BIBOJEE GROUP

41 ANNUAL REPORT 2011

BABRI
COTTON MILLS LTD.

بسم الله الرحمن الرحيم

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COMPANY'S PROFILE

BOARD OF DIRECTORS	Mr. Raza Kuli Khan Khattak Chairman/Chief Executive Lt. Gen. (Retd.) Ali Kuli Khan Khattak Mr. Ahmed Kuli Khan Khattak Mrs. Zeb Gohar Ayub Mrs. Shahnaz Sajjad Ahmad Dr. Shaheen Kuli Khan Khattak Mr. Muhammad Ayub Khan (NIT) Ch. Sher Muhammad
AUDIT COMMITTEE	Mrs. Shahnaz Sajjad Ahmad — Chairman Mr. Muhammad Ayub Khan — Member Ch. Sher Muhammad — Member
COMPANY SECRETARY	Mr. Arshian Mahboob, FCA, FPA General Manager Finance
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
REGISTERED OFFICE & MILLS	Habibabad, Kohat Tel : (0922) 517353 - 512931, 516334 Fax : (0922) 516335 Website : www.bcm.com.pk E-mail : info@bcm.com.pk

VISION STATEMENT

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

MISSION STATEMENT

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

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

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 41st Annual General Meeting of the shareholders of Babri Cotton Mills Limited (the Company) will be held at the registered office of the Company at Habibabad, Kohat on Saturday 29th October, 2011 at 11:30 A.M. to transact the following business:

1. To confirm minutes of the Extra Ordinary General Meeting held on March 26, 2011.
2. To receive, consider and adopt the audited accounts of the Company for the year ended June 30, 2011 together with the Directors' and Auditors' reports thereon.
3. To appoint Auditors for the year ending June 30, 2012 and to fix their remuneration.
4. To consider any other business with the permission of the Chair.

By Order of the Board,

Arshian Mahboob

ARSHIAN MAHBOOB
Company Secretary

Kohat
Dated: October 06, 2011

NOTES:

1. The share transfer books of the Company will remain closed from October 22, 2011 to October 29, 2011 (both days inclusive).
2. A member entitled to attend and vote at this meeting may appoint another member as his/her proxy to attend the meeting and vote for his/her behalf. Proxy instrument in order to be effective must be received at the registered office of the Company duly stamped and signed not less than 48 hours before the time of holding the meeting.
3. Individual shareholder/proxy shall produce his/her original national identity card or original passport at the time of attending the meeting and nominee of corporate entity shall produce the board of directors' resolution/power of attorney containing specimen signature of the nominee attending the meeting.
4. The shareholders registered on CDC are also requested to bring their Participants' ID numbers and accounts numbers in CDC. Further, CDC Account Holders will have to follow the guidelines as laid down in Circular 1 dated January 26, 2000 issued by Securities and Exchange Commission of Pakistan for attending the meeting and appointment of proxies.
5. Shareholders are requested to notify the change of their addresses, if any, to Share Registrar, M/s Hameed Majeed Associates (Pvt.) Limited, 5th Floor, Karachi Chamber, Hasrat Mohani Road, Karachi. Tel No. 021-32424826

DIRECTORS' REPORT TO THE SHAREHOLDERS

The Directors of your Company are pleased to present the 41st annual report along with audited financial statements for the year ended June 30, 2011.

General Review

The textile industry went through many highs and lows during the year under review. The prime raw material i.e. cotton, was badly affected due to unprecedented rains and floods in the country resulting in high prices for the industry. The cotton market remained very volatile and prices in the international market also reached to unexpected levels which increased the cost of imported raw material as well.

In addition to abnormally high prices of cotton and other raw materials, increase in inflation, law & order situation and rise in cost of utilities coupled with load shedding and shut downs of natural gas to processing industry also impacted the industry. The last quarter of the financial year under review is tainted by imposition of General Sales Tax (GST) as well. After a confused state of affairs for a few weeks in the month of March, 2011, the Government of Pakistan finally brought zero rated sectors into the GST net. This adversely affected the business activities as the processing units stopped buying yarn in the local market due to the fact that these were already facing utilities curtailment and imposition of GST was like another blow under the belt.

The Federal Government included the entire textile sector of Khyber Pakhtunkhwa in the Prime Minister's Relief Package which definitely gave strength to the company in the year under review. The liquidity position of the company improved due to fiscal relief and it helped the company in meeting its financial commitments. The fact that the company is located in the area badly affected by terrorism was mitigated to some extent by the fiscal relief package.

Financial Results

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

	Year ended June 30, 2011	Year ended June 30, 2010
	(Rupees in thousand)	
Sales	**1,705,170**	1,195,591
Gross Profit	**199,633**	275,022
Operating Profit	**143,820**	234,337
Finance Cost	**22,696**	98,774
Profit before Taxation	**131,960**	154,897
Profit after Taxation	**122,571**	102,343
	= Rupees =	
Earning Per Share	**35.24**	30.73

After deduction of tax, net profit earned by your company for the year 2010-2011 is Rs.122.571 million compared to Rs.102.343 million in the previous year ended June 30, 2010. The gross profit for the current year is Rs. 199.633 million (11.70%) as compared to

Rs. 275.022 million (23.01%) in the previous year. Owing to increase in cotton and other raw materials' prices, the gross margins of the company were negatively affected. At the initial stage, the increase in yarn prices was less than the rate of increase in cotton prices. However, towards the end of second quarter of year under review the demand for cotton yarn in local & international markets increased resulting in increase of yarn prices. Higher turnover coupled with lower financial charges led to increased profitability as compared with the previous year.

Sales of yarn and waste have increased to Rs. 1,622.345 million (2010: Rs. 1,150.075 million) and Rs. 92.837 million (2010 Rs. 45.516 million) respectively mainly due to increase in the sale rates and to some extent quantity, as well. The abnormal rise in the price of cotton ultimately resulted in rising prices of yarn and the turn over of the company touched new heights in the year under review.

Salaries and wages for the year are Rs. 162.502 million (2010: Rs.111.273 million), the increase is mainly due to raise in salary and wages levels in line with the rising inflation. The upward trend in cost of utilities has also increased power and fuel cost of the company. All other manufacturing costs increased due to inflationary pressure which has affected the whole nation.

Financial cost has reduced from Rs. 98.774 million in 2010 to Rs. 22.696 million in the year under review. The decrease in financial cost is on account of Fiscal Relief Package and sound management of funds of the company.

The company has also accounted for its share of profit of Janana De Malucho Textile Mills Ltd amounting to Rs. 10.836 million during current year as against profit of Rs. 7.526 million in 2010. Further, reversal of impairment loss on investment in Janana De Malucho Textile Mills Ltd of Rs. Nil (2010; Rs. 11.808 million) has also been recognized in these financial statements.

We have produced 3,962,261 Kgs yarn during current financial year as against 3,774,673 Kgs yarn in the year 2010. Average count spun during the year was 56.57 as against 56.52 in 2010.

The break value of company's share (excluding surplus on revaluation fixed assets) stands at Rs. 72.61 per share as at June 30, 2011 (2010: Rs. 46.07 per share).

Status of Finance Facilities

The rescheduling/restructuring arrangements of demand finance facilities available from National Bank of Pakistan (NBP) were finalized during the year under review and formal agreement was signed off on January 12, 2011. In line with the terms of finance facilities agreement, the company issued 321,778 ordinary shares of Rs. 10/= each in part settlement of outstanding facilities amounting to Rs. 273.731 million. Further, term finance certificates valuing Rs. 56.481 were also issued to NBP during the year under review.

The remaining portion of over due principle amounting to Rs. 74.372 million along with mark-up to be due thereon from time to time will be paid back by the company in 10 equal half yearly installments with a grace period of three years as long as the Khyber Pakhtunkhwa Relief Package (KPK package) issued by the State Bank of Pakistan continues.

In case the KPK package expires/terminates before the repayment of the aforesaid amount, the remaining amount will be paid back by the company through the proceeds of issuance of unlisted non-voting cumulative convertible/redeemable preference shares of Rs. 10/= each.

