

# Annual Report

2012

# 60

FROM SIXTY TO ETERNITY

**GulAhmed**  
TEXTILE MILLS LIMITED, KARACHI

Plot No. 82, Main National Highway  
Landhi, Karachi - 75120 - Pakistan  
UAN: (+92-21) 111-486-486  
finance@gulahmed.com  
www.gulahmed.com





# V

## VALUES

- Integrity
- Passion
- Creativity
- Teamwork



# V

## VISION

Setting trends globally in the textile industry. Responsibly delivering products and services to our partners



# M

## MISSION

To deliver value to our partners through innovative technology and teamwork. Fulfilling our social and environmental responsibilities



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Form of Proxy

# Company Information

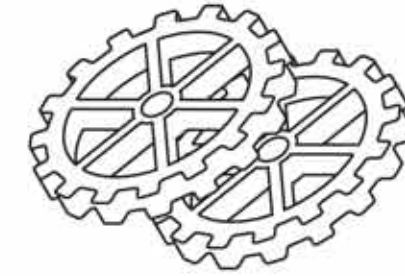
<b>BOARD OF DIRECTORS</b>	BASHIR ALI MOHOMMED ZAIN BASHIR ZIAD BASHIR MOHAMMED ZAKI BASHIR ABDUL AZIZ YOUSUF S.M. NADIM SHAFIQULLAH ABDUL RAZAK BRAMCHARI DR. AMJAD WAHEED ADNAN AFRIDI	- Chairman & Chief Executive - Non Executive Director - Executive Director - Executive Director - Executive Director - Independent Non Executive Director - Non Executive Director - Independent Non Executive Director - Independent Non Executive Director
<b>CHIEF FINANCIAL OFFICER</b>	MOHAMMED SALEEM SATTAR	
<b>COMPANY SECRETARY</b>	MOHAMMED SALIM GHAFAR	
<b>AUDIT COMMITTEE</b>	S.M. NADIM SHAFIQULLAH ZAIN BASHIR MOHAMMED ZAKI BASHIR ABDUL AZIZ YOUSUF	- Chairman & Member - Member - Member - Secretary
<b>HUMAN RESOURCE AND REMUNERATION COMMITTEE</b>	ZAIN BASHIR S.M. NADIM SHAFIQULLAH ABDUL AZIZ YOUSUF	- Member - Member - Member
<b>BANKERS</b>	ALLIED BANK LIMITED BANK AL HABIB LIMITED BARCLAYS BANK PLC PAKISTAN BANK ALFALAH LIMITED - ISLAMIC BANKING BANKISLAMI PAKISTAN LIMITED BURJ BANK LIMITED CITIBANK N.A. DUBAI ISLAMIC BANK PAKISTAN LIMITED FAYSAL BANK LIMITED HABIB BANK LIMITED HABIB METROPOLITAN BANK LIMITED HSBC BANK MIDDLE EAST LIMITED MCB BANK LIMITED MEEZAN BANK LIMITED NATIONAL BANK OF PAKISTAN NIB BANK LIMITED SAMBA BANK LIMITED SILKBANK LIMITED STANDARD CHARTERED BANK (PAKISTAN) LIMITED UNITED BANK LIMITED	
<b>AUDITORS</b>	HYDER BHIMJI & CO. Chartered Accountants	
<b>INTERNAL AUDITORS</b>	ANJUM ASIM SHAHID RAHMAN Chartered Accountants	
<b>LEGAL ADVISORS</b>	A.K. BROHI & CO. ADVOCATES	
<b>REGISTERED OFFICE</b>	PLOT NO. 82 MAIN NATIONAL HIGHWAY LANDHI, KARACHI-75120	
<b>SHARE REGISTRAR</b>	FAMCO ASSOCIATES (PRIVATE) LIMITED 1ST FLOOR, STATE LIFE BUILDING NO. 1-A OFF: II. CHUNDRIGAR ROAD, KARACHI-74000 PHONE NO. (021)32427012, 32426597 & 32425467 FAX NO. (021)32426752	
<b>MILLS</b>	LANDHI INDUSTRIAL AREA KARACHI-75120	
<b>E-MAIL</b>	finance@gulahmed.com	
<b>URL</b>	www.gulahmed.com	



1953 - 1962

**THE DECADE OF DREAMS**  
Sometimes, all it takes is a dream.  
Haji Ali Mohammad wished to build a textile empire that would revolutionize the Pakistani industry.  
Gul Ahmed Textile Mills Limited was established with a capacity of 25,000 spindles and 500 looms.  
The dream became a reality.

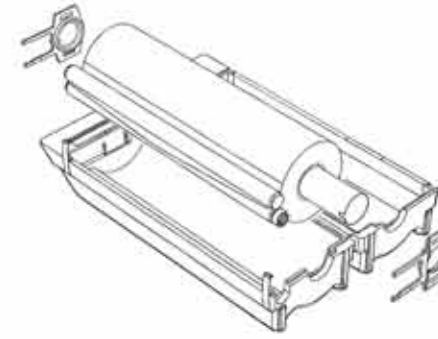




1963 - 1972

#### THE DECADE OF DEVELOPMENTS

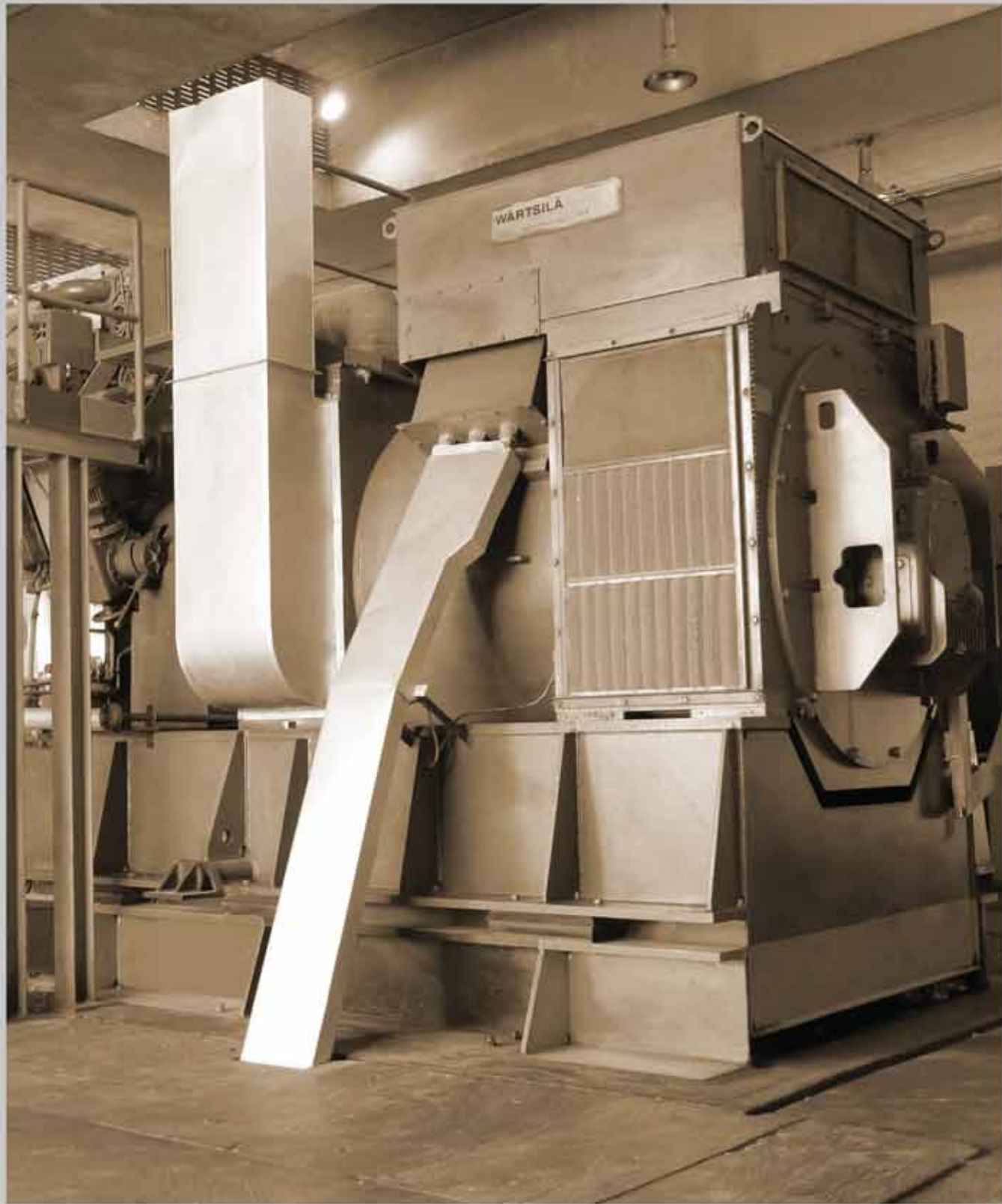
As the industrial era dawned upon the nation, the need of the hour was innovation. A state-of-the-art processing mill equipped with hand printing table machines and a continuous Rope Bleaching Range were introduced to the Gul Ahmed facility. Lawn and Chairman Latha were churned out for the Pakistani consumer for the very first time and we at Gul Ahmed wondered, "Have we made the nation happy?"



1973 - 1982

THE DECADE OF CHANGE

This decade brought us closer to our people, whose lives we had touched through our rich and diverse fabrics. Gul Ahmed got listed on the stock exchanges of the country's largest and busiest cities; Karachi and Lahore. The first Rotary Printing Machine was installed and Gul Ahmed fabrics were made available on large scale while maintaining the highest quality standards. Gul Ahmed Lawn and Chairman Latha became household names.



1983 - 1992

THE DEMANDING DECADE  
By now, a lot was happening  
within the walls of Gul Ahmed  
Textile Mills Limited.

From installation of an oil based  
Captive Power Plant to our first  
wider width Rotary Printing  
Machine, our ambitions kept us  
very busy. We stepped into the  
home textile market, participated  
in Heimtex for the first time and  
through relentless hard work,  
touched the billion rupee mark.

We were on a roll!

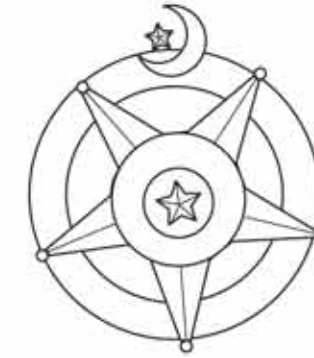




1993 - 2002

#### THE DECADE OF DEDICATION

The world was moving towards being "tech-savvy", so was Gul Ahmed. The installation of the first fully electronic automatic wider width Air Jet Looms, 21 colour Rotary Printing Machines, a modern laboratory and much more made us the most state-of-the-art mill of the nation. Another world-class idea lit into our minds and our retail stores by the name of "Ideas" popped-up in the major shopping centres of the nation.



2003 - 2012

**A DECADE WELL DESERVED**

Hard work has paid off and that too, generously. In 2007, Gul Ahmed was bestowed the prestigious Superbrands award. Our turnover crossed the gigantic 25 billion rupee mark in 2011. We are the first mill to register and auction carbon credits. We installed caustic recovery units and bagged the Best Corporate Reporting Award. It is due to this vision that our Chairman and Chief Executive of the Company, **Bashir Ali Mohommed** was awarded **Sitare-e-Imtiaz** by the President of Pakistan.

We continue to dream and together with our customers and stakeholders, we will turn these dreams into reality.

## Code of Conduct and Ethics

Integrity and good corporate conduct guide us towards our business partners, colleagues, shareholders and the general public. The code of conduct and ethics, as stated below, are foundation of our business principles:

### Abide by the law

- Employees shall not make, recommend or cause to be taken any action known or believed to be in violation of any law, regulation or corporate policy.
- Employees shall not make, recommend or cause to be made any expenditure of funds known or believed to be in violation of any law, regulation or corporate policy.

### Integrity, honesty and respect for others

- Employees shall conduct their employment activities with the highest principles of honesty, integrity, truthfulness and honor. To this end, employees are to avoid not only impropriety, but also the appearance of impropriety.
- Employees shall not use their position to force, induce, coerce, harass, intimidate or in any manner influence any person, including subordinates, to provide any favor, gift or benefit, whether financial or otherwise, to themselves or others.
- Employees representing the Company to the third parties shall not allow themselves to be placed in a position in which an actual or apparent conflict of interest exists.

### Confidentiality

- Employees shall not use or disclose the Company's trade secrets, proprietary confidential information, or any other confidential information gained in the performance of Company's duties as a means of making private profit, gain or benefit.

## Shareholders' Information

### Annual General Meeting

The annual shareholders' meeting will be held on October 31, 2012 at 10:00 a.m at Moosa D. Dessai ICAP Auditorium, Institute of Chartered Accountants of Pakistan, G-31/8, Chartered Accountants Avenue, Clifton, Karachi. Shareholders as of October 24, 2012 are encouraged to participate and vote.

Any shareholder may appoint a proxy to vote on his or her behalf. Proxies should be filed with the Company at least 48 hours before the meeting time. CDC shareholders or their proxies are requested to bring with them copies

of their Computerized National Identity Card along with the Participant's ID Number and their account number at the time of attending the Annual General Meeting in order to facilitate their identification.

Shareholders who have not yet submitted photocopy of their CNIC are requested to send the same to the Share Registrar of the Company FAMCO Associates (Private) Limited, State Life Building No.1-A, 1st Floor, I.I. Chundrigar Road, Karachi at the earliest.

### Ownership

On June 30, 2012 the Company has 2,131 shareholders.

Karachi Stock Exchange Share Prices 2011-12		
Period	Price in Rupees	
	High	Low
1st Quarter	51.94	43.00
2nd Quarter	64.29	16.76
3rd Quarter	23.45	16.05
4th Quarter	25.99	19.51

### Announcement of Financial Results

The tentative dates of the announcement of financial results and payment of cash dividend (if any) for the year 2012-13 are as follows:

Period	Financial Results	Dividend Payment (if any)
1st Quarter	October 29, 2012	---
2nd Quarter	February 27, 2013	---
3rd Quarter	April 29, 2013	---
Annual Accounts	September 30, 2013	November 30, 2013

The Company reserves the right to change any of the above dates.

### Share Registrar

Enquiries concerning lost share certificates, dividend payments, change of address, verification of transfer deeds and share transfers should be directed to our Share Registrar FAMCO Associates (Private) Limited, 1st Floor, State Life Building No.1-A, I.I. Chundrigar Road, Karachi. Phone Nos. (+92-21) 32427012, 32426597 & 32425467 and Fax No. (+92-21) 32426752.

### Web Reference

Annual/Quarterly reports are regularly posted at the Company's website: [www.gulahmed.com](http://www.gulahmed.com)

### Investor Relations Contact

Mr. Mohammed Salim Ghaffar, Company Secretary  
Email: [salim.ghaffar@gulahmed.com](mailto:salim.ghaffar@gulahmed.com), UAN: (+92-21) 111-485-485 & 111-486-486, Fax: (+92-21) 35018838

## Notice of Meeting

Notice is hereby given that the 60th Annual General Meeting of Gul Ahmed Textile Mills Limited will be held at Moosa D. Dessai ICAP Auditorium, Institute of Chartered Accountants of Pakistan, G-31/8, Chartered Accountants Avenue, Clifton, Karachi, on Wednesday, October 31, 2012 at 10:00 a.m. to transact the following business:

### ORDINARY BUSINESS:

1. To receive, consider and adopt the Audited Accounts of the Company for the year ended June 30, 2012 together with the Directors' and Auditors' Reports thereon.
2. To appoint Auditors for the year 2012-2013 and fix their remuneration.

### SPECIAL BUSINESS:

3. To consider and approve increase in Authorized Share Capital of the Company from Rs.1,500 million to Rs. 2,000 million and to approve the amendments in the Memorandum of Association of the Company resulting from this increase and to pass ordinary resolution given in the statement under section 160(1)(b).

A statement under section 160(1)(b) of the Companies Ordinance, 1984, pertaining to the special business is being sent to the shareholders with this notice.

By Order of the Board

Karachi  
September 24, 2012

**Mohammed Salim Ghaffar**  
Company Secretary

### NOTES :

1. Share Transfer Books of the Company will remain closed from October 24, 2012 to October 31, 2012 (both days inclusive) for determining entitlement to the right shares.
2. A member entitled to vote at the meeting may appoint a proxy. Proxies in order to be effective, must be received at the Registered Office of the Company duly stamped and signed not later than 48 hours before the meeting.
3. Shareholders who have deposited their shares into Central Depository Company of Pakistan Limited, must bring their original Computerized National Identity Card (CNIC) or Original Passport at the time of attending the meeting. If proxies are granted by such shareholders the same must be accompanied with attested copies of the CNIC or the Passport of the beneficial owners. Representatives of corporate members should bring the usual documents required for such purpose.
4. A proxy must be a member of the Company.
5. Members who have not yet submitted photocopy of their CNIC are requested to send the same to the Share Registrar of the Company FAMCO Associates (Private) Limited, State Life Building No.1-A, 1st Floor, I.I. Chundrigar Road, Karachi at the earliest.
6. Shareholders are requested to immediately notify the change of address, if any, to the Share Registrar of the Company.

## STATEMENT UNDER SECTION 160(1)(b) OF THE COMPANIES ORDINANCE, 1984 REGARDING THE SPECIAL BUSINESS

The statement sets out the material facts pertaining to the special business to be transacted at the forthcoming Annual General Meeting of the Company to be held on October 31, 2012. The Directors in their meeting held on September 24, 2012 have recommended to the shareholders to pass ordinary resolution in respect of the following item;

### INCREASE IN AUTHORIZED SHARE CAPITAL OF THE COMPANY

It is proposed to increase the Authorized Share Capital from Rs.1,500 million to Rs.2,000 million to facilitate further issue of capital according to the requirements of the Company. For this purpose it is intended to pass with or without modification the following resolutions as Ordinary Resolutions:

- a) **Resolved** that the Authorized Share Capital of the Company be and is hereby increased from Rs.1,500 million to Rs. 2,000 million by the creation of 50,000,000 ordinary shares of Rs.10/- each. Such new shares, whenever issued, shall rank pari passu with the existing shares.
- b) **Further Resolved** that in view of the increase in Authorized Share Capital, Clause 5 of the Memorandum of Association be and is hereby amended to read as under:  
  
"The capital of the Company is Rs. 2,000,000,000 (Rupees two thousand million) divided into 200,000,000 ordinary shares of Rs.10/- (Rupees ten) each with power to increase or reduce the said capital"
- c) **Further Resolved** that the Chief Executive or Secretary of the Company be and are hereby authorized singly to comply with all formalities in this regard.

The Directors of the Company are interested in the above business only to the extent of their shareholding in the Company.

# Directors' Report

## Dear Shareholders

The directors of your Company are pleased to present the Annual Report and the audited financial statements for the year ended June 30, 2012 together with auditors' report thereon. This report represents the financial, operating and corporate social responsibility performance of the Company and highlights the key business challenges in the year ahead.

## ECONOMY OVERVIEW

During the fiscal year (FY) 2012 tight financial conditions, weak confidence and fiscal consolidation in various advanced economies hampered the economic progress. Many emerging economies were also hit by decreased investment and anticipated growth uncertainty, which led to equity price declines, capital outflows and currency depreciation. As per the World Economic Forum, the world GDP growth on YoY basis will drop from 4% in 2011 to about 3.5% in 2012.

Domestically, GDP for FY 2012 was 3.7% (FY 2011: 3%) as per Economic Survey of Pakistan 2012. The increase was mainly due to the growth in commodity producing sectors, specially the agriculture sector in the country. Total investment and exports showed a significant contraction. The total investment, as a percentage of GDP, has fallen to 12.5% in FY 2012 (FY 2011: 13.1%), which does not bode well for the future productive capacity of the economy.

Inflation in June 2012 was 11.3% (June 2011: 13.1%) on YoY basis which was due to increase in energy and oil prices, supply disruptions due to heavy rains earlier at the start of the fiscal year and increased borrowings by the government. During the first half of the year 2012, State Bank of Pakistan (SBP) reduced the policy rate by 200 basis point lowering it to 12% and kept the rate unchanged during the second half. The reduction of 200 basis point was made to improve the falling private investment which is compromising the medium term productive capacity of the economy, and to control future inflation. After assessing the impact of reduction in the first half, SBP realized that continued energy shortage is a major factor behind low demand for private credit for fixed investment.

## INDUSTRY OVERVIEW

Textile industry has the biggest share of Pakistan exports from raw material to finished goods in different global markets. During FY 2011-12 the country's textile exports have drastically reduced by 10% to \$12.529 billion against \$13.975 billion of FY 2010-11.

One of the major causes of underperformance is the persistent electricity and gas load shedding plaguing the industry which has hindered the performance and competitiveness of the textile industry. The consumer

sentiments in US and EU remained bearish, causing a decline in textile related purchases. Up till March 2012, global textile exports declined by 9.4%. A major reason for this was excess stocks built up by the retailers and stuck up within the supply chain. It took almost a year for the supply chain to free itself from legacy stocks. Finally activity has started to pick up across large retailers in the west and we expect to see significant improvements this year.

## BUSINESS REVIEW

Pakistan's textile industry which is the major contributor to the country's exports is facing challenging days while competing with the industries in neighboring countries. Gul Ahmed Textile Mills Limited (Gul Ahmed) is a Company listed on the Karachi and Lahore Stock Exchanges. It is a composite textile mill and is engaged in the manufacture of textile products. It has two segments - spinning and processing. In the textile sector we are leaders and pioneers in the setting up of a chain of our own retail outlets across Pakistan. Our passion for design innovation and creativity sets us apart from the rest of the Country's textile sector.

## PERFORMANCE HIGHLIGHTS

The Company's sales amounting to Rs. 25,064 million is declined by 1.46% as compared to the corresponding year. Drop in exports have been compensated by increase in local sales. Decline in gross profit is due to the inflation without any corresponding increase in selling prices.

Table comparing the FY 2012 with FY 2011 is given below:

	FY 2012		FY 2011		Growth	
	Rupees in Millions				%	
Local sales	10,188	8,297	1,891	22.79		
Exports	14,876	17,139	(2,263)	(13.20)		
Total sales	25,064	25,436	(372)	(1.46)		
Gross profit	3,544	4,627	(1,083)	(23.41)		
(Loss)/profit before tax	(1.42)	1,537	(1,538)	(100.09)		
(Loss)/profit after tax	(240)	1,196	(1,436)	(120.07)		
EPS (Rs.)	(1.89)	9.42	(11.31)	(120.06)		

Operating results of the Company are summarized below:

	Rs. 000s
Loss after providing depreciation/ amortization of Rs.755 million	(1,417)
Less: Provision for taxation	(238,947)
Loss after tax	(240,364)
Add: unappropriated profit brought forward	1,197,642
Amount available for appropriation	957,278
Appropriations	
Bonus issue of 100% for the FY 2011	184,340
General reserve	1,000,000
Amount carried forward	(227,062)
	957,278
Subsequent Effects	

The Board of Directors of the Company in their meeting held on September 24, 2012 has proposed the following:

### 1. Dividend:

In view of the loss your directors have decided to pass on the dividend for the year.

### 2. Right Shares:

Your directors have decided to issue 20% right shares on the existing paid-up capital of the Company in the ratio of two shares for every ten shares held. The right shares will be issued at par i.e. an issue price of Rs. 10/- per share vs. market price of Rs. 25/- per share as of September 24, 2012. Increase in equity will accelerate the growth plan and resultant profitability.

### 3. Transfer from Revenue Reserve:

An amount of Rs. 250 million to be transferred from revenue reserve to accumulated loss.

## Operational Performance

Due to continuing Euro-zone crises export demand is subdued with downward pressure on export prices. The PKR/USD parity has also not changed in line with the inflation resulting in lower export proceeds as compared to higher cost of production due to high inflation.

## CAPITAL STRUCTURE

During the year, bonus shares in ratio of one share for every one share held (i.e. 100% bonus shares) were issued

and as a result issued share capital increased by Rs. 635 million to Rs. 1,270 million.

The debt to equity ratio as at the end of June 30, 2012 was maintained at 32:68 (June 30, 2011: 32:68). Management continues to focus on rationalization of the gearing ratio.

## FUNDS MANAGEMENT

The Company has an effective cash flow management system where projected cash outflows and inflows are monitored with actual results and accordingly changes are made in order to meet the objectives of efficient fund management. Working capital is being managed by the short term borrowings and internal cash generations. Interest and foreign exchange rates are closely monitored to take timely decisions to manage risks or avail the opportunities. During the year, Rs. 3,497 million (2011: Operating outflows Rs. 2,617 million) were generated from operating activities which was used on capital expenditures and repayment of long term loans. Current ratio at the year end is 0.99:1 (FY 2011: 1.03:1).

In managing the liquidity the Company's approach is to ensure, as far as possible, availability of sufficient funds to meet the liabilities when due. The Company has Rs. 5,330 million (2011: Rs. 2,185 million) unutilized credit lines with various banks to cover any temporary mismatches.

## BUSINESS RISKS AND CHALLENGES

The Company operates in a challenging environment which may affect its financial and non financial performance. The management has developed a system built in its strategy to separately identify, evaluate, timely address and manage each and every risk.

Financial risks, such as exchange rate risk and liquidity risk are discussed in detail in note no. 38 to the financial statements on page no. 72. Some of the non-financial risks are discussed below:

### Market Risk

Pakistan has to compete with exports from the Region which include China, India, Bangladesh, and Sri Lanka. Bangladesh has a duty advantage of 9.6% on exports to Europe and 18% to Canada. This has impacted exports from Pakistan due to competition from Bangladesh. To mitigate this risk, we are making all efforts to retain our Europe based customers with our high quality of products and services. Moreover, new customers are being approached in the markets of USA where Bangladesh has no duty advantage.

In China the costs are escalating at an alarming rate and we feel that this is a big opportunity for Pakistan because even a marginal shift of market share of 5-10% from China would mean big numbers for the rest of the region. We are currently evaluating and focusing on what China is currently exporting and what would be best suited to shift to Pakistan.

In India the textile sector is doing fairly well due to various government upgradation schemes and low interest rates. Their currency has also devalued significantly this year which has given a big boost to their export sector, but with inflation flying high in India and domestic costs spiraling out of control we feel the government at the moment will not devalue the currency further. We feel with Pakistan also cutting interest rates this year it could be a great opportunity for us to regain world market share.

We are also diversifying into more niche products to distribute our risk and vulnerability even if slowdowns in multiple sectors occur simultaneously. Our planned diversifications will help us get through any tough periods.

## Commodity Price Risk

The Company is exposed to the fluctuations in international prices of cotton and oil. These prices are beyond the Company's control as the prices are based on the open market mechanism. Increase in the prices of these commodities will affect the Company's profit margins unless there is a corresponding increase in selling prices. This seems to be a record year for the Country's cotton crop, and we feel that prices will remain favorable except in the case of serious floods, which do not look highly likely at this moment in time.

## Security Conditions

The management is fully aware of the security challenges in the country and is taking proactive measures for the protection of its employees and assets. We have established a system of surveillance through cameras installed at all of our manufacturing units. The Company has also obtained insurance cover for terrorism further securing the Company against any untoward incident.

## Environmental and Fire Loss Risks

Company is also exposed to the risk of natural disasters and fire. Natural disasters include heavy rains, flooding, earthquakes, etc. Fire is considered as an inherent risk in the textile industry. All possible fire and safety measures have been put in place. The Company has also obtained insurance cover of all its assets against the risk

of natural disasters and fire. Fire drills and evacuations are performed on routine basis to ensure all personnel are up to date on evacuation and safety procedures. After taking all the above measures we feel the Company is well protected against any eventuality.

## Energy Shortage

Energy shortage has become acute in our country. So far, the Company's production facilities have faced a slight gas curtailment as compared to the previous year. The Company has arranged with its customers flexible delivery schedules to mitigate this risk. We also have about 15% to 20% furnace oil power generation capacity in case of emergency situations. With surplus production capacities, the Company can partially mitigate the gas shortage problem. Other options which are under consideration include converting existing power generation facility to dual fuel and the installation of new alternate fuel facilities plus the possibility of availing electricity supply from KESC is being evaluated.

## CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility is discussed in detail on page no. 23 forming part of the Annual Report 2012.

## CODE OF CORPORATE GOVERNANCE

The management of the Company is committed to good corporate governance and complying with the best practices. As required under the Code of Corporate Governance, the directors are pleased to state as follows:

- The financial statements prepared by the management of the Company present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of accounts of the Company have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure therefrom has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored. The Audit Committee comprises three members, two of whom are non-executive

directors. The Chairman is an independent non-executive director.

