BABRI
COTTON MILLS LTD.

40TH
ANNUAL REPORT
2010

BIBOJEE GROUP

UKAS
ENVIRONMENTAL
MANAGEMENT
Registration Number
014

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 Mrs. Zeb Gohar Ayub Mrs. Shahnaz Sajjad Ahmad Dr. Shaheen Kuli Khan Khattak Mr. Shamim S. Khan Mr. Muhammad Ayub Khan (NIT) Ch. Sher Muhammad	
AUDIT COMMITTEE	Mrs. Shahnaz Sajjad Ahmad	Chairman
	Mr. Muhammad Ayub Khan	Member
	Ch. Sher Muhammad	Member
COMPANY SECRETARY	Mr. Arshian Mahboob, FCA	
CHIEF FINANCIAL OFFICER	Mr. Manzoor Elahi	
INTERNAL AUDITOR	Mr. Nazir Ahmad	
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 Habib Bank Limited United Bank Limited	
REGISTERED OFFICE & MILLS	Habibabad, Kohat Tel : (0922) 517353 - 512931, 516334 Fax : (0922) 516335 Website : www.bcm.com.pk E-mail : bcmkohat@hotmail.com	

VISION STATEMENT

To be market leaders in yarn, building company 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 40th annual general meeting of the shareholders of Babri Cotton Mills Limited will be held at the registered office of the Company at Habibabad, Kohat on Sunday 31st October, 2010 at 11:30 A.M. to transact the following business:

ORDINARY BUSINESS

1. To confirm minutes of the annual general meeting held on October 31, 2009.
2. To receive, consider and adopt the audited accounts of the Company for the year ended June 30, 2010 together with the Directors' and Auditors' reports thereon.
3. To approve the issue of bonus shares @ 15% i.e. 15 ordinary shares for every 100 ordinary shares held as recommended by the Board of Directors.
4. To appoint Auditors for the year ending June 30, 2011 and to fix their remuneration.

SPECIAL BUSINESS

5. To consider and, if thought fit, to pass the following resolutions as ordinary resolutions with or without modification:

   (i) "Resolved that a sum of Rs. 4,344,000/= out of Company's profits available for appropriations as at June 30, 2010 be capitalized and be applied for the issue of 434,400 ordinary shares of Rs. 10/= each as bonus shares to be allotted to those shareholders whose names appear in the register of members at the close of the business on October 23, 2010 in the proportion of 15 ordinary shares for every 100 ordinary shares held by a member. The said shares shall rank pari passu with the existing shares of the Company as regard future dividend and all other aspects."

   (ii) "Further Resolved that all the fractional Bonus Shares shall be consolidated into whole shares and sold in the Stock Market. The proceeds of sale of consolidated fractional shares when realized shall be paid to a charitable institution".

(iii) "Further Resolved that the Chief Executive Officer and Company Secretary individually be and are hereby authorized and empowered to give effect to these resolutions and to do or cause to be done all acts, deeds and things that may be necessary or required for the issue, allotment and distribution of bonus shares".

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

By Order of the Board,

Arshian Mahboob FCA
Company Secretary

Kohat
Dated: October 08, 2010

NOTES:

1. The share transfer books of the Company will remain closed from October 24, 2010 to October 31, 2010 (both days inclusive). Transfers received at the Share Registrar Office, M/s Hameed Majeed Associates (Private) Limited, 5th Floor, Karachi Chamber, Hasrat Mohani Road, Karachi at the close of business on October 23, 2010 will be treated in time for the purpose of above entitlement to the transferees and to attend the Annual General Meeting.

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. 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.

4. Shareholders are requested to promptly communicate change in their addresses, if any.

STATEMENT U/S 160(1) (b) OF THE COMPANIES ORDINANCE, 1984

This statement sets out the material facts pertaining to the special business to be transacted at the Annual General Meeting of the Company to be held on Sunday 31st October, 2010.

ITEM NO. 5 OF THE AGENDA

The Board of Directors has recommended 15 % bonus shares from the profits available for appropriations as at June 30, 2010 by capitalization of a sum of Rs. 4,344,000/= for the issuance of 434,400 fully paid bonus shares.

The Directors of the Company have no interest directly or indirectly in the Special Business except to the extent of their shareholding in the Company.

Pursuant to the rule 6(ii) of the Companies (Issue of Capital) Rules, 1996, the Auditors have certified that the free reserves retained after the issue of the bonus shares would be higher than twenty five percent of the enhanced paid-up capital.

DIRECTORS' REPORT TO THE SHAREHOLDERS

Directors of your Company are pleased to present the 40^{th} annual report along with audited financial statements for the year ended June 30, 2010.

As we have reported in the Directors' report of nine months financials ended March 31, 2010 that by the grace of Allah Almighty your Company has again started making profit after passage of five years. Sales of the Company have increased immensely and have surpassed rupees one billion mark which is the highest in the history for last forty years.

Financial Results:

Current year results compared with the previous year are given as under:

	Year ended June 30, 2010	Year ended June 30, 2009
	(Rupees in thousand)	
Sales	**1,195,591**	746,961
Gross Profit	**275,022**	51,207
Operating Profit	**234,337**	25,333
Finance Cost	**98,774**	108,015
Profit/(Loss) Before Taxation	**154,897**	(104,001)
Profit / (Loss) After Taxation	**102,343**	(73,683)
	= Rupees =	
Earning / Loss Per Share	**35.34**	(25.44)

After deduction of tax, net profit earned by your Company during the year 2009-2010 is Rs.102.343 million. Compared to (Rs.73.683) million loss in the previous year ended June 30, 2009. Similarly gross profit for the current year is Rs. 275.022 million (23%) as compared to Rs.51.207 million (6.86%) in the last year. Owing to tremendous increase in cotton prices, working capital limit of the Company was not enough to enable it to buy its entire cotton requirement at the commencement of cotton season when the price of cotton are at their lowest. Had the Company been able to procure its entire cotton inventory at the commencement of the season, results of the Company would have been even better. However, requirement of raw materials was fulfilled well in time and stocks are sufficient upto the start of new cotton season.

Sales of yarn and waste have increased to Rs. 1,150.075 million (2009: Rs.716.414 million) and Rs. 45.516 million (2009 Rs.30.547 million) respectively due to increase in the quantity and sale rates.

Salaries and wages for the year are Rs. 111.273 million (2009: Rs.82.801 million), this increase is due to raise in minimum wages to its labour force and recruitment of additional workers for the start of the Chinese and Japanese ring frames (28 ring frames 13,440 spindles) which have replaced the old SACM ring frames (34 ring frames 14,688 spindles) These were successfully installed during first half of the current year and are operating efficiently.

All other manufacturing cost increased due to start of 13,440 spindles as reported above. Increase in cost of spares parts is due to inflation.

Financial cost has reduced from Rs. 108.15 million in 2009 to Rs. 98.77 million in 2010. This is a decrease of 8.5% and is due to higher profit earned and better management of funds.

The Company has also accounted for its share of profit of Janana De Malucho Textile Mills Ltd amounting to Rs. 7.526 million during current year as against loss of Rs. 9.51 million in 2009. Further, reversal of impairment loss on investment in Janana De Malucho Textile Mills Ltd of Rs. 11.808 million (2009; Rs. Nil) has also been recognized in these financial statements.

Due to profit for the year deferred taxation amounting to Rs. 45.475 million has been debited to the profit and loss account.

We have produced 3,774,673 Kgs yarn during current financial year as against 3,373,705 Kgs yarn in 2009. Average count spun during the year was 56.52 as against 60.41 in 2009. Production has not increased comparatively inspite of addition of 13,440 spindles because 5.41 % installed capacity remained idle due to the excessive load shedding of gas and electricity coupled with low voltage and law & order situation in the region.

The break value of Company's share (excluding surplus on revaluation fixed assets) stands at Rs. 46.07 per share as at June 30, 2010 (2009: Rs. 9.92 per share).

Re-Structuring of Finance Facilities

We are pleased to report that National Bank of Pakistan (NBP) has approved re-structuring of our demand finance facilities of Rs. 217.250 million as per detail given below:

i) Amount of Re-structured Demand Finance is Rs. 155.178 million.

ii) Conversion of Rs. 3.217 million being portion of four unpaid principal installments of Rs. 62.072 million into 321,778 ordinary shares of Rs. 10/- each.

iii) Conversion of remaining amount of Rs. 58.854 million of four unpaid principal installment to be converted into 5,885,540 cumulative convertible preference shares of Rs. 10/- each

iv) Overdue mark-up of Rs. 53.671 million is payable by the company through issuance of Terms Finance Certificates (TFCs)

Principal installment of demand finance and mark-up due would be paid as per existing repayment schedule i.e. mark-up to be paid from July 01, 2010 on quarterly basis starting from 30th September, 2010 and payment of installment of principal as per existing schedule starting from 1st January, 2011.

Future Prospects

The unprecedented floods in the cotton growing areas of Sind and Punjab have inflicted major damage to cotton crop. As a result, price of local as well as imported cotton has gone up by about 40% as compared to previous year. On the other hand, sale rates of yarn have fallen when compared to similar period in previous year. Due to these facts, it seems that coming financial year will be a difficult one for the textile industry in Pakistan.

Appropriation for Dividend

Due to huge losses during the last five years your Company was not in a position to declare any dividend or bonus shares to the shareholders. The Board of Directors, however, recommends 15 % bonus shares for the year under review.