The remaining principal amount of Rs. 139.660 million will be paid back in 9 equal half yearly installments commencing from July, 2011. The company has fulfilled its financial commitments during the year under review and subsequently as well.

Replacement of Machinery

The company, during the year under review, strengthened its production/back process by replacing outdated blow room machinery, cards and combers with reconditioned but improved and efficient versions of the machinery. In order to improve the quality of yarn, replacement of manual winders with autoconers in the winding department was also done.

Future Prospects

The textile industry is facing multiple challenges such as increase in inflation, high borrowing costs, unpredictable hike in power costs, load shedding and law & order situation in the region. Above all these, the availability of cotton in the local market at workable prices has also become impossible as Pakistan is likely to miss the 2011-12 cotton production target of 15 million bales due to heavy rains in the cotton growing belt of Sindh province. The devastating floods caused by heavy rains and breaches in saline water drains have played havoc with the standing crops in the Sinds province. There are reports that cotton crop in Sindh province has been damaged to such a level that the cotton production would remain at 13 to 13.5 million bales for the year as against the target of 15 million bales.

All these factors may adversely affect the profitability of the company for the coming year, however, the management is fully abreast with the conditions and would be putting its best efforts to ensure continued growth, operational efficiency and optimum results for the company and its valued stake holders. Further, with the improved back process and diversified marketing strategy, the management intends to introduce more counts so that reliance on certain market segment is diluted which will enhance the profitability and viability of the company in long term.

Appropriation for Dividend

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

Corporate and Financial Reporting Frame Work

The Board regularly reviews 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

- 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, 2011 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 seven 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	7
Lt. Gen (Retd.) Ali Kuli Khan Khattak	6
Mr. Ahmed Kuli Khan Khattak	2
Mrs. Zeb Gohar Ayub	5
Mrs. Shahnaz Sajjad Ahmad	5
Dr. Shaheen Kuli Khan Khattak	6
Ch. Sher Muhammad	5
Mr. Muhammad Ayub (NIT)	7

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

Key Operating and Financial Data (Six Years Summary)

Key operating and financial data of last six years is enclosed.

Pattern of Shareholding

The statement of pattern of shareholding of the company as on June 30, 2011 is enclosed. This statement is prepared in accordance with the Code of Corporate Governance and the provisions of Companies Ordinance 1984 read with Companies (Amendment) Ordinance 2002.

Appointment of Auditors

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

Acknowledgment

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

For & on behalf of the Board of Directors,

RAZA KULI KHAN KHATTAK
Chairman

Dated: October 02, 2011

SUMMARY OF KEY OPERATING AND FINANCIAL DATA

		2006	2007	2008	2009	2010	2011
CAPACITY AND PRODUCTION							
Spindles installed	Nos.	54,288	54,288	54,288	44,400	53,040	**53,040**
Average spindles worked during the year	Nos.	50,874	52,404	51,039	44,094	49,285	**51,314**
Production for the year/period	Lbs. in million	8.057	8.815	7.893	7.438	8,322	**8,735**
Average count spun during the year/period		57.82	56.52	59.92	60.41	56.52	**56.57**
PROFIT AND LOSS ACCOUNT							
Net sales	Rupees in million	610.836	746.626	739.868	746.961	1,195.591	**1,705.170**
Gross profit	Rupees in million	30.937	74.759	45.627	51.207	275.022	**199.633**
	%	5.06	10.01	6.17	6.86	23.00	**11.71**
Operating profit	Rupees in million	6.957	54.332	22.440	25.333	234.337	**143.820**
	%	1.14	7.28	3.03	3.39	19.60	**8.43**
Profit /(loss) before taxation	Rupees in million	(52.254)	(14.309)	(44.157)	(104.001)	154.897	**131.960**
	%	(8.55)	(1.92)	(5.97)	(11.07)	12.96	**7.74**
Profit /(loss) after taxation	Rupees in million	(34.525)	(11.094)	(29.926)	(73.683)	102.343	**122.571**
	%	(5.65)	(1.48)	(4.04)	(9.86)	8.56	**7.19**
Earnings /(loss) per share - restated	Rupees	(17.26)	(5.55)	(13.40)	(25.44)	30.73	**35.24**
BALANCE SHEET							
Shareholders' equity (excluding surplus on revaluation of fixed assets)	Rupees in million	102.581	96.233	95.640	28.724	133.425	**265.191**
Term finance certificates	- do. -	-	-	-	-	-	**56.481**
Demand finances / bills payable	- do. -	173.500	217.250	217.250	217.250	217.250	**214.467**
Liabilities against assets subject to finance lease	- do. -	76.008	86.882	86.498	86.064	86.064	**59.401**
Operating fixed assets	- do. -	640.278	825.406	794.266	1000.084	1,005.891	**1,035.313**
Additions in fixed assets	- do. -	300.404	57.863	4.777	15.607	39.930	**70.369**
Current assets	- do. -	236.203	281.218	358.720	349.881	349.792	**434.382**
Current liabilities	- do. -	398.279	416.248	524.623	526.995	404.356	**436.013**
OTHERS							
Break up value per share	Rupees	51.29	48.12	33.02	9.92	46.07	**72.61**
Employees at year end	Nos.	1,389	1,363	1,224	879	1,143	**1,078**

PATTERN OF SHAREHOLDING AS AT JUNE 30, 2011

Company's incorporation number: 2943/2/189

Registration number: 0003265

Number of shareholders	Shareholdings From	Shareholdings To	Total shares held
987	1	100	24,129
377	101	500	86,988
118	501	1,000	83,746
126	1,001	5,000	260,389
34	5,001	10,000	244,275
11	10,001	15,000	142,894
3	15,001	20,000	51,391
3	20,001	25,000	66,787
1	40,001	45,000	42,025
3	55,001	60,000	171,337
1	65,001	70,000	66,700
1	80,001	85,000	80,578
1	141,001	145,000	144,421
1	320,001	325,000	321,778
1	585,001	590,000	587,493
1	1,275,001	1,280,000	1,277,247
1,669			**3,652,178**

Categories of shareholders	Shares held	Percentage
Directors, chief executive officer and their spouse and minor children	69,496	1.90
Associated companies, undertakings and related parties	2,066,799	56.59
NIT and ICP	84,135	2.30
Banks, development finance institutions, non- banking financial institutions	439,728	12.04
Insurance companies	62,315	1.71
Modarabas and mutual funds	1,150	0.03
Shareholders holding 10% or more voting interest	2,235,692	61.22
General public -local	921,467	25.23
Other companies	4,210	0.12
The Karachi Stock Exchange (Guarantee) Limited	1,150	0.03
Administrator Abandoned Properties	1,728	0.05

Date: September 22, 2011

Arshian Mahboob
Company Secretary

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

	Categories of shareholders		Shares held
1	**Directors, CEO and their spouse and minor children**		
	Mr. Raza Kuli Khan Khattak	(Chairman/Chief Executive)	13,982
	Lt. Gen. (Retd.) Ali Kuli Khan Khattak	(Director)	12,832
	Mr. Ahmed Kuli Khan Khattak	(Director)	13,981
	Ch. Sher Muhammad	(Director)	2,875
	Mrs. Zeb Gohar Ayub	(Director)	11,842
	Mrs. Shahnaz Sajjad Ahmad	(Director)	6,992
	Dr. Shaheen Kuli Khan Khattak	(Director)	6,992
2	**Associated companies, undertaking and related parties**		
	Bannu Woollen Mills Limited		144,421
	Bibojee Services (Pvt.) Limited		1,277,247
	Janana De Malucho Textile Mills Limited		587,493
	Waqf-e-Kuli Khan		57,638
3	**NIT and ICP**		
	Investment Corporation of Pakistan		1,291
	National Bank of Pakistan (Trustee Department)		80,578
	National Investment Trust Limited		2,073
	IDBP (ICP UNIT)		193
4	**Banks, development financial Institutions, non banking finance institutions**		439,728
5	**Insurance companies**		
	The New Jubilee Insurance Co. Limited		57
	The Crescent Star Insurance Co. Limited		5,635
	State Life Insurance Corporation of Pakistan		56,623
6	**Modarabas and mutual funds**		1,150
7	**General public - local**		921,237
8	**Executives**		230
9	**Others companies**		4,210
10	**Shareholders holding 10% or more voting interest**		
	Bibojee Services (Pvt.) Limited		1,277,247
	Janana De Malucho Textile Mills Limited		587,493
	National Bank of Pakistan		370,952

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

For the year ended 30 June, 2011

This statement is being presented to comply with Code of Corporate Governance contained in 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 September 02, 2010 and Mr. Arshian Mahboob FCA 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

Dated: October 02, 2011

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 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, 2011.

