

BABRI COTTON MILLS LIMITED
REVIEWED INTERIM FINANCIAL STATEMENTS
FOR THE SIX MONTHS PERIOD ENDED DECEMBER 31, 2018

**Independent Auditors' Review Report to the Members of
Babri Cotton Mills Limited**

Report on Review of Interim Financial Statements

Introduction

We have reviewed the accompanying condensed interim statement of financial position of **Babri Cotton Mills Limited** (the Company) as at December 31, 2018 and the related condensed interim statement of profit or loss and other comprehensive income, condensed interim statement of changes in equity, and condensed interim statement of cash flows, and notes to the financial statements for the six months period then ended (here-in-after referred to as "interim financial statements"). Management is responsible for the preparation and presentation of these interim financial statements in accordance with accounting and reporting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on these interim financial statements based on our review.

The figures of the condensed interim statement of profit or loss and other comprehensive income for the quarters ended December 31, 2017 and December 31, 2018 have not been reviewed, as we are required to review only the cumulative figures for the six months period ended December 31, 2018.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

The management has not carried-out impairment testing of its investments in an Associated Company at the reporting date as required under IAS 36 "Impairment of assets".

Qualified Conclusion

Based on our review, except for the matter described in the Basis for Qualified Conclusion section of our report, nothing has come to our attention that causes us to believe that the accompanying interim financial statements are not prepared, in all material respects, in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting.

Emphasis of Matter

Without further qualifying our conclusion, we draw attention to note 13.1 to the interim financial statements, which describes the matter regarding non-provisioning of Gas Infrastructure Development Cess aggregating Rs.488.201 million.

The engagement partner on the review resulting in this independent auditors' report is Nafees ud din.

LAHORE; 28 FEB 2019

ShineWing Hameed Chaudhri & Co.
SWHC SHINEWING HAMEED CHAUDHRI & CO.,
CHARTERED ACCOUNTANTS

Babri Cotton Mills Limited
Condensed Interim Statement of Financial Position as at December 31, 2018

		Dec. 31, 2018	June 30, 2018
		Un-audited	Audited
Assets	Note	Rupees in thousand	
Non-current Assets			
Property, plant and equipment	6	1,702,328	1,584,212
Investments in an Associated Company	7	236,997	236,325
Long term loans		359	535
Security deposits		1,033	1,109
		<u>1,940,717</u>	<u>1,822,181</u>
Current Assets			
Stores, spares and loose tools		39,535	39,566
Stock-in-trade		825,536	672,394
Trade debts		315	369
Loans and advances		7,684	8,671
Prepayments		6,382	1,837
Other receivables		4,539	4,710
Sales tax refundable		60,105	34,545
Income tax refundable, advance tax and tax deducted at source		43,049	45,298
Cash and bank balances		14,737	8,143
		<u>1,001,882</u>	<u>815,533</u>
Total Assets		<u><u>2,942,599</u></u>	<u><u>2,637,714</u></u>
Equity and Liabilities			
Equity			
Authorised capital		250,000	250,000
Issued, subscribed and paid-up capital		36,522	36,522
Capital reserves			
- share premium		15,096	15,096
- revaluation surplus on property, plant and equipment	8	907,457	915,635
Revenue reserves			
- general reserve		88,000	88,000
- gain on remeasurement of forward foreign exchange contracts		2,192	2,245
- unappropriated profit		307,340	311,253
Shareholders' Equity		<u>1,356,607</u>	<u>1,368,751</u>
Liabilities			
Non-current Liabilities			
Long term finances	9	153,975	70,096
Staff retirement benefits - gratuity		76,019	78,326
Deferred taxation		37,072	83,010
		<u>267,066</u>	<u>231,432</u>
Current Liabilities			
Trade and other payables	10	227,408	272,552
Unclaimed dividends		2,431	2,431
Accrued interest / mark-up		26,766	15,326
Short term finances	11	1,029,416	726,128
Current portion of non-current liabilities		31,481	3,644
Taxation	12	1,424	17,450
		<u>1,318,926</u>	<u>1,037,531</u>
Total Liabilities		<u>1,585,992</u>	<u>1,268,963</u>
Contingencies and Commitments	13		
Total Equity and Liabilities		<u><u>2,942,599</u></u>	<u><u>2,637,714</u></u>