- There are no significant doubts upon the Company's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- Information about outstanding taxes and levies is given in the notes to the financial statements.
- The value of investment of provident fund based on its un-audited accounts as on June 30, 2012 is Rs. 366 million (FY 2011: Rs. 276 million).
- The directors of the Board are well aware of their duties and responsibilities as outlined by corporate laws and listing regulations. In compliance with the provisions of the Listing Regulations, five directors have attended and completed Corporate Governance Leadership Skills program under the Board Development Series of Pakistan Institute of Corporate Governance (PICG).
- Statements regarding the following are annexed or are disclosed in the notes to the financial statements:
  - Number of Board meetings held and attendance by directors.
  - Key financial data for the last six years.
  - Pattern of shareholding.
  - Trading in shares of Company by its Directors, Chief Executive, Chief Financial Officer and Company Secretary and their spouses and minor children.

## BOARD CHANGES

The current members of the Board are listed on page no. 2.

On completion of statutory term of three years, elections of the directors were held on March 31, 2011 and new directors assumed office thereafter.

The newly elected Board has an optimum combination of executive, non-executive and independent non-executive directors. Five out of the nine directors on the Board are non-executive, three of whom are independent non-executive directors. None of the directors on the Board is a director of more than seven listed companies. All the

directors have diverse exposures, all the necessary skills and understanding to deal with various business issues and have the ability to review and challenge management performance.

## AUDITORS

The present auditors Hyder Bhimji & Co., Chartered Accountants, retire and present themselves for reappointment.

## CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Financial Statements for the year ended June 30, 2012 of the Company and its subsidiaries Gul Ahmed International Limited (FZC), GTM (Europe) Limited and GTM USA Corp. are attached.

## FUTURE OUTLOOK

Despite all the challenges mentioned above in the economic environment, we are optimistic for FY 2012-13. We anticipate improvement in export demand from January 2013. Looking ahead, the Company's business priorities and areas of focus will continue to be shaped by enhancement of Company's value by achieving higher production and financial efficiencies, maintaining optimum quality, product diversification and exploring new markets. The recent reduction in discount rate by State Bank of Pakistan and consequent decrease in export refinance rates will result in lower financial charges.

Your Company focuses to develop and strengthen exports by exploring new customers across the globe to improve its top line.

## ACKNOWLEDGEMENT

Finally, we take this opportunity to thank all our stakeholders for the loyalty they have shown us during these difficult times. We acknowledge the cooperation, support and loyalty of our employees, banks, shareholders, various government bodies and board of directors. The Company looks towards your continuous support as always to help us navigate through difficult economic conditions both locally and internationally.

For and on behalf of the Board

Karachi  
September 24, 2012

**BASHIR ALI MOHOMMED**  
Chairman & Chief Executive

For us, sustainability means acting in the best interest of coming generations - with respect to the economy, the environment and society.

The Company continues to pursue the following guidelines to be a good corporate citizen:

- Continuously striving to improve greenery, maintain a clean and green environment around the factory and better housekeeping
- Encouraging women employment
- Encouraging employment of special people
- Execute and implement projects to alleviate the poverty
- Providing civic amenities, health, education and housing facilities
- Support social causes

## Approach

Our history shows, our understanding of sustainability is closely linked to our core values - integrity, passion, creativity and teamwork. From the start, the Company's management has fulfilled its responsibilities to its employees, to society and to nature. We will continue to follow our strategy, interacting with our stakeholders, to be the leader in green business and an exemplary corporate citizen in the Pakistan. A responsible value creation can make a way to profitable long term growth which is our aim.

## ENVIRONMENT

Gul Ahmed has a vision of becoming a green company that is environmentally friendly and socially responsible. In its efforts towards sustaining the environment for the generations to come, Gul Ahmed is committed towards adopting the best practices necessary to ensure a greener society. Some of the key projects undertaken as part of the scheme are:

### 1. Effluent Treatment

The Company's effluent waste water treatment plant with the recycling capacity of 4,500 cubic meters per day is operating efficiently since May 2007.

Further, Caustic soda recovery plant has been successfully refurbished and revamped during the year to ensure maximum recovery of caustic soda.

### 2. Gaseous Emissions

We have the first combined cycle power plant (Gas Turbine) in textile industry installed in December 2006 which generates 10 MW electricity. Heat content of flue gases going into atmosphere is reduced by feeding flue gases to Heat Recovery Steam Generator installed in May 2007 to generate steam.

## PEOPLE

### Health, Safety and Environment

Your Company is totally focused on Health, Safety and Environment (HSE) and therefore, we consistently strive

to improve our HSE standards in all business segments. With our firm commitment towards making workers' lives better at the workplace and outside, we strictly adhere to the HSE guidelines as stipulated by the International Finance Corporation to ensure the well-being of its employees. To achieve these objectives, Gul Ahmed is involved in various awareness programs and training drills:

- Health awareness programs
- Awareness sessions on HIV/AIDS
- Employee vaccinations against Hepatitis B
- Proper usage of fire fighting equipments
- First aid usage in cases of various emergencies/events
- Awareness sessions to make staff and workers familiar with workplace hazards and ways to minimize the risks to health, lives and environment.
- Material Specification Data Sheets of Chemicals (MSDS):

Employees are rewarded with medals and cash prizes for their exceptional feats at any unfortunate incident. Further, we have the system to note and address the weaknesses raised by risk analysis assessments of the work environment.

Your Company continues to provide medical facilities like ambulances and dispensary having full time doctor on permanent basis to the workers. Staff members are covered under the health insurance plan.

### Human Excellence

We respect our human resource and therefore protect their legal rights with safe conditions of work and competitive terms of service without discriminating on the basis of sex, religion, race or disability by following strictly to our core ethical and moral values.

The processes of succession planning including training, professional grooming and testing employees in ever challenging work environment not only makes them confident but also content as to job satisfaction.

We at Gul Ahmed promote hiring of special persons and women and facilitate them with suitable work environment.

### 1. Employment of Women

At Gul Ahmed we go extra mile to facilitate and help the most important members (women) of the society. Employment of women improves the country's social environment, as the income earned by them supports their families, by enabling them to meet their unattended needs. We, at Gul Ahmed, have employed more than one thousand female workers and staff. Further, women are also selected for on hand training and are awarded certificates and offered jobs on completion of training period.

### 2. Employment of Special Persons

We started hiring people with disabilities through an NGO in our stitching units. They are trained for

the jobs and are awarded with certifications. Further, they are also offered jobs at our stitching units to earn their livelihoods with pride instead of being dependent on the society. Currently fifty four (54) special persons are on the Company's payroll.

### 3. Promoting new Talent

Gul Ahmed's employees have the opportunity to work in multicultural environment and therefore facilitate candidates for internships who are willing to contribute and learn. Moreover, our employees are also sent abroad to attend exhibitions so as to get international exposure.

Further, new talents are provided opportunities in terms of internships, management trainee programs for fresh graduates and 'Gul Ahmed Fashion Awards' type competitive programs are held between various fashion designer institutes to promote creativity, innovative ideas in garments which bridges the gap between classrooms and practical steps.

## CORPORATE CITIZENSHIP

### Community Development

Considering itself a responsible citizen of the country, Gul Ahmed not only complies with the legal requirements but also work voluntarily towards the betterment of society. It has the history of spending for roads, footpaths, development and maintenance of sewerage system, tap water for local community and police check posts in the area with cooperation of other stakeholders and law enforcement agencies.

With our established surveillance network of cameras at our manufacturing units facing external areas, we help law enforcement agencies not only to monitor and improve the security of the area but also investigate any untoward incident.

For all these efforts and initiatives Gul Ahmed was awarded a CSR excellence awards in 2009, 2010 and 2011.

### Donations/Charities for National Cause

Our nation is going through the most difficult days in its history. Environmental disasters like flooding, heavy rains and the war on terror have worsened the social life of our nation. With the high spirits to serve, we are always helping our countrymen by providing medical aid, food, clothing and shelter.

Gul Ahmed is always keen to promote and develop think tanks for the country and wish the country to have number of scholars who could showcase Pakistan in media and freely and seriously dialogue the issues of public interest and concern. One of the forums is 'Fellowship Fund for Pakistan'. Gul Ahmed's management not only participates in its activities but also contribute financially.

### Energy

Your Company has take up a challenging mission since years with the vision to share national burden in most

important sector i.e. 'Energy' of the country. With the vision and keeping an eye on the less productive efforts of the governments to enhance the energy production, we started to invest in order to generate our own power with the help of gas turbines. Soon after realizing the scarcity of gas reserves we have also invested in steam turbines costing more than Rs. 200 million to generate power from steam thus saving use of natural gas - a precious energy resource of our country.

The total production capacity at Gul Ahmed is 24.85 MW.

### Contribution to National Exchequer

The benefit of your Company's growth and profitability is also shared by the government. The Company incurred a total of Rs.547.52 million in 2012 (2011: Rs. 858 million) in various federal, provincial and local taxes.

## AWARDS AND RECOGNITIONS

Excellence speaks itself but it makes us proud if we are recognized by external prestigious organizations for our performance. During the year we received various awards and certifications.

### Best Corporate Report Awards

We are happy to report that the Best Corporate Report Award 2011 for reporting in the textile sector was awarded to us by the Joint Committee of Institute of Chartered Accountants of Pakistan and Institute of Cost & Management Accountants of Pakistan.

### CSR National Excellence Awards

The annual CSR National Excellence Awards are organized and hosted by the CSR Association of Pakistan which is country's prestigious recognition award for Corporate Social Responsibility. Your Company was given awards for the years 2009, 2010 and 2011.

### Certifications

We have been certified for our various efforts to make our working environment and products secure for our workers and customers, some of which are discussed below.

Gul Ahmed is certified with SA-8000, IWAY and Walmart for keeping safe and healthy environment for our workers. Your Company is also certified with OEKO Tex for baby products. OEKO Tex is an international testing and certification system for textiles, limiting the use of certain chemicals which are harmful for the consumers. Further, Gul Ahmed is also certified with GOTS (Global Organic Textile Standards). The aim of the GOTS is to promote the processes that ensure organic status of textiles, from harvesting of the raw materials, through environmentally and socially responsible manufacturing in order to provide a credible assurance to the end consumer.

ISO 9001-2008 certification is the proof of our best quality management system, which confirms our ability to consistently provide products that meet customer and applicable statutory and regulatory requirements.

## Financial Performance at a Glance

Profit & Loss		2012	2011	2010	2009	2008	2007
Sales	Rs. Million	25,064	25,435	19,689	13,906	11,726	9,848
Gross profit	Rs. Million	3,544	4,627	3,173	2,359	1,775	1,475
Operating profit	Rs. Million	1,374	2,635	1,653	1,209	936	745
Profit before tax	Rs. Million	(1)	1,537	708	170	202	262
Profit/(loss) after tax	Rs. Million	(240)	1,196	478	80	103	164
Cash dividend	Rs. Million	-	-	79	-	55	-
Bonus share	Rs. Million	-	635	-	-	-	-

Balance Sheet		2012	2011	2010	2009	2008	2007
Property, plant and equipment	Rs. Million	6,829	6,654	6,140	6,106	5,828	4,703
Intangible assets	Rs. Million	27	39	16	29	28	30
Long term investment, loans, advances and deposits	Rs. Million	109	96	93	90	78	74
Net current assets	Rs. Million	(98)	422	(224)	(390)	(687)	(278)
Total assets employed	Rs. Million	6,867	7,211	6,025	5,835	5,247	4,529
Represented by:							
Share capital	Rs. Million	1,270	635	635	635	552	552
Reserves	Rs. Million	3,203	4,078	2,961	2,483	2,210	2,107
Shareholders' equity	Rs. Million	4,473	4,713	3,596	3,118	2,762	2,659
Long term loans	Rs. Million	2,096	2,199	2,223	2,567	2,354	1,772
Deferred liabilities	Rs. Million	298	299	207	149	130	98
Total capital employed	Rs. Million	6,867	7,211	6,025	5,835	5,247	4,529

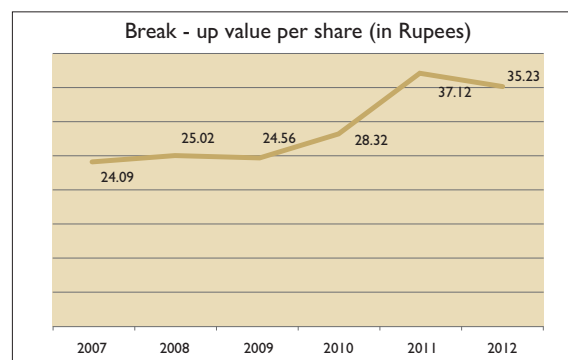
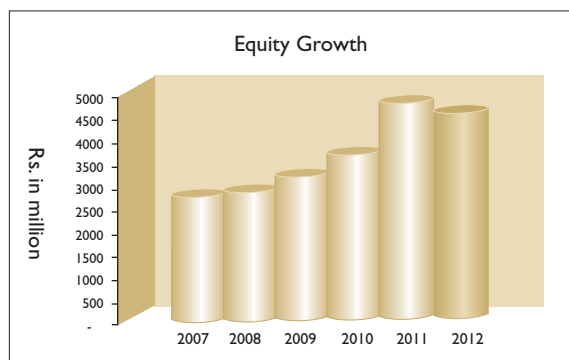
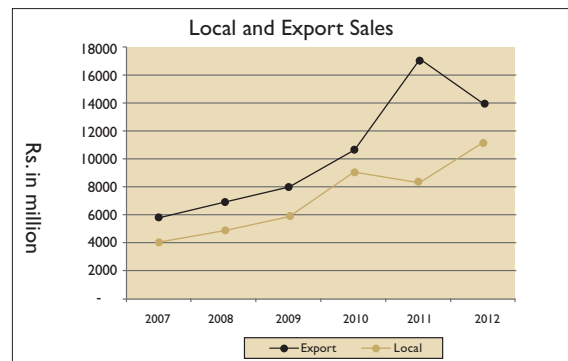
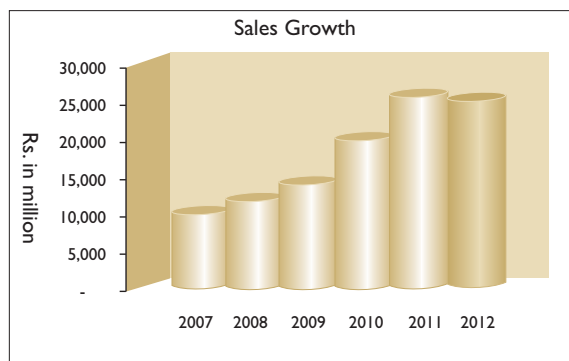
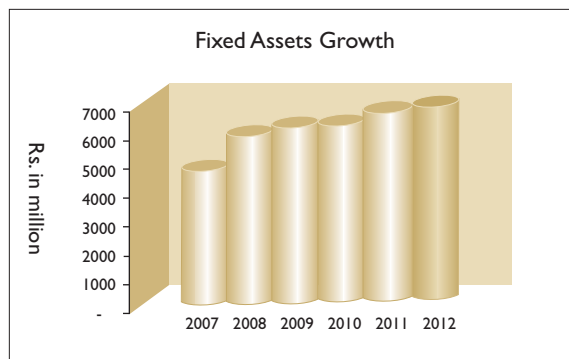
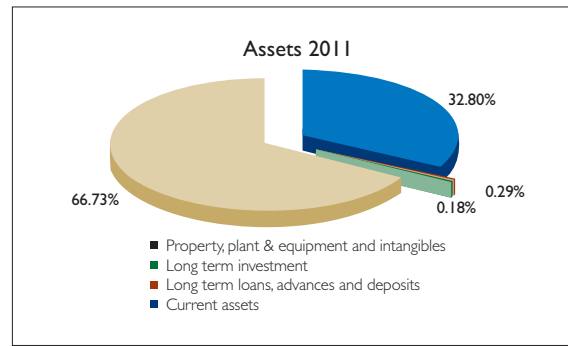
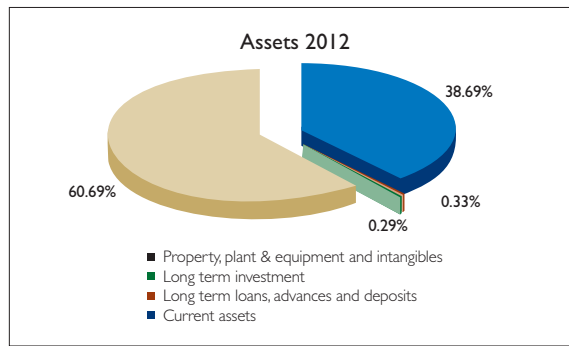
Cash Flow Statement		2012	2011	2010	2009	2008	2007
Operating activities	Rs. Million	3,497	(2,617)	454	442	(339)	774
Investing activities	Rs. Million	(920)	(1,250)	(711)	(931)	(1,649)	(713)
Financing activities	Rs. Million	(70)	(148)	(170)	398	680	6
Cash and cash equivalents at the end of the year	Rs. Million	(7,169)	(9,676)	(5,660)	(5,233)	(5,141)	(3,832)

## Financial Ratios

		2012	2011	2010	2009	2008	2007
<b>Profitability ratios</b>							
Gross profit ratio	%	14.14	18.19	16.12	16.96	15.14	14.98
Operating leverage ratio	Times	32.77	2.04	0.88	1.57	1.34	1.23
EBITDA margin to sales	%	8.49	13.21	11.92	13.37	12.49	11.90
Net profit to sales	%	(0.96)	4.70	2.43	0.58	0.88	1.67
Return on equity	%	(5.23)	28.80	14.22	2.73	3.80	6.60
Return on capital employed	%	19.52	39.82	27.87	21.82	19.14	16.45
<b>Liquidity ratios</b>							
Current ratio		0.99	1.03	0.97	0.95	0.90	0.95
Quick / acid test ratio		0.24	0.19	0.34	0.39	0.42	0.47
Cash to current liabilities		0.01	0.01	0.01	0.01	0.01	0.01
Cash flow from operations to sales		0.14	(0.10)	0.02	0.03	(0.03)	0.08
<b>Capital structure ratios</b>							
Financial leverage ratio		2.25	2.67	2.40	2.69	2.95	2.30
Weighted average cost of debt		0.11	0.10	0.11	0.12	0.08	0.07
Debt to equity ratio		0.47	0.47	0.62	0.82	0.85	0.67
Interest cover ratio		1.00	2.40	1.75	1.16	1.28	1.54
<b>Turnover ratios</b>							
Inventory turnover	Days	151	134	98	107	95	104
Inventory turnover ratio		0.41	0.37	0.27	0.29	0.26	0.28
Debtor turnover	Days	30	31	45	66	72	74
Debtor turnover ratio		0.08	0.09	0.12	0.18	0.20	0.20
Creditor turnover	Days	85	82	73	76	61	56
Creditor turnover ratio		0.23	0.23	0.20	0.21	0.17	0.15
Fixed assets turnover ratio		3.67	3.82	3.21	2.27	2.00	2.08
Total assets turnover ratio		1.41	1.25	1.35	1.02	0.95	0.98
Operating cycle	Days	95	83	70	97	106	122
<b>Investor information</b>							
Earnings per share	Rupees	(1.89)	9.42	3.76	0.73	0.93	1.56
Price earning ratio		(11.17)	5.49	4.93	53.21	43.01	29.26
Price to book ratio		0.15	0.16	0.08	0.18	0.18	0.25
Dividend yield ratio		-	-	0.07	-	0.03	-
Cash dividend per share	Rupees	-	-	1.25	-	1.00	-
Bonus shares issues	%	-	100	-	-	-	-
Dividend payout ratio	%	-	-	16.60	-	53.68	-
Dividend cover ratio	Times	-	-	6.02	-	1.87	-
Break - up value per share	Rupees	35.23	37.12	28.32	24.56	25.02	24.09
Market value per share at the end of the year	Rupees	21.11	51.73	18.53	38.84	40.00	45.65
high during the year	Rupees	64.29	53.65	38.84	49.00	51.40	49.90
low during the year	Rupees	16.05	18.53	17.40	28.60	37.25	23.75
EBITDA	Rs. million	2,129	3,359	2,347	1,860	1,465	1,171



## Our Value Addition and its Distribution

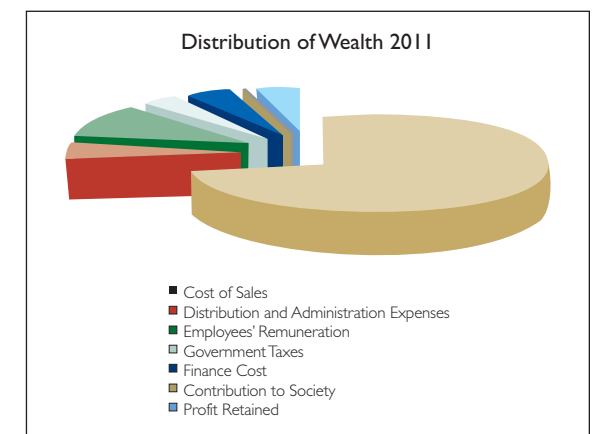
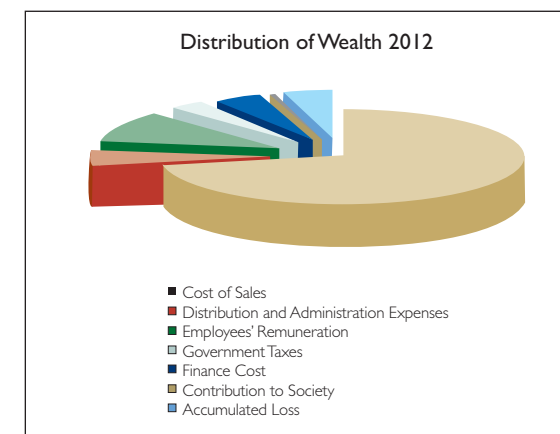


### Value Addition

	2012		2011	
	Rs. '000	%	Rs. '000	%
Net sales	25,063,924	99.92	25,435,465	99.90
Other operating income	21,173	0.08	24,931	0.10
	<u>25,085,097</u>	<u>100.00</u>	<u>25,460,396</u>	<u>100.00</u>

### Value Distribution

Cost of sales (Excluding employees' remuneration, duties and taxes)	19,131,808	76.27	18,379,932	72.19
Distribution and administration expenses (Excluding employees' remuneration and taxes)	1,479,832	5.90	1,300,743	5.11
Employees' remuneration	2,829,279	11.28	2,668,460	10.48
Government taxes (Includes income tax, WPPF, WWF, duties, federal & provincial taxes, etc.)	522,657	2.08	831,647	3.27
Providers of capital (Finance cost)	1,357,540	5.41	1,079,671	4.24
Dividend	-	-	79,349	0.31
Contribution to society (Donations)	4,346	0.02	3,486	0.01
(Accumulated loss)/profit retained	(240,364)	(0.96)	1,117,109	4.39
	<u>25,085,097</u>	<u>100.00</u>	<u>25,460,396</u>	<u>100.00</u>



## Horizontal Analysis of Financial Statements

	2012	2011	2010	2009	2008	2007	2012	2011	2010	2009	2008	2007
	Rs. '000s						Variance %					
<b>Balance sheet</b>												
Total equity	4,472,509	4,712,873	3,595,765	3,118,232	2,762,029	2,659,191	(5.10)	31.07	15.31	12.90	3.87	15.08
Total non-current liabilities	2,394,295	2,497,260	2,429,247	2,715,884	2,484,561	1,869,832	(4.12)	2.80	(10.55)	9.31	32.88	(15.99)
Total current liabilities	10,851,954	13,194,546	8,574,679	7,749,618	7,085,112	5,480,926	(17.75)	53.88	10.65	9.38	29.27	0.86
Total equity and liabilities	17,718,758	20,404,679	14,599,691	13,583,734	12,331,702	10,009,949	(13.16)	39.76	7.48	10.15	23.19	0.39
Total non-current assets	6,964,606	6,788,103	6,249,091	6,224,462	5,933,390	4,807,233	2.60	8.63	0.40	4.91	23.43	6.34
Total current assets	10,754,152	13,616,576	8,350,600	7,359,272	6,398,312	5,202,716	(21.02)	63.06	13.47	15.02	22.98	(4.55)
Total assets	17,718,758	20,404,679	14,599,691	13,583,734	12,331,702	10,009,949	(13.16)	39.76	7.48	10.15	23.19	0.39
<b>Profit &amp; loss account</b>												
Net sales	25,063,924	25,435,465	19,688,794	13,906,465	11,725,851	9,847,754	(1.46)	29.19	41.58	18.60	19.07	19.76
Cost of sales	(21,520,222)	(20,808,843)	(16,515,934)	(11,547,856)	(9,951,072)	(8,372,437)	3.42	25.99	43.02	16.05	18.86	20.69
Gross profit	3,543,702	4,626,622	3,172,860	2,358,609	1,774,779	1,475,317	(23.41)	45.82	34.52	32.90	20.30	14.74
Distribution expenses	(1,298,665)	(1,090,588)	(776,234)	(585,657)	(278,966)	(249,859)	19.08	40.50	32.54	109.94	11.65	(10.51)
Administrative expenses	(891,511)	(808,926)	(715,293)	(572,983)	(563,336)	(473,867)	10.21	13.09	24.84	1.71	18.88	2.01
Other expenses	(653)	(116,604)	(53,619)	(13,712)	(15,050)	(19,891)	(99.44)	117.47	291.04	(8.89)	(24.34)	1,041.85
Other income	21,173	24,931	25,116	22,594	18,250	13,759	(15.07)	(0.74)	11.16	23.80	32.64	(76.31)
Operating profit	1,374,046	2,635,435	1,652,830	1,208,851	935,677	745,459	(47.86)	59.45	36.73	29.20	25.52	24.57
Financial expenses	(1,375,463)	(1,097,981)	(944,603)	(1,038,990)	(733,839)	(483,268)	25.27	16.24	(9.08)	41.58	51.85	(17.54)
(Loss)/profit before taxation	(1,417)	1,537,454	708,227	169,861	201,838	262,191	(100.09)	117.08	316.95	(15.84)	(23.02)	2,017.69
Income tax expense	(238,947)	(340,997)	(230,694)	(89,651)	(99,000)	(97,791)	(29.93)	47.81	157.32	(9.44)	1.24	108.07
(Loss)/profit for the year	(240,364)	1,196,457	477,533	80,210	102,838	164,400	(120.09)	150.55	495.35	(22.00)	(37.45)	(574.88)

## Vertical Analysis of Financial Statements

	2012		2011		2010		2009		2008		2007	
	Rs. '000s	%	Rs. '000s	%	Rs. '000s	%	Rs. '000s	%	Rs. '000s	%	Rs. '000s	%
<b>Balance sheet</b>												
Total equity	4,472,509	25.24	4,712,873	23.10	3,595,765	24.63	3,118,232	22.96	2,762,029	22.40	2,659,191	26.57
Total non-current liabilities	2,394,295	13.51	2,497,260	12.24	2,429,247	16.64	2,715,884	19.99	2,484,561	20.15	1,869,832	18.68
Total current liabilities	10,851,954	61.25	13,194,546	64.66	8,574,679	58.73	7,749,618	57.05	7,085,112	57.45	5,480,926	54.75
Total equity and liabilities	17,718,758	100.00	20,404,679	100.00	14,599,691	100.00	13,583,734	100.00	12,331,702	100.00	10,009,949	100.00
Total non-current assets	6,964,606	39.31	6,788,103	33.27	6,249,091	42.80	6,224,462	45.82	5,933,390	48.11	4,807,233	48.02
Total current assets	10,754,152	60.69	13,616,576	66.73	8,350,600	57.20	7,359,272	54.18	6,398,312	51.89	5,202,716	51.98
Total assets	17,718,758	100.00	20,404,679	100.00	14,599,691	100.00	13,583,734	100.00	12,331,702	100.00	10,009,949	100.00
<b>Profit &amp; loss account</b>												
Net sales	25,063,924	100.00	25,435,465	100.00	19,688,794	100.00	13,906,465	100.00	11,725,851	100.00	9,847,754	100.00
Cost of sales	(21,520,222)	(85.86)	(20,808,843)	(81.81)	(16,515,934)	(83.88)	(11,547,856)	(83.04)	(9,951,072)	(84.86)	(8,372,437)	(85.02)
Gross profit	3,543,702	14.14	4,626,622	18.19	3,172,860	16.12	2,358,609	16.96	1,774,779	15.14	1,475,317	14.98
Distribution expenses	(1,298,665)	(5.18)	(1,090,588)	(4.29)	(776,234)	(3.94)	(585,657)	(4.21)	(563,336)	(4.80)	(473,867)	(4.04)
Administrative expenses	(891,511)	(3.56)	(808,926)	(3.18)	(715,293)	(3.63)	(572,983)	(4.12)	(278,966)	(2.38)	(249,859)	(2.13)
Other income	21,173	0.08	24,931	0.10	25,116	0.13	22,594	0.16	18,250	0.16	13,759	0.12
Other expenses	(653)	(0.00)	(116,604)	(0.46)	(53,619)	(0.27)	(13,712)	(0.10)	(15,050)	(0.13)	(19,891)	(0.17)
Operating profit	1,374,046	5.48	2,635,435	10.36	1,652,830	8.39	1,208,851	8.69	935,677	7.98	745,459	6.36
Financial expenses	(1,375,463)	(5.49)	(1,097,981)	(4.32)	(944,603)	(4.80)	(1,038,990)	(7.47)	(733,839)	(6.26)	(483,268)	(4.12)
(Loss)/profit before taxation	(1,417)	(0.01)	1,537,454	6.04	708,227	3.60	169,861	1.22	201,838	1.72	262,191	2.24
Income tax expense	(238,947)	(0.95)	(340,997)	(1.34)	(230,694)	(1.17)	(89,651)	(0.64)	(99,000)	(0.84)	(97,791)	(0.83)
(Loss)/profit for the year	(240,364)	(0.96)	1,196,457	4.70	477,533	2.43	80,210	0.58	102,838	0.88	164,400	1.40

# Statement of Compliance with the Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance ("the CCG") contained in the Listing Regulations of Karachi and Lahore Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

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

1. The Company encourages representation of independent non-executive directors and directors representing the minority interest on its Board of Directors ("the Board"). At present the Board includes:

#### **Independent Non-Executive Directors**

S.M. Nadim Shafiqullah  
Dr. Amjad Waheed  
Adnan Afridi

#### **Executive Directors**

Bashir Ali Mohommed  
Ziad Bashir  
Mohammed Zaki Bashir  
Abdul Aziz Yousuf

#### **Non-Executive Directors**

Zain Bashir  
Abdul Razak Bramchari

The independent directors meet the criteria of independence under clause i (b) of the CCG.