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

LAHORE; October 03, 2011

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **BABRI COTTON MILLS LIMITED** as at 30 June, 2011 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

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

(b) in our opinion:

- **(i)** the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
- **(ii)** the expenditure incurred during the year was for the purpose of the Company's business; and
- **(iii)** the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 30 June, 2011 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

Dated: October 03, 2011

Engagement Partner: Abdul Hameed Chaudhri

BALANCE SHEET AS AT 30 JUNE, 2011

	Note	2011 (Rupees in thousand)	2010 (Rupees in thousand)
Equity and Liabilities			
Share Capital and Reserves			
Authorised capital	7	250,000	250,000
Issued, subscribed and paid-up capital	8	36,522	28,960
Reserves	9	106,290	110,802
Accumulated profit / (loss)		122,379	(6,337)
		265,191	133,425
Term Finance Certificates	10	47,068	0
Frozen Mark-up on Demand Finances	11	0	53,671
Surplus on Revaluation of Property, Plant and Equipment	12	439,563	444,568
Non-current Liabilities			
Demand finances	13	183,430	201,732
Liabilities against assets subject to finance lease	14	43,032	64,548
Staff retirement benefits - gratuity	15	40,756	21,202
Deferred taxation	16	47,322	53,909
		314,540	341,391
Current Liabilities			
Current portion of non-current liabilities	17	56,818	37,034
Short term finances	18	259,824	277,044
Trade and other payables	19	74,466	65,194
Accrued interest / mark-up	20	21,850	19,106
Taxation	21	23,055	5,978
		436,013	404,356
Contingencies and Commitments	22		
		1,502,375	1,377,411

	Note	2011 (Rupees in thousand)	2010 (Rupees in thousand)
Assets			
Non-current Assets			
Property, plant and equipment	23	1,035,313	1,006,819
Investments in an Associated Company	24	31,120	19,144
Advances to employees	25	550	746
Security deposits		1,010	910
		1,067,993	1,027,619
Current Assets			
Stores, spares and loose tools	26	13,758	10,178
Stock-in-trade	27	371,318	322,492
Advances to employees	29	1,192	1,677
Advance payments		1,021	3,592
Prepayments		258	160
Sales tax refundable		9,100	5,062
Mark-up subsidy receivable	30	23,315	0
Income tax refundable, advance tax and tax deducted at source		13,780	5,596
Cash and bank balances	31	640	1,035
		434,382	349,792
		1,502,375	1,377,411

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

Raza Kuli Khan Khattak
Chief Executive

Lt. Gen (Retd.)
Ali Kuli Khan Khattak
Director

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE, 2011

	Note	2011	2010
		(Rupees in thousand)	
Sales	32	**1,705,170**	1,195,591
Cost of Sales	33	**1,505,537**	920,569
Gross Profit		**199,633**	275,022
Distribution Cost	34	**5,103**	2,615
Administrative Expenses	35	**40,911**	27,236
Other Operating Expenses	36	**13,052**	13,982
Other Operating Income	37	**(3,253)**	(3,148)
		55,813	40,685
Profit from Operations		**143,820**	234,337
Finance Costs	38	**22,696**	98,774
		121,124	135,563
Share of Profit of an Associated Company	24	**10,836**	7,526
Impairment Loss on Investment in an Associated Company reversed		**0**	11,808
		10,836	19,334
Profit before Taxation		**131,960**	154,897
Taxation			
- Current	21	**17,077**	5,978
- Prior year	21	**(1,101)**	1,101
- Deferred	16	**(6,587)**	45,475
		9,389	52,554
Profit after Taxation		**122,571**	102,343
Other Comprehensive Income		**0**	0
Total Comprehensive Income		**122,571**	102,343
		------- Rupees -------	
Earnings per share - restated	39	**35.24**	30.73

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, 2011

	2011	2010
	(Rupees in thousand)	
Cash flow from operating activities		
Profit for the year - before taxation and share of profit and impairment loss on investment in an Associated Company	121,124	135,563
Adjustments for non-cash charges and other items:		
Depreciation	34,326	33,751
Loss / (gain) on sale of operating fixed assets - net	997	(363)
Loss arisen upon extinguishment of demand finances against issuance of ordinary shares	434	0
Payable balances written-back	(12)	(23)
Amortisation of gain on forward foreign exchange contracts	(168)	(177)
Staff retirement benefits - gratuity (net)	19,554	931
Finance cost	21,928	98,436
Profit before working capital changes	198,183	268,118
Effect on cash flow due to working capital changes		
Increase / (decrease) in current assets:		
Stores, spares and loose tools	(3,580)	2,402
Stock-in-trade	(48,826)	(1,259)
Advances to employees	485	(13)
Advance payments	2,571	(2,775)
Prepayments	(98)	6
Sales tax refundable	(4,038)	(276)
Mark-up subsidy receivable	44,385	6,622
Decrease / (increase) in trade and other payables	9,284	(43,401)
	183	(38,694)
Cash generated from operations	198,366	229,424
Taxes paid	(7,083)	(5,220)
Advances to employees - net	196	(165)
Net cash generated from operating activities	191,479	224,039
Cash flow from investing activities		
Fixed capital expenditure	(69,441)	(29,773)
Sale proceeds of operating fixed assets	5,624	735
Security deposits	(100)	(6)
Net cash used in investing activities	(63,917)	(29,044)
Cash flow from financing activities		
Lease finances - net	(26,663)	0
Short term finances - net	(17,220)	(120,785)
Finance cost paid	(84,074)	(73,711)
Net cash used in financing activities	(127,957)	(194,496)
Net (decrease) / increase in cash and cash equivalents	(395)	499
Cash and cash equivalents - at beginning of the year	1,035	536
Cash and cash equivalents - at end of the year	640	1,035

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, 2011

	Share capital	Reserves				(Accumulated loss) / unappropriated profit	Total
		Share premium reserve	General reserve	Gain on hedging instruments	Sub-total		
	------------ Rupees in thousand ------------						
Balance as at 30 June, 2009	28,960	19,440	88,000	3,539	110,979	(111,215)	28,724
Total comprehensive income for the year	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 and equipment (net of deferred taxation):							
- on account of incremental depreciation for the year	0	0	0	0	0	4,889	4,889
- upon disposal of plant & machinery	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
Transactions with owners							
Nominal value of ordinary shares issued as fully paid bonus shares	4,344	(4,344)	0	0	(4,344)	0	0
Nominal value of ordinary shares issued upon extinguishment of long term liabilities	3,218	0	0	0	0	0	3,218
Total comprehensive income for the year	0	0	0	0	0	122,571	122,571
Amortisation of gain on forward foreign exchange contracts	0	0	0	(168)	(168)	0	(168)
Transfer from surplus on revaluation of property, plant and equipment (net of deferred taxation):							
- on account of incremental depreciation for the year	0	0	0	0	0	4,625	4,625
- upon disposal of plant & machinery	0	0	0	0	0	380	380
Effect of items directly credited in equity by an Associated Company	0	0	0	0	0	1,140	1,140
Balance as at 30 June, 2011	**36,522**	**15,096**	**88,000**	**3,194**	**106,290**	**122,379**	**265,191**

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

Raza Kuli Khan

Raza Kuli Khan Khattak
Chief Executive

Lt. Gen (Retd.)
Ali Kuli Khan Khattak
Director

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE, 2011

1. CORPORATE INFORMATION

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

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance), directives issued by the Securities and Exchange Commission of Pakistan (SECP) and 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 by the provisions of and directives issued under the Ordinance. Wherever, the requirements of the Ordinance or directives issued by the SECP differ from the requirements of these standards, the requirements of the Ordinance or the requirements of the said directives have been followed.