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


Chief Executive


Director


Chief Financial Officer

SHC

Babri Cotton Mills Limited

**Condensed Interim Statement of Profit or Loss & Other Comprehensive Income
(Un-audited)**

For the Quarter and Six Months Period Ended December 31, 2018

	Note	Quarter ended		Six months period ended	
		Dec. 31, 2018	Dec. 31, 2017	Dec. 31, 2018	Dec. 31, 2017
----- Rupees in thousand -----					
Sales - net		639,077	583,813	1,078,370	996,424
Cost of Sales		641,662	601,154	1,047,864	1,046,075
Gross (Loss) / Profit		(2,585)	(17,341)	30,506	(49,651)
Distribution Cost		4,052	4,613	7,687	6,986
Administrative Expenses		19,876	15,893	36,064	29,012
Other Expenses	14	170	50	170	4,559
Other Income	15	(1,606)	(1,329)	(1,713)	(4,478)
		22,492	19,227	42,208	36,079
Loss from Operations		(25,077)	(36,568)	(11,702)	(85,730)
Finance Cost		27,083	8,571	45,545	17,695
		(52,160)	(45,139)	(57,247)	(103,425)
Share of Profit / (Loss) of an Associated Company	7	495	(2,235)	495	(2,235)
Loss before Taxation		(51,665)	(47,374)	(56,752)	(105,660)
Taxation					
- current	12.2	(4,067)	8,340	1,424	12,488
- prior year		30	0	30	0
- deferred		(39,213)	(38,519)	(45,938)	(41,676)
		(43,250)	(30,179)	(44,484)	(29,188)
Loss after Taxation		(8,415)	(17,195)	(12,268)	(76,472)
Other Comprehensive Income		0	0	0	0
Total Comprehensive Loss for the Period		(8,415)	(17,195)	(12,268)	(76,472)
----- Rupees -----					
Loss per Share		(2.30)	(4.71)	(3.36)	(20.94)

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


Chief Executive


Director


Chief Financial Officer

SHC

Babri Cotton Mills Limited
Condensed Interim Statement of Changes in Equity (Un-audited)
For the Six Months Period Ended December 31, 2018


Share capital	Capital Reserves		Revenue Reserves			Total
	Share premium reserve	Revaluation surplus on property, plant and equipment	General reserve	Gain on hedging instruments	Unappropriated profit	

----- Rupees in thousand -----

Balance as at June 30, 2018 (audited)	36,522	15,096	915,635	88,000	2,245	311,253	1,368,751
Total comprehensive loss for the period ended December 31, 2018	0	0	0	0	0	(12,268)	(12,268)
Amortisation of gain on forward foreign exchange contracts	0	0	0	0	(53)	0	(53)
Transfer from surplus on revaluation of property, plant and equipment on account of incremental depreciation for the period - net of deferred taxation	0	0	(7,361)	0	0	7,361	0
Share of revaluation surplus on property, plant and equipment of an Associated Company	0	0	(817)	0	0	0	(817)
Effect of items directly credited in equity by an Associated Company	0	0	0	0	0	994	994
Balance as at December 31, 2018 (un-audited)	36,522	15,096	907,457	88,000	2,192	307,340	1,356,607
Balance as at June 30, 2017 (audited)	36,522	15,096	932,265	88,000	2,355	441,252	1,515,490
Total comprehensive loss for the period ended December 31, 2017	0	0	0	0	0	(76,472)	(76,472)
Amortisation of gain on forward foreign exchange contracts	0	0	0	0	(55)	0	(55)
Transfer from surplus on revaluation of property, plant and equipment (net of deferred taxation)							
- on account of incremental depreciation for the period	0	0	(7,364)	0	0	7,364	0
- upon sale of revalued assets	0	0	(3,906)	0	0	3,906	0
Share of revaluation surplus on property, plant and equipment of an Associated Company	0	0	(900)	0	0	0	(900)
Effect of items directly credited in equity by an Associated Company	0	0	0	0	0	(229)	(229)
Balance as at December 31, 2017 (un-audited)	36,522	15,096	920,095	88,000	2,300	375,821	1,437,834

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


Chief Executive


Director


Chief Financial Officer

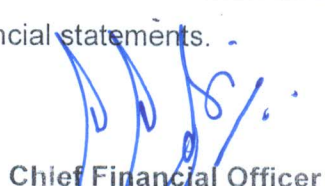
Babri Cotton Mills Limited
Condensed Interim Statement of Cash Flows (Un-audited)
For the Six Months Period Ended December 31, 2018