2. The directors have confirmed that none of them is serving as a director in more than seven 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 NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancy occurred on the Board during the year.
5. The Company has prepared a "Code of Conduct and Ethics" and has ensured that appropriate steps have been taken to disseminate it throughout the Company along with its supporting policies and procedures.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer (CEO), other executive and non-executive directors, have been taken by the Board/shareholders.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The directors of the Board are well aware of their duties and responsibilities as outlined by corporate laws and listing regulations. In compliance with the provisions of the Listing Regulations, five directors have attended and completed Corporate Governance Leadership Skills program under the Board Development Series of Pakistan Institute of Corporate Governance (PICG).

10. No new appointment of Chief Financial Officer (CFO), Company Secretary and Head of Internal Audit was made during the year. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.
11. The directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirements of the CCG.
15. The Board has formed an Audit Committee. It comprises three members, two of whom are non-executive directors. The Chairman of the Committee is an independent non-executive director.
16. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the CCG. The terms of reference of the Committee have been formed and advised to the Committee for compliance.
17. The Board has formed an HR and Remuneration Committee. It comprises three members, of whom two are non-executive directors. The Chairman of the Committee has not been elected so far.
18. The Board has set up an effective internal audit function. This function has been outsourced to Anjum Asim Shahid Rahman, Chartered Accountants, who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company.
19. 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 (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Listing Regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of Company's securities, was determined and intimated to directors, employees and Karachi and Lahore Stock Exchanges.
22. Material/price sensitive information has been disseminated among all market participants at once through Karachi and Lahore Stock Exchanges.
23. We confirm that all other material principles enshrined in the CCG have been complied with.

**BASHIR ALI MOHOMMED**  
Chairman and Chief Executive

Karachi  
September 24, 2012

**ZAIN BASHIR**  
Director

## 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 for the year ended June 30, 2012 prepared by the Board of Directors of Gul Ahmed Textile Mills Limited ("the Company") to comply with the Listing Regulations of the respective Stock Exchanges, where the Company is listed.

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

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

Further, the Listing Regulation of the Karachi and Lahore Stock Exchanges 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 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 June 30, 2012.

Karachi  
September 24, 2012

**HYDER BHIMJI & CO.**  
Chartered Accountants  
Engagement Partner: Hyder Ali Bhimji

## Auditors' Report to the Members

We have audited the annexed Balance Sheet of Gul Ahmed Textile Mills Limited ("the Company") as at June 30, 2012 and the related Profit and Loss Account, Statement of Comprehensive Income, 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, Statement of Comprehensive Income, 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 June 30, 2012 and of the loss, total comprehensive income, 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).

Karachi  
September 24, 2012

**HYDER BHIMJI & CO.**  
Chartered Accountants  
Engagement Partner: Hyder Ali Bhimji

## Balance Sheet

As at June 30, 2012

	Note	2012 Rs. 000s	2011 Rs. 000s
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
Share capital	4	1,269,571	634,785
Reserves	5	3,430,000	2,880,446
(Accumulated loss)/unappropriated profit		(227,062)	1,197,642
		<b>4,472,509</b>	<b>4,712,873</b>
<b>NON-CURRENT LIABILITIES</b>			
Long term financing	6	2,096,432	2,198,591
Deferred liabilities			
Deferred taxation - net	7	273,969	284,563
Staff retirement benefits	8	23,894	14,106
		<b>297,863</b>	<b>298,669</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	9	2,702,707	2,586,514
Accrued mark-up	10	185,895	216,798
Short term borrowings	11	7,289,065	9,759,190
Current maturity of long term financing		664,636	632,044
Provision for taxation - net of payment		9,651	-
		<b>10,851,954</b>	<b>13,194,546</b>
<b>CONTINGENCIES AND COMMITMENTS</b>			
	12		
		<b>17,718,758</b>	<b>20,404,679</b>

	Note	2012 Rs. 000s	2011 Rs. 000s
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	13	6,828,920	6,653,725
Intangible assets	14	26,535	38,630
Long term investment	15	58,450	58,450
Long term loans and advances	16	2,900	4,241
Long term deposits		47,801	33,057
		<b>6,964,606</b>	<b>6,788,103</b>
<b>CURRENT ASSETS</b>			
Stores, spare parts and loose tools	17	739,986	706,350
Stock-in-trade	18	7,415,451	10,334,360
Trade debts	19	2,074,159	2,030,723
Loans and advances	20	169,612	159,830
Prepayments		27,361	40,486
Other receivables	21	182,699	212,546
Tax refunds due from government	22	24,871	48,926
Cash and bank balances	23	120,013	83,355
		<b>10,754,152</b>	<b>13,616,576</b>
		<b>17,718,758</b>	<b>20,404,679</b>

The annexed notes 1 - 42 form an integral part of these financial statements.

**BASHIR ALI MOHOMMED**  
Chairman and Chief Executive

**ZAIN BASHIR**  
Director

## Profit and Loss Account

For the Year Ended June 30, 2012

	Note	2012 Rs. 000s	2011 Rs. 000s
Sales	24	25,063,924	25,435,465
Cost of sales	25	21,520,222	20,808,843
Gross profit		3,543,702	4,626,622
Distribution cost	26	1,298,665	1,090,588
Administrative expenses	27	891,511	808,926
Other operating expenses	28	653	116,918
		2,190,829	2,016,432
		1,352,873	2,610,190
Other operating income	29	21,173	25,245
Operating profit		1,374,046	2,635,435
Finance cost	30	1,375,463	1,097,981
(Loss)/profit before taxation		(1,417)	1,537,454
Provision for taxation	31	238,947	340,997
(Loss)/profit after taxation		(240,364)	1,196,457
(Loss)/earnings per share - basic and diluted (Rs.)	32	(1.89)	9.42

The annexed notes 1 - 42 form an integral part of these financial statements.

**BASHIR ALI MOHOMMED**  
Chairman and Chief Executive

**ZAIN BASHIR**  
Director

## Statement of Comprehensive Income

For the Year Ended June 30, 2012

	2012 Rs. 000s	2011 Rs. 000s
(Loss)/profit after taxation	(240,364)	1,196,457
Other comprehensive income - net of tax	-	-
Total comprehensive income	(240,364)	1,196,457

The annexed notes 1 - 42 form an integral part of these financial statements.

**BASHIR ALI MOHOMMED**  
Chairman and Chief Executive

**ZAIN BASHIR**  
Director

# Cash Flow Statement

For the Year Ended June 30, 2012

Note	2012 Rs. 000s	2011 Rs. 000s
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
(Loss)/profit before taxation	(1,417)	1,537,454
Adjustments for:		
Depreciation	741,979	708,255
Amortisation	12,841	15,725
Provision for gratuity	17,204	8,444
Finance cost	1,375,463	1,097,981
Provision for slow moving/obsolete items	12,287	10,304
Provision for doubtful debts	30,721	29,200
Property, plant and equipment scrapped	609	2,657
Profit on sale of property, plant and equipment	(12,824)	(12,877)
	<b>2,176,863</b>	<b>3,397,143</b>
Changes in working capital:		
(Increase)/decrease in current assets		
Stores, spare parts and loose tools	(45,923)	(241,232)
Stock-in-trade	2,918,909	(5,390,456)
Trade debts	(74,157)	299,342
Loans and advances	(31,910)	(439)
Prepayments	13,125	7,453
Other receivables	29,847	25,390
Tax refunds due from government	24,055	14,979
	<b>2,833,946</b>	<b>(5,284,963)</b>
Increase in current liabilities		
Trade and other payables	116,193	621,545
	<b>2,950,139</b>	<b>(4,663,418)</b>
Cash generated from/(used in) operations	<b>5,127,002</b>	<b>(1,266,275)</b>
(Payments) for/receipts from:		
Gratuity	(7,416)	(6,621)
Finance cost	(1,406,366)	(1,037,772)
Income tax	(217,762)	(304,407)
Long term loans and advances	1,341	(2,395)
Net cash generated from/(used in) operating activities	<b>3,496,799</b>	<b>(2,617,470)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Addition to property, plant and equipment	(938,482)	(1,242,360)
Addition to intangible assets	(746)	(38,006)
Proceeds from sale of property, plant and equipment	33,523	30,714
Long term deposits	(14,744)	(725)
Net cash used in investing activities	<b>(920,449)</b>	<b>(1,250,377)</b>

Note	2012 Rs. 000s	2011 Rs. 000s
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from long term loans	560,147	607,987
Repayments of long term loans	(629,714)	(676,865)
Dividend paid	-	(79,349)
	<b>(69,567)</b>	<b>(148,227)</b>
Net cash used in financing activities	<b>(69,567)</b>	<b>(148,227)</b>
Net increase/(decrease) in cash and cash equivalents	<b>2,506,783</b>	<b>(4,016,074)</b>
Cash and cash equivalents - at the beginning of the year	<b>(9,675,835)</b>	<b>(5,659,761)</b>
Cash and cash equivalents - at the end of the year	<b>(7,169,052)</b>	<b>(9,675,835)</b>

The annexed notes 1 - 42 form an integral part of these financial statements.

**BASHIR ALI MOHOMMED**  
Chairman and Chief Executive

**ZAIN BASHIR**  
Director

## Statement of Changes in Equity

For the Year Ended June 30, 2012

	Share capital	Revenue reserve	Capital reserve	Reserve for issue of bonus shares	(Accumulated loss)/ unappropriated profit	Total
Rs. 000s						
Balance as at June 30, 2010	634,785	2,030,000	450,446	-	480,534	3,595,765
Transfer to revenue reserve	-	400,000	-	-	(400,000)	-
<b>Transaction with owners</b>						
Final dividend for the year ended June 30, 2010	-	-	-	-	(79,349)	(79,349)
<b>Total comprehensive income</b>						
Profit for the year	-	-	-	-	1,196,457	1,196,457
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	1,196,457	1,196,457
Balance as at June 30, 2011	634,785	2,430,000	450,446	-	1,197,642	4,712,873
Transfer to reserve for issue of bonus shares	-	-	(450,446)	634,786	(184,340)	-
Transfer to revenue reserve	-	1,000,000	-	-	(1,000,000)	-
<b>Transaction with owners</b>						
Issuance of bonus shares for the year ended June 30, 2011	634,786	-	-	(634,786)	-	-
<b>Total comprehensive income</b>						
Loss for the year	-	-	-	-	(240,364)	(240,364)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	(240,364)	(240,364)
Balance as at June 30, 2012	<b>1,269,571</b>	<b>3,430,000</b>	-	-	<b>(227,062)</b>	<b>4,472,509</b>

The annexed notes I - 42 form an integral part of these financial statements.

**BASHIR ALI MOHOMMED**  
Chairman and Chief Executive

**ZAIN BASHIR**  
Director

## Notes to the Accounts

For the Year Ended June 30, 2012

### I THE COMPANY AND ITS OPERATIONS

1.1 Gul Ahmed Textile Mills Limited (The Company) was incorporated on April 01, 1953 in Pakistan as a private limited company, converted into public limited company on January 07, 1955 and was listed on Karachi and Lahore Stock Exchanges in 1970 and 1971 respectively. The Company is a composite textile mill and is engaged in the manufacture and sale of textile products.

The Company's registered office is situated at Plot No. 82, Main National Highway, Landhi, Karachi.

### 2 BASIS OF PREPARATION

These financial statements comprise balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with explanatory notes and have been prepared under the 'historical cost convention' except as has been specifically stated below in respective notes.

#### 2.1 Statement of compliance

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

#### 2.2 Standards, interpretations and amendments to published approved accounting standards

##### 2.2.1 Standards, interpretations and amendments to published approved accounting standards that became effective during the year

There are certain new standards, interpretations and amendments to published approved accounting standards that are mandatory for accounting periods beginning on or before January 01, 2011 but considered not to be relevant or to have any significant effect on the Company's operations and are, therefore, not disclosed in these financial statements.

##### 2.2.2 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

Following standards, interpretations and amendments to approved accounting standards have been published that are mandatory to the Company's accounting periods beginning on or after the dates mentioned below:

- Amendments to IAS 1 - Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after July 01, 2012) introduces new requirement to group together items within Other Comprehensive Income that may be reclassified to the profit or loss section of the income statement in order to facilitate the assessment of their impact on the overall performance of an entity. The amendment is not likely to have any material impact on the Company's financial statements.
- Amendments to IAS 12 - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after January 01, 2012). These amendments provide presumption that the carrying amount of an asset measured using the fair value model in IAS 40 will be through sale. As a result of the amendments, SIC - 21 (Income Taxes: Recovery of revalued non-depreciable assets) will no longer apply to investment properties accrued at fair value. This amendment is not likely to have any impact on the Company's financial statements.
- Amendments to IAS 19 - Employee Benefits (effective for annual periods beginning on or after January 01, 2013). The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognized in full with actuarial gains and losses being recognized in Other Comprehensive Income (elimination of 'corridor method' for



recognition of actuarial gains and losses). It also revised the method of calculating the return on plan assets. The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date. The amendment is not likely to have any material impact on the Company's financial statements.

- Amendments to IFRS 7 - Financial Instruments: Disclosures (effective for annual periods beginning on or after January 01, 2013). These amendments reflect the joint IASB and FASB requirements to enhance current offsetting disclosures. The amendments require entities to disclose gross amount subject to right of set off, amounts set off in accordance with accounting standards followed, and the related net credit exposure. These new disclosures are intended to facilitate comparison between those entities that prepare IFRS financial statements and those that prepare US GAAP financial statements. The Company is not likely to have any impact on Company's financial statements.

The following standards have been issued by IASB but not yet notified by SECP.

- IFRS 9 – Financial Instruments (effective for annual periods beginning on or after January 01, 2015). This is the first part of new standards on classification and measurement of financial assets that will replace IAS 39. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest / mark-up.
- IFRS 10 – Consolidated Financial Statements (effective for annual periods beginning on or after January 01, 2013). This is a new standard that replaces the consolidation requirements in SIC - 12 Consolidation: Special Purpose Entities and IAS 27 - Consolidated and Separate Financial Statements. Standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company and provides additional guidance to assist in the determination of control where this is difficult to assess.
- IFRS 11 – Joint Arrangements (effective for annual periods beginning on or after January 01, 2013). This is a new standard that deals with the accounting for joint arrangements and focuses on the rights and obligations of the arrangements, rather than its legal form. Standard requires a single method for accounting for interests in jointly controlled entities.
- IFRS 12 – Disclosure of Interests in Other Entities (effective for annual periods beginning on or after January 01, 2013). This is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.
- IFRS 13 – Fair Value Measurement (effective for annual periods beginning on or after January 01, 2013). This standard applies to IFRSs that require or permit fair value measurement or disclosures and provides a single IFRS framework for measuring fair value and requires disclosures about fair value measurement. The standard defines fair value on the basis of an 'exit-price' notion and uses 'a fair value hierarchy', which result in market-based, rather than entity-specific measurement.

There are other amendments to the approved accounting standards and interpretations that are mandatory for accounting periods beginning on or after January 01, 2012 but are considered not to be relevant or to have any significant effect on the Company's operations and are therefore not detailed in these financial statements.

### 2.3 Functional and presentation currency

These financial statements are presented in Pakistan Rupee which is the Company's functional currency.

### 2.4 Critical accounting estimates and judgments

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

#### Defined benefit plan

Actuarial assumptions have been adopted as disclosed in note 8 to the financial statements for valuation of present value of defined benefit obligations and fair value of plan assets. Any changes in these assumptions in future years might affect unrecognized gains and losses in those years.

#### Contingencies

The assessment of the contingencies inherently involves the exercise of significant judgment as the outcome of the future events cannot be predicted with certainty. The Company, based on the availability of the latest information, estimates the value of contingent assets and liabilities which may differ on the occurrence/non - occurrence of the uncertain future event(s).

#### Property, plant and equipment

The Company reviews appropriateness of the rate of depreciation, useful life, residual value used in the calculation of depreciation. Further where applicable, an estimate of recoverable amount of assets is made for possible impairment on an annual basis.

#### Stock-in-trade and stores & spare parts

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

#### Provision against trade debts, advances and other receivables

The Company reviews the recoverability of its trade debts, advances and other receivables to assess amount of bad debts and provision required there against on annual basis.

#### Income taxes

The Company takes into account relevant provisions of the prevailing income tax laws while providing for current and deferred taxes as explained in note 3.6 of these financial statements. Deferred tax calculation has been made based on estimate of future ratio of export and local sales based on past history.

#### Provision for obsolescence

Provision for obsolescence and slow moving spare parts is based on parameters set out by management.

## 3 SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Foreign currency transactions and translation

All monetary assets and liabilities in foreign currencies are translated into Pak Rupees at the rates of exchange prevailing at the balance sheet date or as fixed under contractual arrangements. Transactions in foreign currencies are translated into Pak Rupees at exchange rate prevailing at the date of transaction. Foreign exchange gains and losses on translation are recognized in the profit and loss account. All non-monetary items are translated into Pak Rupees at exchange rates prevailing on the date of transaction or on the date when fair values are determined.

### 3.2 Borrowing cost

Borrowing costs are recognized as an expense in the period in which these are incurred except to the extent of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Such borrowing costs are capitalized as part of the cost of that asset up to the date of its commissioning.

### 3.3 Staff retirement benefits

#### Defined benefit plan

The Company operates unfunded gratuity scheme for all its eligible employees who are not part of the provident fund scheme.

The Company accounts for gratuity provision on the basis of actuarial valuation using the projected unit credit method. The results of valuation are summarised in note 8.

Actuarial gains and losses arising at each valuation date are recognized immediately in the profit and loss account.

Benefits under the scheme are payable to employees on completion of the prescribed qualifying period of service under the scheme.

#### Defined contribution plan

The Company operates a recognized provident fund scheme for its eligible employees to which equal monthly contribution is made by the Company and the employees at the rate of 8.33% of the basic salary.

### 3.4 Accumulated employee compensated absences

The Company provides for compensated absences for all eligible employees in the period in which these are earned in accordance with the rules of the Company.

### 3.5 Provisions

Provisions are recognized when the Company has present obligation (legal or constructive) as a result of past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

### 3.6 Taxation

#### Current

Provision for current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year. The charge for current tax also includes adjustments, where considered necessary, to provision for taxation made in previous years arising from assessments framed during the year for such years. The Company takes into account the current income tax law and decisions taken by the taxation authorities.

#### Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all taxable temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted.

### 3.7 Property, plant and equipment

#### Operating assets

Operating assets are stated at cost less accumulated depreciation and any identified impairment loss except leasehold land which is stated at cost. No amortisation is provided on leasehold land since the lease is renewable at the option of the lessee.

Depreciation is charged on reducing balance method at rates specified in the note 13.1. Full year's depreciation is charged on additions except major additions or extensions to production facilities which are depreciated on pro-rata basis for the period of use during the year and no depreciation is charged on assets in the year of their disposal. Structures on leased retail outlets are depreciated over the respective lease term. Gains and losses on disposal of operating assets are included in profit and loss account.

#### Capital work-in-progress

Capital work-in-progress is stated at cost accumulated up to the balance sheet date and represents expenditure incurred on property, plant and equipment in the course of construction. These expenditures are transferred to relevant category of property, plant and equipment as and when the asset start operation.

### 3.8 Intangible assets

Intangible assets are stated at cost less accumulated amortisation. Amortisation is charged over the useful life of the assets on a systematic basis to income applying the straight line method at the rate specified in note 14.

### 3.9 Investments

Investments in subsidiary company are stated at cost. The Company reconsiders the carrying amount of the investments to assess whether there is any indication of impairment loss. If such indication exists, the carrying amount is reduced to recoverable amount and the difference is recognized as an expense. Where an impairment loss subsequently reverses, the carrying amount of the investment is increased to the revised recoverable amount. The reversal of such impairment loss is recognized as an income.

### 3.10 Stores, spare parts and loose tools

These are stated at moving average cost less provision for slow moving/obsolete items and goods-in-transit are valued at cost accumulated to the balance sheet date.

### 3.11 Stock-in-trade

Stock of raw materials, except for those in transit, work-in-process and finished goods are valued at lower of weighted average cost and net realizable value. Waste products are valued at net realizable value. Cost of raw materials and trading stock comprises of the invoice value plus other charges paid thereon. Cost of work-in-process and finished goods includes cost of direct materials, labour and appropriate portion of manufacturing overheads. Items in transit are stated at cost comprising invoice value and other incidental charges paid thereon.

Net realizable value signifies the estimated selling prices in the ordinary course of business less costs necessarily to be incurred in order to make the sale.

### 3.12 Trade debts

Trade debts are carried at original invoice amount except export receivables. These are translated into Pak Rupees at the rates ruling on the balance sheet date or as fixed under contractual arrangements. Debts considered irrecoverable are written off and provision is made for debts considered doubtful.

## Notes to the Accounts

### 3.13 Trade and other payables

Liabilities for trade and other payables are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received.

### 3.14 Financial assets and liabilities

All financial assets and liabilities are initially measured at cost, which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value or amortised cost, as the case may be.

### 3.15 Offsetting of financial assets and liabilities

All financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if the Company has a legal enforceable right to set off the recognized amounts and intends either to settle on net basis or to realize the assets and settle the liabilities simultaneously.

### 3.16 Impairment

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exist, the assets' realizable value is estimated in order to determine the extent of the impairment loss, if any. Impairment losses are recognized as expense in profit and loss account.

### 3.17 Revenue recognition

Sales are recorded on dispatch of goods and in case of export when the goods are shipped. Revenue from sale of goods is measured at the fair value of consideration received or receivable, net of returns and trade discounts.

### 3.18 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprises short term investment, cash and cheques in hand and cash with banks on current, savings and deposit accounts, running finance under mark-up arrangements and short term borrowings.

### 3.19 Dividend and appropriation to reserves

Dividend and appropriation to reserves is recognized in the financial statements in the period in which these are approved.

		2012	2011
		Rs. 000s	
<b>4</b>	<b>SHARE CAPITAL</b>		
	<b>4.1 Authorised capital</b>		
		2012	2011
		150,000,000	150,000,000
	Ordinary shares of Rs.10 each	1,500,000	1,500,000
	<b>4.2 Issued, subscribed and paid-up capital</b>		
		2012	2011
		38,797,566	38,797,566
	Ordinary shares of Rs.10 each fully paid in cash	387,975	387,975
		5,447,326	5,447,326
	Ordinary shares of Rs.10 each fully paid under scheme of arrangement for amalgamation	54,473	54,473
		82,712,204	19,233,656
	Ordinary shares of Rs.10 each issued as fully paid bonus shares	827,123	192,337
		126,957,096	63,478,548
		1,269,571	634,785
	<b>4.3 Reconciliation of the number of shares outstanding</b>		
		(Number of shares)	
	Number of shares outstanding at the beginning of the year	63,478,548	63,478,548
	Add: 100% Issue of bonus shares during the year	63,478,548	-
		126,957,096	63,478,548
		2012	2011
		Rs. 000s	
<b>5</b>	<b>RESERVES</b>		
	<b>Revenue reserve</b>		
	General reserve - opening	2,430,000	2,030,000
	Transfer from profit and loss account	1,000,000	400,000
		3,430,000	2,430,000
	<b>Capital reserve</b>		
	Share premium	-	428,887
	Book difference of share capital under scheme of arrangement for amalgamation	-	21,559
		-	450,446
		3,430,000	2,880,446

5.1 This represents appropriation of profit in past years to meet future exigencies.

# Notes to the Accounts

## 6 LONG TERM FINANCING - SECURED

	Note	Number of installments and commencement month	Installment amount Rs. 000s	Mark-up rate per annum	2012	2011	Note	Number of installments and commencement month	Installment amount Rs. 000s	Mark-up rate per annum	2012	2011
					Rs. 000s	Rs. 000s					Rs. 000s	Rs. 000s
Allied Bank Limited Loan 1	6.3	12 quarterly March-2010	16,667	Average three months KIBOR Ask rate + 1.00% payable quarterly	33,333	100,000	b) Under LTF-EOP scheme	12 half yearly February-2010	139	7.00% p.a. payable quarterly	970	1,247
Allied Bank Limited Loan 2 Under State Bank of Pakistan (SBP) scheme of Long Term Financing Facility (LTFF)	6.3, 6.6	32 quarterly July-2010	9,256	10.00% p.a. payable quarterly	222,153	259,177	Habib Bank Limited Loan 10 Under LTFF scheme	6.1, 6.6 16 half yearly July-2011	11,054	10.00% p.a. payable quarterly	154,758	176,866
Bank Al-Habib Limited Loan 1 Under State Bank of Pakistan (SBP) scheme of Long Term Finance - Export Oriented Projects (LTF-EOP)	6.2, 6.5	12 half yearly December-2008	2,315	7.00% p.a. payable quarterly	13,886	18,516	Habib Bank Limited Loan 11 Under LTFF scheme	6.1, 6.6 16 half yearly August-2011	562	10.00% p.a. payable quarterly	7,871	8,995
Bank Al-Habib Limited Loan 2 Under LTFF scheme	6.1, 6.2, 6.6	8 half yearly December-2013	14,679	12.60% p.a. payable quarterly	137,265	-	Habib Bank Limited Loan 12 Under LTFF scheme	6.1, 6.6 16 half yearly October-2011	710	10.00% p.a. payable quarterly	9,932	11,359
Faysal Bank Limited Loan 1 Under LTFF scheme	6.2, 6.6	10 half yearly January-2014	6,720	11.20% p.a. payable quarterly	67,200	67,200	Habib Bank Limited Loan 13 Under LTFF scheme	6.1, 6.6 16 half yearly March-2012	277	10.00% p.a. payable quarterly	4,153	4,430
Faysal Bank Limited Loan 2 Under LTFF scheme	6.2, 6.6	10 half yearly January-2014	3,850	12.70% p.a. payable quarterly	38,500	-	Habib Bank Limited Loan 14 Under LTFF scheme	6.1, 6.6 16 half yearly August-2012	3,536	10.25% p.a. payable quarterly	56,614	56,614
Faysal Bank Limited Loan 3 Under LTFF scheme	6.2, 6.6	10 half yearly April-2014	219	12.70% p.a. payable quarterly	6,714	-	Habib Metropolitan Bank Loan 1 a) Under LTF-EOP scheme	6.2, 6.4, 6.5 12 half yearly March-2010	684	7.00% p.a. payable quarterly	4,782	6,149
Faysal Bank Limited Loan 4 Under LTFF scheme	6.2, 6.6	10 half yearly June-2014	241	12.70% p.a. payable quarterly	2,410	-	b) Under LTF-EOP scheme	12 half yearly April-2010	2,042	7.00% p.a. payable quarterly	14,290	18,374
Faysal Bank Limited Loan 5 Under LTFF scheme	6.2, 6.6	10 half yearly July-2014	846	12.70% p.a. payable quarterly	8,460	-	Habib Metropolitan Bank Loan 2 Under LTF-EOP scheme	6.2, 6.4, 6.5 12 half yearly November-2010	19,417	7.00% p.a. payable quarterly	155,332	194,166
Faysal Bank Limited Loan 6 Under LTFF scheme	6.2, 6.6	10 half yearly September-2014	10,970	12.70% p.a. payable quarterly	109,700	-	Habib Metropolitan Bank Loan 3 Under LTFF scheme	6.2, 6.4, 6.6 16 half yearly February-2012	2,719	10.00% p.a. payable quarterly	40,776	43,495
Habib Bank Limited Loan 4 a) Under LTF-EOP scheme	6.1, 6.5	12 half yearly June-2010	5,416	7.00% p.a. payable quarterly	37,913	48,747	Habib Metropolitan Bank Loan 4 Under LTFF scheme	6.2, 6.4, 6.6 16 half yearly March-2012	2,504	10.00% p.a. payable quarterly	37,561	40,065
b) Under LTF-EOP scheme		12 half yearly November-2010	4,450	7.00% p.a. payable quarterly	35,603	44,504	Habib Metropolitan Bank Loan 5 Under LTFF scheme	6.2, 6.4, 6.6 16 half yearly June-2012	4,212	10.25% p.a. payable quarterly	63,161	67,373
Habib Bank Limited Loan 5 Under LTF-EOP scheme	6.1, 6.5	12 half yearly December-2010	2,571	7.00% p.a. payable quarterly	20,568	25,710	Habib Metropolitan Bank Loan 6 Under LTFF scheme	6.2, 6.4, 6.6 16 half yearly July-2012	1,804	10.25% p.a. payable quarterly	28,860	28,860
Habib Bank Limited Loan 6 Under LTF-EOP scheme	6.1, 6.5	12 half yearly February-2010	9,510	7.00% p.a. payable quarterly	66,571	85,592	Habib Metropolitan Bank Loan 7 Under LTFF scheme	6.2, 6.4, 6.6 10 half yearly December-2013	3,328	11.20% p.a. payable quarterly	33,280	33,280
Habib Bank Limited Loan 7 Under LTF-EOP scheme	6.1, 6.5	12 half yearly January-2010	778	7.00% p.a. payable quarterly	5,444	6,999	Habib Metropolitan Bank Loan 8 Under LTFF scheme	6.2, 6.4, 6.6 10 half yearly January-2014	970	12.70% p.a. payable quarterly	9,691	-
Habib Bank Limited Loan 8 a) Under LTF-EOP scheme	6.1, 6.5	12 half yearly January-2010	1,698	7.00% p.a. payable quarterly	11,885	15,282	Habib Metropolitan Bank Loan 9 Under LTFF scheme	6.2, 6.4, 6.6 10 half yearly February-2014	449	12.70% p.a. payable quarterly	13,414	-
							Habib Metropolitan Bank Loan 10 Under LTFF scheme	6.2, 6.4, 6.6 10 half yearly June-2014	9,140	12.70% p.a. payable quarterly	96,180	-
							Habib Metropolitan Bank Loan 11 Under LTFF scheme	6.2, 6.4, 6.6 10 half yearly August-2014	1,048	12.70% p.a. payable quarterly	13,570	-
							Habib Metropolitan Bank Loan 12 Under LTFF scheme	6.2, 6.4, 6.6 10 half yearly September-2014	3,392	12.70% p.a. payable quarterly	33,920	-
							Habib Metropolitan Bank Loan 13 Under LTFF scheme	6.2, 6.4, 6.6 10 half yearly October-2014	158	12.70% p.a. payable quarterly	1,575	-