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-off to the nearest thousand except stated otherwise.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The estimates / judgments and associated assumptions used in the preparation of the 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 resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

a) Staff retirement benefits - gratuity

The present value of defined benefit obligation depends on a number of factors that are determined on actuarial basis using a number of assumptions. Any change in these assumptions will impact the carrying amount of the obligation. The present value of the obligation and the underline assumptions are disclosed in note 15.

b) Taxation

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

c) **Property, plant and equipment**

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

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

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

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

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

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

5.1 Amendments to published standards that are effective in current financial year and are relevant to the Company

The following amendments to published standards are mandatory for the financial year beginning 01 July, 2010:

(a) IAS 1 (Amendment), 'Presentation of Financial Statements' is effective from 01 July, 2010. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The application of the amendment will not affect the results or net assets of the Company as it is only concerned with presentation and disclosures.

(b) IFRS 8 (Amendment), 'Operating Segments'. This amendment clarifies that an entity is required to disclose a measure of segment assets only if that measure is regularly reported to the chief operating decision-maker. Since the operations of the Company are considered as a single reportable segment, therefore the amendment will have no effect on the Company's financial statements.

(c) IAS 7 (Amendment), 'Statement of Cash Flows' is effective from 01 July, 2010. The amendment provides clarification that only expenditure that results in a recognised asset in the balance sheet can be classified as a cash flow from investing activity. The clarification results in an improvement in the alignment of the classification of cash flows from investing activities in the cash flow statement and the presentation of recognised assets in the balance sheet. The application of the amendment will not affect the results or net assets of the Company as it is only concerned with presentation and disclosures.

(d) IAS 17 (Amendment), ‘Classification of leases of land and buildings’. The amendment deletes the specific guidance regarding classification of lease of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, lease of land should be classified as either finance or operating, using the general principles of IAS 17. There is no effect of this amendment on the Company’s financial statements.

(e) IFRIC 19 ‘Extinguishing Financial Liabilities with Equity Instruments’ (effective for the periods beginning on or after 01 July, 2010). The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a lender of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The Company, during the current financial year, has renegotiated the terms of financial liabilities and offered its shares to National Bank of Pakistan to extinguish its demand finance liabilities and mark-up accrued thereon as fully detailed in note 13.2 to the financial statements.

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

The other new standards, amendments to existing approved accounting standards and interpretations are mandatory for the periods beginning on or after 01 July, 2010 are considered not to be currently relevant as these do not have any significant effect on the Company’s current financial reporting and operations; however, these may affect the accounting for future transactions and events.

5.3 New accounting standards, amendments to existing approved accounting standards and interpretations that are issued but not yet effective and have not been early adopted by the Company

The following new standards, amendments to existing approved accounting standards and interpretations are not effective for the periods beginning on or after 01 July, 2010 and have not been early adopted by the Company:

(a) IFRS 7 (Amendment), ‘Financial Instruments: Disclosures’ (effective for the periods beginning on or after 01 January, 2011). The amendment emphasizes the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with a financial instrument. The amendment will only affect the disclosures in the Company’s financial statements.

(b) IFRS 9, ‘Financial Instruments’, issued in November 2009. This standard is the first step in the process to replace IAS 39 (Financial Instruments: Recognition and Measurement). IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Company’s accounting for its financial assets. The standard is not applicable until 01 July, 2013 but is available for early adoption.

(c) IAS 1 (Amendment), ‘Presentation of Financial Statements’ (effective for the periods beginning on or after 01 January, 2011). The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The amendment will only affect the disclosures in the Company’s financial statements.

(d) IAS 24 (Revised), 'Related Party Disclosures' (effective for the periods beginning on or after 01 January, 2011). The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. When the revised standard is applied, the Company will be required to disclose transactions with its associates. At this stage it is not possible to assess the impact, if any, of the revised standard on the related party disclosures in the Company's financial statements.

(e) IAS 34 (Amendment), 'Interim Financial Reporting' (effective for periods beginning on or after 01 January, 2011). This amendment provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around the circumstances likely to affect fair values of financial instruments and their classification, transfers of financial instruments between different levels of the fair value hierarchy, changes in classification of financial assets and changes in contingent liabilities and assets. The amendment will only affect the disclosures in the Company's condensed interim financial information.

(f) IFRIC 14 (Amendments), 'Prepayments of a Minimum Funding Requirement' (effective for the periods beginning on or after 01 January, 2011). The amendments correct an unintended consequence of IFRIC 14, IAS 19 (The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction). Without the amendments, entities are not permitted to recognise as an asset, some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendment corrects this misinterpretation. The defined benefit plan, being operated by the Company, is not subject to any minimum funding requirements; hence, these amendments will have no impact on the Company's financial statements.

There are a number of other minor amendments and interpretations to other approved accounting standards that are not yet effective and are also not relevant to the Company and therefore have not been presented here.

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, 2011.

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 and prior year

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

(b) Deferred

Deferred tax is recognised using the balance sheet liability method on all temporary differences 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 detectable temporary differences, unused tax losses and tax credits can 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 other comprehensive income / equity in which case it is included in other comprehensive income / 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 12, 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 23.1. 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 23.1 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, spares and loose tools are stated at the lower of cost and net realisable value. The cost of inventory is based on moving average cost. Items in transit are stated at cost accumulated upto the balance sheet date. The Company reviews the carrying amount of stores, spares and loose tools on a regular basis and provision is made for identified obsolete and slow moving items.

6.10 Stock-in-trade

Basis of valuation are as follows:

<u>Particulars</u>	<u>Mode of valuation</u>
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 are recognised initially at original invoice amount, which is the fair value of consideration to be received in future and subsequently measured at cost less provision for doubtful debts, if any. An estimate is made for doubtful receivables when collection of the amount is no longer probable. Debts considered irrecoverable are written-off.

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

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

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

6.16 Foreign currency translations

Transactions in foreign currencies are translated into Pak Rupee using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Pak Rupee at the exchange rates prevailing at the balance sheet date. Exchange gains and losses are taken to profit and loss account.

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 instruments

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

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

6.19 Off-setting of financial assets and liabilities

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

6.20 Segment reporting

Segment information is presented on the same basis as that used for internal reporting purposes by the Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance of the operating segments. On the basis of its internal reporting structure, the Company considers itself to be a single reportable segment; however, certain information, as required by the approved accounting standards, is presented in note 45 to these financial statements.

7. AUTHORISED SHARE CAPITAL

2011	2010		2011	2010
---- Numbers ----			(Rupees in thousand)	
17,500,000	25,000,000	Ordinary shares of Rs.10 each	**175,000**	250,000
7,500,000	0	Redeemable cumulative preference shares of Rs.10 each	**75,000**	0
25,000,000	25,000,000		**250,000**	250,000

7.1 The Company's shareholders, in extra ordinary general meeting held on 26 March, 2011, have resolved that the existing authorised share capital of the Company be divided into 17.5 million number of ordinary shares of Rs.10 each and 7.5 million number of redeemable cumulative preference shares of Rs.10 each and amend the memorandum of association accordingly. The Security and Exchange Commission of Pakistan has confirmed this alteration through order no.6355/2/189/COS dated 21 September, 2011.

8. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2,896,000	2,896,000	Ordinary shares of Rs.10 each fully paid in cash	**28,960**	28,960
434,400	0	Ordinary shares of Rs.10 each issued as fully paid bonus shares	**4,344**	0
321,778	0	Ordinary shares of Rs.10 each issued to a Bank by conversion of long term liabilities	**3,218**	0
3,652,178	2,896,000		**36,522**	28,960

8.1 Movement in share capital during the year

2011	2010		2011	2010
---- Numbers ----			(Rupees in thousand)	
2,896,000	2,896,000	Balance at beginning of the year	**28,960**	28,960
434,400	0	Issued ordinary shares of Rs.10 each as fully paid bonus shares	**4,344**	0
321,778	0	Issued ordinary shares of Rs.10 each to a Bank by conversion of long term liabilities	**3,218**	0
3,652,178	2,896,000	Balance at end of the year	**36,522**	28,960

8.2	**Ordinary shares held by the Associated Companies and an Associate at the year-end:**	**2011**	2010
		---- Numbers ----	
	Bibojee Services (Pvt.) Ltd.	**1,277,247**	1,110,650
	Bannu Woollen Mills Ltd.	**144,421**	125,584
	Janana De Malucho Textile Mills Ltd.	**587,493**	510,864
	Waqf-e-Kuli Khan	**57,638**	50,120
		2,066,799	1,797,218

9. RESERVES

	Note	**2011**	2010
	Note	**(Rupees in thousand)**	
Capital reserve	**9.1**	**15,096**	19,440
General reserve		**88,000**	88,000
Gain on remeasurement of forward foreign exchange contracts - cash flow hedge		**3,194**	3,362
		106,290	110,802

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

10. TERM FINANCE CERTIFICATES - Secured

	Note	2011	2010
Balance of term finance certificates as at 30 June,	**13.2(d)**	**56,481**	0
Less: current portion grouped under current liabilities		**9,413**	0
		47,068	0

11. FROZEN MARK-UP ON DEMAND FINANCES

As per the finance facilities restructuring package finalised with National Bank of Pakistan, the Company has issued Term Finance Certificates against mark-up accrued on demand finance facilities availed by the Company during the period from December, 2008 to December, 2010 as fully detailed in note 13.2(d).

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

12.1 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.

12.2 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.

12.3 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:

	2011	2010
	(Rupees in thousand)	
Opening balance	**494,585**	502,133
Less: transferred to accumulated loss on account of		
- incremental depreciation for the year	**(7,116)**	(7,521)
- realised on disposal of plant & machinery	**(584)**	(27)
	486,885	494,585
Less: deferred tax on:		
- surplus on revaluation of fixed assets	**50,017**	52,658
- incremental depreciation	**(2,491)**	(2,632)
- realised on disposal of plant & machinery	**(204)**	(9)
	47,322	50,017
	439,563	444,568

13. DEMAND FINANCES - Secured
National Bank of Pakistan (NBP)

	2011	2010
Balance of demand finances as at 30 June,	**0**	217,250
Balance of rescheduled demand finances as at 30 June,	**214,032**	0
Add: restructuring cost arisen upon extinguishment of demand finances against issuance of ordinary shares	**434**	0
	214,466	217,250
Less: current portion grouped under current liabilities	**31,036**	15,518
	183,430	201,732

13.1 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.

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

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

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

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

(c) **Rescheduled Demand Finance**

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

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

In case the KPK Package expires / terminates before the repayment of the aforesaid amount, the Company will repay the remaining overdue principal amount through the proceeds of issuance of unlisted non-voting cumulative convertible / redeemable preference shares of Rs.10 each. NBP will have the option to redeem and convert these preference shares into ordinary shares at the rate of Rs.10 per share.

(iii) NBP has allowed the Company to repay the portion of principal amount of Rs.139.660 million under the KPK Package as a demand finance facility in 9 equal semi-annual instalments of Rs.15.518 million commencing from July, 2011. In case the KPK Package expires / terminates before the repayment of the said amount, the Company shall repay remaining portion as a demand finance facility along with mark-up to be due thereon from time to time.

(iv) The balance of RDF as at 30 June, 2011 has been arrived at as follows:

Balance of demand finances as at 30 June, 2010	**217,250**
Less: liability extinguished against issuance of ordinary share capital during the year	**3,218**
	214,032

(d) Mark-up portion of finance facilities

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

Total issue size	Rs. 56.481 million
Instrument	Unrated, unlisted and secured TFCs issued as redeemable capital under section 120 of the Companies Ordinance, 1984.
Purpose of issuance of TFCs	To pay overdue mark-up of NBP (TFC holder) against demand finance facilities availed by the Company during the period from December, 2008 to December, 2010.
Tenor	6 years from the issue date i.e. 12 January, 2011.
Security	First charge on fixed assets of the Company for Rs.700 million.
Profit rate	Nil
Profit payment	None
Principal repayment	6 years with the condition that at least 10% of the original TFCs amount will be redeemed each year. The redemption will be linked to gross profit and cash flows of the Company. As per the indicative redemption schedule, the total principal amount of TFCs of Rs.56.481 million will be redeemed in 6 equal annual instalments of Rs.9.413 million commencing from January, 2012.
Redemption reserve	No redemption reserve is being created for redemption of TFCs. In view of projected financial cash flows, the Company is expected to have adequate funds to meet its financial obligations.
Enhanced redemption of TFCs	If the Company generates excess cash flows due to any reason other than the increase due to gross profit margin, the Company would be allowed to make excess payment without any prepayment charges.

	In case the increased cash flows are due to increase in gross profit, the Company would repay its obligation first towards TFCs and then preference shares as follows : - no extra payment will be required if the gross profit margin remains between 8% to 11%. - with the increase in gross profit margin beyond 11%, additional cash flows would be utilised for enhanced redemption of TFCs beyond the minimum 10% allowed repayment each
Transfer of TFCs	The TFCs are transferable in the manner as provided in the Companies Ordinance, 1984.

(e) Mark-up rate

The Company and NBP have agreed that during the validity of KPK Package, the Company will pay mark-up on demand finance facility at the KPK rate, which is 7.5% per annum. However, after the expiry / termination of KPK Package the Company will pay mark-up on demand finance facility at the base rate (6-months KIBOR) plus 1.75% per annum. Mark-up shall be paid from 01 January, 2011 on quarterly basis starting from 31 March, 2011.

(f) Mechanism for alteration in the existing repayment schedule

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

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

- from 11% to 13% per annum	50% (say if principal portion is Rs.100, the Company will pay Rs.150)
- from 11% to 14% per annum	75% (say if principal portion is Rs.100, the Company will pay Rs.175)
- from 11% to 15% per annum	100% (say if principal portion is Rs.100, the Company will pay Rs.200)

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

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

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

14. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE - Secured

Particulars	**Upto one year**	**From one to five years**	**2011**	Upto one year	From one to five years	2010
	Rupees in thousand					
Minimum lease payments	**24,670**	**48,929**	**73,599**	32,338	77,510	109,848
Less: finance cost allocated to future periods	**8,301**	**5,897**	**14,198**	10,822	12,962	23,784
Present value of minimum lease payments	**16,369**	**43,032**	**59,401**	21,516	64,548	86,064

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

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

14.2 200,000 NIT Units, in the name of Company's Chief Executive, are under lien in favour of FBL; these Units will be released only upon complete and final settlement of entire outstanding portfolio.