Corporate and Financial Reporting Frame Work

The Board regularly reviews Company's strategic direction and sets annual plans and performance targets. These targets are regularly checked to find out whether they are being achieved by the management. The Board assures the shareholders 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:

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

- 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.
- Proper books of account of the Company have been maintained.
- Appropriate accounting polices have been consistently applied in preparation of these financial statements and accounting estimates are based on reasonable and prudent judgment.
- International accounting standards, as applicable in Pakistan, have been followed in preparation of these financial statements and departures there from have been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the Company's ability to continue as a Going Concern.
- Summary of key operating and financial data of the past six years is annexed.
- Pattern of shareholdings of the Company as at June 30, 2010 is annexed.
- No trades in shares of the Company were carried out by its Directors, Chief Executive Officer, Chief Financial Officer, Company Secretary and their spouses and minor children during the year.
- The Board in compliance with the Code of Corporate Governance has established an audit committee comprising of three members.

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:

	Number of meetings attended
Mr. Raza Kuli Khan Khattak	4
Lt. Gen (Retd.) Ali Kuli Khan Khattak	4
Mrs. Zeb Gohar Ayub	4
Mrs. Shahnaz Sajjad Ahmad	3
Dr. Shaheen Kuli Khan Khattak	3
Mr. Shamim S. Khan	2
Ch. Sher Muhammad	2
Mr. Muhammad Ayub (NIT)	4

Leaves of absence were 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 is enclosed.

Pattern of Shareholding

The statement of pattern of shareholding of the Company as on June 30, 2010 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.

Acknowledgement

The Board acknowledges with thanks the efforts and cooperation of the labor force of the Company. We also appreciate the tradition of good relations between management and labor force going back to over forty years.

The Board also expresses gratitude to its Bankers for the cooperation and financial help extended by them to the Company.

For & on behalf of the Board of Directors,

Dated: October 07, 2010

RAZA KULI KHAN KHATTAK
Chairman

SUMMARY OF KEY OPERATING AND FINANCIAL DATA

		2005 (9 months)	2006	2007	2008	2009	2010
			(12 months)				
CAPACITY AND PRODUCTION							
Spindles installed	Nos.	55,584	54,288	54,288	54,288	44,400	**53,040**
Average spindles worked during the year	Nos.	41,956	50,874	52,404	51,039	44,094	**49,285**
Production for the year/period	Lbs. in million	4.286	8.057	8.815	7.893	7.438	**8,322**
Average count spun during the year/period		67.65	57.82	56.52	59.92	60.41	**56.52**
PROFIT AND LOSS ACCOUNT							
Net sales	Rupees in million	356.869	610.836	746.626	739.868	746.961	**1,195.591**
Gross profit	Rupees in million	7.873	30.937	74.759	45.627	51.207	**275.022**
	%	2.21	5.06	10.01	6.17	6.86	**23.00**
Operating profit/(loss)	Rupees in million	(4.571)	6.957	54.332	22.440	25.333	**234.337**
	%	(1.28)	1.14	7.28	3.03	3.39	**19.60**
Profit /(loss) before taxation	Rupees in million	(16.440)	(52.254)	(14.309)	(44.157)	(104.001)	**154.897**
	%	(4.61)	(8.55)	(1.92)	(5.97)	(11.07)	**12.96**
Profit /(loss) after taxation	Rupees in million	(12.604)	(34.525)	(11.094)	(29.926)	(73.683)	**102.343**
	%	(3.53)	(5.65)	(1.48)	(4.04)	(9.86)	**8.56**
Earnings /(loss) per share	Rupees	(6.30)	(17.26)	(5.55)	(13.40)	(25.44)	**35.34**
BALANCE SHEET							
Shareholders equity (excluding surplus on revaluation of fixed assets)	Rupees in million	129.760	102.581	96.233	95.640	28.724	**133.425**
Demand finances / bills payable	- do. -	174.250	173.500	217.250	217.250	217.250	**217.250**
Liabilities against assets subject to finance lease	- do. -	77.336	76.008	86.882	86.498	86.064	**86.064**
Operating fixed assets	- do. -	399.086	640.278	825.406	794.266	1,000.084	**1,005.891**
Additions in fixed assets	- do. -	101.324	300.404	57.863	4.777	15.607	**39.930**
Current assets	- do. -	271.860	236.203	281.218	358.720	349.881	**349.792**
Current liabilities	- do. -	384.491	398.279	416.248	524.623	526.995	**404.356**
OTHERS							
Break up value per share	Rupees	64.88	51.29	48.12	33.02	9.92	**46.07**
Employees at year end	Nos.	1,205	1,389	1,363	1,224	879	**1,143**

PATTERN OF SHAREHOLDINGS AS AT 30 JUNE, 2010

Company's Incorporation Number 2943/2/189 Registration Number: 0003265

No of shareholders	Shareholdings From	Shareholdings To	Total shares held
1,067	1	100	29,957
321	101	500	85,150
93	501	1,000	73,302
75	1,001	5,000	179,974
15	5,001	10,000	98,029
9	10,001	15,000	108,419
3	15,001	20,000	47,090
1	40,001	45,000	42,339
2	45,001	50,000	98,870
1	50,001	55,000	50,120
1	55,001	60,000	58,000
1	70,001	75,000	70,491
1	125,001	130,000	125,584
1	205,001	210,000	207,161
1	510,001	515,000	510,864
1	1,110,001	1,115,000	1,110,650
1,593		Total	2,896,000

Categories of shareholders	Shares held	Percentage
Directors, chief executive officer, and their spouse and minor children.	50,776	1.75
Associated companies, undertakings and related parties	1,797,218	62.06
NIT and ICP	73,585	2.54
Banks, development financial institutions, non banking financial institutions	113,564	3.92
Insurance companies	54,188	1.87
Modarabas and mutual funds	1,000	0.03
Share holders holding 10% (also included above under associated companies, undertakings and related parties)	1,621,514	55.99
General public - local	790,979	27.31
The Karachi Stock Exchange (Guarantee) Limited	1,000	0.03
Provincial government	12,187	0.42
Administrator Abandoned Properties	1,503	0.05

Date : 29 September, 2010

Arshian Mahboob FCA
Company Secretary

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

	Categories of shareholders		Shares held
1	**Associated Companies, undertakings and related parties:**		
	Bannu Woollen Mills Limited		125,584
	Bibojee Services (Pvt.) Limited		1,110,650
	Janana De Malucho Textile Mills Limited		510,864
	Waqf-e-Kuli Khan		50,120
2	**NIT and ICP:**		
	Investment Corporation of Pakistan		1,291
	National Bank of Pakistan (Trustee Department)		70,491
	National Investment Trust Limited		1,803
3	**Directors, CEO and their spouse and minor children:**		
	Mr. Raza Kuli Khan Khattak	(Chairman/Chief Executive)	12,159
	Lt. Gen. (Retd.) Ali Kuli Khan Khattak	(Director)	11,159
	Mrs. Zeb Gohar Ayub	(Director)	10,298
	Mrs. Shahnaz Sajjad Ahmad	(Director)	6,080
	Dr. Shaheen Kuli Khan Khattak	(Director)	6,080
	Mr. Shamim S. Khan	(Director)	2,500
	Ch. Sher Muhammad	(Director)	2,500
4	**Executives**		16,390
5	**Public sector companies and corporations**		8,475
	Joint stock companies (other than those included elsewhere in this statement)		
6	**Banks, development finance institutions, non-banking finance institutions, insurance companies, modarabas and mutual funds**		168,752
7	**Shareholders holding 10% or more voting interest:**		
	Bibojee Services (Pvt.) Limited		1,110,650
	Janana De Malucho Textile Mills Limited		510,864

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

For the year ended: June 30, 2010

This statement is being presented to comply with Code of Corporate Governance contained in regulation no. 37 of listing regulations of The 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 code in the following manner:

1. The company encourages representation of independent non-executive directors on its board of directors. At present the board includes seven independent non-executive directors.

2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this company.

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 in the Board during the current year.

5. The company has prepared as 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the company.

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 polices 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 and other executive directors, have been taken by the board.

8. The meetings of the board were presided over by the chairman and the board met prior to approval of interim and final results of the company. 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 directors are well conversant with the legal requirements and as such are fully aware of their duties and responsibilities.

10. There were no new appointments of CFO and head of internal audit except company secretary who resigned on 05-05-2010 and Mr. Ghulam Hussain was appointed as new company secretary during the year.

11. The directors' report for this year has been prepared in compliance with the requirements of the Code 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 Code.

15. The board has formed an audit committee. It comprises of three members, all of whom are non-executive directors.

16. The meetings of the audit committee were held prior to approval of interim and final results of the company as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

17. The board has set-up an effective internal audit function.

18. The statutory auditors of the company have confirmed that they have been given a satisfactory rating under the quality control review programme of The Institute of Chartered Accountants of Pakistan, 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 Institute of Chartered Accountants of Pakistan.

19. 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.

20. We confirm that all other material principles contained in the Code have been complied with.

Raza Kuli Khan Khattak
Chairman / Chief Executive

Place: Islamabad
Dated: 07 October, 2010

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 Regulation No. 35 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's personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of the 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 are not required to consider whether the Board’s statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, Sub - Regulation (xiii a) of Listing Regulations 35 notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated 19 January, 2009 requires 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 the 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, 2010.