## Notes to the Accounts

	Note	Number of installments and commencement month	Installment amount Rs. '000s	Mark-up rate per annum	2012	2011
					Rs. 000s	
HSBC Bank Middle East Ltd Loan 1	6.2, 6.5					
a) Under LTF-EOP scheme		12 half yearly October-2010	2,883	7.00% p.a. payable quarterly	<b>23,066</b>	28,833
b) Under LTF-EOP scheme		12 half yearly November-2010	1,038	7.00% p.a. payable quarterly	<b>8,301</b>	10,376
HSBC Bank Middle East Ltd Loan 2	6.2, 6.5	12 half yearly December-2010	1,838	7.00% p.a. payable quarterly	<b>14,707</b>	18,384
HSBC Bank Middle East Ltd Loan 3	6.2, 6.5	12 half yearly February-2010	875	7.00% p.a. payable quarterly	<b>6,123</b>	7,873
HSBC Bank Middle East Ltd Loan 4	6.2, 6.5	12 half yearly March-2010	844	7.00% p.a. payable quarterly	<b>5,909</b>	7,596
Meezan Bank Limited Diminishing Musharaka 1	6.3	6 half yearly February-2011	15,266	Average six months KIBOR Ask rate + 1.00% payable half yearly	<b>45,797</b>	76,328
Meezan Bank Limited Diminishing Musharaka 2	6.3	6 half yearly June-2011	1,449	Average six months KIBOR Ask rate + 1.50% payable half yearly	<b>4,348</b>	7,247
Meezan Bank Limited Diminishing Musharaka 3	6.3	6 half yearly July-2011	5,253	Average six months KIBOR Ask rate + 1.50% payable half yearly	<b>21,011</b>	31,516
National Bank of Pakistan Loan 2-A	6.1, 6.5	6 half yearly September-2008	5,706	7.00% p.a. payable quarterly	-	11,410
National Bank of Pakistan Loan 3	6.3	25 quarterly September-2009	4,000	Average three months KIBOR Ask rate + 1.00% payable quarterly	<b>52,000</b>	68,000
National Bank of Pakistan Loan 4	6.2, 6.3, 6.6	16 quarterly September-2011	2,351	10.40% p.a. payable quarterly	<b>30,563</b>	37,615
NIB Bank Limited Loan 1	6.3, 6.6	16 quarterly June-2010	2,839	9.00% p.a. payable quarterly	<b>19,866</b>	31,222
NIB Bank Limited Loan 2	6.3, 6.6	16 quarterly September-2010	1,883	9.00% p.a. payable quarterly	<b>15,061</b>	22,594
Standard Chartered Bank Loan 1	6.3, 6.6	8 half yearly October-2012	2,995	11.10% p.a. payable quarterly	<b>23,960</b>	23,960
Standard Chartered Bank Loan 2	6.3, 6.6	8 half yearly November-2012	21,886	11.10% p.a. payable quarterly	<b>175,100</b>	175,100
United Bank Limited Loan 2	6.3	10 half yearly March-2009	50,000	Average three months KIBOR Ask rate + 1.00% payable half yearly	<b>150,000</b>	250,000

	Note	Number of installments and commencement month	Installment amount Rs. 000s	Mark-up rate per annum	2012	2011
					Rs. 000s	
United Bank Limited Loan 3	6.3, 6.5	12 half yearly April-2010	931	7.00% p.a. payable quarterly	<b>6,517</b>	8,379
United Bank Limited Loan 4	6.3	6 half yearly August-2010	48,199	Average six months KIBOR Ask rate + 1.00% payable half yearly	<b>96,397</b>	192,795
United Bank Limited Loan 5	6.3, 6.6	16 half yearly November-2010	363	10.00% p.a. payable quarterly	<b>4,354</b>	5,080
United Bank Limited Loan 6	6.3	6 half yearly March-2011	25,000	Average six months KIBOR Ask rate + 1.25% payable half yearly	<b>75,000</b>	125,000
United Bank Limited Loan 7	6.3, 6.6	10 half yearly December-2012	1,319	10.50% p.a. payable quarterly	<b>13,190</b>	13,190
United Bank Limited Loan 8	6.3, 6.6	12 half yearly December-2011	557	10.50% p.a. payable quarterly	<b>5,576</b>	6,690
United Bank Limited Loan 9	6.3, 6.6	12 half yearly January-2012	128	10.50% p.a. payable quarterly	<b>1,412</b>	1,540
United Bank Limited Loan 10	6.3, 6.6	12 half yearly February-2012	741	10.50% p.a. payable quarterly	<b>8,154</b>	8,895
United Bank Limited Loan 11	6.3, 6.6	12 half yearly April-2012	3,685	11.20% p.a. payable quarterly	<b>40,542</b>	44,227
United Bank Limited Loan 12	6.2, 6.6	19 half yearly November-2011	7,441	11.20% p.a. payable quarterly	<b>126,503</b>	141,385
United Bank Limited Loan 13	6.2, 6.6	19 half yearly December-2011	5,916	11.20% p.a. payable quarterly	<b>100,568</b>	112,400
United Bank Limited Loan 14	6.3	12 half yearly September 2013	269	Average six months KIBOR Ask rate + 1.00% payable half yearly	<b>3,225</b>	-
United Bank Limited Loan 15	6.3	12 half yearly October 2013	1,235	Average six months KIBOR Ask rate + 1.00% payable half yearly	<b>14,823</b>	-
United Bank Limited Loan 16	6.3	12 half yearly December 2013	5,450	Average six months KIBOR Ask rate + 1.00% payable half yearly	<b>70,700</b>	-
					<b>2,761,068</b>	2,830,635
Current portion shown under current liabilities					<b>(664,636)</b>	(632,044)
					<b>2,096,432</b>	2,198,591

## Notes to the Accounts

- 6.1 These loans are secured by first pari passu charge over present and future property, plant and equipment of the Company and equitable mortgage over land and building.
- 6.2 These loans are secured by charge over specified machinery.
- 6.3 These loans are secured by way of pari passu charge over the property, plant and equipment of the Company.
- 6.4 Habib Metropolitan Bank Limited is a related party.
- 6.5 Grace period of one year in payment of principal outstanding under LTF-EOP facilities was allowed by the banks as per State Bank of Pakistan SMEFD Circular No. 01 dated January 22, 2009.
- 6.6 The financing availed under the facility shall be repayable within a maximum period of ten years including maximum grace period of two years from the availment date. However, where financing facilities have been provided for a period of upto five years maximum grace period shall not exceed one year as per State Bank of Pakistan MFD Circular No. 07 dated December 31, 2007.

	2012	2011
	Rs. 000s	
<b>7 DEFERRED TAXATION - NET</b>		
<b>Taxable temporary difference in respect of</b>		
Accelerated tax depreciation allowance	300,147	303,824
<b>Deductible temporary differences in respect of</b>		
Provision for gratuity	(3,323)	(1,993)
Provision for doubtful debts	(14,867)	(10,889)
Provision for slow moving items	(7,988)	(6,379)
	(26,178)	(19,261)
	<u>273,969</u>	<u>284,563</u>

## 8 STAFF RETIREMENT BENEFITS

### 8.1 Principal actuarial assumptions

Following principal actuarial assumptions were used for the valuation:

Estimated rate of increase in salary of the employees	11 % p.a.	11 % p.a.
Discount rate	12 % p.a.	12 % p.a.
Average expected remaining working life time of employees	10 years	10 years

### 8.2 Movement in liability

	Note	2012	2011
		Rs. 000s	
Opening balance		14,106	12,283
Charge for the year	8.4	17,204	8,444
Payments during the year		(7,416)	(6,621)
Closing balance		<u>23,894</u>	<u>14,106</u>

	Note	2012	2011
		Rs. 000s	
<b>8.3 Changes in present value of defined benefit obligation</b>			
Opening balance		14,106	12,283
Current service cost		14,201	6,970
Interest cost		3,003	1,474
Benefits paid		(7,416)	(6,621)
Closing balance		<u>23,894</u>	<u>14,106</u>
<b>8.4 Charge for the year</b>			
Current service cost		14,201	6,970
Interest cost		3,003	1,474
		<u>17,204</u>	<u>8,444</u>

## 9 TRADE AND OTHER PAYABLES

Creditors		1,730,756	1,923,045
Due to related parties		15,473	9,083
Murabaha	9.1	266,143	-
Accrued expenses	9.2	510,880	447,092
Advance from customers - others		109,533	66,287
Advance from customers - related parties		15,897	-
Payable to employees' provident fund		2,746	5,340
Workers' profit participation fund	9.3	8,884	85,424
Workers' welfare fund	9.4	23,104	31,377
Unclaimed dividend		512	527
Others		18,779	18,339
		<u>2,702,707</u>	<u>2,586,514</u>

9.1 Murabaha is secured by pari passu hypothecation charge over stores and spare parts, stock-in-trade, trade debts and other receivables. Unavailed murabaha facility at the year end was Rs. Nil (2011: Rs. Nil). Murabaha facilities mature within 12 months. The effective rate of profit ranges from 11.00% to 13.05%.

9.2 Accrued expenses includes infrastructure cess amounting to Rs. 10,229 million (2011: Rs. Nil). The Company alongwith other Petitioners have challenged the imposition of Infrastructure Cess by the relevant Excise and Taxation Officer, Karachi. The Company is confident of the favourable outcome of the Petition. However, in view of the uncertainties in such matters, full provision has been made.

	Note	2012	2011
		Rs. 000s	
<b>9.3 Workers' profit participation fund</b>			
Opening balance		85,424	39,020
Provision for the year		-	82,570
Interest for the year		8,884	2,854
		<u>94,308</u>	<u>124,444</u>
Payments made during the year		(85,424)	(39,020)
Closing balance		<u>8,884</u>	<u>85,424</u>

## Notes to the Accounts

9.4 The Company alongwith other Petitioners have challenged the constitutionality of the amendments brought into the Workers' Welfare Fund Ordinance, 1971 through the Finance Acts of 2006 and 2008. The Company is confident of the favourable outcome of the Petition. However, in view of the uncertainties in such matters, full provision has been made.

	Note	2012 Rs. 000s	2011
<b>10 ACCRUED MARK-UP - SECURED</b>			
Mark-up on long term financing		43,940	64,867
Mark-up on short term borrowings		141,955	151,931
		<u>185,895</u>	<u>216,798</u>
<b>11 SHORT TERM BORROWINGS - SECURED</b>			
Short term bank borrowings	11.1	5,962,104	9,266,752
Short term running finance		1,326,961	492,438
		<u>7,289,065</u>	<u>9,759,190</u>

11.1 It includes short term istisna amounting to Rs. 990 million (2011: Rs. 493 million).

11.2 Short term borrowings are secured by pari passu hypothecation charge over stores and spare parts, stock-in-trade, trade debts, other receivables and pledge over cotton. Unavailed facility at the year end was Rs. 5,335 million (2011: Rs. 2,185 million). The facility for short term borrowings mature within twelve months. Short term borrowings include Rs. 599 million (2011: Rs. 587 million) from related party.

Mark-up rates range from 1.56% to 16.56% (2011: 1.54% to 16.65%) per annum.

## 12 CONTINGENCIES AND COMMITMENTS

12.1 The Company owns and possesses a plot of land measuring 44 acres in Deh Khanto, which is appearing in the books at a cost of Rs. 64 million. The Company holds title deeds of the land which are duly registered in its name. Ownership of the land has been challenged in the Sindh High Court by some claimants who claim to be the owners, as this land was previously sold to them and subsequently resold to the Company. The claim of the alleged owners is fictitious. The Company is confident that its title to the land is secure and accordingly no provision has been made in these financial statements.

12.2 The Company has filed a suit in the Sindh High Court for recovery of Rs. 33.409 million (2011: Rs. 33.409 million) included in other receivables. The Company's management and its legal counsel are of the opinion that the case will be decided in the Company's favour and as such no provision has been made there against.

12.3 The Company has filed a Petition in the Sindh High Court against order passed by the Board of Trustees, Employees' Old-Age Benefits Institution (EOBI) for upholding the unjustified additional demand of payment raised by EOBI for accounting years 2000-01 and 2001-02 amounting to Rs. 50.827 million (2011: Rs. 50.827 million). This demand has been raised after lapse of more than two years although the records and books of the Company were verified by the EOBI to their entire satisfaction and finalization of all matters by EOBI. The Honorable Sindh High Court has already restrained EOBI from taking any action or proceedings against the Company. No provision has been made there against in these financial statements as the Company is confident of the favourable outcome of the Petition.

12.4 The Company has filed a Constitution Petition in the Sindh High Court against the City District Government of Karachi for striking down the unjustified demand of payment of Ground Rent of Rs. 10 million. The Honorable Sindh High Court has already restrained the City District Government of Karachi from taking any coercive action against the Company. No provision has been made there against in these financial statements as the Company is confident of the favorable outcome of the Petition.

## 12.5 Guarantees

(a) Rs. 260 million (2011: Rs. 257 million) against guarantees issued by banks which are secured by pari passu hypothecation charge over stores and spare parts, stock-in-trade, trade debts and other receivables. These guarantees includes guarantees issued by related party amounting to Rs. 203 million (2011: Rs. 203 million).

(b) Post dated cheques of Rs. 153 million (2011: Rs. 71 million) has been issued to various Government Agencies.

(c) Bills discounted of Rs. 1,731 million (2011: Rs. 1,306 million).

(d) Corporate guarantee of Rs. 96.420 million (2011: Rs. 96.965 million) has been issued to a bank in favour of subsidiary company.

12.6 The Company is committed for capital expenditure as at June 30, 2012 of Rs. 197 million (2011: Rs. 340 million).

12.7 The Company is committed for non capital expenditure items under letters of credits as at June 30, 2012 of Rs. 374 million (2011: Rs. 581 million).

12.8 The Company is committed for minimum rental payments for each of the following period as follows:

Note	2012 Rs. 000s	2011
- Not more than one year	216,826	192,728
- More than one year and not more than five years	901,170	828,357
- More than five years	707,749	907,230
	<u>1,825,745</u>	<u>1,928,315</u>

## 13 PROPERTY, PLANT AND EQUIPMENT

	Note	2012 Rs. 000s	2011
Operating assets	13.1	6,606,533	6,582,082
Capital work-in-progress	13.2	222,387	71,643
		<u>6,828,920</u>	<u>6,653,725</u>

## Notes to the Accounts

### 13.1 Operating assets

	Leasehold land	Buildings and structures on leasehold land	Plant and machinery	Office equipment	Furniture and fixtures	Vehicles	Total
	Rs. 000s						
<b>Net carrying value basis year ended June 30, 2012</b>							
Opening net book value (NBV)	234,107	1,040,644	4,913,020	141,374	64,577	188,360	6,582,082
Additions (at cost)	-	98,876	531,789	51,563	6,490	99,020	787,738
Disposal at NBV	-	-	(4,200)	(2,440)	-	(14,668)	(21,308)
Depreciation charge	-	(121,953)	(522,182)	(35,349)	(7,887)	(54,608)	(741,979)
Closing net book value	<b>234,107</b>	<b>1,017,567</b>	<b>4,918,427</b>	<b>155,148</b>	<b>63,180</b>	<b>218,104</b>	<b>6,606,533</b>
<b>Gross carrying value basis as at June 30, 2012</b>							
Cost	234,107	2,020,441	9,782,852	357,496	105,644	419,082	12,919,622
Accumulated depreciation	-	(1,002,874)	(4,864,425)	(202,348)	(42,464)	(200,978)	(6,313,089)
Net book value	<b>234,107</b>	<b>1,017,567</b>	<b>4,918,427</b>	<b>155,148</b>	<b>63,180</b>	<b>218,104</b>	<b>6,606,533</b>
<b>Net carrying value basis year ended June 30, 2011</b>							
Opening net book value (NBV)	234,107	1,070,408	4,439,777	136,467	44,178	163,845	6,088,782
Additions (at cost)	-	88,692	975,122	40,641	33,169	84,425	1,222,049
Disposal at NBV	-	-	(551)	(2,333)	(4,792)	(12,818)	(20,494)
Depreciation charge	-	(118,456)	(501,328)	(33,401)	(7,978)	(47,092)	(708,255)
Closing net book value	<b>234,107</b>	<b>1,040,644</b>	<b>4,913,020</b>	<b>141,374</b>	<b>64,577</b>	<b>188,360</b>	<b>6,582,082</b>
<b>Gross carrying value basis as at June 30, 2011</b>							
Cost	234,107	1,921,565	9,282,567	336,613	99,154	364,281	12,238,287
Accumulated depreciation	-	(880,921)	(4,369,547)	(195,239)	(34,577)	(175,921)	(5,656,205)
Net book value	<b>234,107</b>	<b>1,040,644</b>	<b>4,913,020</b>	<b>141,374</b>	<b>64,577</b>	<b>188,360</b>	<b>6,582,082</b>
Depreciation rate % per annum	-	10	10	15 to 30	10 to 12	20	

13.1.1 Depreciation charge for the year has been allocated as follows:

	Note	2012	2011
		Rs. 000s	
Cost of goods manufactured	25.1	607,578	591,974
Distribution cost	26	59,387	45,412
Administrative expenses	27	75,014	70,869
		<b>741,979</b>	<b>708,255</b>

13.1.2 Disposals include assets scrapped during the year amounting to Rs. 0.609 million (2011: Rs. 2.657 million).

### 13.1.3 Details of operating assets sold (by negotiation except where stated)

Particulars	Cost	Written down value	Sale proceeds	Particulars of purchasers
		Rs.000s		
<b>Plant and machinery</b>				
Warping M/C Benninger Sizing Machine Zell	31,504	4,200	4,700	Faisal Enterprises Shop No. 5, Falaknaz Pride Opp: Airport Public Station Karachi
<b>Vehicles</b>				
Honda City	845	151	338	Mr. Abdul Aziz Nakhuda Flat No. D-24, Hassan Centre Gulshan-e-Iqbal Block-16 Karachi
Suzuki Cultus	657	269	682	Mr. Azeem Khan House No. 5, Bandokh Compound Heranand Khem Sing, Garden Road Karachi
Toyota Corolla	1,402	574	771	Mr. Azhar Ali Hashmat (Employee) House No. 12, Golf Avenue Mugal Pura, Lahore
Suzuki Alto	512	168	256	Mr. Danish Wazir (Employee) House No. 49/25 B-I Area Liaquatabad, Karachi
Daihatsu Cuore Honda City Suzuki Alto	2,070	595	1,319	Mr. Gul Dad House No. HK-579, KPT Building New Qadri House, Karachi
Suzuki Alto Suzuki Cultus (02 Nos.) Toyota Corolla	2,804	1,159	2,232	Mr. Hakeem Khan House No. B-49, Sector 11-B North Karachi, Karachi
Suzuki Mehran	376	54	111	Mr. Irshad Hussain Khan House No. A-921, Muhammadi Derra Malir 15, Karachi
Mitsubishi Lancer	1,476	329	660	Ms. Mehtab Danish House No. 91/1, Main Commercial Avenue Phase-4, DHA, Karachi
Suzuki Alto Suzuki Cultus (03 Nos.) Suzuki Hi-Roof Toyota Corolla	3,749	719	2,664	Mr. Mohammad Arif House No. B-30, Sector 11-C/1 Karachi
Toyota Corolla	1,002	237	408	Mr. Moosa Bidiwala (Employee) House No. A-45, Block-4 New Dhoraji Colony, Karachi



## Notes to the Accounts

Particulars	Cost	Written down value Rs.000s	Sale proceeds	Particulars of purchasers
<b>Vehicles (continued)</b>				
Suzuki Alto	512	114	316	Mr. Muhammad Aamir House No. B-514, Sector - I I E Karachi
Toyota Lexus	3,368	600	1,060	Mr. Muhammad Amin House No. A-314, Rehman Square Gulshan-e-Iqbal, Karachi
Suzuki Alto	512	114	376	Mr. Muhammad Arshad House No. 358, Sector 9/E Jinnah Colony, Orangi Town Karachi
Honda City	660	94	317	Mr. Muhammad Haroon Flat No. 23, Soni Apartment Gulshan-e-Iqbal, Karachi
Suzuki Alto	513	168	205	Mr. Muhammad Jalaluddin House No. L-54, Block-15 F.B. Area, Karachi
Honda City	915	300	360	Mr. Muhammad Omer (Employee) House No. 13/11, Khayaban-e-Badban Phase-5, DHA., Karachi
Honda City	926	379	462	Mr. Muhammad Yunus Patel 18, Commercial Area KDA Officers Housing Society Near National Stadium, Karachi
Suzuki Alto (03 Nos.) Toyota Corolla	2,943	1,344	2,198	Mr. Naseer Ahmed House No. 22/B, Street No. 1 Area 37-D, Landhi, Karachi
Honda City Suzuki Cultus	1,314	301	739	Mr. Noman Hassan Khan House No. A-908, Block-12 Gulburg, Karachi
Suzuki Alto	504	165	202	Ms. Raheela Akhter House No. R-117-A, Bagh-e-Malir Karachi
Honda City	845	151	466	Mr. Saffar Ahmed House No. A-122, Gulistan Society Landhi, Karachi
Honda Civic	1,566	641	750	Ms. Shahnaz Basit (Employee) House No. 64/1, Street No. 21, Khayaban-e-Badban, Karachi
Suzuki Cultus	617	253	385	Mr. Shaikh Muhammad Ali (Employee) House No. C-24, Sunny View Block-14, Gulistan-e-Juhar Karachi

Particulars	Cost	Written down value Rs.000s	Sale proceeds	Particulars of purchasers
<b>Vehicles (continued)</b>				
Suzuki Alto Suzuki Cultus (03 Nos.) Suzuki Liana Toyota Corolla	5,108	2,098	3,478	Mr. Sultan Hassan Khan House No. A-908/12, F.B. Area Karachi
Suzuki Cultus	621	254	600	Syed Inam-ul-Haque House No. A-323, F.B. Area Gulberg Block-12, Karachi
Suzuki Cultus	640	262	320	Syed Jawaid Ahmed (Employee) House No. A-403, Samar Garden Block-G, Hyderi Market, North Karachi, Karachi
Honda City	924	379	373	Syed Muhammad Zaheeruddin (Employee) House No. B-100, Block-3, Gulshan-e-Iqbal, Karachi
Suzuki SB308R	376	54	106	Syed Raees Ahmed (Employee) House No. 53, New Joharabad Malir City, Karachi
Honda City	860	154	466	Syed Sadiq Ali House No. 445, Street 3-A Landhi, Karachi
Honda City	704	126	500	Ms. Zaufishan Naveed House No. NW 734, Gali Satellite Town Rawalpindi
Suzuki Mehran VXR Honda City MT CNG (02 Nos.)	3,196	2,201	3,201	Insurance Claim
Written down value below Rs. 50,000 each	18,255	2,092	2,502	Various
<b>2012</b>	<b>92,276</b>	<b>20,699</b>	<b>33,523</b>	
2011	72,925	17,837	30,714	

## Notes to the Accounts

### 13.2 Capital work-in-progress

	2012				2011			
	Machinery and store items held for capitalisation	Building construction	Other assets	Total	Machinery and store items held for capitalisation	Building construction	Other assets	Total
Cost as at July 1	24,599	37,673	9,371	71,643	1,050	21,382	28,900	51,332
Capital expenditure incurred during the year	716,067	64,895	9,302	790,264	921,488	77,281	27,220	1,025,989
Transferred to property, plant and equipment	(540,890)	(82,617)	(16,013)	(639,520)	(897,939)	(60,990)	(8,743)	(967,672)
Transferred to intangible assets	-	-	-	-	-	-	(38,006)	(38,006)
Cost as at June 30	199,776	19,951	2,660	222,387	24,599	37,673	9,371	71,643

	Note	2012	2011
		Rs. 000s	Rs. 000s
<b>14 INTANGIBLE ASSETS - COMPUTER SOFTWARE</b>			
<b>Net carrying value as at June 30</b>			
Opening net book value (NBV)		38,630	16,349
Additions (at cost)		746	38,006
Amortisation charge	14.1	(12,841)	(15,725)
Closing net book value		26,535	38,630
<b>Gross carrying value as at June 30</b>			
Cost		148,199	147,453
Accumulated amortisation		(121,664)	(108,823)
Net book value		26,535	38,630
<b>14.1</b> Amortisation rate is 20% per annum and the charge has been allocated as follows:			
Distribution cost	26	1,614	1,808
Administrative expenses	27	11,227	13,917
		12,841	15,725

### 15 LONG TERM INVESTMENT

	Note	2012	2011
		Rs. 000s	Rs. 000s
Gul Ahmed International Limited - FZC UAE	15.1	58,450	58,450

**15.1** Gul Ahmed International Limited - FZC UAE is a wholly owned unquoted subsidiary (the subsidiary) of the Company having 10,000 (2011:10,000) ordinary shares of USD 100 each, valued at cost. The subsidiary is incorporated in United Arab Emirates (UAE). The investment's break-up value of shares as per the audited accounts for the year ended June 30, 2012 is Rs.242 million (2011: Rs. 202 million)

	Note	2012	2011
		Rs. 000s	Rs. 000s
<b>16 LONG TERM LOANS AND ADVANCES - SECURED</b>			
<b>Considered good</b>			
- Due from executives (other than CEO & Directors)	16.2	5,183	5,845
- Due from non-executive employees		1,111	2,387
		6,294	8,232
<b>Current portion of amount</b>			
- Due from executives		(2,892)	(3,016)
- Due from non-executive employees		(502)	(975)
	20	(3,394)	(3,991)
		2,900	4,241

**16.1** Loans and advances have been given for the purchase of cars, scooters and household equipments and housing assistance in accordance with the terms of employment and are repayable in monthly installments. These loans are secured against cars, outstanding balance of provident fund, end of service dues and/or guarantees of two employees.