15. 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:

	2011	2010
- discount rate	**14%**	12%
- expected rate of growth per annum in future salaries	**13%**	11%
- average expected remaining working life time of employees	**12 years**	10 years

The amount recognised in the balance sheet is as follows:	**2011**	2010
	(Rupees in thousand)	
Present value of defined benefit obligation	**46,136**	22,514
Unrecognised actuarial loss	**(5,380)**	(1,312)
Net liability at end of the year	**40,756**	21,202
Net liability at beginning of the year	**21,202**	20,271
Charge to profit and loss account	**25,787**	6,030
Payments made during the year	**(6,233)**	(5,099)
Net liability at end of the year	**40,756**	21,202
The movement in the present value of defined benefit obligation is as follows:		
Opening balance	**22,514**	21,583
Current service cost	**5,379**	3,440
Interest cost	**2,702**	2,590
Past service cost - vested benefits	**17,706**	0
Benefits paid	**(6,233)**	(5,099)
Actuarial loss	**4,068**	0
Closing balance	**46,136**	22,514
Expense recognised in profit and loss		
Current service cost	**5,379**	3,440
Interest cost	**2,702**	2,590
Past service cost	**17,706**	0
Charge for the year	**25,787**	6,030

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

	2011	2010	2009	2008	2007
	Rupees in thousand				
Present value of defined benefit obligation	**46,136**	22,514	21,583	28,226	23,895
Experience adjustment on obligation	**4,068**	0	(1,848)	(346)	0

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

16. DEFERRED TAXATION - Net

	Note	2011 (Rupees in thousand)	2010
This is composed of the following:			
Taxable temporary differences arising in respect of:			
- accelerated tax depreciation allowance		**116,387**	96,734
- surplus on revaluation of property, plant & equipment		**47,322**	50,017
		163,709	146,751
Deductible temporary difference arising in respect of:			
- staff retirement benefits - gratuity		**(14,264)**	(7,421)
- provision for doubtful debts		**(801)**	(801)
- available tax losses		**(84,245)**	(78,642)
- minimum tax recoverable against normal tax charge in future years		**(17,077)**	(5,978)
		(116,387)	(92,842)
		47,322	53,909

17. CURRENT PORTION OF NON-CURRENT LIABILITIES

	Note	2011	2010
Term Finance Certificates	10	**9,413**	0
Demand finances	13	**31,036**	15,518
Liabilities against assets subject to finance lease	14	**16,369**	21,516
		56,818	37,034

18. SHORT TERM FINANCES - Secured

Short term finance facilities available from National Bank of Pakistan (NBP) under mark-up arrangements aggregate Rs.630 million (2010: 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 rate of 7.5% (2010: at the rates ranged from 14.09% to 14.77%) per annum. Facilities available for opening letters of credit and guarantee from NBP aggregate Rs.285 million (2010: Rs.170 million) out of which the amount remained unutilised at the year-end was Rs.265 million (2010: 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, 2011.

19. TRADE AND OTHER PAYABLES

	Note	2011	2010
		(Rupees in thousand)	
Due to Associated Companies		**0**	1,225
Creditors		**11,292**	10,932
Bills payable		**0**	2,894
Advances from customers		**827**	4,114
Accrued expenses		**39,824**	29,422
Interest free security deposits - repayable on demand		**100**	100
Workers' (profit) participation fund	19.1	**6,657**	7,490
Waqf-e-Kuli Khan	36.1	**4,083**	3,745
Workers' welfare fund		**5,247**	2,717
Sales tax payable		**3,812**	0
Income tax deducted at source		**25**	57
Unclaimed dividends		**2,431**	2,431
Others		**168**	67
		74,466	65,194

19.1 Workers' (profit) participation fund

	2011	2010
Opening balance	**7,490**	0
Add: interest on funds utilised in the Company's business	**621**	0
Less:		
- paid to employees	**8,033**	0
- deposited with the Government Treasury	**78**	0
	8,111	0
	0	0
Add: allocation for the year	**6,657**	7,490
Closing balance	**6,657**	7,490

20. ACCRUED INTEREST / MARK-UP

	2011	2010
Interest / mark-up accrued on:		
- demand finances	**7,297**	0
- short term finances	**12,564**	13,059
- advances from Associated Companies	**0**	407
Lease finance charges	**1,989**	5,640
	21,850	19,106

21. TAXATION - Net

	Note	2011	2010
		(Rupees in thousand)	
Opening balance		**5,978**	0
Add: provision made during the year:			
- current		**17,077**	5,978
- prior years		**(1,101)**	1,101
		15,976	7,079
Less: adjustments against completed assessments		**(1,101)**	1,101
		23,055	5,978

21.1 Income tax assessments of the Company have been completed upto the Tax Year 2010; the return for the said year has not been taken-up for audit till 30 June, 2011.

21.2 Provision for the current and preceding years represent 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.

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

22. CONTINGENCIES AND COMMITMENTS

22.1 Counter guarantee given by the Company to a commercial bank outstanding as at 30 June, 2011 was for Rs.20 million (2010: Rs.18 million).

22.2 Also refer contents of note 21.3.

22.3 Commitments for capital expenditure outstanding as at 30 June, 2011 were for Rs.0.636 million (2010: Rs.2.900 million).

23. PROPERTY, PLANT AND EQUIPMENT

	Note	2011	2010
Operating fixed assets - tangible	**23.1**	**1,035,313**	1,005,891
Capital work-in-progress			
- buildings on freehold land		**0**	223
Stores held for capital expenditure		**0**	705
		1,035,313	1,006,819

23.1 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	Total
	Rupees in thousand															
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	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	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	1,000,084
Year ended 30 June, 2010:																
Additions/Replacements	0	0	471	0	0	0	24,836	12,054	58	51	10	0	2,450	0	0	39,930
Disposals: Cost	0	0	0	0	0	0	(1,305)	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	933
Depreciation for the year	0	1	4,243	182	40	513	21,403	1,188	33	41	25	0	606	2,164	3,312	33,751
Book value	355,320	21	81,044	3,452	758	9,741	416,201	28,896	633	833	479	1	4,464	41,114	62,934	1,005,891
Year ended 30 June, 2011:																
Additions/Replacements	0	0	1,985	0	0	0	65,449	0	0	237	138	13	2,547	0	0	70,369
Disposals: Cost	0	0	0	0	0	0	(19,780)	0	0	(4)	0	0	(260)	0	0	(20,044)
Depreciation	0	0	0	0	0	0	13,181	0	0	3	0	0	239	0	0	13,423
Depreciation for the year	0	1	4,110	172	38	487	21,385	1,445	32	46	29	1	1,378	2,056	3,146	34,326
Book value	355,320	20	78,919	3,280	720	9,254	453,666	27,451	601	1,023	588	13	5,612	39,058	59,788	1,035,313
As at 30 June, 2010																
Cost / Revaluation	355,320	120	101,380	5,021	904	14,637	603,127	35,945	1,693	2,103	1,111	16	12,174	49,000	75,000	1,257,551
Accumulated depreciation	0	99	20,336	1,569	146	4,896	186,926	7,049	1,060	1,270	632	15	7,710	7,886	12,066	251,660
Book value	355,320	21	81,044	3,452	758	9,741	416,201	28,896	633	833	479	1	4,464	41,114	62,934	1,005,891
As at 30 June, 2011																
Cost / Revaluation	355,320	120	103,365	5,021	904	14,637	648,796	35,945	1,693	2,336	1,249	29	14,461	49,000	75,000	1,307,876
Accumulated depreciation	0	100	24,446	1,741	184	5,383	195,130	8,494	1,092	1,313	661	16	8,849	9,942	15,212	272,563
Book value	355,320	20	78,919	3,280	720	9,254	453,666	27,451	601	1,023	588	13	5,612	39,058	59,788	1,035,313
Depreciation rate (%)		5	5	5	5	5	5	5	5	5	5	5	20	5	5	

23.2 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:

	2011	2010
	(Rupees in thousand)	
Owned		
- freehold land	**3,642**	3,642
- buildings on freehold land	**53,339**	54,117
- plant & machinery	**384,939**	343,273
- generators	**21,511**	22,643
Leased		
- plant & machinery	**31,233**	32,876
- generators	**45,908**	48,325
	540,572	504,876

23.3 Depreciation for the year has been apportioned as under:

	2011	2010
- cost of sales	**32,937**	32,942
- administrative expenses	**1,389**	809
	34,326	33,751