Dated: October 07, 2010

HAMEED CHAUDHRI & CO.,
CHARTERED ACCOUNTANTS
Engagement Partner: Abdul Hameed Chaudhri

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of BABRI COTTON MILLS LIMITED (the Company) as at 30 June, 2010 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, except for the changes as described in note 5.1 to the financial statements with which we concur;

(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, 2010 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.,
CHARTERED ACCOUNTANTS
Engagement Partner: Abdul Hameed Chaudhri

Dated: October 07, 2010

BALANCE SHEET AS AT 30 JUNE, 2010

	Note	2010	2009
		(Rupees in thousand)	
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised capital 25,000,000 ordinary shares of Rs.10 each		250,000	250,000
Issued, subscribed and paid-up capital 2,896,000 ordinary shares of Rs.10 each issued for cash	7	28,960	28,960
Reserves	8	110,802	110,979
ACCUMULATED LOSS		(6,337)	(111,215)
		133,425	28,724
FROZEN MARK-UP ON DEMAND FINANCES	9	53,671	27,504
SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT	10	444,568	449,475
NON-CURRENT LIABILITIES			
Demand finances	11	201,732	217,250
Liabilities against assets subject to finance lease	12	64,548	86,064
Staff retirement benefits-gratuity	13	21,202	20,271
Deferred taxation	14	53,909	8,434
		341,391	332,019
CURRENT LIABILITIES			
Current portion of:			
- demand finances	11	15,518	0
- liabilities against assets subject to finance lease	12	21,516	0
Short term finances	15	277,044	397,829
Trade and other payables	16	65,194	108,618
Accrued interest/mark-up	17	19,106	20,548
Taxation	18	5,978	0
		404,356	526,995
CONTINGENCIES AND COMMITMENTS	19		
		1,377,411	1,364,717

	Note	2010	2009
		(Rupees in thousand)	
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	20	1,006,819	1,011,169
Investments in an Associated Company	21	19,144	2,182
Advances to employees	22	746	581
Security deposits		910	904
		1,027,619	1,014,836
CURRENT ASSETS			
Stores, spares and loose tools	23	10,178	12,580
Stock-in-trade	24	322,492	321,233
Advances to employees	26	1,677	1,664
Advance payments		3,592	817
Prepayments		160	166
Sales tax refundable		5,062	4,786
Other receivables		0	6,622
Income tax refundable, advance tax and tax deducted at source		5,596	1,477
Cash and bank balances	27	1,035	536
		349,792	349,881
		1,377,411	1,364,717

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

Raza Kuli Khan

Raza Kuli Khan Khattak
Chief Executive

Ali Kuli Khan

Lt. Gen (Retd)
Ali Kuli Khan Khattak
Director

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE, 2010

	Note	2010	2009
		(Rupees in thousand)	
SALES	28	**1,195,591**	746,961
COST OF SALES	29	**920,569**	695,754
GROSS PROFIT		**275,022**	51,207
DISTRIBUTION COST	30	**2,615**	2,541
ADMINISTRATIVE EXPENSES	31	**27,236**	21,793
OTHER OPERATING EXPENSES	32	**13,982**	3,341
OTHER OPERATING INCOME	33	**(3,148)**	(1,801)
		40,685	25,874
PROFIT FROM OPERATIONS		**234,337**	25,333
FINANCE COST	34	**98,774**	108,015
		135,563	(82,682)
SHARE OF PROFIT / (LOSS) OF AN ASSOCIATED COMPANY	21	**7,526**	(9,511)
IMPAIRMENT LOSS ON INVESTMENT IN AN ASSOCIATED COMPANY REVERSED / (PROVIDED FOR)	21	**11,808**	(11,808)
		19,334	(21,319)
PROFIT / (LOSS) BEFORE TAXATION		**154,897**	(104,001)
TAXATION			
- Current	18	**5,978**	0
- Prior year	18	**1,101**	5
- Deferred	14	**45,475**	(30,323)
		52,554	(30,318)
PROFIT / (LOSS) AFTER TAXATION		**102,343**	(73,683)
OTHER COMPREHENSIVE INCOME		**0**	0
TOTAL COMPREHENSIVE INCOME / (LOSS)		**102,343**	(73,683)
		------- Rupees -------	
EARNINGS / (LOSS) PER SHARE	35	**35.34**	(25.44)

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, 2010

	2010	2009
	(Rupees in thousand)	
CASH FLOW FROM OPERATING ACTIVITIES		
Profit / (loss) for the year - before taxation and share of profit / (loss) and impairment loss on investment in an Associated Company	**135,563**	(82,682)
Adjustments for non-cash charges and other items:		
Depreciation	**33,751**	34,429
(Gain) / loss on sale of operating fixed assets - net	**(363)**	3,111
Payable balances written-back	**(23)**	(64)
Amortisation of gain on forward foreign exchange contracts	**(177)**	(186)
Staff retirement benefits - gratuity (net)	**931**	(4,757)
Finance cost	**98,436**	107,734
CASH FLOW FROM OPERATING ACTIVITIES Before working capital changes	**268,118**	57,585
Increase / (decrease) in current assets:		
Stores, spares and loose tools	**2,402**	(5,897)
Stock-in-trade	**(1,259)**	11,141
Advances to employees	**(13)**	(49)
Advance payments	**(2,775)**	(620)
Prepayments	**6**	411
Sales tax refundable	**(276)**	718
Other receivables	**6,622**	(3,592)
(Increase) / decrease in trade and other payables	**(43,401)**	52,274
	(38,694)	54,386
CASH INFLOW FROM OPERATING ACTIVITIES - Before taxation	**229,424**	111,971
Taxes paid	**(5,220)**	(1,914)
CASH INFLOW FROM OPERATING ACTIVITIES - After taxation	**224,204**	110,057
(Increase) / decrease in advances to employees	**(165)**	18
NET CASH INFLOW FROM OPERATING ACTIVITIES	**224,039**	110,075
CASH FLOW FROM INVESTING ACTIVITIES		
Fixed capital expenditure	**(29,773)**	(23,436)
Sale proceeds of operating fixed assets	**735**	9,128
Security deposits	**(6)**	0
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	**(29,044)**	(14,308)
CASH FLOW FROM FINANCING ACTIVITIES		
Lease finances - net	**0**	(434)
Short term finances - net	**(120,785)**	(19,499)
Finance cost paid	**(73,711)**	(80,771)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	**(194,496)**	(100,704)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**499**	(4,937)
CASH AND CASH EQUIVALENTS - At the beginning of the year	**536**	5,473
CASH AND CASH EQUIVALENTS - At the end of the year	**1,035**	536

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, 2010

	Share capital	Reserves				Accumulated loss	Total
		Share premium reserve	General reserve	Gain on hedging instruments	Sub-total		
	------------ Rupees in thousand ------------						
Balance as at 30 June, 2008	28,960	19,440	88,000	3,725	111,165	(44,485)	95,640
Loss after taxation for the year ended 30 June, 2009	0	0	0	0	0	(73,683)	(73,683)
Amortisation of gain on forward foreign exchange contracts	0	0	0	(186)	(186)	0	(186)
Transfer from surplus on revaluation of property, plant & equipment on account of: -incremental depreciation for the year - net of deferred taxation	0	0	0	0	0	5,174	5,174
- realisation upon disposal of plant & machinery - net of deferred taxation	0	0	0	0	0	570	570
Effect of items directly credited in equity by an Associated Company	0	0	0	0	0	1,209	1,209
Balance as at 30 June, 2009	28,960	19,440	88,000	3,539	110,979	(111,215)	28,724
Profit after taxation for the year ended 30 June, 2010	0	0	0	0	0	102,343	102,343
Amortisation of gain on forward foreign exchange contracts	0	0	0	(177)	(177)	0	(177)
Transfer from surplus on revaluation of property, plant & equipment on account of: -incremental depreciation for the year - net of deferred taxation	0	0	0	0	0	4,889	4,889
- realisation upon disposal of plant & machinery - net of deferred taxation	0	0	0	0	0	18	18
Effect of items directly credited in equity by an Associated Company	0	0	0	0	0	(2,372)	(2,372)
Balance as at 30 June, 2010	**28,960**	**19,440**	**88,000**	**3,362**	**110,802**	**(6,337)**	**133,425**

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

Raza Kuli Khan Khattak

Raza Kuli Khan Khattak
Chief Executive

Ali Kuli Khan

Lt. Gen (Retd)
Ali Kuli Khan Khattak
Director

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE, 2010

1. LEGAL STATUS AND OPERATIONS

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 approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 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 below.

3.2 Functional and presentation currency

These financial statements are presented in Pakistan Rupees, which is also the Company's functional currency. All financial information presented in Pakistan Rupees has been rounded to the nearest thousand.

4. CRITICAL 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. The estimates / judgments and associated assumptions used in the preparation of financial statements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates / judgments and associated assumptions are reviewed on an ongoing basis. Revision to the accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. The estimates, judgments and assumptions that have significant effect on the financial statements are as follows:

- **a)** staff retirement benefits;
- **b)** provision for current and deferred taxation;
- **c)** useful life of property, plant and equipment; and
- **d)** provision against slow moving inventories.

5. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

5.1 Accounting standards, amendments and interpretations, which have been effective and adopted by the Company

(a) IAS 1 (revised) - 'Presentation of Financial Statements', requires presentation of transactions with owners in Statement of Changes in Equity and with non-owners in the Statement of Comprehensive Income. The revised standard requires an entity to opt for presenting such transactions either in a single statement of comprehensive income or in an income statement and a separate statement of comprehensive income. The Company has applied IAS 1 (revised) from 01 July, 2009 and has elected to present one performance statement (i.e. profit and loss account). However, since there are no non-owner changes in equity, there is no impact of such revised standard on these financial statements.

(b) Revised IAS 23 'Borrowing Costs' (amendment) removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The Company's current accounting policy is in compliance with this amendment and, therefore, there is no effect of this change on the Company's financial statements.

(c) IFRS 7 (Amendment) 'Financial Instruments: Disclosures'; the amendment requires enhanced disclosures regarding fair value measurement and liquidity risk. As the change only results in additional disclosures, there is no impact on earnings per share.

(d) IFRS 8 'Operating Segments' introduces the 'management approach' to segment reporting. IFRS 8 requires a change in the presentation and disclosure of segment information based on the internal reports regularly reviewed by the Company's decision makers in order to assess each segment's performance and to allocate resources to them. This IFRS has no impact on the financial statements of the Company.

5.2 Standards, amendments to published standards and interpretations that are effective for the annual periods beginning on or after 01 July, 2009 but not relevant to the Company's financial statements

Other new standards, interpretations and amendments to existing standards, which are mandatory for accounting periods beginning on or after 01 July, 2009 are considered not to be relevant nor have any significant effect on the Company's operations; therefore are not detailed in these financial statements.

5.3 Standards, interpretations and amendments to published approved accounting standards and interpretations not yet effective and have not been early adopted by the Company

The following standards, amendments and interpretations of International Financial Reporting Standards will be effective for accounting periods beginning on or after the dates specified below:

- IAS 1 (Amendments) 'Presentation of Financial Statements' (effective for annual periods beginning on or after 01 January, 2010).

- IAS 7 (Amendments) 'Statement of Cash Flows' (effective for annual periods beginning on or after 01 January, 2010).

- IAS 17 (Amendments) 'Leases' (effective for annual periods beginning on or after 01 January, 2010).

- 'IAS 24 (Revised) 'Related Party Disclosures' (effective for annual periods beginning on or after 01 February, 2010).
- 'IAS 32 (Amendments) 'Financial Instruments: Presentation – Classification of Rights Issues' (effective for annual periods beginning on or after 01 January, 2010).
- 'IAS 36 (Amendments) 'Impairment of Assets' (effective for annual periods beginning on or after 01 January, 2010).
- 'IFRS 2 (Amendment) 'Share-based Payments' - Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after 01 January, 2010).
- 'IFRS 5 (Amendments) 'Non-current Assets Held for Sale and Discontinued Operations' (effective for annual periods beginning on or after 01 January,
- 'IFRS 8 (Amendments) 'Operating Segments' (effective for annual periods beginning on or after 01 January, 2010).
- 'IFRIC 14 (Amendments) - The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 01 January, 2011).
- 'IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' (effective for annual periods beginning on or after 01 July, 2010).

The International Accounting Standards Board made certain amendments to the existing standards as part of its second annual improvements project. The effective dates for these amendments vary by standard and most will be applicable to the Company's 2011 financial statements.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied 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.

6.1 Borrowings and borrowing costs

All borrowings are recorded at the proceeds received. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are charged to income in the period in which these are incurred.

6.2 Staff retirement benefits (defined benefit plan)

The Company operates an un-funded gratuity scheme for all its eligible employees who have attained the minimum qualifying period of service.

Provision and current service costs are being accounted for on the basis of actuary's recommendations based on the actuarial valuation of the scheme. The most recent valuation of the scheme was carried-out as on 30 June, 2009.

6.3 Trade and other payables

Creditors relating to 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.

6.4 Taxation

(a) Current

Charge for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits and rebates available, if any.

(b) Deferred

Deferred tax is recognised using the balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities for the financial reporting purposes and the amounts used for taxation purposes.

Deferred tax asset is recognised for all the deductible temporary differences only to the extent that it is probable that future taxable profits will be available against which the asset may be utilised. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax liabilities are recognised for all the taxable temporary differences.

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

Deferred tax is charged or credited in the income statement, except in the case of items credited or charged to equity in which case it is included in equity.

6.5 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.

6.6 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 10, were revalued during prior years. Surplus arisen on revaluation of these assets was credited to the 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 20.1. 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.

6.7 Assets subject to finance lease

These are stated at the lower of present value of minimum lease payments under the lease agreements and the fair value of assets. The related obligation of leases is accounted for as liability. Finance cost is allocated to accounting periods in a manner so as to provide a constant periodic rate of finance cost on the remaining balance of principal liability for each period.

Depreciation is charged to income at the rates stated in note 20.1 applying reducing balance method to write-off the carrying amount of the asset over its estimated remaining useful life in view of certainty of ownership of assets at the end of lease period.

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

6.8 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.

6.9 Stores, spares and loose tools

Stores and spares 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 to the balance sheet date.

6.10 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 represents annual average manufacturing cost, which consists of prime cost and appropriate manufacturing overheads.
- Net realisable value signifies the selling price in the ordinary course of business less cost necessary to be incurred to effect such sale.

6.11 Trade debts and other receivables

Trade debts and other receivables are carried at original invoice amount less an estimate made for doubtful receivables based on review of outstanding amounts at the year-end. Balances considered bad and irrecoverable are written-off when identified.

6.12 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.

6.13 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.

6.14 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.

6.15 Revenue recognition

- Sales are recorded on dispatch of goods.
- Return on deposits is accounted for on 'accrual basis'.
- Dividend income is accounted for when the right of receipt is established.

6.16 Foreign currency translations

Transactions in foreign currencies are accounted for in Pak Rupees at the exchange rates prevailing on the date of transactions. Monetary assets and liabilities in foreign currencies except for those covered under forward foreign exchange contracts are translated into Pak Rupees at the exchange rates prevailing on the balance sheet date. Forward foreign exchange contracts are translated at the contracted rates. Exchange differences on foreign currency translations are included in profit and loss account or equity along with any related hedge effects.

6.17 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.

6.18 Financial assets and liabilities

Financial assets and financial liabilities are recognised 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 are included in the profit and loss for the year. All financial assets and financial liabilities are initially measured at cost, which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value, amortised cost or cost, as the case may be.

6.19 Off-setting of financial instruments

Financial assets and liabilities are off-set and the net amount reported in the balance sheet when there is a legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

6.20 Related party transactions

Sale, purchase and other transactions with related parties are made at arm's length prices determined in accordance with the comparable uncontrolled price method except for the allocation of expenses relating to combined offices shared with the Associated Companies, which are on the actual basis.

7. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

	2010	2009
Ordinary shares held by the Associated Companies and an Associate at the year-end:	**(Numbers of shares)**	
- Bibojee Services (Pvt.) Ltd.	**1,110,650**	1,110,650
- Bannu Woollen Mills Ltd.	**125,584**	125,584
- Janana De Malucho Textile Mills Ltd.	**510,864**	510,864
- Waqf-e-Kuli Khan	**50,120**	50,120
	1,797,218	1,797,218

8. RESERVES

	Note	2010	2009
		(Rupees in thousand)	
Capital reserve	**8.1**	**19,440**	19,440
General reserve		**88,000**	88,000
Gain on remeasurement of forward foreign exchange contracts - cash flow hedge		**3,362**	3,539
		110,802	110,979

8.1 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.

9. FROZEN MARK-UP ON DEMAND FINANCES

This represents mark-up accrued on demand finances pertaining to the period from 01 October, 2008 to 30 June, 2010. As per the finance facilities restructuring package finalised with National Bank of Pakistan, the Company will issue Term Finance Certificates against this liability as fully detailed in note 11.2(c).

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

10.1 The freehold land of the Company was first revalued on 30 September, 1998 by M/s Hamid Mukhtar & Co. - Consulting Engineers, Surveyors & Loss Adjusters and Valuation Consultants, Lahore. The Company, during the financial year ended 30 September, 2004, had revalued its freehold land, buildings on freehold land, plant & machinery and generator to replace the carrying amounts of these assets with their market value / depreciated market values. This revaluation was also carried-out by M/s Hamid Mukhtar & Co. The appraisal surplus arisen on the revaluation aggregating Rs.107.975 million was credited to this account.

10.2 The Company as at 31 January, 2007 had again revalued its freehold land, buildings on freehold land, plant & machinery and generators. The revaluation exercise was carried-out by M/s Yunus Mirza & Co., Incorporated Architects, Engineers, Town Planners & Banks' Approved Surveyors, Karachi, to replace the carrying amounts of these assets with their market value / depreciated market values. The appraisal surplus arisen on this revaluation aggregating Rs.161.395 million was credited to this account.

10.3 The Company as at 27 June, 2009 had further revalued its freehold land. The revaluation exercise was carried-out by Dimen Associates (Pvt.) Ltd., Approved Valuers of Pakistan Banks Association, Township, Lahore, to replace the carrying amount of freehold land with its market value. The appraisal surplus arisen on this revaluation amounting Rs.236.880 million was 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	2010	2009
		(Rupees in thousand)	
Opening balance		**449,475**	218,339
Surplus arisen on revaluation carried-out during the preceding financial year	10.3	**0**	236,880
Less:			
transferred to accumulated loss on account of:			
- incremental depreciation for the year - net of deferred taxation		**4,889**	5,174
- realised on disposal of plant & machinery - net of deferred taxation		**18**	570
		4,907	5,744
		444,568	449,475

11. DEMAND FINANCES - Secured

National Bank of Pakistan (NBP)

	Note	2010	2009
Balance as at 30 June,	11.1	**217,250**	217,250
Less: current portion grouped under current liabilities		**15,518**	0
		201,732	217,250

11.1 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 carrying mark-up at the rate of 6-months KIBOR+1.75% per annum with effect from 01 July, 2007.