Included in these are loans of Rs. 1.161 million (2011: Rs. 0.266 million) to executives and Rs. 0.204 million (2011: Rs. 0.854 million) to non-executives which carry no interest. The balance amount carries interest ranging from 10.5% to 15%.

The maximum aggregate amount due from executives at the end of any month during the year was Rs. 8.843 million (2011: Rs. 6.059 million).

	Note	2012	2011
		Rs. 000s	Rs. 000s
<b>16.2 Reconciliation of carrying amount of loans to executives</b>			
Opening balance		5,845	2,968
Disbursement during the year		5,134	4,892
Transfer from non-executive to executive employees		907	851
Repayment during the year		(6,703)	(2,866)
Closing balance		5,183	5,845
<b>17 STORES, SPARE PARTS AND LOOSE TOOLS</b>			
Stores		451,097	452,058
Spare parts		342,876	296,415
Loose tools		3,444	3,021
		797,417	751,494
Provision for slow moving/obsolete items	17.1	(57,431)	(45,144)
		739,986	706,350
<b>17.1 Movement in provision for slow moving/obsolete items</b>			
Opening balance		45,144	34,840
Charge for the year		12,287	10,304
Closing balance		57,431	45,144

## Notes to the Accounts

	Note	2012	2011
		Rs. 000s	
<b>18 STOCK-IN-TRADE</b>			
Raw materials	18.1	2,236,375	3,807,318
Work-in-process		233,153	310,160
Finished goods	18.2	4,945,923	6,216,882
		<u>7,415,451</u>	<u>10,334,360</u>

18.1 Raw materials amounting to Rs. Nil (2011: Rs. 589 million) has been pledged with the banks.

18.2 Finished goods include stock of waste valuing Rs. 56.887 million (2011: Rs. 31.611 million) determined at net realizable value.

	Note	2012	2011
		Rs. 000s	
<b>19 TRADE DEBTS</b>			
<b>Export debts - secured</b>	19.1	554,023	1,219,130
<b>Local debts - unsecured</b>			
- Considered good	19.1	1,520,136	811,593
- Considered doubtful		107,785	77,064
		1,627,921	888,657
Provision for doubtful trade debts	19.3	(107,785)	(77,064)
		<u>2,074,159</u>	<u>2,030,723</u>

19.1 Includes amounts due from related parties as under:

#### Export debts - secured

Gul Ahmed International (FZC)-UAE - wholly owned subsidiary	-	541
GTM (Europe) Limited - wholly owned sub subsidiary	139,703	132,716
	<u>139,703</u>	<u>133,257</u>

#### Local debts - unsecured

Swisstex Chemicals (Private) Limited - Associate company	759	-
	<u>140,462</u>	<u>133,257</u>

19.2 The maximum aggregate month end balance due from related parties during the year was Rs. 310 million (2011: Rs. 704 million).

	2012	2011
	Rs. 000s	
<b>19.3 Movement in provision for doubtful trade debts</b>		
Opening balance	77,064	47,864
Charge for the year	30,721	29,200
Closing balance	<u>107,785</u>	<u>77,064</u>

	Note	2012	2011
		Rs. 000s	
<b>20 LOANS AND ADVANCES</b>			
Considered good			
Current portion of loans and advances to employees			
- Executives		2,892	3,016
- Other employees		502	975
	16	3,394	3,991
Advances to suppliers		132,384	118,204
Income tax - net of provision		-	22,128
Letters of credit		33,834	15,507
		<u>169,612</u>	<u>159,830</u>

## 21 OTHER RECEIVABLES

Research and development claim		632	999
Duty drawback local taxes and levies		6,942	20,348
Duty drawback receivable		116,271	117,968
Mark-up rate subsidy receivable		10,398	26,109
Others	21.1	48,456	47,122
		<u>182,699</u>	<u>212,546</u>
<b>21.1 Others</b>			
Receivable against sale of property	12.2	33,409	33,409
Others	21.1.1	15,047	13,713
		<u>48,456</u>	<u>47,122</u>

21.1.1 Includes amount of Rs. 2.57 million paid to Nazir Sindh High Court, Karachi in compliance with the Order of the Sindh High Court in respect of ground rent suit as mentioned in Note 12.4.

	Note	2012	2011
		Rs. 000s	
<b>22 TAX REFUNDS DUE FROM GOVERNMENT</b>			
Sales tax		8,255	48,926
Income tax		16,616	-
		<u>24,871</u>	<u>48,926</u>

## 23 CASH AND BANK BALANCES

Cash in hand		7,124	6,407
With banks in current accounts			
- Local currency		109,540	70,303
- Foreign currency		3,349	6,645
	23.1	112,889	76,948
		<u>120,013</u>	<u>83,355</u>

23.1 Bank balances include Rs. 45 million (2011: Rs. 31 million) with related party.

## Notes to the Accounts

	Note	2012 Rs. 000s	2011 Rs. 000s
<b>24 SALES</b>			
Local	24.1	10,187,793	8,296,560
Export			
Direct export	24.2	13,884,459	16,385,611
Indirect export		900,157	650,489
		14,784,616	17,036,100
Duty drawback		142,248	132,123
Brokerage and commission		(50,733)	(29,318)
		<u>25,063,924</u>	<u>25,435,465</u>

24.1 Sales are exclusive of sales tax amounting to Rs. 255.258 million (2011: Rs. 57.164 million).

24.2 Exchange gain due to currency rate fluctuations relating to export sales amounting to Rs. 145.444 million (2011: Rs. 158.091 million) has been included in export sales.

	Note	2012 Rs. 000s	2011 Rs. 000s
<b>25 COST OF SALES</b>			
Opening stock of finished goods		6,216,882	3,158,863
Cost of goods manufactured	25.1	18,190,665	18,063,758
Purchases and processing charges		2,058,598	5,803,104
		26,466,145	27,025,725
Closing stock of finished goods		(4,945,923)	(6,216,882)
		<u>21,520,222</u>	<u>20,808,843</u>
<b>25.1 Cost of goods manufactured</b>			
Raw materials consumed	25.2	10,225,755	10,733,599
Stores consumed		2,615,106	2,518,573
Staff Cost	27.1	2,281,152	2,126,625
Fuel, power and water		1,751,515	1,488,592
Insurance		82,231	75,076
Repairs and maintenance		558,694	651,415
Depreciation		607,578	591,974
Other manufacturing expenses		77,213	71,585
Cost of samples shown under distribution cost		(85,586)	(50,799)
		18,113,658	18,206,640
Work-in-process			
Opening		310,160	167,278
Closing		(233,153)	(310,160)
		77,007	(142,882)
		<u>18,190,665</u>	<u>18,063,758</u>
<b>25.2 Raw materials consumed</b>			
Opening stock		3,807,318	1,532,769
Purchases during the year		8,654,812	13,008,148
Closing stock		(2,236,375)	(3,807,318)
		<u>10,225,755</u>	<u>10,733,599</u>

	Note	2012 Rs. 000s	2011 Rs. 000s
<b>26 DISTRIBUTION COST</b>			
Freight and shipment expenses		164,782	177,054
Staff cost	27.1	333,845	257,719
Insurance		6,519	3,878
Advertisement and publicity		334,905	292,550
Cost of samples transferred from cost of goods manufactured		85,586	50,799
Rent, rates and taxes		239,888	195,929
Depreciation		59,387	45,412
Amortisation		1,614	1,808
Export development surcharge		35,466	41,757
Other expenses		36,673	23,682
		<u>1,298,665</u>	<u>1,090,588</u>
<b>27 ADMINISTRATIVE EXPENSES</b>			
Staff cost	27.1	315,934	284,116
Rent, rates and taxes		40,349	17,129
Repairs and maintenance		29,094	47,232
Vehicle upkeep and maintenance		87,984	67,707
Conveyance and traveling		97,702	68,271
Printing and stationery		45,731	40,919
Postage and telecommunication		50,168	49,676
Legal and consultancy fees		33,434	54,125
Depreciation		75,014	70,869
Amortisation		11,227	13,917
Auditors' remuneration	27.2	1,585	1,422
Donations	27.3	4,346	3,486
Insurance		12,202	11,004
Provision for doubtful trade debts		30,721	29,200
Provision for slow moving/obsolete items		12,287	10,304
Other expenses		43,733	39,549
		<u>891,511</u>	<u>808,926</u>

### 27.1 Staff cost

	Cost of sales		Distribution cost		Administrative expenses		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
	Rs. 000s							
- Salaries, wages & benefits	2,205,588	2,061,834	323,394	250,495	300,949	270,569	2,829,931	2,582,898
<b>Retirement benefits</b>								
- Gratuity	17,204	8,444	-	-	-	-	17,204	8,444
- Contribution to provident fund	27,213	23,572	9,920	7,069	13,054	11,684	50,187	42,325
	44,417	32,016	9,920	7,069	13,054	11,684	67,391	50,769
- Staff compensated absences	31,147	32,775	531	155	1,931	1,863	33,609	34,793
	<u>2,281,152</u>	<u>2,126,625</u>	<u>333,845</u>	<u>257,719</u>	<u>315,934</u>	<u>284,116</u>	<u>2,930,931</u>	<u>2,668,460</u>

## Notes to the Accounts

	<u>2012</u>	<u>2011</u>
	Rs. 000s	
<b>27.2 Auditors' remuneration</b>		
Audit fee	1,000	1,000
Review fee of half yearly accounts	30	30
Fee for consolidation of holding and subsidiaries	150	150
Review fee of statement of compliance with code of corporate governance	50	50
Other certification fees	130	130
Out of pocket expenses	225	62
	<u>1,585</u>	<u>1,422</u>
<b>27.3</b> Donation of Rs. 1.720 million (2011: Rs. 1.730 million) paid to Fellowship Fund for Pakistan. Mr. Bashir Ali Mohommed, Chairman and Chief Executive of the Company is a Trustee of the fund.		
	<u>2012</u>	<u>2011</u>
	Rs. 000s	
<b>28 OTHER OPERATING EXPENSES</b>		
Workers' profit participation fund	-	82,570
Workers' welfare fund	-	31,377
Loss on sale of property, plant and equipment	44	314
Property, plant and equipment scrapped	609	2,657
	<u>653</u>	<u>116,918</u>
<b>29 OTHER OPERATING INCOME</b>		
<b>Income from financial assets</b>		
Interest income from loans and advances	967	766
<b>Income from non-financial assets</b>		
Profit on sale of property, plant and equipment	12,868	13,191
Scrap sales	7,172	7,586
Others	166	3,702
	<u>21,173</u>	<u>25,245</u>
<b>30 FINANCE COST</b>		
Mark-up on long term financing	292,778	307,360
Mark-up on short term borrowings	930,686	706,444
Interest on workers' profit participation fund	8,884	2,854
Bank charges	53,483	60,524
Exchange loss	89,632	20,799
	<u>1,375,463</u>	<u>1,097,981</u>

**30.1** Mark-up on long term financing/short term borrowings include Rs. 119 million (2011: Rs. 102 million) in respect of long term financing/short term borrowings from related party.

	<u>2012</u>	<u>2011</u>
	Rs. 000s	
<b>31 PROVISION FOR TAXATION</b>		
Current		
- for the year	250,851	266,000
- prior	(1,310)	(15,252)
	<u>249,541</u>	<u>250,748</u>
Deferred	(10,594)	90,249
	<u>238,947</u>	<u>340,997</u>
Note		
	31.1	

### 31.1 Reconciliation between accounting profit and tax expense

Provision for current taxation has been made on the basis of minimum tax on turnover under section 113 of the Income Tax Ordinance, 2001. Accordingly, reconciliation of tax expense with the accounting profit has not been prepared being impracticable.

**31.2** Income tax assessments of the Company have been finalised upto fiscal year 2010-11 (Tax year 2011).

	<u>2012</u>	<u>2011</u>
	Rs. 000s	
<b>32 (LOSS)/EARNINGS PER SHARE - basic and diluted</b>		
(Loss)/profit for the year	(240,364)	1,196,457
Weighted average number of shares	<u>126,957,096</u>	<u>126,957,096</u>
(Loss)/earnings per share (Rs.)	(1.89)	9.42

**32.1** Weighted average number of shares in issue during last year have been restated for the effect of bonus shares issued during current year.

**32.2** There is no dilutive effect on the (loss)/earnings per share of the Company.

### 33 SEGMENT INFORMATION

The Company has the following two reportable business segments:

- a) **Spinning** : Production of different qualities of yarn using both natural and artificial fibers.
- b) **Processing** : Production of greige fabric, its processing into various types of fabrics for sale as well as to manufacture home textile products.

Transactions among the business segments are recorded at cost.

## Notes to the Accounts

### 33.1 Segmental profitability

	Spinning		Processing		Elimination of inter segment transactions		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Rs. 000s								
Sales	10,148,346	10,171,350	18,540,954	20,070,568	(3,625,376)	(4,806,453)	25,063,924	25,435,465
Cost of sales	9,974,763	9,337,618	15,170,835	16,277,678	(3,625,376)	(4,806,453)	21,520,222	20,808,843
Gross profit	173,583	833,732	3,370,119	3,792,890	-	-	3,543,702	4,626,622
Distribution & Administrative expenses	186,267	76,494	2,003,909	1,823,020	-	-	2,190,176	1,899,514
Profit before tax and unallocated expenses & income	(12,684)	757,238	1,366,210	1,969,870	-	-	1,353,526	2,727,108
Financial charges							1,375,463	1,097,981
Other operating expenses							653	116,918
Other operating income							(21,173)	(25,245)
Provision for taxation							238,947	340,997
(Loss)/profit after taxation							(240,364)	1,196,457

### 33.2 Segment assets and liabilities

	Spinning		Processing		Unallocated		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
Rs. 000s								
Assets	5,214,791	6,247,289	11,008,064	12,677,786	1,495,903	1,479,604	17,718,758	20,404,679
Liabilities	1,181,037	1,724,763	3,429,356	3,343,943	8,635,856	10,623,100	13,246,249	15,691,806

33.3 Unallocated items represent those assets and liabilities which are common to all segments and investment in subsidiary.

### 33.4 Information by geographical area

	Revenue		Non-current assets	
	2012	2011	2012	2011
Rs. 000s				
Pakistan	10,137,060	8,267,242	6,906,156	6,729,653
Germany	2,523,681	3,253,901	-	-
United Kingdom	2,474,669	2,734,677	-	-
China	1,972,600	2,127,413	-	-
United States	1,828,492	1,625,623	-	-
Netherland	888,344	1,226,964	-	-
France	876,156	1,287,452	-	-
Brazil	633,294	1,218,348	-	-
United Arab Emirates	362,659	240,764	58,450	58,450
Other Countries	3,366,969	3,453,081	-	-
Total	25,063,924	25,435,465	6,964,606	6,788,103

	Note	2012	2011
		Rs. 000s	
34 CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	120,013	83,355
Short term borrowings	11	(7,289,065)	(9,759,190)
		(7,169,052)	(9,675,835)

### 35 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	2012				2011			
	Chief Executive	Directors	Executives	Total	Chief Executive	Directors	Executives	Total
Rs. 000s								
Managerial remuneration	4,800	10,400	225,463	240,663	3,000	8,300	167,324	178,624
House rent allowance	1,920	4,160	90,185	96,265	1,200	3,320	66,929	71,449
Other allowances	480	1,040	30,463	31,983	500	1,462	32,367	34,329
Contribution to provident fund	400	866	16,162	17,428	250	691	12,061	13,002
	7,600	16,466	362,273	386,339	4,950	13,773	278,681	297,404
Number of persons	1	3	215	219	1	5	166	172

35.1 The Chief Executive, Directors and certain Executives are provided with free use of Company cars and are covered under Company's Health Insurance Plan along with their dependents.

35.2 The Chief Executive and two Directors are also provided with free residential telephones.

35.3 Aggregate amount charged in the accounts for the year for meeting fee to five Non Executive Directors was Rs. 405,000 (2011: seven Non Executive Directors Rs. 126,000).

35.4 Executive means an employee other than the Chief Executive and Director, whose basic salary exceeds five hundred thousand rupees in a financial year.

## Notes to the Accounts

### 36 TRANSACTIONS WITH RELATED PARTIES

Related parties comprise subsidiaries, associated companies, companies where directors also hold directorship, directors of the Company and key management personnel. The Company in the normal course of business carried out transactions with various related parties.

Relationship with the Company	Nature of Transactions	2012		2011	
		Rs. 000s		Rs. 000s	
Subsidiaries	Purchase of goods	497	1,073		
	Sale of goods	1,296,759	1,935,860		
	Corporate guarantee issued in favour of Subsidiary Company (at year end)	96,420	96,965		
Associated companies and others related parties	Purchase of goods	62,224	31,943		
	Sale of goods	5,579	747		
	Rent paid	5,820	4,530		
	Fees paid	1,000	750		
	Reimbursement of expenses to related party	525	-		
	Commission/Rebate	4,562	-		
	Deposit with bank (net change)	13,883	(30,499)		
	Borrowing from bank (net change)	125,977	548,748		
	Bank guarantee (at year end)	203,472	203,472		
	Bills discounted	705,530	862,903		
	Commission/bank charges paid	23,781	26,113		
	Mark-up/interest charged	118,984	101,850		
Provident fund contribution	50,186	42,238			

There are no transactions with directors of the Company and key management personnel other than under the terms of employment. Loans and remuneration of the key management personnel are disclosed in notes 16 and 35 respectively.

Related parties status of outstanding receivables and payables as at June 30, 2012 are included in respective notes to the financial statements.

### 37 CAPACITY AND PRODUCTION

	Unit	2012			2011	
		000s			000s	
		Capacity	Production	Working	Capacity	Production
Cloth	Sq. meters (50 Picks converted)	124,136	81,096	3 shifts	124,136	85,067
Yarn	Kgs. (20 Counts converted)	48,227	36,525	3 shifts	48,227	38,716

Production is lower due to variation in production mix and various technical factors.

### 38 FINANCIAL INSTRUMENTS

#### 38.1 Financial risk management objectives

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

Risk management is carried out under policies and principles approved by management. All treasury related transactions are carried out within the parameters of these policies and principles.

#### 38.1.1 Market risks

Market risk refers to fluctuation in value of financial instruments as a result of changes in market prices. The Company manages market risk as follows:

##### a. Foreign exchange risk management

Foreign exchange risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign exchange risk arises mainly from future economic transactions or receivables and payables that exist due to transactions in foreign exchange.

##### Exposure to foreign currency risk

The Company is exposed to foreign exchange risk arising from currency value fluctuations due to the following:

	2012	2011
	USD 000s	
Long term investment	1,000	1,000
Trade debts	5,913	14,226
Cash and bank	36	77
Borrowings from financial institutions	(25,127)	(36,567)
Trade and other payables	(5,884)	(6,674)
Net exposure	<u>(24,062)</u>	<u>(27,938)</u>

Foreign currency commitments outstanding at year end are as follows:

	2012	2011
	000s	
EURO	210,780	253,622
USD	347,912	377,523
JPY	3,926	3,369
CHF	-	6,559
	<u>562,618</u>	<u>641,073</u>

The following significant exchange rates were applied during the year:

##### Rupee per USD

Average rate	89.25	85.46
Reporting date rate	93.70 / 93.90	85.70 / 85.90

## Notes to the Accounts

### Foreign currency sensitivity analysis

A 10 percent strengthening of the PKR against the USD at June 30, 2012 would have decreased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for June 30, 2011.

	<u>2012</u>	<u>2011</u>
	Rs. 000s	
Profit and loss account	<u>225,940</u>	<u>239,990</u>

A 10 percent weakening of the PKR against the USD at June 30, 2012 would have had the equal but opposite effect on USD to the amounts shown above, on the basis that all other variables remain constant.

### b. Price risk

Price risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest or currency rate risk), whether those changes are caused by factors specified to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company is not exposed to equity price risk since there are no investments in equity securities.

### c. Interest/mark-up rate risk management

Interest rate risk is the risk that the value of financial instruments will fluctuate due to change in the interest/mark-up rates. The Company has long term finance and short term borrowings at fixed and variable rates. The Company is exposed to interest/mark-up rate risk on long and short term financing and these are covered by holding "Prepayment Option" and "Rollover Option". Interest rate risk on short term borrowings is covered by holding "Prepayment Option" which can be exercised upon any adverse movement in the underlying interest rates.

Financial assets include balances of Rs. 4.9 million (2011: Rs. 7 million) which are subject to interest rate risk. Financial liabilities include balances of Rs. 10,325 million (2011: Rs. 12,675 million) which are subject to interest rate risk. Applicable interest rates for financial assets and liabilities are given in respective notes.

## FINANCIAL ASSETS AND LIABILITIES

Interest / mark-up bearing			Non interest / mark-up bearing			2012 Total	2011 Total
Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total		
Rs. 000s							
<b>Financial assets</b>							
<b>Loans and receivables</b>							
Long term deposits	-	-	-	47,801	47,801	47,801	33,057
Trade debts	-	-	2,046,748	27,411	2,074,159	2,074,159	2,030,723
Loans and advances	2,711	2,217	4,928	683	683	6,294	8,232
Other receivables	-	-	-	182,699	-	182,699	212,546
Cash and bank balances	-	-	-	120,013	-	120,013	83,355
	2,711	2,217	4,928	2,350,143	75,895	2,426,038	2,430,966

### Financial liabilities

#### At amortised cost

Long term loans	664,636	2,096,432	2,761,068	-	-	-	2,761,068	2,830,635
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#### At fair value through profit and loss account

Short term borrowings	7,289,065	-	7,289,065	-	-	-	7,289,065	9,759,190
Trade and other payables	275,027	-	275,027	2,279,102	-	2,279,102	2,554,129	2,488,837
Accrued interest	-	-	-	185,895	-	185,895	185,895	216,798
	8,228,728	2,096,432	10,325,160	2,464,997	-	2,464,997	12,790,157	15,295,460

### Off balance sheet items

#### Financial commitments

Guarantees	-	-	-	260,061	-	260,061	260,061	257,061
Bills discounted	-	-	-	1,730,690	-	1,730,690	1,730,690	1,306,092
Commitments	-	-	-	570,604	-	570,604	570,604	920,854
	-	-	-	2,561,355	-	2,561,355	2,561,355	2,484,007

### Fair value sensitivity analysis for fixed rate instruments

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

### Cash flow sensitivity analysis for variable rate instruments

At June 30, 2012, if interest rates on long term financing had been 1% higher/lower with all other variables held constant, post tax loss for the year would have been Rs. 7 million (2011: Rs. 11 million) higher/lower, mainly as a result of higher/lower interest expense on floating rate borrowings.



## Notes to the Accounts

At June 30, 2012, if interest rates on short term borrowings had been 1% higher/lower with all other variables held constant, post tax loss for the year would have been Rs. 97 million (2011: Rs. 93 million) higher/lower, mainly as a result of higher/lower interest expense on floating rate borrowings.

### 38.1.2 Credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed to perform as contracted. The Company manages credit risk interalia by setting out credit limits in relation to individual customers and/or by obtaining advance against sales and/or through letter of credits and/or by providing for doubtful debts. Also the Company does not have significant exposure in relation to individual customer. Consequently, the Company believes that it is not exposed to any major concentration of credit risk.

The Company is exposed to credit risk from its operating and certain investing activities and the Company's credit risk exposures are categorised under the following headings:

#### 38.1.2.1 Trade debts

Trade debts are essentially due from local and foreign companies and the Company does not expect that these companies will fail to meet their obligations.

The Company established an allowance for the doubtful trade debts that represent its estimate of incurred losses in respect of trade debts. This allowance is based on the management assessment of a specific loss component that relates to individually significant exposures.

#### 38.1.2.2 Bank balances

The Company limits its exposure to credit risk by investing in liquid securities and maintaining bank accounts only with counter-parties that have stable credit rating. Given these high credit ratings, management does not expect that any counter party will fail to meet their obligations.

The bank balances along with the credit ratings are tabulated below:

	2012	2011
	Rs. 000s	
A1+	72,889	52,929
A1	39,949	23,986
A2	51	33
	<u>112,889</u>	<u>76,948</u>

#### 38.1.2.3 Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2012	2011
	Rs. 000s	
Long term loans and advances	2,900	4,241
Long term deposit	47,801	33,057
Trade debts	2,074,159	2,030,723
Loans and advances	3,394	3,991
Other receivables	48,456	47,122
Bank balances	112,889	76,948
	<u>2,289,599</u>	<u>2,196,082</u>

#### 38.1.2.4 Financial assets that are either past due or impaired

The credit quality of financial assets that are either past due or impaired can be assessed by reference to historical information and external ratings or to historical information about counter party default rates.

#### a. Long term loans

The Company obtains guarantees by two employees against each disbursement made on account of loans and these can be assessed by reference to note no. 16. The carrying amount of guarantees are up to the extent of loans outstanding as at the date of default. Further, the guarantor will pay the outstanding amount if the counter party will not meet their obligation. In addition, these loans are secured against outstanding balance of provident fund and end of service dues of the relevant employee.

The Company believes that no impairment allowance is necessary in respect of loans that are past due. The Company is actively pursuing for the recovery of the debt and the Company does not expect these employees will fail to meet their obligations.

#### b. Trade debts

The movement in allowance for impairment in respect of trade debts during the year can be assessed by reference to note no. 19.

The Company believes that no impairment allowance is necessary in respect of trade debts past due other than the amount provided. Trade debts are essentially due from local and foreign companies. The Company is actively pursuing for the recovery of the debt and the Company does not expect these companies will fail to meet their obligations. Ageing of trade debts is as follows:

	2012	2011
	Rs. 000s	
1 to 6 months	2,038,889	1,947,824
6 months to 1 year	7,859	26,670
1 year to 3 years	27,411	56,229
	<u>2,074,159</u>	<u>2,030,723</u>

Export debts are secured under irrevocable letter of credit, document acceptance, cash against documents and other acceptable banking instruments.

#### c. Other receivables

The Company believes that no impairment allowance is necessary in respect of receivables that are past due. The Company is actively pursuing for the recovery and the Company does not expect that the recovery will be made soon and can be assessed by reference to note no. 21.

### 38.1.3 Liquidity risk

Liquidity risk represent the risk where the Company will encounter difficulty in meeting obligations associated with financial liabilities.

The Company manages liquidity risk by maintaining sufficient cash and ensuring the fund availability through adequate credit facilities. At June 30, 2012, the Company has Rs. 12,890 million (2011: Rs. 11,944 million) available borrowing limit from financial institutions. Unutilized borrowing facilities of Rs. 5,335 million (2011: Rs. 2,185 million) and also has Rs. 113 million (2011: Rs. 77 million) being balances at banks. Based on the above, management believes the liquidity risk is insignificant.

### 38.2 Fair value of financial instruments

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

The carrying values of all the financial assets and liabilities reflected in the financial statements approximate their fair values except those which are described in respective notes.

## Notes to the Accounts

### 38.3 Capital risk management

The primary objectives of the Company when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure.

The Company manages its capital structure and makes adjustment to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders or issue new shares.

During 2012 the Company's strategy was to maintain leveraged gearing. The gearing ratios as at June 30, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
	Rs. 000s	
Total borrowings	10,050,133	12,589,825
Cash and bank balances	(120,013)	(83,355)
Net debt	<u>9,930,120</u>	<u>12,506,470</u>
Total equity	<u>4,472,509</u>	<u>4,712,873</u>
Total equity and debt	<u>14,402,629</u>	<u>17,219,343</u>
Gearing ratio (%)	69	73

The Company finances its operations through equity, borrowings and management of working capital with a view to maintain an appropriate mix amongst various sources of finance to minimize risk.

### 39 EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors in their meeting held on September 24, 2012 have decided to issue 20% right shares on the existing paid-up capital of the Company in the ratio of two shares for every ten shares held. The right shares will be issued at par i.e. an issue price of Rs. 10/- per share. These right shares rank pari passu with the existing shares in all respect. In addition, the Board of Directors have approved transfer to accumulated loss from revenue reserve of Rs. 250 million (2011: transfer to revenue reserve from unappropriated profit of Rs. 1,000 million).

### 40 DATE OF AUTHORIZATION

These financial statements were authorized for issue on September 24, 2012 by the Board of Directors of the Company.

