutive effect on earnings per share of the Company, which is based on:

	2012	2011
Profit after taxation attributable to ordinary shareholders	**88,036**	122,571
	2012	2011
	(Number of shares)	
Weighted average number of ordinary shares outstanding during the year	**3,652,178**	3,478,506
	------- Rupees -------	
Earnings per share	**24.11**	35.24

39. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

Particulars	Chief Executive		Executives	
	2012	2011	**2012**	2011
	---------- Rupees in thousand ----------			
Managerial remuneration	**6,665**	3,583	**22,117**	21,585
Bonus / ex-gratia	**329**	148	**2,023**	399
Retirement benefits	**0**	0	**1,108**	1,423
Utilities	**433**	537	**411**	135
Insurance	**6**	4	**13**	12
Medical	**46**	33	**573**	862
	7,479	4,305	**26,245**	24,416
No. of persons	**1**	1	**8**	8

39.1 Chief Executive and six of the executives have been provided with Company maintained cars and residential telephones.

39.2 The Company has provided rent free accommodation to four (2011: four) of its executives in the mills' colony.

39.3 In addition to above, meeting fees of Rs.660 thousand (2011: Rs.480 thousand) were paid to seven (2011: eight) non-working directors during the year.

40. TRANSACTIONS WITH RELATED PARTIES

40.1 The Company's shareholders, vide a special resolution, had authorised the Chief Executive to advance loans upto Rs.5.0 million to any of the Company's Associated Companies to meet the business transactions involving payment / reimbursement of branch office / other expenses incurred on the Company's behalf.

40.2 Maximum aggregate debit balance of an Associated Company at any month-end during the year was Rs.2.500 million (2010: Rs.9 thousand).

40.3 The related parties of the Company comprise of associated companies / undertakings, its directors and key management personnel. The Company in the normal course of business carries-out transactions with various related parties. Amounts due from and to related parties, remuneration of directors and key management personnel are disclosed in the relevant notes. There were no transactions with key management personnel other than under the terms of employment. The transactions with related parties are made at normal market prices.

Material transactions with related parties during the year were as follows:

	2012	2011
	(Rupees in thousand)	
Sale of yarn and stores	**0**	200
Sale of generator	**2,500**	0
Purchase of goods and services	**6,546**	6,115
Purchase of vehicles	**0**	2,472
Residential rent paid	**708**	132
Insurance premium paid	**6,546**	6,115
Donation to Waqf-e-Kuli Khan	**1,993**	2,838
Bonus shares issued	**0**	269,581

41. CAPACITY AND PRODUCTION

		2012	2011
Number of spindles installed		**53,040**	53,040
Number of rotors installed		**400**	400
Number of shifts worked for spindles		**1,098**	1,094
Number of shifts worked for rotors		**1,098**	1,094
Number of spindles / shifts worked		**57,053,220**	56,137,235
Number of rotors' shifts worked		**218,800**	218,550
Average count spun		**53.66**	56.57
Rotors' capacity	Kgs	**372,176**	371,351
Actual production of yarn of all counts	Kgs	**4,237,412**	3,962,261

41.1 It is difficult to describe precisely the production capacity in textile industry since it fluctuates widely depending on various factors such as count of yarn spun, spindles' speed, twist per inch and raw materials used, etc. It also varies according to the pattern of production adopted in a particular year.

42. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

42.1 Financial Risk Factors

The Company's activities expose it to a variety of financial risks: market risk (including interest rate risk and currency risk), credit risk and liquidity risk. The Company's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Risk management is carried-out by the Company's finance department under policies approved by the board of directors. The Company's finance department evaluates financial risks based on principles for overall risk management as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity, provided by the board of directors.

42.2 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of three types of risks: currency risk, interest rate risk and price risk.

(a) Currency risk

Foreign currency risk arises mainly where receivables and payables exist due to transactions entered into in foreign currencies. The Company is not exposed to currency risk as it has no foreign currency liabilities as at 30 June, 2012.

(b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of change in market interest rates. At the reporting date, the interest rate profile of the Company's interest bearing financial instruments is as follows:

	2012	2011	2012	2011
	Effective rate		Carrying amount	
	%	%	(Rupees in thousand)	
Fixed rate instruments				
Financial assets				
Bank balances	**5**	5	**169**	199
Variable rate instruments				
Financial liabilities				
Demand finances	**7.5 to 13.77**	7.50	**182,997**	214,032
Liabilities against assets subject to finance lease	**7.5 to 16.79**	7.50	**43,032**	59,401
Short term finances	**7.5 to 15.28**	7.50	**223,222**	259,824

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rate at the reporting date would not affect profit or loss of the Company.

Cash flow sensitivity analysis for variable rate instruments

At 30 June, 2012, if interest rate on variable rate financial liabilities had been 1% higher / lower with all other variables held constant, profit after taxation for the year would have been Rs.12 thousand (2011: Rs.15 thousand) lower / higher, mainly as a result of higher / lower interest expense on variable rate financial liabilities.

(c) Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instruments or its issuer or factors affecting all similar financial instruments traded in the market. The Company is not exposed to any significant price risk.

42.3 Credit risk exposure and concentration of credit risk

Credit risk represents the risk of a loss if the counter party fails to discharge its obligation and cause the other party to incur a financial loss. The Company attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the credit worthiness of counterparties.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities or have similar economic features that would cause their abilities to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry.

The Company generally sells its goods against advance payments therefore it is not exposed to major concentration of credit risk in respect of trade debts.