	Six months period ended	
	Dec. 31, 2018	Dec. 31, 2017
	(Rupees in thousand)	
Cash flow from operating activities		
Loss for the period - before taxation and share of profit / (loss) on investments in an Associated Company	(57,247)	(103,425)
Adjustments for non-cash charges and other items:		
Depreciation	32,847	29,668
Loss on sale of operating fixed assets	0	4,510
Deferred income credited	0	(1,799)
Amortisation of gain on forward foreign exchange contracts	(53)	(55)
Staff retirement benefits - gratuity (net)	(2,307)	(622)
Finance cost	45,545	17,695
Profit / (loss) before working capital changes	18,785	(54,028)
Effect on cash flow due to working capital changes		
(Increase) / decrease in current assets:		
Stores, spares and loose tools	31	(5,846)
Stock-in-trade	(153,142)	220,986
Trade debts	54	(736)
Loans and advances	1,163	(6,939)
Prepayments	(4,545)	(4,180)
Other receivables	171	187
Sales tax refundable	(25,560)	(12,471)
(Decrease) / increase in trade and other payables	(45,144)	50,025
	(226,972)	241,026
Cash (used in) / generated from operations	(208,187)	186,998
Taxes paid	(15,231)	(5,340)
Net cash (used in) / generated from operating activities	(223,418)	181,658
Cash flow from investing activities		
Fixed capital expenditure	(150,963)	(23,622)
Sale proceeds of operating fixed assets	0	6,343
Security deposits	76	0
Net cash used in investing activities	(150,887)	(17,279)
Cash flow from financing activities		
Long term finances obtained	111,716	0
Lease finances repaid	0	(10,289)
Short term finances - net	303,288	963
Finance cost paid	(34,105)	(18,565)
Net cash generated from / (used in) financing activities	380,899	(27,891)
Net increase in cash and cash equivalents	6,594	136,488
Cash and cash equivalents - at beginning of the period	8,143	477
Cash and cash equivalents - at end of the period	14,737	136,965

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


Chief Executive


Director


Chief Financial Officer

SHC

Babri Cotton Mills Limited
Notes to the Condensed Interim Financial Statements (Un-audited)
For the Six Months Period Ended December 31, 2018

1. Legal Status and Operations

Babri Cotton Mills Limited (the Company) was incorporated in Pakistan on October 26, 1970 as a Public Company under the Companies Act, 1913 (now the Companies Act, 2017) and its shares are quoted on Pakistan Stock Exchange Ltd. The Company is principally engaged in manufacture and sale of yarn. The Company's registered office and Mills are located at Habibabad, Kohat.

2. Basis of Preparation

These condensed interim financial statements have been prepared in accordance with the accounting and reporting standards as applicable in Pakistan for interim financial reporting. The accounting and reporting standards as applicable in Pakistan for interim financial reporting comprise of:

- International Accounting Standard (IAS) 34, "Interim financial reporting", issued by the International Accounting Standards Board (IASB) as notified under the Companies Act, 2017; and
- Provisions of and directives issued under the Companies Act, 2017.

Where the provisions of and directives issued under the Companies Act, 2017 differ with the requirements of IAS 34, the provisions of and directives issued under the Companies Act, 2017 have been followed.

3. Significant Accounting Policies

The accounting policies and methods of computation adopted for the preparation of these condensed interim financial statements are the same as those applied in the preparation of preceding annual financial statements of the Company for the year ended June 30, 2018, except for the adoption of IFRS 15 "Revenue from contracts with customers". The revised accounting policy adopted by the management is as follows:

IFRS 15 - Revenue from Contracts with Customers

IFRS 15 has been notified by Securities and Exchange Commission of Pakistan to be effective for annual periods beginning on or after July 01, 2018. This standard deals with revenue recognition and establishes principles for reporting useful information to users of the financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. This standard replaces IAS 18, "Revenue" and IAS 11, "Construction contracts" and related interpretations.

The Company has applied IFRS 15 using the modified retrospective approach for transition. This approach requires entities to recognise the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of unappropriated profit in the period of initial application. Comparative prior year periods would not be adjusted. The application of IFRS 15 does not have any impact on the revenue recognition policy of the Company and therefore, the cumulative effect of initially applying this standard as an adjustment to the opening balance of unappropriated profit in the period of initial application is nil.

- 4.** These condensed interim financial statements are being submitted to the shareholders as required by section 237 of the Companies Act, 2017. The figures of the condensed interim statement of profit or loss & other comprehensive income for the quarters ended December 31, 2018 and 2017 have not been reviewed by the statutory auditors of the Company as the auditors have reviewed the cumulative figures for the six months period ended December 31, 2018. These condensed interim financial statements do not include all the information and disclosures as required in the annual financial statements and should be read in conjunction with the Company's financial statements for the year ended June 30, 2018.