### 41 CORRESPONDING FIGURES

For better presentation, reclassification made in the financial statements is as follows:

<u>Reclassification from component</u>	<u>Reclassification to component</u>	<u>Amount</u>
		Rs. 000s
Other operating income	Other operating expenses	
Loss on sale of property, plant and equipment	Loss on sale of property, plant and equipment	314

### 42 GENERAL

Figures have been rounded off to the nearest thousand rupees.

**BASHIR ALI MOHOMMED**  
Chairman and Chief Executive

**ZAIN BASHIR**  
Director

## Attendance at Meetings

For the Year Ended June 30, 2012

<u>Name of Director</u>	<u>Board</u>		<u>Audit Committee</u>	
	<u>Required</u>	<u>Attended</u>	<u>Required</u>	<u>Attended</u>
Bashir Ali Mohommed	4	4	-	-
Zain Bashir	4	4	4	4
Ziad Bashir	4	4	-	-
Mohammed Zaki Bashir	4	3	4	3
Abdul Aziz Yousuf	4	4	-	-
S.M. Nadim Shafiqullah	4	4	4	4
Abdul Razak Bramchari	4	4	-	-
Dr. Amjad Waheed	4	3	-	-
Adnan Afridi	4	4	-	-

## Pattern of Shareholding

As at June 30, 2012

No. of Shareholders	Shareholding				Shares held
650	From	1	to	100	24,291
867	From	101	to	500	243,389
258	From	501	to	1,000	191,664
269	From	1,001	to	5,000	552,365
31	From	5,001	to	10,000	220,900
13	From	10,001	to	15,000	158,059
7	From	15,001	to	20,000	125,434
5	From	20,001	to	25,000	107,683
3	From	25,001	to	30,000	83,352
1	From	30,001	to	35,000	32,926
3	From	35,001	to	40,000	114,324
2	From	40,001	to	45,000	87,254
1	From	60,001	to	65,000	60,208
1	From	65,001	to	70,000	65,018
1	From	70,001	to	75,000	73,418
1	From	95,001	to	100,000	98,448
1	From	135,001	to	140,000	138,786
1	From	140,001	to	145,000	142,718
1	From	195,001	to	200,000	199,844
1	From	310,001	to	315,000	311,926
1	From	320,001	to	325,000	322,784
1	From	365,001	to	370,000	369,647
1	From	950,001	to	955,000	951,050
1	From	1,310,001	to	1,315,000	1,312,458
1	From	2,760,001	to	2,765,000	2,762,930
1	From	4,070,001	to	4,075,000	4,074,018
1	From	6,355,001	to	6,360,000	6,357,470
1	From	10,840,001	to	10,845,000	10,843,658
1	From	11,350,001	to	11,355,000	11,354,070
1	From	12,375,001	to	12,380,000	12,379,624
1	From	12,405,001	to	12,410,000	12,407,432
1	From	12,690,001	to	12,695,000	12,693,936
2	From	24,045,001	to	24,050,000	48,096,012
<b>2,131</b>					<b>126,957,096</b>

Categories of Shareholders	Number	Shares Held	Percentage
Individuals	2,089	93,273,571	73.45
Investment Companies & Mutual Funds	17	3,332,625	2.63
Insurance Companies	4	5,025,166	3.96
Joint Stock Companies	8	112,344	0.09
Modaraba Companies	2	20,150	0.02
Financial Institutions	1	246	-
Foreign Investors	4	25,119,840	19.79
Charitable Institutions	4	62,164	0.05
Government Departments	2	10,990	0.01
	<b>2,131</b>	<b>126,957,096</b>	<b>100.00</b>

## Pattern of Shareholding

As at June 30, 2012

### Additional Information

Categories of Shareholders	Number	Shares held
<b>Associated Companies, Undertakings and Related Parties</b>		
Trustee - Gul Ahmed Textile Mills Limited Employees Provident Fund Trust	1	60,208
<b>NIT and ICP</b>		
IDBP (ICP Unit)	1	3,588
National Bank of Pakistan - Trustee Department	1	65,018
National Bank of Pakistan - Trustee Department NI(U)T Fund	1	2,762,930
National Investment Trust Limited	1	17,588
<b>Mutual Funds</b>		
CDC Trustee AKD Opportunity Fund	1	3,820
Golden Arrow Selected Stocks Fund Limited	1	369,647
Banks, NBF, DFI and Investment Companies	10	49,826
Insurance Companies	4	5,025,166
Joint Stock Companies	8	112,344
Modaraba Companies	2	20,150
Financial Institutions	1	246
Foreign Investors	4	25,119,840
Charitable Institutions	4	62,164
Government Departments	2	10,990
<b>Directors</b>		
Bashir Ali Mohommed (Chairman & Chief Executive)	1	6,357,470
Zain Bashir	1	12,693,936
Ziad Bashir	1	24,048,006
Mohammed Zaki Bashir	1	24,048,006
Abdul Aziz Yousuf	1	9,310
S. M. Nadim Shafiqullah	1	5,750
Abdul Razak Bramchari	1	5,008
Dr. Amjad Waheed	1	5,000
Adnan Afridi	1	5,000
<b>Directors'/CEO's Spouses</b>		
Parveen Bashir	1	10,843,658
Tania Zain	1	11,354,070

### Shareholders holding 5% or more voting interest

Bashir Ali Mohommed (Chairman & Chief Executive)	1	6,357,470
Zain Bashir (Director)	1	12,693,936
Ziad Bashir (Director)	1	24,048,006
Mohammed Zaki Bashir (Director)	1	24,048,006
Parveen Bashir	1	10,843,658
Tania Zain	1	11,354,070
Hamdan Holdings Limited	1	12,407,432
Metalcrest Limited	1	12,379,624

Details of trading in the shares by:

### Directors

Bashir Ali Mohommed
Zain Bashir
Mohammed Zaki Bashir

=2,759,084= shares given as gift to family members  
 =1,261,140= shares acquired as gift from family member  
 =1,497,944= shares acquired as gift from family member

## Group Directors' Report

The directors are pleased to present their report together with the audited Group Consolidated Financial Statements for the year ended June 30, 2012.

### The Group

The Group comprises of Gul Ahmed International Limited (FZC) - UAE, GTM (Europe) Limited - UK and GTM USA Corp. - USA, wholly owned subsidiaries. All the subsidiaries are engaged in trading of textile related products.

### Group Results

The consolidated financial results of the Group are given below:

	Rs. '000s
Profit before tax	27,313
Taxation	(242,898)
Loss after tax	(215,585)
Unappropriated profit brought forward	1,278,023
Amount available for appropriation	<u>1,062,438</u>

### Appropriation

Bonus issue of 100% for the FY 2011	184,340
General Reserves	1,000,000
Amount carried forward	(121,902)
	<u>1,062,438</u>

Loss per share (Rs.) (1.70)

### Pattern of Shareholding

The shareholding details and other information of each subsidiary is part of these financial statements.

### Subsequent Effects

The directors of the Group in their meeting held on September 24, 2012 have proposed the following:

#### 1. Dividend

In view of the loss your directors have decided to pass on the dividend for the year.

#### 2. Right Shares

Your directors have decided to issue 20% right shares on the existing paid-up capital of the Parent Company in the ratio of two shares for every ten shares held. The right shares will be issued at par i.e. an issue price of Rs. 10/- per share vs. market price of Rs. 25/- per share as of September 24, 2012. Increase in equity will accelerate the growth plan and resultant profitability.

#### 3. Reserves

An amount of Rs. 250 million to be transferred from revenue reserve to accumulated loss.

For and on behalf of the Board

Karachi  
September 24, 2012

**Bashir Ali Mohommed**  
Chairman & Chief Executive Officer

## Auditors' Report on Consolidated Financial Statements

We have audited the annexed consolidated financial statements comprising consolidated Balance Sheet of Gul Ahmed Textile Mills Limited (the Holding Company) and Gul Ahmed International Limited (FZC), GTM (Europe) Limited and GTM USA Corp. (the Subsidiaries) as at June 30, 2012 and the related consolidated Profit and Loss Account, consolidated Statement of Comprehensive Income, consolidated Cash Flow Statement and consolidated Statement of Changes in Equity together with the notes forming part thereof, for the year then ended. We have also expressed separate opinion on the financial statements of the Holding Company. The financial statements of Gul Ahmed International Limited (FZC), GTM (Europe) Limited and GTM USA Corp. (the Subsidiaries) have been audited by other firms of auditors, whose reports have been furnished to us and our opinion, in so far as it relates to the amounts included for such Subsidiaries, is based solely on the report of such other auditors. These financial statements are the responsibility of the Holding Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Our audit was conducted in accordance with the International Standards on Auditing and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements examined by us, present fairly the financial position of Gul Ahmed Textile Mills Limited and its Subsidiaries as at June 30, 2012 and the result of their operations for the year then ended.

Karachi  
September 24, 2012

**HYDER BHIMJI & CO.**  
Chartered Accountants  
Engagement Partner: Hyder Ali Bhimji

# Consolidated Balance Sheet

As at June 30, 2012

	Note	2012 Rs. 000s	2011
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
Share capital	4	1,269,571	634,785
Reserves	5	3,507,237	2,933,524
(Accumulated loss)/unappropriated profit		(123,758)	1,278,023
		<b>4,653,050</b>	<b>4,846,332</b>
<b>NON-CURRENT LIABILITIES</b>			
Long term financing	6	2,096,432	2,198,591
Deferred liabilities			
Deferred taxation - net	7	284,467	292,752
Staff retirement benefits	8	27,952	17,717
		<b>312,419</b>	<b>310,469</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	9	2,703,860	2,648,510
Accrued mark-up	10	185,895	216,798
Short term borrowings	11	7,349,525	9,818,355
Current maturity of long term financing		664,636	632,044
Provision for taxation - net of payment		11,293	-
		<b>10,915,209</b>	<b>13,315,707</b>
<b>CONTINGENCIES AND COMMITMENTS</b>			
	12		
		<b>17,977,110</b>	<b>20,671,099</b>

	Note	2012 Rs. 000s	2011
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	13	6,839,436	6,661,512
Intangible assets	14	29,465	42,322
Long term loans and advances	15	2,900	4,241
Long term deposits		47,801	33,057
		<b>6,919,602</b>	<b>6,741,132</b>
<b>CURRENT ASSETS</b>			
Stores, spare parts and loose tools	16	739,986	706,350
Stock-in-trade	17	7,481,834	10,430,214
Trade debts	18	2,272,265	2,236,402
Loans and advances	19	175,611	160,263
Prepayments		39,487	45,827
Other receivables	20	182,699	212,546
Tax refunds due from government	21	25,903	51,727
Cash and bank balances	22	139,723	86,638
		<b>11,057,508</b>	<b>13,929,967</b>
		<b>17,977,110</b>	<b>20,671,099</b>

The annexed notes 1 - 42 form an integral part of these financial statements.

**BASHIR ALI MOHOMMED**  
Chairman and Chief Executive

**ZAIN BASHIR**  
Director

## Consolidated Profit and Loss Account

For the Year Ended June 30, 2012

	Note	2012 Rs. 000s	2011 Rs. 000s
Sales	23	25,424,400	25,643,176
Cost of sales	24	21,707,742	20,892,101
Gross profit		3,716,658	4,751,075
Distribution cost	25	1,313,841	1,103,962
Administrative expenses	26	994,556	911,297
Other operating expenses	27	653	116,918
		2,309,050	2,132,177
		1,407,608	2,618,898
Other operating income	28	21,688	25,861
Operating profit		1,429,296	2,644,759
Finance cost	29	1,401,983	1,093,713
Profit before taxation		27,313	1,551,046
Provision for taxation	30	242,898	342,871
(Loss)/profit after taxation		(215,585)	1,208,175
(Loss)/earnings per share - basic and diluted (Rs.)	31	(1.70)	9.52

The annexed notes 1 - 42 form an integral part of these financial statements.

**BASHIR ALI MOHOMMED**  
Chairman and Chief Executive

**ZAIN BASHIR**  
Director

## Consolidated Statement of Comprehensive Income

For the Year Ended June 30, 2012

	2012 Rs. 000s	2011 Rs. 000s
(Loss)/profit after taxation	(215,585)	1,208,175
Foreign currency translation differences - Foreign operations	22,303	7,478
Total comprehensive income	(193,282)	1,215,653

The annexed notes 1 - 42 form an integral part of these financial statements.

**BASHIR ALI MOHOMMED**  
Chairman and Chief Executive

**ZAIN BASHIR**  
Director

# Consolidated Cash Flow Statement

For the Year Ended June 30, 2012

	Note	2012 Rs. 000s	2011 Rs. 000s
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before taxation		27,313	1,551,046
Adjustments for:			
Depreciation		745,139	711,737
Amortisation		14,668	17,402
Provision for gratuity		17,651	9,461
Finance cost		1,401,983	1,093,713
Provision for slow moving/obsolete items		12,287	10,304
Provision for doubtful debts		30,721	29,200
Property, plant and equipment scrapped		609	2,657
Profit on sale of property, plant and equipment		(13,339)	(13,194)
		<b>2,237,032</b>	<b>3,412,326</b>
Changes in working capital:			
(Increase)/decrease in current assets			
Stores, spare parts and loose tools		(45,923)	(241,232)
Stock-in-trade		2,948,380	(5,438,403)
Trade debts		(66,584)	199,954
Loans and advances		(35,825)	(8,413)
Prepayments		6,340	10,812
Other receivables		29,847	25,390
Tax refunds due from government		25,824	15,150
		<b>2,862,059</b>	<b>(5,436,742)</b>
Increase in current liabilities			
Trade and other payables		55,350	702,113
		<b>2,917,409</b>	<b>(4,734,629)</b>
Cash generated from/(used in) operations		<b>5,154,441</b>	<b>(1,322,303)</b>
(Payments) for/receipts from:			
Gratuity		(7,416)	(6,760)
Finance cost		(1,432,886)	(1,033,504)
Income tax		(219,413)	(305,435)
Long term loans and advances		1,341	(2,395)
Net cash generated from/(used in) operating activities		<b>3,496,067</b>	<b>(2,670,397)</b>

	Note	2012 Rs. 000s	2011 Rs. 000s
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Addition to property, plant and equipment		(945,979)	(1,245,764)
Addition to intangible assets		(1,811)	(38,471)
Proceeds from sale of property, plant and equipment		35,646	31,760
Long term deposits		(14,744)	(725)
Net cash used in investing activities		<b>(926,888)</b>	<b>(1,253,200)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from long term loans		560,147	607,987
Repayments of long term loans		(629,714)	(676,865)
Dividend paid		-	(79,349)
Net cash used in financing activities		<b>(69,567)</b>	<b>(148,227)</b>
Exchange difference on translation of foreign subsidiaries		22,303	7,478
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>2,521,915</b>	<b>(4,064,346)</b>
Cash and cash equivalents - at the beginning of the year		<b>(9,731,717)</b>	<b>(5,667,371)</b>
<b>Cash and cash equivalents - at the end of the year</b>	33	<b>(7,209,802)</b>	<b>(9,731,717)</b>

The annexed notes 1 - 42 form an integral part of these financial statements.

**BASHIR ALI MOHOMMED**  
Chairman and Chief Executive

**ZAIN BASHIR**  
Director

## Consolidated Statement of Changes in Equity

For the Year Ended June 30, 2012

	Share capital	Revenue reserve	Exchange difference on translation of foreign subsidiaries	Capital reserve	Statutory reserve	Reserve for issue of bonus shares	(Accumulated loss) / unappropriated profit	Total
Rs. 000s								
Balance as at June 30, 2010	634,785	2,030,000	37,310	450,446	6,735	-	550,752	3,710,028
Transfer to revenue reserve	-	400,000	-	-	-	-	(400,000)	-
Transfer to statutory reserve	-	-	-	-	1,555	-	(1,555)	-
<b>Transaction with owners</b>								
Final dividend for the year ended June 30, 2010	-	-	-	-	-	-	(79,349)	(79,349)
<b>Total comprehensive income</b>								
Profit for the year	-	-	-	-	-	-	1,208,175	1,208,175
Other comprehensive income	-	-	7,478	-	-	-	-	7,478
Total comprehensive income for the year	-	-	7,478	-	-	-	1,208,175	1,215,653
Balance as at June 30, 2011	634,785	2,430,000	44,788	450,446	8,290	-	1,278,023	4,846,332
Transfer to reserve for issue of bonus shares	-	-	-	(450,446)	-	634,786	(184,340)	-
Transfer to revenue reserve	-	1,000,000	-	-	-	-	(1,000,000)	-
Transfer to statutory reserve	-	-	-	-	1,856	-	(1,856)	-
<b>Transaction with owners</b>								
Issuance of bonus shares for the year ended June 30, 2011	634,786	-	-	-	-	(634,786)	-	-
<b>Total comprehensive income</b>								
Loss for the year	-	-	-	-	-	-	(215,585)	(215,585)
Other comprehensive income	-	-	22,303	-	-	-	-	22,303
Total comprehensive income for the year	-	-	22,303	-	-	-	(215,585)	(193,282)
Balance as at June 30, 2012	<b>1,269,571</b>	<b>3,430,000</b>	<b>67,091</b>	-	<b>10,146</b>	-	<b>(123,758)</b>	<b>4,653,050</b>

The annexed notes 1 - 42 form an integral part of these financial statements.

**BASHIR ALI MOHOMMED**  
Chairman and Chief Executive

**ZAIN BASHIR**  
Director

## Consolidated Notes to the Accounts

For the Year Ended June 30, 2012

### I THE GROUP AND ITS OPERATIONS

#### I.1 Gul Ahmed Group comprises the following:

- Gul Ahmed Textile Mills Limited
- Gul Ahmed International Limited (FZC) - UAE
- GTM (Europe) Limited - UK
- GTM USA Corp. - USA

Gul Ahmed International Limited (FZC) - UAE is a wholly owned subsidiary of Gul Ahmed Textile Mills Limited and GTM (Europe) Limited is a wholly owned subsidiary of Gul Ahmed International Limited (FZC) - UAE and GTM USA Corp. is a wholly owned subsidiary of GTM (Europe) Limited.

Gul Ahmed Textile Mills Limited (The Company) was incorporated on April 01, 1953 in Pakistan as a private limited company, converted into public limited company on January 07, 1955 and was listed on Karachi and Lahore Stock Exchanges in 1970 and 1971 respectively. The Company is a composite textile mill and is engaged in the manufacture and sale of textile products.

The Group's registered office is situated at Plot No. 82, Main National Highway, Landhi, Karachi.

All three subsidiaries are engaged in trading of textile related products.

#### I.2 Basis of consolidation

The consolidated financial statements include the financial statements of the Holding Company and its subsidiaries - "The Group".

Subsidiary companies are consolidated from the date on which more than 50% voting rights are transferred to the Holding Company or power to govern the financial and operating policies over the subsidiary and is excluded from consolidation from the date of disposal or cessation of control.

The financial statements of the subsidiaries are prepared for the same reporting period as the Holding Company, using consistent accounting policies.

The assets and liabilities of the subsidiary company have been consolidated on a line-by-line basis and the carrying value of investment held by the Holding Company is eliminated against the subsidiary's share capital. Material intra-group balances and transactions are eliminated.

### 2 BASIS OF PREPARATION

These financial statements comprise balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with explanatory notes and have been prepared under the 'historical cost convention' except as has been specifically stated below in respective notes.

#### 2.1 Statement of compliance

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

#### 2.2 Standards, interpretations and amendments to published approved accounting standards

##### 2.2.1 Standards, interpretations and amendments to published approved accounting standards that became effective during the year

There are certain new standards, interpretations and amendments to published approved accounting standards that are mandatory for accounting periods beginning on or before January 01, 2011 but considered not to be relevant or to have any significant effect on the Group's operations and are, therefore, not disclosed in these financial statements.



## 2.2.2 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

Following standards, interpretations and amendments to approved accounting standards have been published that are mandatory to the Group's accounting periods beginning on or after the dates mentioned below:

- Amendments to IAS 1 – Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after July 01, 2012) introduces new requirement to group together items within Other Comprehensive Income that may be reclassified to the profit or loss section of the income statement in order to facilitate the assessment of their impact on the overall performance of an entity. The amendment is not likely to have any material impact on the Group's financial statements.
- Amendments to IAS 12 – Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after January 01, 2012). These amendments provide presumption that the carrying amount of an asset measured using the fair value model in IAS 40 will be through sale. As a result of the amendments, SIC-21 (Income Taxes: Recovery of revalued non-depreciable assets) will no longer apply to investment properties accrued at fair value. This amendment is not likely to have any impact on Group's financial statements.
- Amendments to IAS 19 - Employee Benefits (effective for annual periods beginning on or after January 01, 2013). The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognized in full with actuarial gains and losses being recognized in Other Comprehensive Income (elimination of 'corridor method' for recognition of actuarial gains and losses). It also revised the method of calculating the return on plan assets. The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date. The amendment is not likely to have any material impact on the Group's financial statements.
- Amendments to IFRS 7 – Financial Instruments: Disclosures (effective for annual periods beginning on or after January 01, 2013). These amendments reflect the joint IASB and FASB requirements to enhance current offsetting disclosures. The amendments require entities to disclose gross amount subject to right of set off, amounts set off in accordance with the accounting standards followed, and the related net credit exposure. These new disclosures are intended to facilitate comparison between those entities that prepare IFRS financial statements and those that prepare US GAAP financial statements. The Group is not likely to have any impact on Group's financial statements.

The following standards have been issued by IASB but not yet notified by SECP.

- IFRS 9 – Financial Instruments (effective for annual periods beginning on or after January 01, 2015). This is the first part of new standards on classification and measurement of financial assets that will replace IAS 39. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest/mark-up.
- IFRS 10 – Consolidated Financial Statements (effective for annual periods beginning on or after January 01, 2013). This is a new standard that replaces the consolidation requirements in SIC - 12 Consolidation: Special Purpose Entities and IAS 27 - Consolidated and Separate Financial Statements. Standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company and provides additional guidance to assist in the determination of control where this is difficult to assess.
- IFRS 11 – Joint Arrangements (effective for annual periods beginning on or after January 01, 2013). This is a new standard that deals with the accounting for joint arrangements and focuses

on the rights and obligations of the arrangements, rather than its legal form. Standard requires a single method for accounting for interests in jointly controlled entities.

- IFRS 12 – Disclosure of Interests in Other Entities (effective for annual periods beginning on or after January 01, 2013). This is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.
- IFRS 13 – Fair Value Measurement (effective for annual periods beginning on or after January 01, 2013). This standard applies to IFRSs that require or permit fair value measurement or disclosures and provides a single IFRS framework for measuring fair value and requires disclosures about fair value measurement. The standard defines fair value on the basis of an 'exit-price' notion and uses 'a fair value hierarchy', which result in market-based, rather than entity-specific measurement.

There are other amendments to the approved accounting standards and interpretations that are mandatory for accounting periods beginning on or after January 01, 2012 but are considered not to be relevant or to have any significant effect on the Group's operations and are therefore not detailed in these financial statements.

## 2.3 Functional and presentation currency

These financial statements are presented in Pakistan Rupee which is the Group's functional currency.

## 2.4 Critical accounting estimates and judgments

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

### Defined benefit plan

Actuarial assumptions have been adopted as disclosed in note 8 to the financial statements for valuation of present value of defined benefit obligations and fair value of plan assets. Any changes in these assumptions in future years might affect unrecognized gains and losses in those years.

### Contingencies

The assessment of the contingencies inherently involves the exercise of significant judgment as the outcome of the future events cannot be predicted with certainty. The Group, based on the availability of the latest information, estimates the value of contingent assets and liabilities which may differ on the occurrence/non-occurrence of the uncertain future event(s).

### Property, plant and equipment

The Group reviews appropriateness of the rate of depreciation, useful life, residual value used in the calculation of depreciation. Further where applicable, an estimate of recoverable amount of assets is made for possible impairment on an annual basis.

### Stock-in-trade and stores & spare parts

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

### Provision against trade debts, advances and other receivables

The Group reviews the recoverability of its trade debts, advances and other receivables to assess amount of bad debts and provision required there against on annual basis.

## Income taxes

The Group takes into account relevant provisions of the prevailing income tax laws while providing for current and deferred taxes as explained in note 3.6 of these financial statements. Deferred tax calculation has been made based on estimate of future ratio of export and local sales based on past history.

## Provision for obsolescence

Provision for obsolescence and slow moving spare parts is based on parameters set out by management.

## 3 SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Foreign currency transactions and translation

All monetary assets and liabilities in foreign currencies are translated into Pak Rupees at the rates of exchange prevailing at the balance sheet date or as fixed under contractual arrangements. Transactions in foreign currencies are translated into Pak Rupees at exchange rate prevailing at the date of transaction.

Foreign exchange gains and losses on translation are recognized in the profit and loss account. All non-monetary items are translated into Pak Rupees at exchange rates prevailing on the date of transaction or on the date when fair values are determined.

For the purpose of consolidation, income and expense items of the foreign subsidiaries are translated at annual average exchange rate. All monetary and non monetary assets and liabilities are translated at the exchange rate prevailing at the balance sheet date except for share capital which is translated at historical rate. Exchange differences arising on the translation of foreign subsidiaries are classified as equity reserve until the disposal of interest in such subsidiaries.

### 3.2 Borrowing cost

Borrowing costs are recognized as an expense in the period in which these are incurred except to the extent of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Such borrowing costs are capitalized as part of the cost of that asset up to the date of its commissioning.

### 3.3 Staff retirement benefits

#### Defined benefit plan

The Group operates unfunded gratuity scheme for all its eligible employees who are not part of the provident fund scheme.

The Group accounts for gratuity provision on the basis of actuarial valuation using the projected unit credit method. The results of valuation are summarised in note 8.

Actuarial gains and losses arising at each valuation date are recognized immediately in the profit and loss account.

Benefits under the scheme are payable to employees on completion of the prescribed qualifying period of service under the scheme.

#### Defined contribution plan

The Group operates a recognized provident fund scheme for its eligible employees to which equal monthly contribution is made by the Group and the employees at the rate of 8.33% of the basic salary.

### 3.4 Accumulated employee compensated absences

The Group provides for compensated absences for all eligible employees in the period in which these are earned in accordance with the rules of the Group.

### 3.5 Provisions

Provisions are recognized when the Group has present obligation (legal or constructive) as a result of

past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

## 3.6 Taxation

### Current

Provision for current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year. The charge for current tax also includes adjustments, where considered necessary, to provision for taxation made in previous years arising from assessments framed during the year for such years. The Group takes into account the current income tax law and decisions taken by the taxation authorities.

### Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all taxable temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse, based on tax rates that have been enacted.

## 3.7 Property, plant and equipment

### Operating assets

Operating assets are stated at cost less accumulated depreciation and any identified impairment loss except leasehold land which is stated at cost. No amortisation is provided on leasehold land since the lease is renewable at the option of the lessee.

Depreciation is charged on reducing balance method at rates specified in the note 13.1. Full year's depreciation is charged on additions except major additions or extensions to production facilities which are depreciated on pro-rata basis for the period of use during the year and no depreciation is charged on assets in the year of their disposal. Structures on leased retail outlets are depreciated over the respective lease term. Gains and losses on disposal of operating assets are included in profit and loss account.

### Capital work-in-progress

Capital work-in-progress is stated at cost accumulated up to the balance sheet date and represents expenditure incurred on property, plant and equipment in the course of construction. These expenditures are transferred to relevant category of property, plant and equipment as and when the asset starts operation.

## 3.8 Intangible assets

Intangible assets are stated at cost less accumulated amortisation. Amortisation is charged over the useful life of the assets on a systematic basis to income applying the straight line method at the rate specified in note 14.

## 3.9 Stores, spare parts and loose tools

These are stated at moving average cost less provision for slow moving/obsolete items and goods-in-transit are valued at cost accumulated to the balance sheet date.