Exposure to credit risk

The maximum exposure to credit risk as at 30 June, 2012 along with comparative is tabulated below:

	2012	2011
	(Rupees in thousand)	
Security deposits	**1,063**	1,010
Trade debts	**1,372**	0
Other receivables	**875**	0
Mark-up subsidy receivable	**0**	23,315
Bank balances	**1,966**	609
	5,276	24,934

Trade debts aggregating Rs.1,082 thousand have been realised subsequent to the year-end and for other debts there are reasonable grounds to believe that the amounts will be realised in short course of time.

42.4 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach is to ensure, as far as possible, to always have sufficient liquidity to meet its liabilities when due. Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and ensuring the availability of adequate credit facilities. The Company's treasury department aims at maintaining flexibility in funding by keeping committed credit lines available.

Financial liabilities in accordance with their contractual maturities are presented below:

Particulars	Carrying amount	Contractual cash flows	Less than 1 year	Between 1 to 5 years	5 years and above
2012	------------------------- Rupees in thousand -------------------------				
Term finance certificates	**44,714**	**44,714**	**9,413**	**35,301**	**0**
Demand finances	**182,997**	**136,330**	**48,009**	**88,321**	**0**
Liabilities against assets subject to finance lease	**43,032**	**48,277**	**25,725**	**22,552**	**0**
Trade and other payables	**75,140**	**75,140**	**75,140**	**0**	**0**
Accrued interest / mark-up	**18,565**	**18,565**	**18,565**	**0**	**0**
Short term finances	**223,222**	**236,996**	**236,996**	**0**	**0**
	587,670	**560,022**	**413,848**	**146,174**	**0**

Particulars	Carrying amount	Contractual cash flows	Less than 1 year	Between 1 to 5 years	5 years and above
	------------------------- Rupees in thousand	-------------------------			
2011					
Term finance certificates	56,481	56,481	9,413	47,068	0
Demand finances	214,032	312,429	60,748	227,633	24,048
Liabilities against assets subject to finance lease	59,401	73,599	24,670	48,929	0
Trade and other payables	57,898	57,898	57,898	0	0
Accrued mark-up / interest	21,850	21,850	21,850	0	0
Short term finances	259,824	279,675	279,675	0	0
	669,486	801,932	454,254	323,630	24,048

The contractual cash flows relating to the above financial liabilities have been determined on the basis of interest / mark-up rates effective at the respective year-ends. The rates of interest / mark-up have been disclosed in the respective notes to these financial statements.

42.5 Fair values of financial instruments

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences may arise between carrying values and the fair value estimates.

At 30 June, 2012, the carrying values of all financial assets and liabilities reflected in the financial statements approximate to their fair values except for loans to employees, which are valued at their original costs less repayments.

43. CAPITAL RISK MANAGEMENT

The Company's prime objective when managing capital is to safeguard its ability to continue as a going concern so that it can continue to provide returns for shareholders, benefits for other stakeholders and to maintain a strong capital base to support the sustained development of its business.

The Company manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to shareholders and / or issue new shares.

There was no change to the Company's approach to capital management during the year and the Company is not subject to externally imposed capital requirements except for the maintenance of debt to equity ratio under the financing agreements.

44. OPERATING SEGMENT

These financial statements have been prepared on the basis of single reportable segment.

44.1 Yarn sales represent 96.63% (2011: 94.56%) of the total sales of the Company.

44.2 98.41% (2011:100%) of the Company's sales relate to customers in Pakistan.

44.3 All non-current assets of the Company as at 30 June, 2012 are located in Pakistan.

44.4 Two (2011: three) of the Company's customers contributed towards 22.41% (2011: 52.71%) of net sales during the year aggregating Rs.374.538 million (2011: Rs.898.853 million) and sale to one customer (2011: three customers) exceeded 10% of total sales of the Company.

45. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on 22 September, 2012 by the board of directors of the Company.

46. FIGURES

Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison. However, no material rearrangements and reclassifications have been made in these financial statements.

	Lt. Gen (Retd)
Raza Kuli Khan Khattak	**Ali Kuli Khan Khattak**
Chief Executive	**Director**

FORM OF PROXY

I/We____
of _________being a member of Babri Cotton Mills Limited, holder of________ Ordinary Shares as per Share Register Folio No.____________and/or CDC Participant I.D. No._______________and Sub Account No._____________hereby appoint________________of__________________________or failing him/her __________________of_______________member(s) of the Company as my/our proxy in my/our absence to attend and vote for me/us and on my/our behalf at the 42nd Annual General Meeting of the Company to be held on 22nd October, 2012 at 11:00 a.m. at registered office of the company at Habibabad, Kohat and at any adjournment thereof.

As witness my hand this..................day of......................... 2012

Witnesses:

1. Signature: _______________
Name: _______________
Address: _______________
____
____
NIC or
Passport No: _______________

2. Signature: _______________
Name: _______________
Address: _______________
____
____
NIC or
Passport No: _______________

Signature

Please affix five rupees revenue stamp

Signature should agree with the specimen signature registered with the Company

Note: Proxies in order to be effective must be received by the company not less than 48 hours before the meeting. No person shall be appointed a proxy who is not a member of the Company qualified to vote except that a corporation being a member may appoint proxy as a person who is not a member.

Individual CDC account holders and their proxies are each requested to attach an attested photocopy of their National Identity Card or Passport with this proxy form before submission to the Company. Corporate entities shall submit attested photocopy of the Board of Directors' Resolution/Power of Attorney containing specimen signature of the nominee along with proxy form to the Company. The proxy shall produce his/her original NIC or original passport at the time of the meeting.