23.4 Disposal of operating fixed assets

Particulars	Cost	Accumulated depreciation	Book value	Sale proceeds	Gain / (loss)	Sold through negotiations to:
	------- Rupees in thousand -------					
Plant and machinery						
Hergeth machine	1,373	1,239	134	530	396	M/s. Chaudhry Traders, Samundri Road, Faisalabad.
13 Card machines	8,573	5,534	3,039	2,245	(794)	M/s. Chaudhry Traders, Samundri Road, Faisalabad.
05 Comber machines	4,578	2,884	1,694	950	(744)	M/s. Chaudhry Traders, Samundri Road, Faisalabad.
Sherly analyser machine	110	17	93	52	(41)	M/s. Chaudhry Traders, Samundri Road, Faisalabad.
06 Murata cone winding machines	4,383	2,979	1,404	1,283	(121)	M/s. Chaudhry Traders, Samundri Road, Faisalabad.
01 Murata cone winding machines	730	496	234	203	(31)	Pak Panther Spinning Mills Ltd., 34-Sher Shah Block, New Garden Town, Lahore.
Bailing press machine	31	30	1	182	181	Chuadhri Muhammad Rafiq, Faisalabad.
Bundle press machine	3	3	0	15	15	Chuadhri Muhammad Rafiq, . Faisalabad.
	19,781	13,182	6,599	5,460	(1,139)	
Furniture & fixtures						
Steel Almirah	4	3	1	1	0	Muhammad Ashfaq Khan, Ex-employee
Vehicle						
Suzuki Khyber	260	239	21	163	142	Mr. Nazar Hussain, Mohallah Janis Khel, Chakkarkot, Kohat.
	20,045	13,424	6,621	5,624	(997)	

24. INVESTMENTS IN AN ASSOCIATED COMPANY - Quoted

	2011	2010
	(Rupees in thousand)	
Janana De Malucho Textile Mills Ltd. (JDM)		
341,000 (2010: 341,000) ordinary shares of Rs.10 each - cost Equity held: 7.13% (2010: 7.92%)	**4,030**	4,030
Post acquisition profit brought forward including effect of items directly credited in equity by JDM	**16,254**	7,588
Profit for the year - net of taxation	**10,836**	7,526
	31,120	19,144

24.1 Market value of the Company's investment in JDM as at 30 June, 2011 was Rs.4.801 million (2010: Rs.4.893 million).

24.2 Summarised financial information of JDM, based on the audited financial statements for the year ended 30 June, 2011, is as follows:

	2011	2010
- equity as at 30 June,	**437,831**	263,337
- total assets as at 30 June,	**2,725,271**	2,444,962
- total liabilities as at 30 June,	**1,273,397**	1,153,187
- revenue for the year ended 30 June,	**2,134,841**	1,454,537
- profit before taxation for the year ended 30 June,	**111,058**	174,411
- profit after taxation for the year ended 30 June,	**152,048**	116,642

25. ADVANCES TO EMPLOYEES - Secured

	2011	2010
Advances to employees	**1,092**	1,502
Less: recoverable within one year grouped under current assets	**542**	756
	550	746

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

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

25.3 An amount of Rs.256 thousand was receivable from an executive as at 01 July, 2010. Further disbursements of Rs.301 thousand were made and outstanding balance of Rs.557 thousand had been fully received-back from him during the year.

25.4 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.

26. STORES, SPARES AND LOOSE TOOLS

	2011	2010
Stores	**3,617**	5,438
Spares	**10,044**	4,664
Loose tools	**97**	76
	13,758	10,178

27. STOCK-IN-TRADE

	Note	2011	2010
		(Rupees in thousand)	
Raw materials	27.1	**284,550**	281,180
Work-in-process		**40,386**	37,405
Finished goods		**46,382**	3,907
		371,318	322,492

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

28. TRADE DEBTS - Unsecured

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

29. ADVANCES TO EMPLOYEES

Unsecured - Considered good

Advances to:

- executives	**268**	486
- other employees	**924**	1,191
	1,192	1,677

30. MARK-UP SUBSIDY RECEIVABLE

The Federal Government as on 31 August, 2010 has include 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, is eligible to avail mark-up rate differential on business loans comprising of demand finances, lease finances and short term finances outstanding as at 31 December, 2009. The mark-up subsidy received / receivable during the year has been recognised by adjusting the relevant expenses (note 38).

31. CASH AND BANK BALANCES

	Note	2011	2010
Cash-in-hand		**31**	87
Cash at banks on:			
- current accounts		**350**	742
- dividend accounts		**60**	69
- PLS account	31.1	**97**	37
- PLS security deposit account	31.1	**102**	100
		609	948
		640	1,035

31.1 These carry profit at the rate of 5% (2010: 5%) per annum.

32. SALES - Net

	Note	2011	2010
		(Rupees in thousand)	
Yarn		**1,622,345**	1,150,075
Waste		**92,837**	45,516
		1,715,182	1,195,591
Less: sales tax		**10,012**	0
		1,705,170	1,195,591

33. COST OF SALES

	Note	2011	2010
Raw materials consumed	33.1	**1,136,503**	602,393
Packing materials consumed		**23,146**	17,717
Salaries, wages and benefits	33.2	**162,502**	111,273
Power and fuel		**148,720**	125,986
Repair and maintenance:			
- stores consumed		**31,836**	20,444
- expenses		**10,982**	8,170
		42,818	28,614
Depreciation		**32,937**	32,942
Insurance		**4,367**	4,094
		1,550,993	923,019
Adjustment of work-in-process			
Opening		**37,405**	28,778
Closing		**(40,386)**	(37,405)
		(2,981)	(8,627)
Cost of goods manufactured		**1,548,012**	914,392
Adjustment of finished goods			
Opening stock		**3,907**	10,084
Closing stock		**(46,382)**	(3,907)
		(42,475)	6,177
Cost of goods sold		**1,505,537**	920,569

33.1 Raw materials consumed

	2011	2010
Opening stock	**281,180**	282,371
Purchases	**1,139,550**	600,956
	1,420,730	883,327
Closing stock	**284,550**	281,180
	1,136,180	602,147
Cess on cotton consumed	**323**	246
	1,136,503	602,393

33.2 These include Rs.22,835 thousand (2010: Rs.5,698 thousand) in respect of staff retirement benefits - gratuity.

34. DISTRIBUTION COST

	Note	2011	2010
		(Rupees in thousand)	
Freight, loading, travelling and conveyance		**1,528**	1,108
Salaries and benefits	34.1	**3,312**	1,093
Samples		**0**	244
Commission		**86**	0
Others		**177**	170
		5,103	2,615

34.1 These include Rs.479 thousand (2010: Rs.16 thousand) in respect of staff retirement benefits - gratuity.

35. ADMINISTRATIVE EXPENSES

	Note	2011	2010
Salaries and benefits	35.1	**26,832**	16,814
Printing and stationery		**671**	606
Communication		**781**	728
Travelling and conveyance		**1,800**	1,293
Rent, rates and taxes		**1,746**	1,727
Insurance		**338**	253
Advertisement		**177**	122
Repair and maintenance		**641**	414
Vehicles' running		**4,244**	1,985
Guest house expenses and entertainment		**527**	468
Subscription		**213**	121
Auditors' remuneration:			
- statutory audit		**500**	500
- half yearly review		**100**	100
- consultancy charges		**50**	50
- certification charges		**30**	0
- out-of-pocket expenses		**25**	25
- audit fee - prior year		**0**	35
		705	710
Legal and professional charges (other than Auditors')		**847**	1,186
Depreciation		**1,389**	809
		40,911	27,236

35.1 These include Rs.2,472 thousand (2010: Rs.316 thousand) in respect of staff retirement benefits - gratuity.

35.2 Effective from current year, the group companies have stopped sharing branch expenses. (The Company during the preceding year ended 30 June, 2010 had shared expenses aggregating Rs.4.213 million, out of the total expenses of Rs.16.551 million of the Combined Offices, with its Associated Companies. These expenses were booked in the respective heads of account).