# Consolidated Notes to the Accounts

## 6 LONG TERM FINANCING - SECURED

	Note	Number of installments and commencement month	Installment amount Rs. 000s	Mark-up rate per annum	2012	2011	Note	Number of installments and commencement month	Installment amount Rs. 000s	Mark-up rate per annum	2012	2011
					Rs. 000s						Rs. 000s	
Allied Bank Limited Loan 1	6.3	12 quarterly March-2010	16,667	Average three months KIBOR Ask rate + 1.00% payable quarterly	<b>33,333</b>	100,000	b) Under LTF-EOP scheme	12 half yearly February-2010	139	7.00% p.a. payable quarterly	<b>970</b>	1,247
Allied Bank Limited Loan 2 Under State Bank of Pakistan (SBP) scheme of Long Term Financing Facility (LTFF)	6.3, 6.6	32 quarterly July-2010	9,256	10.00% p.a. payable quarterly	<b>222,153</b>	259,177	Habib Bank Limited Loan 10 Under LTFF scheme	6.1, 6.6 16 half yearly July-2011	11,054	10.00% p.a. payable quarterly	<b>154,758</b>	176,866
Bank Al-Habib Limited Loan 1 Under State Bank of Pakistan (SBP) scheme of Long Term Finance - Export Oriented Projects (LTF-EOP)	6.2, 6.5	12 half yearly December-2008	2,315	7.00% p.a. payable quarterly	<b>13,886</b>	18,516	Habib Bank Limited Loan 11 Under LTFF scheme	6.1, 6.6 16 half yearly August-2011	562	10.00% p.a. payable quarterly	<b>7,871</b>	8,995
Bank Al-Habib Limited Loan 2 Under LTFF scheme	6.1, 6.2, 6.6	8 half yearly December-2013	14,679	12.60% p.a. payable quarterly	<b>137,265</b>	-	Habib Bank Limited Loan 12 Under LTFF scheme	6.1, 6.6 16 half yearly October-2011	710	10.00% p.a. payable quarterly	<b>9,932</b>	11,359
Faysal Bank Limited Loan 1 Under LTFF scheme	6.2, 6.6	10 half yearly January-2014	6,720	11.20% p.a. payable quarterly	<b>67,200</b>	67,200	Habib Bank Limited Loan 13 Under LTFF scheme	6.1, 6.6 16 half yearly March-2012	277	10.00% p.a. payable quarterly	<b>4,153</b>	4,430
Faysal Bank Limited Loan 2 Under LTFF scheme	6.2, 6.6	10 half yearly January-2014	3,850	12.70% p.a. payable quarterly	<b>38,500</b>	-	Habib Bank Limited Loan 14 Under LTFF scheme	6.1, 6.6 16 half yearly August-2012	3,536	10.25% p.a. payable quarterly	<b>56,614</b>	56,614
Faysal Bank Limited Loan 3 Under LTFF scheme	6.2, 6.6	10 half yearly April-2014	219	12.70% p.a. payable quarterly	<b>6,714</b>	-	Habib Metropolitan Bank Loan 1 a) Under LTF-EOP scheme	6.2, 6.4, 6.5 12 half yearly March-2010	684	7.00% p.a. payable quarterly	<b>4,782</b>	6,149
Faysal Bank Limited Loan 4 Under LTFF scheme	6.2, 6.6	10 half yearly June-2014	241	12.70% p.a. payable quarterly	<b>2,410</b>	-	b) Under LTF-EOP scheme	12 half yearly April-2010	2,042	7.00% p.a. payable quarterly	<b>14,290</b>	18,374
Faysal Bank Limited Loan 5 Under LTFF scheme	6.2, 6.6	10 half yearly July-2014	846	12.70% p.a. payable quarterly	<b>8,460</b>	-	Habib Metropolitan Bank Loan 2 Under LTF-EOP scheme	6.2, 6.4, 6.5 12 half yearly November-2010	19,417	7.00% p.a. payable quarterly	<b>155,332</b>	194,166
Faysal Bank Limited Loan 6 Under LTFF scheme	6.2, 6.6	10 half yearly September-2014	10,970	12.70% p.a. payable quarterly	<b>109,700</b>	-	Habib Metropolitan Bank Loan 3 Under LTFF scheme	6.2, 6.4, 6.6 16 half yearly February-2012	2,719	10.00% p.a. payable quarterly	<b>40,776</b>	43,495
Habib Bank Limited Loan 4 a) Under LTF-EOP scheme	6.1, 6.5	12 half yearly June-2010	5,416	7.00% p.a. payable quarterly	<b>37,913</b>	48,747	Habib Metropolitan Bank Loan 4 Under LTFF scheme	6.2, 6.4, 6.6 16 half yearly March-2012	2,504	10.00% p.a. payable quarterly	<b>37,561</b>	40,065
b) Under LTF-EOP scheme		12 half yearly November-2010	4,450	7.00% p.a. payable quarterly	<b>35,603</b>	44,504	Habib Metropolitan Bank Loan 5 Under LTFF scheme	6.2, 6.4, 6.6 16 half yearly June-2012	4,212	10.25% p.a. payable quarterly	<b>63,161</b>	67,373
Habib Bank Limited Loan 5 Under LTF-EOP scheme	6.1, 6.5	12 half yearly December-2010	2,571	7.00% p.a. payable quarterly	<b>20,568</b>	25,710	Habib Metropolitan Bank Loan 6 Under LTFF scheme	6.2, 6.4, 6.6 16 half yearly July-2012	1,804	10.25% p.a. payable quarterly	<b>28,860</b>	28,860
Habib Bank Limited Loan 6 Under LTF-EOP scheme	6.1, 6.5	12 half yearly February-2010	9,510	7.00% p.a. payable quarterly	<b>66,571</b>	85,592	Habib Metropolitan Bank Loan 7 Under LTFF scheme	6.2, 6.4, 6.6 10 half yearly December-2013	3,328	11.20% p.a. payable quarterly	<b>33,280</b>	33,280
Habib Bank Limited Loan 7 Under LTF-EOP scheme	6.1, 6.5	12 half yearly January-2010	778	7.00% p.a. payable quarterly	<b>5,444</b>	6,999	Habib Metropolitan Bank Loan 8 Under LTFF scheme	6.2, 6.4, 6.6 10 half yearly January-2014	970	12.70% p.a. payable quarterly	<b>9,691</b>	-
Habib Bank Limited Loan 8 a) Under LTF-EOP scheme	6.1, 6.5	12 half yearly January-2010	1,698	7.00% p.a. payable quarterly	<b>11,885</b>	15,282	Habib Metropolitan Bank Loan 9 Under LTFF scheme	6.2, 6.4, 6.6 10 half yearly February-2014	449	12.70% p.a. payable quarterly	<b>13,414</b>	-
							Habib Metropolitan Bank Loan 10 Under LTFF scheme	6.2, 6.4, 6.6 10 half yearly June-2014	9,140	12.70% p.a. payable quarterly	<b>96,180</b>	-
							Habib Metropolitan Bank Loan 11 Under LTFF scheme	6.2, 6.4, 6.6 10 half yearly August-2014	1,048	12.70% p.a. payable quarterly	<b>13,570</b>	-
							Habib Metropolitan Bank Loan 12 Under LTFF scheme	6.2, 6.4, 6.6 10 half yearly September-2014	3,392	12.70% p.a. payable quarterly	<b>33,920</b>	-
							Habib Metropolitan Bank Loan 13 Under LTFF scheme	6.2, 6.4, 6.6 10 half yearly October-2014	158	12.70% p.a. payable quarterly	<b>1,575</b>	-

## Consolidated Notes to the Accounts

	Note	Number of installments and commencement month	Installment amount Rs. '000s	Mark-up rate per annum	2012	2011
					Rs. 000s	
HSBC Bank Middle East Ltd Loan 1	6.2, 6.5	12 half yearly	2,883	7.00% p.a.	23,066	28,833
a) Under LTF-EOP scheme		October-2010		payable quarterly		
b) Under LTF-EOP scheme		12 half yearly	1,038	7.00% p.a.	8,301	10,376
		November-2010		payable quarterly		
HSBC Bank Middle East Ltd Loan 2	6.2, 6.5	12 half yearly	1,838	7.00% p.a.	14,707	18,384
Under LTF-EOP scheme		December-2010		payable quarterly		
HSBC Bank Middle East Ltd Loan 3	6.2, 6.5	12 half yearly	875	7.00% p.a.	6,123	7,873
Under LTF-EOP scheme		February-2010		payable quarterly		
HSBC Bank Middle East Ltd Loan 4	6.2, 6.5	12 half yearly	844	7.00% p.a.	5,909	7,596
Under LTF-EOP scheme		March-2010		payable quarterly		
Meezan Bank Limited Diminishing Musharaka 1	6.3	6 half yearly	15,266	Average six months KIBOR	45,797	76,328
		February-2011		Ask rate + 1.00% payable half yearly		
Meezan Bank Limited Diminishing Musharaka 2	6.3	6 half yearly	1,449	Average six months KIBOR	4,348	7,247
		June-2011		Ask rate + 1.50% payable half yearly		
Meezan Bank Limited Diminishing Musharaka 3	6.3	6 half yearly	5,253	Average six months KIBOR	21,011	31,516
		July-2011		Ask rate + 1.50% payable half yearly		
National Bank of Pakistan Loan 2-A	6.1, 6.5	6 half yearly	5,706	7.00% p.a.	-	11,410
Under LTF-EOP scheme		September-2008		payable quarterly		
National Bank of Pakistan Loan 3	6.3	25 quarterly	4,000	Average three months KIBOR	52,000	68,000
		September-2009		Ask rate + 1.00% payable quarterly		
National Bank of Pakistan Loan 4	6.2, 6.3, 6.6	16 quarterly	2,351	10.40% p.a.	30,563	37,615
Under LTFF scheme		September-2011		payable quarterly		
NIB Bank Limited Loan 1	6.3, 6.6	16 quarterly	2,839	9.00% p.a.	19,866	31,222
Under LTFF scheme		June-2010		payable quarterly		
NIB Bank Limited Loan 2	6.3, 6.6	16 quarterly	1,883	9.00% p.a.	15,061	22,594
Under LTFF scheme		September-2010		payable quarterly		
Standard Chartered Bank Loan 1	6.3, 6.6	8 half yearly	2,995	11.10% p.a.	23,960	23,960
Under LTFF scheme		October-2012		payable quarterly		
Standard Chartered Bank Loan 2	6.3, 6.6	8 half yearly	21,886	11.10% p.a.	175,100	175,100
Under LTFF scheme		November-2012		payable quarterly		
United Bank Limited Loan 2	6.3	10 half yearly	50,000	Average three months KIBOR	150,000	250,000
		March-2009		Ask rate + 1.00% payable half yearly		

	Note	Number of installments and commencement month	Installment amount Rs. 000s	Mark-up rate per annum	2012	2011
					Rs. 000s	
United Bank Limited Loan 3	6.3, 6.5	12 half yearly	931	7.00% p.a.	6,517	8,379
Under LTF-EOP scheme		April-2010		payable quarterly		
United Bank Limited Loan 4	6.3	6 half yearly	48,199	Average six months KIBOR	96,397	192,795
		August-2010		Ask rate + 1.00% payable half yearly		
United Bank Limited Loan 5	6.3, 6.6	16 half yearly	363	10.00% p.a.	4,354	5,080
Under LTFF scheme		November-2010		payable quarterly		
United Bank Limited Loan 6	6.3	6 half yearly	25,000	Average six months KIBOR	75,000	125,000
		March-2011		Ask rate + 1.25% payable half yearly		
United Bank Limited Loan 7	6.3, 6.6	10 half yearly	1,319	10.50% p.a.	13,190	13,190
Under LTFF scheme		December-2012		payable quarterly		
United Bank Limited Loan 8	6.3, 6.6	12 half yearly	557	10.50% p.a.	5,576	6,690
Under LTFF scheme		December-2011		payable quarterly		
United Bank Limited Loan 9	6.3, 6.6	12 half yearly	128	10.50% p.a.	1,412	1,540
Under LTFF Scheme		January-2012		payable quarterly		
United Bank Limited Loan 10	6.3, 6.6	12 half yearly	741	10.50% p.a.	8,154	8,895
Under LTFF scheme		February-2012		payable quarterly		
United Bank Limited Loan 11	6.3, 6.6	12 half yearly	3,685	11.20% p.a.	40,542	44,227
Under LTFF scheme		April-2012		payable quarterly		
United Bank Limited Loan 12	6.2, 6.6	19 half yearly	7,441	11.20% p.a.	126,503	141,385
Under LTFF scheme		Novemehr-2011		payable quarterly		
United Bank Limited Loan 13	6.2, 6.6	19 half yearly	5,916	11.20% p.a.	100,568	112,400
Under LTFF scheme		December-2011		payable quarterly		
United Bank Limited Loan 14	6.3	12 half yearly	269	Average six months KIBOR	3,225	-
		September 2013		Ask rate + 1.00% payable half yearly		
United Bank Limited Loan 15	6.3	12 half yearly	1,235	Average six months KIBOR	14,823	-
		October 2013		Ask rate + 1.00% payable half yearly		
United Bank Limited Loan 16	6.3	12 half yearly	5,450	Average six months KIBOR	70,700	-
		December 2013		Ask rate + 1.00% payable half yearly		
					<b>2,761,068</b>	2,830,635
Current portion shown under current liabilities					<b>(664,636)</b>	(632,044)
					<b>2,096,432</b>	2,198,591

## Consolidated Notes to the Accounts

- 6.1 These loans are secured by first pari passu charge over present and future property, plant and equipment of the Group and equitable mortgage over land and building.
- 6.2 These loans are secured by charge over specified machinery.
- 6.3 These loans are secured by way of pari passu charge over the property, plant and equipment of the Group.
- 6.4 Habib Metropolitan Bank Limited is a related party.
- 6.5 Grace period of one year in payment of principal outstanding under LTF-EOP facilities was allowed by the banks as per State Bank of Pakistan SMEFD Circular No. 01 dated January 22, 2009.
- 6.6 The financing availed under the facility shall be repayable within a maximum period of ten years including maximum grace period of two years from the availment date. However, where financing facilities have been provided for a period of upto five years maximum grace period shall not exceed one year as per State Bank of Pakistan MFD Circular No. 07 dated December 31, 2007.

	2012	2011
	Rs. 000s	
<b>7 DEFERRED TAXATION - NET</b>		
<b>Taxable temporary differences in respect of</b>		
Accelerated tax depreciation allowance	300,147	303,824
Provision for income of subsidiaries	10,498	8,189
	<u>310,645</u>	<u>312,013</u>
<b>Deductible temporary differences in respect of</b>		
Provision for gratuity	(3,323)	(1,993)
Provision for doubtful debts	(14,867)	(10,889)
Provision for slow moving items	(7,988)	(6,379)
	<u>(26,178)</u>	<u>(19,261)</u>
	<u>284,467</u>	<u>292,752</u>

## 8 STAFF RETIREMENT BENEFITS

### 8.1 Principal actuarial assumptions

Following principal actuarial assumptions were used for the valuation:

Estimated rate of increase in salary of the employees	11% p.a.	11% p.a.
Discount rate	12% p.a.	12% p.a.
Average expected remaining working life time of employees	10 years	10 years

	Note	2012	2011
		Rs. 000s	
<b>8.2 Movement in liability</b>			
Opening balance		17,717	15,016
Charge for the year	8.4	17,651	9,461
Payments during the year		(7,416)	(6,760)
Closing balance		<u>17,952</u>	<u>17,717</u>
<b>8.3 Changes in present value of defined benefit obligation</b>			
Opening balance		17,717	15,016
Current service cost		14,648	7,987
Interest cost		3,003	1,474
Benefits paid		(7,416)	(6,760)
Closing balance		<u>27,952</u>	<u>17,717</u>
<b>8.4 Charge for the year</b>			
Current service cost		14,648	7,987
Interest cost		3,003	1,474
		<u>17,651</u>	<u>9,461</u>
<b>9 TRADE AND OTHER PAYABLES</b>			
Creditors		1,735,691	1,947,284
Due to related parties		12,614	190
Murabaha	9.1	266,143	-
Accrued expenses	9.2	525,854	493,583
Advance from customers		109,533	66,446
Payable to employees' provident fund		2,746	5,340
Workers' profit participation fund	9.3	8,884	85,424
Workers' welfare fund	9.4	23,104	31,377
Unclaimed dividend		512	527
Others		18,779	18,339
		<u>2,703,860</u>	<u>2,648,510</u>

## Consolidated Notes to the Accounts

9.1 Murabaha is secured by pari passu hypothecation charge over stores and spare parts, stock-in-trade, trade debts and other receivables. Unavailed murabaha facility at the year end was Rs. Nil (2011: Rs. Nil). Murabaha facilities mature within 12 months. The effective rate of profit ranges from 11.00% to 13.05%.

9.2 Accrued expenses includes infrastructure cess amounting to Rs. 10,229 million (2011: Rs. Nil). The ultimate Parent Company alongwith other Petitioners have challenged the imposition of Infrastructure Cess by the relevant Excise and Taxation Officer, Karachi. The Group is confident of the favourable outcome of the Petition. However, in view of the uncertainties in such matters, full provision has been made.

	<u>2012</u>	<u>2011</u>
	Rs. 000s	
<b>9.3 Workers' profit participation fund</b>		
Opening balance	85,424	39,020
Provision for the year	-	82,570
Interest for the year	8,884	2,854
	<u>94,308</u>	<u>124,444</u>
Payments made during the year	(85,424)	(39,020)
Closing balance	<u>8,884</u>	<u>85,424</u>

9.4 The ultimate Parent Company alongwith other Petitioners have challenged the constitutionality of the amendments brought into the Workers' Welfare Fund Ordinance, 1971 through the Finance Acts of 2006 and 2008. The Group is confident of the favourable outcome of the Petition. However, in view of the uncertainties in such matters, full provision has been made.

	Note	<u>2012</u>	<u>2011</u>
		Rs. 000s	
<b>10 ACCRUED MARK-UP - SECURED</b>			
Mark-up on long term financing		43,940	64,867
Mark-up on short term borrowings		141,955	151,931
		<u>185,895</u>	<u>216,798</u>
<b>11 SHORT TERM BORROWINGS - SECURED</b>			
Short term bank borrowings	11.1	6,022,564	9,325,917
Short term running finance		1,326,961	492,438
		<u>7,349,525</u>	<u>9,818,355</u>

11.1 It includes short term istisna amounting to Rs. 990 million (2011: Rs. 493 million).

11.2 Short term borrowings are secured by pari passu hypothecation charge over stores and spare parts, stock-in-trade, trade debts, other receivables, pledge over cotton, counter guarantee of the ultimate Parent Company and lien on deposit of Gul Ahmed International FZC. Unavailed facility at the year end was Rs. 5,335 million (2011: 2,223 million). The facility for short term borrowings mature within twelve months. Short term borrowings include Rs. 599 million (2011: Rs. 587 million) from related party.

Mark-up rates range from 1.56% to 16.56% (2011: 1.54% to 16.65%) per annum.

## 12 CONTINGENCIES AND COMMITMENTS

12.1 The Group owns and possesses a plot of land measuring 44 acres in Deh Khanto, which is appearing in the books at a cost of Rs. 64 million. The Group holds title deeds of the land which are duly registered in its name. Ownership of the land has been challenged in the Sindh High Court by some claimants who claim to be the owners, as this land was previously sold to them and subsequently resold to the Group. The claim of the alleged owners is fictitious. The Group is confident that its title to the land is secure and accordingly no provision has been made in these financial statements.

12.2 The Group has filed a suit in the Sindh High Court for recovery of Rs. 33.409 million (2011: Rs. 33.409 million) included in other receivables. The Group's management and its legal counsel are of the opinion that the case will be decided in the Group's favour and as such no provision has been made there against.

12.3 The Group has filed a Petition in the Sindh High Court against order passed by the Board of Trustees, Employees' Old-Age Benefits Institution (EOBI) for upholding the unjustified additional demand of payment raised by EOBI for accounting years 2000-01 and 2001-02 amounting to Rs. 50.827 million (2011: Rs. 50.827 million). This demand has been raised after lapse of more than two years although the records and books of the Group were verified by the EOBI to their entire satisfaction and finalization of all matters by EOBI. The Honorable Sindh High Court has already restrained EOBI from taking any action or proceedings against the Group. No provision has been made there against in these financial statements as the Group is confident of the favourable outcome of the Petition.

12.4 The Group has filed a Constitution Petition in the Sindh High Court against the City District Government of Karachi for striking down the unjustified demand of payment of Ground Rent of Rs. 10 million. The Honorable Sindh High Court has already restrained the City District Government of Karachi from taking any coercive action against the Group. No provision has been made there against in these financial statements as the Group is confident of the favourable outcome of the Petition.

## Consolidated Notes to the Accounts

### 12.5 Guarantees

- (a) Rs. 260 million (2011: Rs. 257 million) against guarantees issued by banks which are secured by pari passu hypothecation charge over stores and spare parts, stock-in-trade, trade debts and other receivables. These guarantees includes guarantees issued by related party amounting to Rs. 203 million (2011: Rs. 203 million).
- (b) Post dated cheques of Rs. 153 million (2011: Rs. 71 million) has been issued to various Government Agencies.
- (c) Bills discounted of Rs. 1,731 million (2011: Rs. 1,306 million)
- (d) Corporate guarantee of Rs. 96.420 million (2011: Rs. 96.965 million) has been issued to a bank in favour of subsidiary company.

12.6 The Group is committed for capital expenditure as at June 30, 2012 of Rs. 197 million (2011: Rs. 340 million).

12.7 The Group is committed for non capital expenditure items under letters of credit as at June 30, 2012 of Rs. 374 million (2011: Rs. 581 million).

12.8 The Group is committed for minimum rental payments for each of the following period as follows:

	Note	2012	2011
		Rs. 000s	
- Not more than one year		216,826	192,728
- More than one year and not more than five years		901,170	828,357
- More than five years		707,749	907,230
		<u>1,825,745</u>	<u>1,928,315</u>

### 13 PROPERTY, PLANT AND EQUIPMENT

	Note	2012	2011
		Rs. 000s	
Operating assets	13.1	6,613,267	6,589,869
Capital work-in-progress	13.2	226,169	71,643
		<u>6,839,436</u>	<u>6,661,512</u>

### 13.1 Operating assets

	Leasehold land	Buildings and structures on leasehold land	Plant and machinery	Office equipment	Furniture and fixtures	Vehicles	Total
	Rs. 000s						
<b>Net carrying value basis year ended June 30, 2012</b>							
Opening net book value (NBV)	234,107	1,040,644	4,913,018	142,210	65,133	194,757	6,589,869
Additions (at cost)	-	98,876	531,789	51,693	6,490	102,605	791,453
Disposal at NBV	-	-	(4,200)	(2,440)	-	(16,276)	(22,916)
Depreciation charge	-	(121,953)	(522,182)	(35,760)	(8,180)	(57,064)	(745,139)
Closing net book value	<u>234,107</u>	<u>1,017,567</u>	<u>4,918,425</u>	<u>155,703</u>	<u>63,443</u>	<u>224,022</u>	<u>6,613,267</u>
<b>Gross carrying value basis as at June 30, 2012</b>							
Cost	234,107	2,020,441	9,782,850	359,928	108,256	432,132	12,937,714
Accumulated depreciation	-	(1,002,874)	(4,864,425)	(204,225)	(44,813)	(208,110)	(6,324,447)
Net book value	<u>234,107</u>	<u>1,017,567</u>	<u>4,918,425</u>	<u>155,703</u>	<u>63,443</u>	<u>224,022</u>	<u>6,613,267</u>
<b>Net carrying value basis year ended June 30, 2011</b>							
Opening net book value (NBV)	234,107	1,070,408	4,439,775	137,595	45,112	170,379	6,097,376
Additions (at cost)	-	88,692	975,122	40,746	33,169	87,724	1,225,453
Disposal at NBV	-	-	(551)	(2,333)	(4,792)	(13,547)	(21,223)
Depreciation charge	-	(118,456)	(501,328)	(33,798)	(8,356)	(49,799)	(711,737)
Closing net book value	<u>234,107</u>	<u>1,040,644</u>	<u>4,913,018</u>	<u>142,210</u>	<u>65,133</u>	<u>194,757</u>	<u>6,589,869</u>
<b>Gross carrying value basis as at June 30, 2011</b>							
Cost	234,107	1,921,565	9,282,565	338,915	101,766	376,961	12,255,879
Accumulated depreciation	-	(880,921)	(4,369,547)	(196,705)	(36,633)	(182,204)	(5,666,010)
Net book value	<u>234,107</u>	<u>1,040,644</u>	<u>4,913,018</u>	<u>142,210</u>	<u>65,133</u>	<u>194,757</u>	<u>6,589,869</u>
Depreciation rate % per annum	-	10	10	15 to 30	10 to 12	20 to 25	

13.1.1 Depreciation charge for the year has been allocated as follows:

	Note	2012	2011
		Rs. 000s	
Cost of goods manufactured	24.1	607,578	591,974
Distribution cost	25	59,387	45,412
Administrative expenses	26	78,174	74,351
		<u>745,139</u>	<u>711,737</u>

13.1.2 Disposals include assets scrapped during the year amounting to Rs. 0.609 million (2011: Rs. 2.657 million).



## Consolidated Notes to the Accounts

### 13.1.3 Details of operating assets sold (by negotiation except where stated)

Particulars	Cost	Written down value Rs.000s	Sale proceeds	Particulars of purchasers
<b>Plant and machinery</b>				
Warping M/C Benninger Sizing Machine Zell	31,504	4,200	4,700	Faisal Enterprises Shop No. 5, Falaknaz Pride Opp: Airport Public Station Karachi
<b>Vehicles</b>				
Honda City	845	151	338	Mr. Abdul Aziz Nakhuda Flat No. D-24, Hassan Centre Gulshan-e-Iqbal Block-16 Karachi
Suzuki Cultus	657	269	682	Mr. Azeem Khan House No. 5, Bandokh Compound Heranand Khem Sing, Garden Road Karachi
Toyota Corolla	1,402	574	771	Mr. Azhar Ali Hashmat (Employee) House No. 12, Golf Avenue Mugal Pura, Lahore
Suzuki Alto	512	168	256	Mr. Danish Wazir (Employee) House No. 49/25 B-1 Area Liaquatabad, Karachi
Daihatsu Cuore Honda City Suzuki Alto	2,070	595	1,319	Mr. Gul Dad House No. HK-579, KPT Building New Qadri House, Karachi
Suzuki Alto Suzuki Cultus (02 Nos.) Toyota Corolla	2,804	1,159	2,232	Mr. Hakeem Khan House No. B-49, Sector 11-B North Karachi, Karachi
Suzuki Mehran	376	54	111	Mr. Irshad Hussain Khan House No. A-921, Muhammadi Derra Malir 15, Karachi
Mitsubishi Lancer	1,476	329	660	Ms. Mehtab Danish House No. 91/1, Main Commercial Avenue Phase-4, DHA, Karachi
Suzuki Alto Suzuki Cultus (03 Nos.) Suzuki Hi-Roof Toyota Corolla	3,749	719	2,664	Mr. Mohammad Arif House No. B-30, Sector 11-C/1 Karachi
Toyota Corolla	1,002	237	408	Mr. Moosa Bidiwala (Employee) House No. A-45, Block-4 New Dhoraji Colony, Karachi

Particulars	Cost	Written down value Rs.000s	Sale proceeds	Particulars of purchasers
<b>Vehicles (continued)</b>				
Suzuki Alto	512	114	316	Mr. Muhammad Aamir House No. B-514, Sector -11E Karachi
Toyota Lexus	3,368	600	1,060	Mr. Muhammad Amin House No. A-314, Rehman Square Gulshan-e-Iqbal, Karachi
Suzuki Alto	512	114	376	Mr. Muhammad Arshad House No. 358, Sector 9/E Jinnah Colony, Orangi Town Karachi
Honda City	660	94	317	Mr. Muhammad Haroon Flat No. 23, Soni Apartment Gulshan-e-Iqbal, Karachi
Suzuki Alto	513	168	205	Mr. Muhammad Jalaluddin House No. L-54, Block-15 F.B. Area, Karachi
Honda City	915	300	360	Mr. Muhammad Omer (Employee) House No. 13/11, Khayaban-e-Badban Phase-5, DHA., Karachi
Honda City	926	379	462	Mr. Muhammad Yunus Patel 18, Commercial Area KDA Officers Housing Society Near National Stadium, Karachi
Suzuki Alto (03 Nos.) Toyota Corolla	2,943	1,344	2,198	Mr. Naseer Ahmed House No. 22/B, Street No. 1 Area 37-D, Landhi, Karachi
Honda City Suzuki Cultus	1,314	301	739	Mr. Noman Hassan Khan House No. A-908, Block-12 Gulburg, Karachi
Suzuki Alto	504	165	202	Ms. Raheela Akhter House No. R-117-A, Bagh-e-Malir Karachi
Honda City	845	151	466	Mr. Saffar Ahmed House No. A-122, Gulistan Society Landhi, Karachi
Honda Civic	1,566	641	750	Ms. Shahnaz Basit (Employee) House No. 64/1, Street No. 21, Khayaban-e-Badban, Karachi
Suzuki Cultus	617	253	385	Mr. Shaikh Muhammad Ali (Employee) House No. C-24, Sunny View Block-14, Gulistan-e-Juhar Karachi

## Consolidated Notes to the Accounts

Particulars	Cost	Written down value Rs.000s	Sale proceeds	Particulars of purchasers
<b>Vehicles (continued)</b>				
Suzuki Alto Suzuki Cultus (03 Nos.) Suzuki Liana Toyota Corolla	5,108	2,098	3,478	Mr. Sultan Hassan Khan House No. A-908/12, F.B. Area Karachi
Suzuki Cultus	621	254	600	Syed Inam-ul-Haque House No. A-323, F.B. Area Gulberg Block-12, Karachi
Suzuki Cultus	640	262	320	Syed Jawaid Ahmed (Employee) House No. A-403, Samar Garden Block-G, Hyderi Market, North Karachi, Karachi
Honda City	924	379	373	Syed Muhammad Zaheeruddin (Employee) House No. B-100, Block-3, Gulshan-e-Iqbal, Karachi
Suzuki SB308R	376	54	106	Syed Raees Ahmed (Employee) House No. 53, New Joharabad Malir City, Karachi
Honda City	860	154	466	Syed Sadiq Ali House No. 445, Street 3-A Landhi, Karachi
Honda City	704	126	500	Ms. Zaufishan Naveed House No. NW 734, Gali Satellite Town Rawalpindi
Mercedes - Benz E220	3,215	1,608	2,123	Mercedes Benz Manchester Ashton New Road Manchester, U.K. M11 3RR
Suzuki Mehran VXR Honda City MT CNG Honda City MT CNG	3,196	2,201	3,201	Insurance Claim
Written down value below Rs. 50,000 each	18,255	2,092	2,502	Various
<b>2012</b>	<b>95,491</b>	<b>22,307</b>	<b>35,646</b>	
2011	75,559	18,566	31,760	

### 13.2 Capital work-in-progress

	2012				2011			
	Machinery and store items held for capitalisation	Building construction	Other assets	Total	Machinery and store items held for capitalisation	Building construction	Other assets	Total
Cost as at July 1	24,599	37,673	9,371	71,643	1,050	21,382	28,900	51,332
Capital expenditure incurred during the year	716,067	68,677	9,302	794,046	921,488	77,281	27,220	1,025,989
Transferred to property, plant and equipment	(540,890)	(82,617)	(16,013)	(639,520)	(897,939)	(60,990)	(8,743)	(967,672)
Transferred to intangible assets	-	-	-	-	-	-	(38,006)	(38,006)
Cost as at June 30	199,776	23,733	2,660	226,169	24,599	37,673	9,371	71,643

### 14 INTANGIBLE ASSETS

#### Net carrying value as at June 30

	Computer Software	Trade Marks	Total	
Opening net book value (NBV)	38,630	3,692	42,322	21,253
Additions (at cost)	746	1,065	1,811	38,471
Amortisation charge	(12,841)	(1,827)	(14,668)	(17,402)
Closing net book value	26,535	2,930	29,465	42,322

#### Gross carrying value as at June 30

	Computer Software	Trade Marks	Total	
Cost	148,199	10,227	158,426	156,615
Accumulated amortisation	(121,664)	(7,297)	(128,961)	(114,293)
Net book value	26,535	2,930	29,465	42,322

#### Amortisation rate % per annum

20 10

#### 14.1 Amortisation charge for the year has been allocated as follows:

	Note	2012 Rs. 000s	2011 Rs. 000s
Distribution cost	25	1,614	1,808
Administrative expenses	26	13,054	15,594
		14,668	17,402

## Consolidated Notes to the Accounts

	Note	2012	2011
		Rs. 000s	
<b>15 LONG TERM LOANS AND ADVANCES - SECURED</b>			
<b>Considered good</b>			
- Due from executives (other than CEO and Directors)	15.2	5,183	5,845
- Due from non-executive employees		1,111	2,387
		<u>6,294</u>	<u>8,232</u>
<b>Current portion of amount</b>			
- Due from executives		(2,892)	(3,016)
- Due from non-executive employees		(502)	(975)
	19	<u>(3,394)</u>	<u>(3,991)</u>
		<u>2,900</u>	<u>4,241</u>

**15.1** Loans and advances have been given for the purchase of cars, scooters and household equipments and housing assistance in accordance with the terms of employment and are repayable in monthly installments. These loans are secured against cars, outstanding balance of provident fund, end of service dues and/or guarantees of two employees.