11.2 NBP, vide its letter Ref. No. CIBG / ISD / 201 / 2010 dated 22 April, 2010 has approved the restructuring of finance facilities availed by the Company on the following terms and conditions:

(a) A portion amounting Rs.3.218 million of 4 principal instalments of Rs.62.072 million payable 01 January, 2009 to 01 July, 2010 will be converted into 321,778 ordinary shares of Rs.10 each (face value) under section 87 of the Companies Ordinance, 1984. These shares, constituting 10% of the paid-up capital, will be issued by the Company and NBP will acquire them accordingly. Sponsor shareholders of the Company would have the first right of refusal to buy the shares from NBP at the market price, if at any point of time, NBP wants to dispose-off its shareholding in the Company, in one or more lots.

(b) The remaining portion of 4 principal instalments of Rs.62.072 million payable 01 January, 2009 to 01 July, 2010 amounting Rs.58.854 million will be paid by the Company through issuance of 5,885,400 cumulative convertible preference shares having par value of Rs.10 each with the redemption option with NBP.

The dividend rate on these shares would be 10.8%. The dividend rate will be adjusted with each change in the applicable income tax rates on account of interest or dividend in such a manner that the net of tax interest or dividend to NBP could be maintained. Dividend calculation will be started from 01 July, 2010. Issuance of preference shares will be in compliance with law and related rules and regulations.

If the preference shares could not be redeemed within the prescribed period, NBP will have the right to get the un-redeemed preference shares (whose redemption would be due) converted into ordinary shares.

(c) Balance overdue amount of Rs.54 million (after an upfront payment of Rs.5 million effected by the Company against overdue mark-up of Rs.59 million approximately payable on demand finance facilities for the quarter ended December, 2008 to June, 2010) will be paid by the Company through issuance of Term Finance Certificates (TFCs) with nil mark-up rate. These TFCs will be redeemed within 6 years to be calculated from 01 July, 2010 with the condition that at least 10% of the original TFCs will be redeemed each year.

The redemption will be linked to the gross profit and actual cash flows of the Company. If the Company generates excess cash flows due to any reason other than the increase in gross profit margin, NBP would allow the Company to make excess payments without any prepayment charges. In case increased cash flows are solely due to increase in gross profit margin, the Company would be bound to repay its obligation first towards TFCs and then preference shares as follows:

- if gross profit margin remains between 8% to 11%	no extra payment
- with the increase in gross profit margin beyond 11%	at least 50% of the extra cash flows will be paid towards the adjustment of TFCs and preference shares respectively and for remaining, prior permission of NBP will be required for any other use.

(d) Principal instalments of demand finance lines and mark-up due and to be due would be paid by the Company as per the existing repayment schedule i.e. mark-up to be paid from 01 July, 2010 on quarterly basis starting from 30 September, 2010. However, payment of instalments pertaining to the principal as per existing schedule will be linked to the actual cash flows and gross profit of the Company.

(e) The effects of restructuring of finance facilities by NBP on the Company's financial statements will be as follows:

	Rupees in thousand
- Balance of demand finances as at 30 June, 2009	217,250
- Restructured demand finances to be created	155,178
- Ordinary shares to be issued	3,218
- Preference shares to be issued	58,854
	217,250
- Frozen mark-up balance on demand finances as at 30 June, 2009	27,504
- Mark-up accrued on demand finances during the current year ended 30 June, 2010	31,167
- Less: amount paid to NBP during the current year	(5,000)
	53,671
- Term Finance Certificates to be issued against outstanding frozen mark-up	53,671

(f) The restructured demand finances of Rs.155.178 million carrying mark-up at 6-months KIBOR plus 1.75% are repayable in 10 equal half-yearly instalments of Rs.15.518 million commencing 01 January, 2011. The effective mark-up rate charged by NBP during the current financial year ranged between 14.18% to 14.51% (2009: 15.94% to 17.45%) per annum.

(g) The aggregate finance facilities are secured against first exclusive charge on fixed assets of the Company for Rs.700 million and first charge on current assets of the Company for Rs.240 million.

12. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE - Secured

Particulars	**Upto one year**	**From one to five years**	**2010**	Upto one year	From one to five years	2009
	------------------ **Rupees in thousand** ------------------					
Minimum lease payments	**32,338**	**77,510**	**109,848**	13,267	112,637	125,904
Less: finance cost allocated to future periods	**10,822**	**12,962**	**23,784**	13,267	26,573	39,840
Present value of minimum lease payments	**21,516**	**64,548**	**86,064**	0	86,064	86,064

12.1 These lease finance facilities were again rescheduled by Faysal Bank Limited (FBL) during the preceding financial year vide its letter dated 30 June, 2009 as detailed below:

Line-1

Amount of facility	Rs.41.179 million.
Purpose of facility	Restructuring of corporate lease finance facility (facility was availed for purchase of new gas generator sets).
Expiry of facility	The facility shall expire on 02 January, 2014.
Mark-up rate	12 months average asking KIBOR + 2.25% per annum with annual repricing and payable on bi-annual basis commenced from July, 2009 .
Grace period	12 months commenced from 02 January, 2009.
Principal repayment	After 12 months grace period, principal repayment shall commence from 02 July, 2010; to be repaid in 8 equal semi-annual instalments.
Security	Title and insurance of leased assets in FBL's name.

Line-2

Amount of facility	Rs.9.768 million.
Purpose of facility	Restructuring of corporate lease finance facility (facility was availed for purchase of auto coners).
Expiry of facility	The facility shall expire on 18 March, 2014.
Mark-up rate	6 months average asking KIBOR + 3% per annum with half-yearly repricing and payable on bi-annual basis commenced from September, 2009.
Grace period	12 months commenced from 18 March, 2009.
Principal repayment	After 12 months grace period, principal repayment shall commence from 18 September, 2010; to be repaid in 8 equal semi-annual instalments.
Security	Title and insurance of leased assets in FBL's name.

Line-3

Amount of facility	Rs.11.210 million.
Purpose of facility	Restructuring of corporate lease finance facility (facility was availed for purchase of miscellaneous machinery and equipment).
Expiry of facility	The facility shall expire on 21 January, 2014.
Mark-up rate	6 months average asking KIBOR + 2.85% per annum with half-yearly repricing and payable on bi-annual basis commenced from July, 2009.
Grace period	12 months commenced from 21 January, 2009.
Principal repayment	After 12 months grace period, principal repayment shall commence from 21 July, 2010; to be repaid in 8 equal semi-annual instalments.
Security	Title and insurance of leased assets in FBL's name.

Line-4

Amount of facility	Rs.6.514 million.
Purpose of facility	Restructuring of corporate lease finance facility (facility was availed for purchase of Electric Panel Compressor).
Expiry of facility	The facility shall expire on 23 February, 2014.
Mark-up rate	6 months average asking KIBOR + 2.85% per annum with half-yearly repricing and payable on bi-annual basis commenced from August, 2009.
Grace period	12 months commenced from 23 February, 2009.
Principal repayment	After 12 months grace period, principal repayment shall commence from 23 August, 2010; to be repaid in 8 equal semi-annual instalments.
Security	Title and insurance of leased assets in FBL's name.

Line-5

Amount of facility	Rs.7.153 million.
Purpose of facility	Restructuring of corporate lease finance facility (facility was availed for purchase of new laboratory equipment).
Expiry of facility	The facility shall expire on 13 February, 2014.
Mark-up rate	6 months average asking KIBOR + 2.85% per annum with half-yearly repricing and payable on bi-annual basis commenced from August, 2009.
Grace period	12 months commenced from 13 February, 2009.
Principal repayment	After 12 months grace period, principal repayment shall commence from 13 August, 2010; to be repaid in 8 equal semi-annual instalments.
Security	Title and insurance of leased assets in FBL's name.

Line-6

Amount of facility	Rs.11.520 million.
Purpose of facility	Restructuring of corporate lease finance facility (facility was availed for purchase of used auto coners).
Expiry of facility	The facility shall expire on 02 March, 2014.
Mark-up rate	6 months average asking KIBOR + 3% per annum with half-yearly repricing and payable on bi-annual basis commenced from September, 2009.
Grace period	12 months commenced from 02 March, 2009.
Principal repayment	After 12 months grace period, principal repayment shall commence from 02 September, 2010; to be repaid in 8 equal semi-annual instalments.
Security	10% security deposit, title and insurance of leased assets in FBL's name.