5. Accounting Estimates, Judgments and Financial Risk Management

The preparation of condensed interim financial statements in conformity with approved accounting standards requires management to make estimates, assumptions and use judgments that affect the application of policies and reported amounts of assets and liabilities and income and expenses. Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Revisions to accounting estimates are recognised prospectively commencing from the period of revision.

Judgments and estimates made by the management in the preparation of these condensed interim financial statements are the same as those that were applied to the financial statements as at and for the year ended June 30, 2018.

The Company's financial risk management objectives and policies are consistent with those disclosed in the financial statements as at and for the year ended June 30, 2018.

6. Property, Plant and Equipment

	Note	Un-audited Dec. 31, 2018 (Rupees in thousand)	Audited June 30, 2018
Operating fixed assets	6.1	1,623,930	1,535,925
Capital work-in-progress - plant and machinery		78,398	48,287
		<u>1,702,328</u>	<u>1,584,212</u>

6.1 Operating Fixed Assets

Book value as at June 30, 2018

1,535,925

Additions during the period:

Owned:

- plant & machinery
- tools & equipment
- computers & accessories

120,735
27
90

120,852

Depreciation charge for the period

(32,847)

Book value as at December 31, 2018

1,623,930

7. Investments in an Associated Company - Quoted

	Un-audited Dec. 31, 2018	Audited June 30, 2018
Janana De Malucho Textile Mills Ltd. (JDM)	(Rupees in thousand)	
341,000 ordinary shares of Rs.10 each - cost	4,030	4,030
Equity held: 7.13%		
Post acquisition profit and other comprehensive income brought forward including effect of items directly credited in equity by JDM	67,729	72,590
Share of revaluation surplus on property, plant and equipment	164,743	165,560
Profit / (loss) for the period / year - net of taxation	495	(4,710)
Share of other comprehensive loss - net of taxation	0	(1,145)
	<u>236,997</u>	<u>236,325</u>

- 7.1 Although the Company has less than 20% voting rights in JDM as at December 31, 2018 and June 30, 2018, it is presumed that the Company has significant influence over JDM due to majority representation on the board of directors of JDM.
- 7.2 (a) Market value of the Company's investments in JDM as at December 31, 2018 was Rs.22.847 million (June 30, 2018: Rs.21.868 million).
- (b) The management intends to carry-out impairment testing of its investments in JDM as at June 30, 2019.
- 7.3 The management, as at June 30, 2018, had carried-out impairment testing of its investment in JDM as required under IAS 36, 'Impairment of assets'. The recoverable amount of investment in JDM amounted Rs.244.357 million. The recoverable amount of investment was determined using the 'value-in-use' computation. In assessing the value in use, estimated future cash flows were discounted to their present value using a pre-tax discount rate that reflected current market assessment of the time value of money. The pre-tax discount rate applied to cash flow projections was 7.95%. As a result of the aforementioned impairment testing, the management had concluded that the carrying value of investment in JDM did not exceed its recoverable amount.

8. Revaluation surplus on property, plant and equipment - net	Note	Un-audited Dec. 31, 2018	Audited June 30, 2018
(Rupees in thousand)			
Revaluation surplus on the Company's property, plant & equipment		742,714	750,075
Share of revaluation surplus on property, plant and equipment of JDM	7	164,743	165,560
		<u>907,457</u>	<u>915,635</u>
9. Long term finances - secured			
The Bank of Khyber, during the current period, has further disbursed Rs.111.716 million against the demand finance facility obtained for import of textile plant and machinery.			
10. Trade and Other Payables			
Creditors		124,248	53,444
Due to an Associated Company (JDM)		2,330	0
Bills payable		0	140,449
Contract liabilities		20,334	2,457
Accrued expenses		63,921	63,714
Interest free security deposits - repayable on demand		170	170
Due to Waqf-e-Kuli Khan		12,048	12,048
Income tax deducted at source		3,919	0
Others		438	270
		<u>227,408</u>	<u>272,552</u>
11. Short term finances - secured			
National Bank of Pakistan		679,465	463,208
The Bank of Khyber		349,951	262,920
		<u>1,029,416</u>	<u>726,128</u>

12. Taxation - net	Un-audited Dec. 31, 2018 (Rupees in thousand)
Balance as at June 30, 2018	17,450
Add: provision made during the period:	
current (net of tax credit for investment in plant & machinery under section 65B of the Income Tax Ordinance, 2001 (the Ordinance) amounting Rs.12.074 million)	1,424
prior year	30
	<u>1,454</u>
	18,904
Less: payments / adjustments made against completed assessment	17,480
	<u><u>1,424</u></u>

12.1 Income tax returns of the Company have been filed upto the tax year 2018, i.e. accounting year ended June 30, 2018.

12.2 Provision for the current period represents tax payable under section 113 (Minimum tax on the income of certain persons) of the Ordinance.