36. OTHER OPERATING EXPENSES	Note	2011	2010
		(Rupees in thousand)	
Donations		**30**	30
Donation to Waqf-e-Kuli Khan	**36.1**	**2,838**	3,745
Workers' (profit) participation fund	**19.1**	**6,657**	7,490
Workers' welfare fund		**2,530**	2,717
Loss on disposal of operating fixed assets - net	**23.4**	**997**	0
		13,052	13,982

36.1 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
- Mr. Ahmad Kuli Khan Khattak
- Lt. General (Retd.) Ali Kuli Khan Khattak
- Mrs. Shahnaz Sajjad Ahmad
- Mrs. Zeb Gohar Ayub Khan
- Dr. Shaheen Kuli Khan Khattak

37. OTHER OPERATING INCOME	Note	2011	2010
Income from financial assets			
Mark-up earned on Associated Companies' balances		**0**	32
Return on bank deposits		**427**	235
Amortisation of gain on forward foreign exchange contracts		**168**	177
Income from non-financial assets			
Salvage sales		**2,646**	2,318
Gain on sale of plant and machinery - net		**0**	363
Others			
Payable balances written-back		**12**	23
		3,253	3,148

38. FINANCE COSTS	Note	2011	2010
Mark-up on demand finances		**31,792**	31,167
Less: mark-up subsidy		**(22,873)**	(1,578)
		8,919	29,589
Lease finance charges		**11,482**	12,678
Less: mark-up subsidy		**(9,061)**	(66)
		2,421	12,612
Mark-up on short term finances		**45,733**	54,493
Less: mark-up subsidy		**(35,766)**	0
		9,967	54,493
Interest accrued on:			
- associated companies' balances		**0**	1,742
- workers' (profit) participation fund	**19.1**	**621**	0
Loss arisen upon extinguishment of demand finances against issuance of ordinary shares		**434**	0
Bank charges		**334**	338
		22,696	98,774

39. EARNINGS PER SHARE

	2011	2010
	(Rupees in thousand)	
There is no dilutive effect on earnings per share of the Company, which is based on:		
Profit after taxation attributable to ordinary shareholders	122,571	102,343
	(Number of shares)	
Weighted average number of ordinary shares outstanding during the year - restated	3,478,506	3,330,400
	------- Rupees -------	
Earnings per share - restated	35.24	30.73

40. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

Particulars	Chief Executive		Working Director		Executives	
	2011	2010	2011	2010	2011	2010
	---------------------------- Rupees in thousand ----------------------------					
Managerial remuneration	3,583	2,373	0	691	21,585	7,475
Bonus / ex-gratia	148	0	0	0	399	62
Retirement benefits	0	0	0	0	1,423	433
Utilities	537	355	0	0	135	168
Insurance	4	2	0	3	12	66
Medical	33	19	0	19	862	434
	4,305	2,749	0	713	24,416	8,638
No. of persons	1	1	0	1	8	7

40.1 Chief Executive Officer and executives of the Company have been provided with free use of the Company maintained cars and residential telephones.

40.2 The Company has provided rent free accommodation to four (2010: three) of its executives in the mills' colony.

40.3 In addition to above, meeting fees of Rs.480 thousand (2010: Rs.262 thousand) were paid to eight (2010: seven) non-working directors during the year.

41. TRANSACTIONS WITH RELATED PARTIES

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

b) No mark-up has been accrued / earned during the current financial year as outstanding balance of Rs.1,225 thousand were repaid during the year. (2010: Mark-up accrued / earned at the average borrowing rates ranged from 14.09% to 14.77% per annum calculated on daily product basis on the current account balances of the Associated Companies except for the balance of The Universal Insurance Company Ltd., which had arisen on account of insurance premium payable).

c) Maximum aggregate debit balance of an Associated Company at any month-end during the year was Rs.9 thousand (2010: Rs.432 thousand).

d) **Aggregate transactions during the year with the Associated Companies were as follows:**		**2011**	2010
		(Rupees in thousand)	
Sale of yarn and stores		**200**	256
Purchase of goods and services		**6,115**	7,344
Purchase of vehicles		**2,472**	0
Residential rent:			
- paid		**132**	132
- received		**0**	5
Insurance claims received		**0**	6,354
Insurance premium paid		**6,115**	4,894
Mark-up earned		**0**	32
Mark-up accrued		**0**	1,742
Bonus shares issued		**269,581**	0

42. CAPACITY AND PRODUCTION

Number of spindles installed		**53,040**	53,040
Number of rotors installed		**400**	400
Number of shifts worked for spindles		**1,094**	1,065
Number of shifts worked for rotors		**1,094**	1,065
Number of spindles / shifts worked		**56,137,235**	52,488,705
Number of rotors' shifts worked		**218,550**	218,200
Average count spun		**56.57**	56.52
Rotors' capacity	**Kgs**	**371,351**	371,156
Actual production of yarn of all counts	**Kgs**	**3,962,261**	3,774,673

42.1 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.

43. 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.

43.1 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.

Credit risk arises from security deposits, mark-up subsidy receivable from banks and deposits with banks. Out of the total financial assets aggregating Rs.24,965 thousand (2010: Rs.1,945 thousand), financial assets which are subject to credit risk aggregated Rs.24,934 thousand (2010:Rs.1,858 thousand).

Credit risk on bank balances and mark-up subsidy receivable 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, 2011 along with comparative is tabulated below:

	2011	2010
	(Rupees in thousand)	
Security deposits	**1,010**	910
Mark-up subsidy receivable	**23,315**	0
Bank balances	**609**	948
	24,934	1,858

43.2 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.

The following are the contractual maturities of the financial liabilities, including estimated mark-up payments:

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

Particulars	Carrying amount	Contractual cash flows	Less than 1 year	Between 1 to 5 years	5 years and above
	------------------------ Rupees in thousand ------------------------				
2010					
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

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.

43.3 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

Foreign currency risk arises mainly where receivables and payables exist due to transactions entered into foreign currencies. The Company is not exposed to currency risk as it has no foreign currency liabilities as at 30 June, 2011 (2010: bills payable amounting Rs.2,894 thousand).

(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:

	2011	2010	**2011**	2010
	Effective rate		**Carrying amount**	
	%	**%**	**(Rupees in thousand)**	
Fixed rate instruments				
Financial assets				
Bank balances	**5**	5	**199**	137
Variable rate instruments				
Financial liabilities				
Demand finances	**7.5**	14.18 to 14.51	**214,032**	217,250
Liabilities against assets subject to finance lease	**7.5**	15.00 to 17.18	**59,401**	86,064
Short term finances	**7.5**	14.09 to 14.77	**259,824**	277,044

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 reporting 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 2010.

	Decrease	**Increase**
	(Rupees in thousand)	
As at 30 June, 2011		
Cash flow sensitivity - Variable rate financial liabilities	**(5,333)**	**5,333**
As at 30 June, 2010		
Cash flow sensitivity - Variable rate financial liabilities	(5,804)	5,804

The sensitivity analysis prepared is not necessarily indicative of the effects on profit for the year and liabilities of the Company.

43.4 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.

44. 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.

	2011	2010
	(Rupees in thousand)	
Total borrowings	**589,738**	580,358
Less: cash and bank balances	**640**	1,035
Net debt	**589,098**	579,323
Total equity	**265,191**	133,425
Total capital	**854,289**	712,748
Gearing ratio	**69%**	81%

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.

45. OPERATING SEGMENT

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

45.1 Yarn sales represent 94.56% (2010: 96.19%) of the total sales of the Company.

45.2 All of the Company's sales relate to customers in Pakistan.

45.3 All non-current assets of the Company as at 30 June, 2011 are located in Pakistan.

45.4 Three (2010: three) of the Company's customers contributed towards 52.71% (2010: 47.01%) of net sales during the year amounting Rs.898.853 million (2010: Rs.562.051 million) and each customer individually exceeds 10% of sales of the Company.

46. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on October 02, 2011 by the board of directors of the Company.

47. 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.

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

FORM OF PROXY

I/We____
of ________being a member of Babri Cotton Mills Limited, holder of_______ Ordinary Shares as per Share Register Folio No.___________and/or CDC Participant I.D. No.______________and Sub Account No.____________hereby appoint______________of________________________or failing him/her _________________of______________member(s) of the Company as my/our proxy in my/our absence to attend and vote for me/us and on my/our behalf at the 41st Annual General Meeting of the Company to be held on 29th October, 2011 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......................... 2011

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.