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. 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:

	2010	2009
- discount rate	**12%**	12%
- expected rate of growth per annum in future salaries	**11%**	11%
- average expected remaining working life time of employees	**10 years**	10 years

The amount recognised in the balance sheet is as follows:	**2010**	2009
	(Rupees in thousand)	
Present value of defined benefit obligation	**22,514**	21,583
Unrecognised actuarial loss	**(1,312)**	(1,312)
Net liability as at 30 June,	**21,202**	20,271
Net liability as at 01 July,	**20,271**	25,028
Charge to profit and loss account	**6,030**	6,276
Payments during the year	**(5,099)**	(11,033)
Net liability as at 30 June,	**21,202**	20,271
The movement in the present value of defined benefit obligation is as follows:		
Present value of defined benefit obligation	**21,583**	28,226
Current service cost	**3,440**	2,851
Interest cost	**2,590**	3,387
Benefits paid	**(5,099)**	(11,033)
Actuarial gain	**0**	(1,848)
Present value of defined benefit obligation	**22,514**	21,583

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

	2010	2009	2008	2007	2006
	Rupees in thousand				
Present value of defined benefit obligation	**22,514**	21,583	28,226	23,895	22,855
Experience adjustment on obligation	**0**	(1,848)	(346)	0	(3,827)

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

14. DEFERRED TAXATION - Net

	Note	2010	2009
		(Rupees in thousand)	
This is composed of the following:			
Taxable temporary differences arising in respect of:			
- accelerated tax depreciation allowance		**96,734**	93,109
- surplus on revaluation of property, plant & equipment		**50,017**	52,659
		146,751	145,768
Deductible temporary difference arising in respect of:			
- staff retirement benefits - gratuity		**(7,421)**	(7,095)
- provision for doubtful debts		**(801)**	(801)
- available tax losses		**(78,642)**	(129,438)
- minimum tax recoverable against normal tax charge in future years		**(5,978)**	0
		(92,842)	(137,334)
		53,909	8,434

15. SHORT TERM FINANCES - Secured

Short term finance facilities available from National Bank of Pakistan (NBP) under mark-up arrangements aggregate Rs.480 million (2009: Rs.480 million) and are secured against pledge of stock-in-trade and first charge on current and fixed assets of the Company. These facilities, during the year, carried mark-up at the rates ranging from 14.09% to 14.77% (2009: 14.77% to 17.52%) per annum. Facilities available for opening letters of credit and guarantee from NBP aggregate Rs.170 million (2009: Rs.170 million) of which the amount remained unutilised at the year-end was Rs.152 million (2009: Rs.152 million). These facilities are secured against lien on import documents and first charge on current and fixed assets of the Company.

These facilities are available upto 31 December, 2010.

16. TRADE AND OTHER PAYABLES

	Note	2010	2009
Due to Associated Companies	**16.1**	**1,225**	15,090
Creditors		**10,932**	12,503
Bills payable - secured:			
- against spares		**0**	654
- against imported raw materials		**2,894**	47,968
Advances from customers		**4,114**	11,230
Accrued expenses		**29,422**	18,509
Interest free security deposits - repayable on demand		**100**	100
Workers' (profit) participation fund - allocation for the year		**7,490**	0
Waqf-e-Kuli Khan - allocation for the year	**32.1**	**3,745**	0
Workers' welfare fund - allocation for the year		**2,717**	0
Income tax deducted at source		**57**	53
Unclaimed dividends		**2,431**	2,431
Others		**67**	80
		65,194	108,618

16.1 Maximum aggregate debit balance of an Associated Company at any month-end during the year was Rs.0.432 million (2009: Rs.0.200 million).

17. ACCRUED INTEREST / MARK-UP

	Note	2010	2009
		(Rupees in thousand)	
Interest / mark-up accrued on:			
- lease finances		**5,640**	5,548
- short term finances		**13,059**	13,365
- advances from Associated Companies		**407**	1,635
		19,106	20,548

18. TAXATION - Net

		2010	2009
Opening balance		**0**	3,699
Add: provision made during the year:			
- current		**5,978**	0
- prior year		**1,101**	5
		7,079	5
Less: adjustments against completed assessments		**1,101**	3,704
		5,978	0

18.1 Income tax assessments of the Company have been completed upto the Tax Year 2009; the return for the said year has not been taken-up for audit till 30 June, 2010.

18.2 Provision for the current year represents minimum tax payable under section 113 of the Income Tax Ordinance, 2001 (the Ordinance). Due to location in the most affected area, the Company's income is exempt from tax for a period of three years under clause 126F of the second schedule to the Ordinance starting from the tax year 2010.

19. CONTINGENCIES AND COMMITMENTS

19.1 Counter guarantee given by the Company to a commercial bank outstanding as at 30 June, 2010 was for Rs.18 million (2009: Rs.18 million).

19.2 Commitments for capital expenditure outstanding as at 30 June, 2010 were for Rs.2.900 million (2009: Rs.3.334 million).

20. PROPERTY, PLANT AND EQUIPMENT

	Note	2010	2009
Operating fixed assets - tangible	**20.1**	**1,005,891**	1,000,084
Capital work-in-progress	**20.5**	**223**	9,344
Stores held for capital expenditure		**705**	1,741
		1,006,819	1,011,169

20.1 OPERATING FIXED ASSETS - Tangible

	Owned													Leased			
	Freehold land	Roads, paths and culverts on freehold land	Buildings on freehold land: Factory	Buildings on freehold land: Non - factory	Buildings on freehold land: Residential: officers	Buildings on freehold land: Residential: workers	Plant & machinery	Generat-ors	Tools & equip-ment	Furnitu-re & fixtur-es	Office equip-ment	Arms	Vehic-les	Plant & machin-ery	Generat-ors	Vehic-les	Total
	Rupees in thousand																
As at 30 June, 2008																	
Cost / Revaluation	118,440	120	100,909	5,021	904	14,637	600,240	21,005	1,624	2,040	1,101	16	8,098	49,000	75,000	1,336	999,491
Accumulated depreciation	0	(97)	(11,629)	(1,196)	(64)	(3,843)	(165,157)	(4,913)	(995)	(1,186)	(581)	(15)	(6,341)	(3,444)	(5,268)	(496)	(205,225)
Book value	118,440	23	89,280	3,825	840	10,794	435,083	16,092	629	854	520	1	1,757	45,556	69,732	840	794,266
Year ended 30 June, 2009:																	
Additions	0	0	0	0	0	0	12,091	2,886	11	12	0	0	606	0	0	0	15,606
Revaluation surplus	236,880	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	236,880
Reclassifications: - cost	0	0	0	0	0	0	0	0	0	0	0	0	1,336	0	0	(1,336)	0
- depreciation	0	0	0	0	0	0	0	0	0	0	0	0	(664)	0	0	664	0
Disposals: - cost	0	0	0	0	0	0	(32,735)	0	0	0	0	0	(316)	0	0	0	(33,051)
- depreciation	0	0	0	0	0	0	20,524	0	0	0	0	0	288	0	0	0	20,812
	355,320	23	89,280	3,825	840	10,794	434,963	18,978	640	866	520	1	3,007	45,556	69,732	168	1,034,513
Depreciation charge	0	(1)	(4,464)	(191)	(42)	(540)	(21,823)	(948)	(32)	(43)	(26)	0	(387)	(2,278)	(3,486)	(168)	(34,429)
Book value as at June 30, 2009	355,320	22	84,816	3,634	798	10,254	413,140	18,030	608	823	494	1	2,620	43,278	66,246	0	1,000,084
Year ended 30 June, 2010:																	
Additions	0	0	471	0	0	0	24,836	12,054	58	51	10	0	2,450	0	0	0	39,930
Disposals: - cost	0	0	0	0	0	0	(1,305)	0	0	0	0	0	0	0	0	0	(1,305)
- depreciation	0	0	0	0	0	0	933	0	0	0	0	0	0	0	0	0	933
	355,320	22	85,287	3,634	798	10,254	437,604	30,084	666	874	504	1	5,070	43,278	66,246	0	1,039,642
Depreciation charge	0	(1)	(4,243)	(182)	(40)	(513)	(21,403)	(1,188)	(33)	(41)	(25)	0	(606)	(2,164)	(3,312)	0	(33,751)
Book value as at June 30, 2010	355,320	21	81,044	3,452	758	9,741	416,201	28,896	633	833	479	1	4,464	41,114	62,934	0	1,005,891
As at 30 June, 2009																	
Cost / Revaluation	355,320	120	100,909	5,021	904	14,637	579,596	23,891	1,635	2,052	1,101	16	9,724	49,000	75,000	0	1,218,926
Accumulated depreciation	0	(98)	(16,093)	(1,387)	(106)	(4,383)	(166,456)	(5,861)	(1,027)	(1,229)	(607)	(15)	(7,104)	(5,722)	(8,754)	0	(218,842)
Book value	355,320	22	84,816	3,634	798	10,254	413,140	18,030	608	823	494	1	2,620	43,278	66,246	0	1,000,084
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	0	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)	0	(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	0	1,005,891
Depreciation rate (%)	0	5	5	5	5	5	5	5	5	5	5	5	20	5	5	20	

20.2 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:

	2010	2009
	Rupees in thousand	
Owned		
- freehold land	**3,642**	3,642
- buildings on freehold land	**54,117**	56,473
- plant & machinery	**343,273**	336,346
- generators	**22,643**	11,448
Leased		
- plant & machinery	**32,876**	34,606
- generators	**48,325**	50,868
	504,876	493,383

20.3 Depreciation for the year has been apportioned as under:

- cost of sales	**32,942**	33,678
- administrative expenses	**809**	751
	33,751	34,429