12.3 The Company's writ petition before the Islamabad High Court, Islamabad praying exemption from levy of minimum tax under section 113 of the Ordinance is still pending adjudication. An adverse judgment by the Court will create tax liability under section 113 of the Ordinance aggregating Rs.39.712 million.

The Finance Act, 2015 has omitted clause 126F of the Ordinance and inserted a new sub-clause (xx) of clause (11A) in part IV of the second schedule of the Ordinance wherein exemption from levy of minimum tax under section 113 of the Ordinance has been provided. The amendment would have a retrospective impact being related to tax years 2010, 2011 and 2012.

12.4 There has been no significant change during the current period in the status of taxation matter as detailed in note 27.4 to the financial statements of the Company for the year ended June 30, 2018.

13. Contingencies and Commitments

13.1 The Company had challenged the levy of Gas Infrastructure Development Cess (GIDC) by filing a petition before the Peshawar High Court, Peshawar (PHC). GIDC was levied on supply of natural gas under the GIDC Act, 2011. Constitutionality of the said Act was challenged before the PHC, which had declared the same as constitutional. The order of the PHC was assailed before the Supreme Court of Pakistan (SCP), which met the same fate there. After enactment of the GIDC Act, 2015, it was challenged before the PHC, which dismissed the said petition. The Company, thereafter, has filed a petition before the SCP, which is pending adjudication.

Sui Northern Gas Pipelines Ltd., along with gas bill for the month of December, 2018, has raised GIDC demands aggregating Rs.488.201 million, which are payable in case of an adverse judgment by the SCP. Provisions for these GIDC demands pertaining to prior years and the current period have not been made in the books of account as the management expects a favourable judgment by the SCP due to meritorious legal grounds.

- 13.2 Guarantee amounting Rs.55.200 million issued by National Bank of Pakistan on behalf of the Company in favour of Sui Northern Gas Pipelines Ltd. was outstanding as at December 31, 2018.

	Un-audited Dec. 31, 2018	Audited June 30, 2018
13.3 Commitments against irrevocable letters of credit outstanding at the period / year-end were for:		
- raw materials	63,430	71,518
- spare parts	14,188	117,626
	77,618	189,144

- 13.4 Also refer contents of note 12.3.

14. Other expenses

Expense for the preceding period included loss on disposal of fixed assets amounting Rs.4.510 million.

15. Other income

Income for the period includes gain on sale of stores aggregating Rs.1.470 million (2017: Rs.2.624 million).

16. Transactions with Related Parties

- 16.1 Significant transactions made during the period with related parties were as follows:

Name	Nature of transaction	Cumulative	
		Jul. - Dec., 2018	Jul. - Dec., 2017
(Rupees in thousand)			
Associated Company - JDM	Residential rent paid	925	804
	Utilities / expenses:		
	- recovered	15	0
	- paid	46	47
	Salaries paid	1,373	820
Other related parties			
Key Management Personnel	Salaries and benefits	10,799	9,017

- 16.2 Payable to JDM as at December 31, 2018 is disclosed in note 10.

17. Corresponding Figures

- 17.1 In order to comply with the requirements of IAS 34 "Interim financial reporting", the condensed interim statement of financial position has been compared with the balances of annual audited financial statements of the preceding financial year, whereas, the condensed interim statement of profit or loss & other comprehensive income, condensed interim statement of changes in equity and condensed interim statement of cash flows have been compared with the balances of comparable period of immediately preceding financial year.

- 17.2 Corresponding figures have been re-arranged and re-classified, wherever necessary, for the purposes of comparison; however, no significant re-classifications / re-statements have been made to these condensed interim financial statements.

18. Date of Authorisation for Issue

These condensed interim financial statements were approved and authorised for issue by the Board of Directors of the Company on **28 FEB 2019**


Chief Executive


Director


Chief Financial Officer

SHC