20.4 Disposal of plant and machinery

Particulars	Cost	Accum-ulated depre-ciation	Book value	Sale proceeds	Gain / (loss)	Sold through negotiations to:
	-------	Rupees in thousand	-------			
Murata cone winding machine	786	491	295	288	(7)	Muhammad Shaffiq, H # P-34, St. # 3, Sharifpura, Faisalabad.
02 Doubling machines	345	299	46	354	308	Chaudhri Muhammad Rafiq, College Road, Samanabad, Faisalabad.
Fans	174	143	31	93	62	Muhammad Azeem, Faisalabad and Hazrat Bilal , Ex-employee.
	1,305	933	372	735	363	

20.5 Capital work-in-progress

Buildings on freehold land	**223**	0
Plant and machinery:		
- cost and freight	**0**	8,777
- others	**0**	567
	223	9,344

21. INVESTMENTS IN AN ASSOCIATED COMPANY - Quoted

	2010	2009
	Rupees in thousand	
Janana De Malucho Textile Mills Ltd. (JDM)		
341,000 (2009: 341,000) ordinary shares of Rs.10 each - cost Equity held: 7.92% (2009: 10.77%)	**4,030**	4,030
Post acquisition profit brought forward including effect of items directly credited in equity by JDM	**7,588**	19,471
Profit / (loss) for the year - net of taxation	**7,526**	(9,511)
	19,144	13,990
Less: impairment loss	**0**	(11,808)
	19,144	2,182

21.1 Fair value of investments in JDM as at 30 June, 2010 was Rs.4.893 million (2009: Rs.2.182 million).

21.2 Summarised financial information of JDM, based on the audited financial statements for the year ended 30 June, 2010, is as follows:

- equity as at 30 June,	**263,337**	108,276
- total assets as at 30 June,	**2,444,962**	1,977,223
- total liabilities as at 30 June,	**1,153,187**	1,184,516
- revenue for the year ended 30 June,	**1,454,537**	1,071,738
- profit / (loss) before taxation for the year ended 30 June,	**174,411**	(149,174)
- profit / (loss) after taxation for the year ended 30 June,	**116,642**	(109,886)

22. ADVANCES TO EMPLOYEES - Secured

Advances to employees	**1,502**	1,513
Less: recoverable within one year grouped under current assets	**756**	932
	746	581

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

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

22.3 An amount of Rs.693 thousand was receivable from an executive as at 01 July, 2009. Further disbursements of Rs.187 thousand were made and amounts aggregating Rs.624 thousand were received-back from him during the year. At year-end, Rs.256 thousand were receivable from him.

22.4 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.

23. STORES, SPARES AND LOOSE TOOLS

Stores	**5,438**	2,212
Spares	**4,664**	10,250
Loose tools	**76**	118
	10,178	12,580

24. STOCK-IN-TRADE

	Note	2010	2009
		(Rupees in thousand)	
Raw materials			
- at mills		**281,180**	233,959
- in transit		**0**	48,412
		281,180	282,371
Work-in-process		**37,405**	28,778
Finished goods		**3,907**	10,084
		322,492	321,233

24.1 The entire closing inventory is pledged with National Bank of Pakistan as security for short term finance facilities (note 15).

25. TRADE DEBTS - Unsecured

		2010	2009
Balance at the year-end		**2,290**	2,290
Less: provision made against doubtful debts		**2,290**	2,290
		0	0

26. ADVANCES TO EMPLOYEES
Unsecured - Considered good

		2010	2009
Advances to:			
- executives		**486**	909
- other employees		**1,191**	755
		1,677	1,664

27. CASH AND BANK BALANCES

	Note	2010	2009
Cash-in-hand		**87**	39
Cash at banks on:			
- current accounts		**742**	300
- dividend accounts		**69**	70
- PLS account	**27.1**	**37**	22
- PLS security deposit account	**27.1**	**100**	105
		948	497
		1,035	536

27.1 These carry profit at the rate of 5% (2009: 5%) per annum.

28. SALES - Net

		2010	2009
Yarn		**1,150,075**	716,423
Waste		**45,516**	30,547
		1,195,591	746,970
Less: commission		**0**	9
		1,195,591	746,961

29. COST OF SALES

	Note	2010	2009
		(Rupees in thousand)	
Raw materials consumed	29.1	**602,393**	452,292
Packing materials consumed		**17,717**	14,484
Salaries, wages and benefits	29.2	**111,273**	82,801
Power and fuel		**125,986**	102,439
Repair and maintenance:			
- stores consumed		**20,444**	12,035
- expenses		**8,170**	2,648
		28,614	14,683
Depreciation		**32,942**	33,678
Insurance		**4,094**	4,752
		923,019	705,129
Adjustment of work-in-process			
Opening		**28,778**	21,678
Closing		**(37,405)**	(28,778)
		(8,627)	(7,100)
Cost of goods manufactured		**914,392**	698,029
Adjustment of finished goods			
Opening stock		**10,084**	7,809
Closing stock		**(3,907)**	(10,084)
		6,177	(2,275)
Cost of goods sold		**920,569**	695,754

29.1 Raw materials consumed

	2010	2009
Opening stock	**282,371**	302,887
Purchases	**600,956**	431,463
	883,327	734,350
Closing stock [including in transit valuing Rs.Nil (2009: Rs.48.412 million)]	**281,180**	282,371
	602,147	451,979
Cess on cotton consumed	**246**	313
	602,393	452,292

29.2 These include following in respect of staff retirement benefits - gratuity:

	2010	2009
- current service cost	**3,251**	2,664
- interest cost	**2,447**	3,165
- actuarial loss recognised	**0**	35
	5,698	5,864

30. DISTRIBUTION COST

	Note	2010	2009
		(Rupees in thousand)	
Freight, loading, travelling and conveyance		**1,108**	879
Salaries and benefits	30.1	**1,093**	1,034
Samples		**244**	376
Others		**170**	252
		2,615	2,541

30.1 These include following in respect of staff retirement benefits - gratuity:

	2010	2009
- current service cost	**9**	8
- interest cost	**7**	9
	16	17

31. ADMINISTRATIVE EXPENSES

	Note	2010	2009
Salaries and benefits	31.1	**16,814**	13,397
Printing and stationery		**606**	548
Communication		**728**	579
Travelling and conveyance		**1,293**	885
Rent, rates and taxes		**1,727**	1,298
Insurance		**253**	148
Advertisement		**122**	61
Repair and maintenance		**414**	576
Vehicles' running		**1,985**	1,696
Guest house expenses and entertainment		**468**	575
Subscription		**121**	191
Auditors' remuneration:			
- statutory audit		**500**	200
- half yearly review		**100**	66
- consultancy charges		**50**	40
- certification charges		**0**	10
- out-of-pocket expenses		**25**	15
- audit fee - prior year		**35**	35
		710	366
Legal and professional charges (other than Auditors')		**1,186**	355
ISO certification charges		**0**	367
Depreciation		**809**	751
		27,236	21,793

	Note	2010	2009
31.1 These include following in respect of staff retirement benefits - gratuity:		**(Rupees in thousand)**	
- current service cost		**180**	179
- interest cost		**136**	213
- actuarial loss recognised		**0**	2
		316	394

31.2 The Company has shared expenses aggregating Rs.4.213 million (2009: Rs.5.880 million), out of the total expenses of Rs.16.551 million (2009: Rs.19.338 million) of the Combined Offices, with its Associated Companies. These expenses have been booked in the respective heads of account as follows:

		2010	2009
- manufacturing expenses		**347**	566
- administrative and distribution expenses		**3,866**	5,314
		4,213	5,880

32. OTHER OPERATING EXPENSES

	Note	2010	2009
Donations		**30**	230
Donation to Waqf-e-Kuli Khan	**32.1**	**3,745**	0
Workers' (profit) participation fund		**7,490**	0
Workers' welfare fund		**2,717**	0
Loss on disposal of operating fixed assets - net		**0**	3,111
		13,982	3,341

32.1 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
- Dr. Shaheen Kuli Khan Khattak
- ~~Mr. Ahmad Kuli Khan Khattak~~
- ~~Mr. Mushtaq Ahmad Khan, FCA~~
- Mrs. Shahnaz Sajjad Ahmad

33. OTHER OPERATING INCOME

	Note	2010	2009
Income from financial assets			
Mark-up earned on Associated Companies' balances		**32**	5
Return on bank deposits		**235**	172
Amortisation of gain on forward foreign exchange contracts		**177**	186
Income from non-financial assets			
Salvage sales		**2,318**	1,374
Gain on sale of plant and machinery-net	**20.4**	**363**	0
Others			
Payable balances written-back		**23**	64
		3,148	1,801

34. FINANCE COST

	2010	2009
	(Rupees in thousand)	
Mark-up / interest on:		
- demand finances [net of mark-up subsidy aggregating Rs.1.578 million (2009: Rs. 1.830 million)]	**29,589**	34,378
- lease finances [net of mark-up subsidy aggregating Rs.66 thousand (2009: Rs. 126 thousand)]	**12,612**	12,547
- short term finances	**54,493**	59,356
- associated companies' balances	**1,742**	1,453
Bank charges	**338**	281
	98,774	108,015

35. EARNINGS / (LOSS) PER SHARE

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

	2010	2009
Profit / (loss) after taxation attributable to ordinary shareholders	**102,343**	(73,683)
	(Number of shares)	
Weighted average number of shares in issue during the year	**2,896,000**	2,896,000
	------- Rupees -------	
Earnings / (loss) per share	**35.34**	(25.44)

36. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

Particulars	Chief Executive		Working Director		Executives	
	2010	2009	**2010**	2009	**2010**	2009
	---------------------------- Rupees in thousand ----------------------------					
Managerial remuneration	**2,373**	2,055	**691**	151	**7,475**	6,255
Bonus / ex-gratia	**0**	0	**0**	0	**62**	93
Retirement benefits	**0**	0	**0**	0	**433**	378
Utilities	**355**	401	**0**	7	**168**	136
Insurance	**2**	2	**3**	10	**66**	7
Medical	**19**	0	**19**	7	**434**	261
	2,749	2,458	**713**	175	**8,638**	7,130
No. of persons	**1**	1	**1**	1	**7**	7

36.1 Some of the directors and executives of the Company have been provided with free use of the Company maintained cars and residential telephones.

36.2 The Company has provided rent free accommodation to three (2009: four) of its executives in the mills' colony.

36.3 In addition to above, meeting fees of Rs.262 thousand (2009: Rs.69 thousand) were paid to seven (2009: five) non-working directors during the year.

37. TRANSACTIONS WITH RELATED PARTIES

a) The Company's shareholders, vide a special resolution, have 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.

b) Mark-up has been accrued / earned at the average borrowing rates ranging from 14.09% to 14.77% (2009: 11.81% to 17.50%) per annum calculated on daily product basis on the current account balances of the Associated Companies except for the balances of The Universal Insurance Company Ltd., which have arisen on account of insurance premium payable.

c)

Aggregate transactions during the year with the Associated Companies were as follows:	**2010**	2009
	(Rupees in thousand)	
Sale of raw materials and yarn	**256**	160
Purchase of goods and services	**7,344**	6,539
Residential rent:		
- paid	**132**	132
- received	**5**	5
Insurance claims received	**6,354**	0
Insurance premium paid	**4,894**	6,536
Mark-up earned	**32**	5
Mark-up accrued	**1,742**	1,453

38. CAPACITY AND PRODUCTION

		2010	2009
Number of spindles:			
- installed		**53,040**	44,400
- in the process of installation		**0**	8,640
		53,040	53,040
Number of rotors installed		**400**	400
Number of shifts worked for spindles		**1,065**	1,092
Number of shifts worked for rotors		**1,065**	1,092
Number of spindles / shifts worked		**52,488,705**	48,150,886
Number of rotors' shifts worked		**218,200**	218,375
Average count spun		**56.52**	60.41
Rotors' capacity	**Kgs**	**371,156**	371,453
Actual production of yarn of all counts	**Kgs**	**3,774,673**	3,373,705

38.1 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.

39. FINANCIAL INSTRUMENTS

The Company has exposures to the following risks from its use of financial instruments:

- credit risk;

'- liquidity risk; and

- market risk.

The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company’s risk management framework. The Board is also responsible for developing and monitoring the Company's risk management policies.

39.1 Credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties fail completely to perform as contracted and arises from bank balances. Out of the total financial assets of Rs.1,945 thousand (2009:Rs.8,062 thousand), the financial assets which are subject to credit risk amounted to Rs.1,858 thousand (2009:Rs.8,023 thousand).

Credit risk on liquid funds is limited as the counter parties are banks with reasonably high credit ratings. The Company generally sells its goods against advance payments; therefore, credit risk in respect of trade debts does not arise.

Concentration of credit risk arises when a number of counter parties are engaged in similar business activities or have similar economic features that would cause their abilities to meet contractual obligation to be similarly effected by the changes in economic, political or other conditions. The Company believes that it is not exposed to major concentration of credit risk.

The maximum exposure to credit risk as at 30 June, 2010 along with comparative is tabulated below:

	2010	2009
	(Rupees in thousand)	
Security deposits	**910**	904
Other receivables	**0**	6,622
Bank balances	**948**	497
	1,858	8,023

39.2 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulties in meeting obligations associated with financial liabilities. Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Company's treasury department maintains flexibility in funding by maintaining availability under committed credit lines.

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

	2010				
	Carrying amount	Contractual cash flows	Less than 1 year	Between 1 to 5 years	5 years and above
	------------------------- Rupees in thousand -------------------------				
Demand finances	217,250	332,400	45,107	237,446	49,847
Liabilities against assets subject to finance lease	86,064	109,848	32,338	77,510	0
Short term finances	277,044	296,562	296,562	0	0
Trade and other payables	49,591	49,591	49,591	0	0
Accrued mark-up / interest	19,106	19,106	19,106	0	0
	649,055	807,507	442,704	314,956	49,847

	2009				
	Carrying amount	Contractual cash flows	Less than 1 year	Between 1 to 5 years	5 years and above
	------------------------- Rupees in thousand -------------------------				
Demand finances	217,250	358,296	28,301	177,205	152,790
Liabilities against assets subject to finance lease	86,064	125,904	13,267	112,637	0
Short term finances	397,829	426,447	426,447	0	0
Trade and other payables	97,335	97,335	97,335	0	0
Accrued mark-up / interest	20,548	20,548	20,548	0	0
	819,026	1,028,530	585,898	289,842	152,790

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.

39.3 Market risk

Market risk is the risk that changes in market price, such as foreign exchange rates, interest rates and equity prices will effect the Company's income or the value of its holdings of financial instruments.

(a) Currency risk

The Company is exposed to currency risk on import of raw materials and stores & spares denominated in US Dollar. The Company's exposure to foreign currency risk for US Dollar is as follows:

	2010	2009
	(Rupees in thousand)	
Bills payable	**2,894**	48,622

The following exchange rates have been applied:

	Average rate		Balance sheet date rate	
	2010	2009	**2010**	2009
US $ to Rupee	**84.56**	80.27	**85.60**	81.30

Sensitivity analysis

At the reporting date, if Rupee had strengthened by 10% against US Dollar, with all other variables held constant, profit after taxation for the year would have been higher (2009: loss after taxation would have been lower) by the amount shown below mainly as a result of foreign exchange gain on translation of financial liabilities.

Effect on profit / (2009: loss) for the year:	**2010**	2009
	(Rupees in thousand)	
US $ to Rupee	**289**	4,862

The weakening of Rupee against US Dollar would have had an equal but opposite impact on the profit / (2009: loss) after taxation.

The sensitivity analysis prepared is not necessarily indicative of the effects on profit / (2009: loss) for the year and liabilities of the Company.

(b) Interest rate risk

At the reporting date, the interest and mark-up rate profile of the Company's significant financial assets and liabilities is as follows:

	2010	2009	**2010**	2009
	Effective rate		**Carrying amount**	
	%	**%**	**(Rupees in thousand)**	
Fixed rate instruments				
Financial assets				
Bank balances	**5**	5	**137**	127
Variable rate instruments				
Financial liabilities				
Demand finances	**14.18 to 14.51**	15.94 to 17.45	**217,250**	217,250
Liabilities against assets subject to finance lease	**15.00 to 17.18**	14.28 to 17.18	**86,064**	86,064
Short term finances	**14.09 to 14.77**	14.77 to 17.52	**277,044**	397,829

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 and loss. Therefore, a change in interest and mark-up rates at the reporting date would not affect profit and loss account.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points (bp) in interest and mark-up rates at the balance sheet date would have (decreased) / increased profit for the year by the amounts shown below. The analysis is performed on the same basis for the year 2009.

	Decrease	Increase
	(Rupees in thousand)	
As at 30 June, 2010		
Cash flow sensitivity-Variable rate financial liabilities	**(16)**	**16**
As at 30 June, 2009		
Cash flow sensitivity-Variable rate financial liabilities	19	(19)

The sensitivity analysis prepared is not necessarily indicative of the effects on profit / (2009: loss) for the year and liabilities of the Company.

39.4 Fair value of financial instruments

Carrying values of the financial assets and financial liabilities approximate their fair values. Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable willing parties in an arm's length transaction.

40. CAPITAL RISK MANAGEMENT

The Company's prime objective when managing capital is to safeguard its ability to continue as a going concern in order to provide adequate returns for shareholders, benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to the ordinary shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Company monitors capital on the basis of gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and bank balances. Total capital is calculated as equity as shown in the balance sheet plus net debt.

	2010	2009
	(Rupees in thousand)	
Total borrowings	**580,358**	701,143
Less: Cash and bank balances	**1,035**	536
Net debt	**579,323**	700,607
Total equity	**133,425**	28,724
Total capital	**712,748**	729,331
Gearing ratio	**81%**	96%

For the purpose of calculating the gearing ratio, the amount of total borrowings has been determined by including the effect of liabilities against assets subject to finance lease and short term finances under mark-up arrangements.

41. SIGNIFICANT EVENT AFTER THE BALANCE SHEET DATE

The Federal Government, subsequent to the balance sheet date, has 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, has applied 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 aggregating Rs.22.977 million have been processed by National Bank of Pakistan and Faysal Bank Ltd. and submitted to State Bank of Pakistan for payment.

42. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on 07 October, 2010 by the board of directors of the Company.

43. FIGURES

Corresponding figures have been re-arranged, wherever necessary, for the purposes of comparison; however, no material re-arrangements have been made in these financial statements.

Raza Kuli Khan Khattak
Chief Executive

Lt. Gen (Retd)
Ali Kuli Khan Khattak
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 40th Annual General Meeting of the Company to be held on 31st October, 2010 at 11:30 a.m. at registered office of the company at Habibabad, Kohat and at any adjournment thereof.

As witness my hand this..................day of......................... 2010

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.