Included in these are loans of Rs. 1.161 million (2011: Rs. 0.266 million) to executives and Rs. 0.204 million (2011: Rs. 0.854 million) to non-executives which carry no interest. The balance amount carries interest ranging from 10.5% to 15%.

The maximum aggregate amount due from executives at the end of any month during the year was Rs. 8.843 million (2011: Rs. 6.059 million).

	Note	2012	2011
		Rs. 000s	
<b>15.2 Reconciliation of carrying amount of loans to executives</b>			
Opening balance		5,845	2,968
Disbursement during the year		5,134	4,892
Transfer from non-executive to executive employees		907	851
Repayment during the year		(6,703)	(2,866)
Closing balance		<u>5,183</u>	<u>5,845</u>
<b>16 STORES, SPARE PARTS AND LOOSE TOOLS</b>			
Stores		451,097	452,058
Spare parts		342,876	296,415
Loose tools		3,444	3,021
		<u>797,417</u>	<u>751,494</u>
Provision for slow moving/obsolete items	16.1	(57,431)	(45,144)
		<u>739,986</u>	<u>706,350</u>

	Note	2012	2011
		Rs. 000s	
<b>16.1 Movement in provision for slow moving/obsolete items</b>			
Opening balance		45,144	34,840
Charge for the year		12,287	10,304
Closing balance		<u>57,431</u>	<u>45,144</u>
<b>17 STOCK-IN-TRADE</b>			
Raw materials	17.1	2,236,375	3,807,318
Work-in-process		233,153	310,160
Finished goods	17.2	5,012,306	6,312,736
		<u>7,481,834</u>	<u>10,430,214</u>

**17.1** Raw materials amounting to Rs. Nil (2011: Rs. 589 million) has been pledged with the banks.

**17.2** Finished goods include stock of waste valuing Rs. 56.887 million (2011: Rs. 31.611 million) determined at net realizable value.

	Note	2012	2011
		Rs. 000s	
<b>18 TRADE DEBTS</b>			
Export debts - secured		752,129	1,424,809
Local debts - unsecured			
- Considered good	18.1	1,520,136	811,593
- Considered doubtful		107,785	77,064
		<u>1,627,921</u>	<u>888,657</u>
Provision for doubtful trade debts	18.2	(107,785)	(77,064)
		<u>2,272,265</u>	<u>2,236,402</u>
<b>18.1</b> Includes Rs. 0.759 million (2011: Rs. Nil) from Swisstex Chemicals (Private) Limited being associate company of the Group.			
<b>18.2 Movement in provision for doubtful trade debts</b>			
Opening balance		77,064	47,864
Charge for the year		30,721	29,200
Closing balance		<u>107,785</u>	<u>77,064</u>



## Consolidated Notes to the Accounts

	Note	2012 Rs. 000s	2011 Rs. 000s
<b>24.2 Raw materials consumed</b>			
Opening stock		3,807,318	1,532,769
Purchases during the year		8,654,812	13,008,148
Closing stock		(2,236,375)	(3,807,318)
		<u>10,225,755</u>	<u>10,733,599</u>
<b>25 DISTRIBUTION COST</b>			
Freight and shipment expenses		164,782	178,749
Staff cost	26.1	333,845	257,719
Insurance		6,519	3,878
Advertisement and publicity		349,350	302,847
Cost of samples transferred from cost of goods manufactured		85,586	50,799
Rent, rates and taxes		239,888	195,929
Depreciation		59,387	45,412
Amortisation		1,614	1,808
Export development surcharge		35,466	41,757
Other expenses		37,404	25,064
		<u>1,313,841</u>	<u>1,103,962</u>
<b>26 ADMINISTRATIVE EXPENSES</b>			
Staff cost	26.1	374,160	342,039
Rent, rates and taxes		49,867	25,620
Repairs and maintenance		30,361	48,925
Vehicle upkeep and maintenance		90,737	68,721
Conveyance and traveling		103,701	73,636
Printing and stationery		47,199	42,424
Postage and telecommunication		53,484	52,107
Legal and consultancy fees		38,145	57,126
Depreciation		78,174	74,351
Amortisation		13,054	15,594
Auditors' remuneration	26.2	3,210	2,844
Donations	26.3	4,346	3,486
Insurance		14,553	13,836
Provision for doubtful trade debts		30,721	29,200
Provision for slow moving/obsolete items		12,287	10,304
Other expenses		50,557	51,084
		<u>994,556</u>	<u>911,297</u>

### 26.1 Staff cost

	Cost of sales		Distribution cost		Administrative expenses		Total	
	2012	2011	2012	2011	2012	2011	2012	2011
	Rs. 000s							
- Salaries, wages & benefits	2,205,588	2,061,834	323,394	250,495	358,728	327,475	2,887,710	2,639,804
<b>Retirement benefits</b>								
- Gratuity	17,204	8,444	-	-	447	1,017	17,651	9,461
- Contribution to provident fund	27,213	23,572	9,920	7,069	13,054	11,684	50,187	42,325
	44,417	32,016	9,920	7,069	13,501	12,701	67,838	51,786
- Staff compensated absences	31,147	32,775	531	155	1,931	1,863	33,609	34,793
	<u>2,281,152</u>	<u>2,126,625</u>	<u>333,845</u>	<u>257,719</u>	<u>374,160</u>	<u>342,039</u>	<u>2,989,157</u>	<u>2,726,383</u>

### 26.2 Auditors' remuneration

	2012 Rs. 000s	2011 Rs. 000s
Audit fee	2,625	2,422
Review fee of half yearly accounts	30	30
Fee for consolidation of holding and subsidiaries	150	150
Review fee of statement of compliance with code of corporate governance	50	50
Other certification fees	130	130
Out of pocket expenses	225	62
	<u>3,210</u>	<u>2,844</u>

**26.3** Donation of Rs. 1.720 million (2011: Rs. 1.730 million) paid to Fellowship Fund for Pakistan. Mr. Bashir Ali Mohommed, Chairman and Chief Executive of the ultimate Parent Company is a Trustee of the Fund.

### 27 OTHER OPERATING EXPENSES

Workers' profit participation fund	-	82,570
Workers' welfare fund	-	31,377
Loss on sale of property, plant and equipment	44	314
Property, plant and equipment scrapped	609	2,657
	<u>653</u>	<u>116,918</u>

# Consolidated Notes to the Accounts

	2012	2011
	Rs. 000s	
<b>28 OTHER OPERATING INCOME</b>		
<b>Income from financial assets</b>		
Interest income from loan and advances	967	1,065
<b>Income from non - financial assets</b>		
Profit on sale of property, plant and equipment	13,383	13,508
Scrap sales	7,172	7,586
Others	166	3,702
	<u>21,688</u>	<u>25,861</u>
<b>29 FINANCE COST</b>		
Mark-up on long term financing	292,778	307,360
Mark-up on short term borrowings	930,727	709,935
Interest on workers' profit participation fund	10,716	2,854
Bank charges	55,819	64,011
Exchange loss	111,943	9,553
	<u>1,401,983</u>	<u>1,093,713</u>

29.1 Mark-up on long term financing/short term borrowings include Rs. 119 million (2011: Rs. 102 million) in respect of long term financing/short term borrowings from related party.

	Note	2012	2011
		Rs. 000s	
<b>30 PROVISION FOR TAXATION</b>			
Current			
- for the year		252,493	267,652
- prior		(1,310)	(15,252)
		<u>251,183</u>	<u>252,400</u>
Deferred	30.1	(8,285)	90,471
		<u>242,898</u>	<u>342,871</u>

### 30.1 Reconciliation between accounting profit and tax expense

Provision for current taxation has been made on the basis of minimum tax on turnover under section 113 of the Income Tax Ordinance, 2001. Accordingly, reconciliation of tax expense with the accounting profit has not been prepared being impracticable.

30.2 Income tax assessments of the Group have been finalised upto fiscal year 2010-11 (Tax year 2011).

### 31 (LOSS)/EARNINGS PER SHARE - basic and diluted

(Loss)/profit for the year	(215,585)	1,208,175
Weighted average number of shares	<u>126,957,096</u>	<u>126,957,096</u>
(Loss)/earnings per share (Rs.)	(1.70)	9.52

31.1 Weighted average number of shares in issue during last year have been restated for the effect of bonus shares issued during current year.

31.2 There is no dilutive effect on the (loss)/earnings per share of the Group.

## 32 SEGMENT INFORMATION

The Group has the following two reportable business segments along with three subsidiaries:

- Spinning**: Production of different qualities of yarn using both natural and artificial fibers.
- Processing**: Production of greige fabric, its processing into various types of fabrics for sale as well as to manufacture home textile products.
- Overseas subsidiaries**: These subsidiaries are also in the textile business reselling product to the ultimate customers, imported from Parent Company.

Transactions among the business segments are recorded at cost.

### 32.1 Consolidated segmental profitability

	Spinning		Processing		Gul Ahmed International Limited (FZC) - UAE		GTM (Europe) Limited - UK		GTM USA Corp.		Elimination of inter-segment transactions		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Sales	10,148,346	10,171,350	18,540,954	20,070,568	427,124	378,163	1,232,254	1,782,075	2,003	2,003	(4976,281)	(6,758,980)	25,424,400	25,643,176
Cost of sales	9,974,763	9,337,618	15,170,835	16,277,678	337,219	302,258	1,171,024	1,715,649	-	-	(4,946,099)	(6,741,102)	21,707,742	20,892,101
Gross profit	173,583	833,732	3,370,119	3,792,890	89,905	75,905	61,230	66,426	2,003	2,003	19,818	(17,878)	3,716,658	4,751,075
Administrative & Distribution expenses	186,267	76,494	2,003,909	1,823,020	62,685	59,958	53,759	55,787	1,777	1,777	-	-	2,308,397	2,015,259
Profit before tax and unallocated expenses & income	(12,684)	757,238	1,366,210	1,969,870	27,220	15,947	7,471	10,639	226	226	19,818	(17,878)	1,408,261	2,735,816
Financial charges													1,401,983	1,093,713
Other operating expenses													1,459,18	(25,861)
Other operating income													242,898	342,871
Provision for taxation													(215,585)	1,208,175
(Loss)/profit after tax														

### 32.2 - Consolidated segment assets and liabilities

	Spinning		Processing		Gul Ahmed International Limited (FZC) - UAE		GTM (Europe) Limited - UK		GTM USA Corp.		Unallocated		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Assets	5,214,791	6,247,289	10,811,953	12,476,215	208,829	185,009	236,046	282,984	9,588	9,588	1,495,903	1,479,602	17,977,110	20,671,099
Liabilities	1,181,037	1,724,763	3,409,313	3,343,943	15,056	17,051	80,173	115,910	2,625	2,625	8,635,856	10,623,100	13,324,060	15,824,767

32.3 Unallocated items represent those assets and liabilities which are common to all segments.

### 32.4 Information by geographical area

	Revenue		Non-current assets	
	2012	2011	2012	2011
Pakistan	10,154,090	8,267,242	6,906,156	6,729,653
Germany	2,523,681	3,253,901	-	-
United Kingdom	2,267,300	2,178,097	3,621	4,235
China	1,972,600	2,127,413	-	-
United States	1,828,492	1,625,623	3,782	-
Netherlands	888,344	1,226,964	-	-
France	1,018,564	1,738,724	-	-
Brazil	656,801	1,417,839	-	-
United Arab Emirates	627,729	266,931	6,043	7,244
Other Countries	3,486,799	3,540,442	-	-
Total	25,424,400	25,643,176	6,919,602	6,741,132

## Consolidated Notes to the Accounts

33 CASH AND CASH EQUIVALENTS	Note	2012	2011
		Rs. 000s	
Cash and bank balances	22	139,723	86,638
Short term borrowings	11	(7,349,525)	(9,818,355)
		<u>(7,209,802)</u>	<u>(9,731,717)</u>

### 34 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	2012				2011			
	Chief Executive	Directors	Executives	Total	Chief Executive	Directors	Executives	Total
	Rs. 000s							
Managerial remuneration	4,800	10,400	246,918	262,118	3,000	8,300	189,175	200,475
House rent allowance	1,920	4,160	98,767	104,847	1,200	3,320	75,669	80,189
Other allowances	480	1,040	32,608	34,128	500	1,462	34,552	36,514
Contribution to provident fund	400	866	16,162	17,428	250	691	12,061	13,002
	<u>7,600</u>	<u>16,466</u>	<u>394,455</u>	<u>418,521</u>	<u>4,950</u>	<u>13,773</u>	<u>311,457</u>	<u>330,180</u>
Number of persons	1	3	222	226	1	5	173	179

34.1 The Chief Executive, Directors and certain Executives are provided with free use of Company cars and are covered under Company's Health Insurance Plan along with their dependents.

34.2 The Chief Executive and two Directors are also provided with free residential telephones.

34.3 Aggregate amount charged in the accounts for the year for meeting fee to five Non Executive Directors was Rs. 405,000 (2011: seven Non Executive Directors Rs. 126,000).

34.4 Executive means an employee other than the Chief Executive and Executive Directors, whose basic salary exceeds five hundred thousand rupees in a financial year for the Holding Company and Senior Executive Staff of the subsidiaries.

### 35 TRANSACTIONS WITH RELATED PARTIES

Related parties comprise subsidiaries, associated companies, companies where directors also hold directorship, directors of the Group and key management personnel. The Group in the normal course of business carried out transactions with various related parties.

Relationship with the Group	Nature of Transactions	2012	2011
		Rs. 000s	
Associated companies and other related parties	Purchase of goods	62,224	31,943
	Sale of goods	5,579	747
	Rent paid	5,820	4,530
	Fees paid	1,000	750
	Reimbursement of expenses to related party	525	-
	Commission/rebate	4,562	-
	Deposit with bank (net change)	13,883	(30,499)
	Borrowing from bank (net change)	125,977	548,748
	Bank guarantee (at year end)	203,472	203,472
	Bills discounted	705,530	862,903
	Commission/bank charges paid	23,781	26,113
	Mark-up/interest charged	118,984	101,850
	Provident fund contribution	50,186	42,238

There are no transactions with directors of the Group and key management personnel other than under the terms of employment. Loan and remuneration of the key management personnel are disclosed in notes 15 and 34 respectively.

Related parties status of outstanding receivables and payables as at June 30, 2012 are included in respective notes to the financial statements.

### 36 CAPACITY AND PRODUCTION

	Unit	2012 (000s)			2011 (000s)	
		Capacity	Production	Working	Capacity	Production
Cloth	Sq. meters (50 Picks converted)	124,136	81,096	3 shifts	124,136	85,067
Yarn	Kgs. (20 Counts converted)	48,227	36,525	3 shifts	48,227	38,716

Production is lower due to variation in production mix and various technical factors.

### 37 FINANCIAL INSTRUMENTS

#### 37.1 Financial risk management objectives

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seek to minimize potential adverse effects on the Group's financial performance.

Risk management is carried out under policies and principles approved by the management. All treasury related transactions are carried out within the parameters of these policies and principles.

#### 37.1.1 Market risks

Market risk refers to fluctuation in value of financial instruments as a result of changes in market prices. The Group manages market risk as follows:

##### a. Foreign exchange risk management

Foreign exchange risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign exchange risk arises mainly from future economic transactions or receivables and payables that exist due to transaction in foreign exchange.

##### Exposure to foreign currency risk

The Group is exposed to foreign exchange risk arising from currency value fluctuations due to the following:

	2012	2011
	USD 000s	
Trade debts	7,810	16,542
Cash and bank	247	116
Borrowings from financial institutions	(25,771)	(37,262)
Trade and other payables	(5,965)	(7,465)
Net exposure	<u>(23,679)</u>	<u>(28,069)</u>

# Consolidated Notes to the Accounts

Foreign currency commitments outstanding at year end are as follows:

	2012	2011
	Rs. 000s	
EURO	210,780	253,622
USD	347,912	377,523
JPY	3,926	3,369
CHF	-	6,559
	<u>562,618</u>	<u>641,073</u>

The following significant exchange rates were applied during the year:

	2012	2011
<b>Rupee per USD</b>		
Average rate	89.25	85.46
Reporting date rate	93.70 / 93.90	85.70 / 85.90

## Foreign currency sensitivity analysis

A 10 percent strengthening of the PKR against the USD at June 30, 2012 would have decreased equity and profit or loss by the amounts shown below. This analysis assumes that all other variable, in particular interest rates, remain constant. The analysis is performed on the same basis for June 30, 2011.

	2012	2011
	Rs. 000s	
Profit and loss account	<u>221,872</u>	<u>241,113</u>

A 10 percent weakening of the PKR against the USD at June 30, 2012 would have had the equal but opposite effect on USD to the amounts shown above, on the basis that all other variables remain constant.

## b. Price risk

Price risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest or currency rate risk), whether those changes are caused by factors specified to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Group is not exposed to equity price risk since there are no investments in equity securities.

## c. Interest/mark-up rate risk management

Interest rate risk is the risk that the value of financial instruments will fluctuate due to change in the interest/markup rates. The Group has long term finance and short term borrowings at fixed and variable rates. The Group is exposed to interest/markup rate risk on long and short term financing and these are covered by holding "Prepayment Option" and "Rollover Option". Interest rate risk on short term borrowings is covered by holding "Prepayment Option" which can be exercised upon any adverse movement in the underlying interest rates.

Financial assets include balances of Rs. 4.9 million (2011: Rs. 7 million) which are subject to interest rate risk. Financial liabilities include balances of Rs. 12,856 million (2011: Rs. 12,734 million) which are subject to interest rate risk. Applicable interest rates for financial assets and liabilities are given in respective notes.

## FINANCIAL ASSETS AND LIABILITIES

	Interest/mark-up bearing			Non interest/mark-up bearing			2012 Total	2011 Total
	Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total		
	Rs. 000s							
<b>Financial assets</b>								
<b>Loans and receivables</b>								
Long term deposits	-	-	-	-	47,801	47,801	47,801	33,057
Trade debts	-	-	-	2,244,854	27,411	2,272,265	2,272,265	2,236,402
Loans and advances	2,711	2,217	4,928	683	683	1,366	6,294	8,232
Other receivables	-	-	-	182,699	-	182,699	182,699	212,546
Cash and bank balances	-	-	-	139,723	-	139,723	139,723	86,638
	2,711	2,217	4,928	2,567,959	75,895	2,643,854	2,648,782	2,576,875

## Financial liabilities

### At amortised cost

Long term loans	664,636	2,096,432	2,761,068	-	-	-	2,761,068	2,830,635
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### At fair value through profit and loss account

Short term borrowings	7,349,525	-	7,349,525	-	-	-	7,349,525	9,818,355
Trade and other payables	275,027	-	275,027	2,296,152	-	2,296,152	2,571,179	2,550,671
Accrued interest	-	-	-	185,895	-	185,895	185,895	216,798
	8,289,188	2,096,432	10,385,620	2,482,047	-	2,482,047	12,867,667	15,416,459

## Off balance sheet items

### Financial commitments

Guarantees	-	-	-	260,061	-	260,061	260,061	257,061
Bills discounted	-	-	-	1,730,690	-	1,730,690	1,730,690	1,306,092
Commitments	-	-	-	570,604	-	570,604	570,604	920,854
	-	-	-	2,561,355	-	2,561,355	2,561,355	2,484,007

### Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rate at the balance sheet would not effect profit or loss of the Group.

### Cash flow sensitivity analysis for variable rate instruments

At June 30, 2012, if interest rates on long term financing had been 1% higher/lower with all other variables held constant, post tax loss for the year would have been Rs. 7 million (2011: Rs. 11 million) higher/lower, mainly as a result of higher/lower interest expense on floating rate borrowings.

At June 30, 2012, if interest rates on short term borrowings had been 1% higher/lower with all other variables held constant, post tax loss for the year would have been Rs. 98 million (2011: Rs. 94 million) higher/lower, mainly as a result of higher/lower interest expense on floating rate borrowings.



## 37.1.2 Credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed to perform as contracted. The Group manages credit risk interalia by setting out credit limits in relation to individual customers and/or by obtaining advance against sales and/or through letter of credits and/or by providing for doubtful debts. Also the Group does not have significant exposure in relation to individual customer. Consequently, the Group believes that it is not exposed to any major concentration of credit risk.

The Group is exposed to credit risk from its operating and certain investing activities and the Group's credit risk exposures are categorised under the following headings:

### 37.1.2.1 Trade debts

Trade debts are essentially due from local and foreign companies and the Group does not expect that these companies will fail to meet their obligations.

The Group established an allowance for the doubtful trade debts that represent its estimate of incurred losses in respect of trade debts. This allowance is based on the management assessment of a specific loss component that relates to individually significant exposures.

### 37.1.2.2 Bank balances

The Group limits its exposure to credit risk by investing in liquid securities and maintaining bank accounts only with counterparties that have stable credit rating. Given these high credit ratings, management does not expect that any counter party will fail to meet their obligations.

The bank balances along with credit ratings are tabulated below:

	<u>2012</u>	<u>2011</u>
	Rs. 000s	
A1+	92,367	55,686
A1	39,949	23,986
A2	51	33
	<u>132,367</u>	<u>79,705</u>

### 37.1.2.3 Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	<u>2012</u>	<u>2011</u>
	Rs. 000s	
Long term loans and advances	2,900	4,241
Long term deposit	47,801	33,057
Trade debts	2,272,265	2,236,402
Loans and advances	3,394	3,991
Other receivables	48,456	47,122
Bank balances	132,367	79,705
	<u>2,507,183</u>	<u>2,404,518</u>

### 37.1.2.4 Financial assets that are either past due or impaired

The credit quality of financial assets that are either past due or impaired can be assessed by reference to historical information and external ratings or to historical information about counter party default rates.

### a. Long term loans

The Group obtains guarantees by two employees against each disbursement made on account of loans and these can be assessed by reference to note no. 15. The carrying amount of guarantees are up to the extent of loans outstanding as at the date of default. Furthermore the guarantor will pay the outstanding amount if the counter party will not meet their obligation. In addition these loans are secured against outstanding balance of provident fund and end of service dues of the relevant employee.

The Group believes that no impairment allowance is necessary in respect of loans that are past due. The Group is actively pursuing for the recovery of the debt and the Group does not expect these employees will fail to meet their obligations.

### b. Trade debts

The movement in allowance for impairment in respect of trade debts during the year can be assessed by reference to note no. 18.

The Group believes that no impairment allowance is necessary in respect of trade debts past due other than the amount provided. Trade debts are essentially due from local and foreign companies. The Group is actively pursuing for the recovery of the debt and the Group does not expect these companies will fail to meet their obligations. Ageing of trade debts is as follows:

	<u>2012</u>	<u>2011</u>
	Rs. 000s	
1 to 6 months	2,236,995	2,153,503
6 months to 1 year	7,859	26,670
1 year to 3 years	27,411	56,229
	<u>2,272,265</u>	<u>2,236,402</u>

Export debts are secured under irrevocable letter of credit, document acceptance, cash against documents and other acceptable banking instruments.

### c. Other receivables

The Group believes that no impairment allowance is necessary in respect of receivables that are past due, the Group is actively pursuing for the recovery and the Group does not expect that the recovery will be made soon and can be assessed by reference to note no. 20.

## 37.1.3 Liquidity risk

Liquidity risk represent the risk where the Group will encounter difficulty in meeting obligations associated with financial liabilities.

The Group manages liquidity risk by maintaining sufficient cash and ensuring the fund availability through adequate credit facilities. At June 30, 2012, the Group has Rs. 12,949 million (2011: Rs. 12,041 million) available borrowing limit from financial institutions. Unutilized borrowing facilities of Rs. 5,335 million (2011: Rs. 2,223 million) and also has Rs. 132 million (2011: Rs. 80 million) being balances at banks. Based on the above, management believes the liquidity risk is insignificant.

## 37.2 Fair value of financial instruments

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

The carrying values of all the financial assets and liabilities reflected in the financial statements approximate their fair values except those which are described in respective notes.

## 37.3 Capital risk management

The primary objectives of the Group when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure.

# Consolidated Notes to the Accounts

The Group manages its capital structure and makes adjustment to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares.

During 2012 the Group's strategy was to maintain leveraged gearing. The gearing ratios as at June 30, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
	Rs. 000s	
Total borrowings	10,110,593	12,648,990
Cash and bank	(139,723)	(86,638)
Net debt	<u>9,970,870</u>	<u>12,562,352</u>
Total equity	<u>4,653,050</u>	<u>4,846,332</u>
Total equity and debt	<u>14,623,920</u>	<u>17,408,684</u>
Gearing ratio (%)	68	72

The Group finances its operations through equity, borrowings and management of working capital with a view to maintain an appropriate mix amongst various sources of finance to minimize risk.

## 38 EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors in their meeting held on September 24, 2012 have decided to issue 20% right shares on the existing paid-up capital of the Parent Company in the ratio of two shares for every ten shares held. The right shares will be issued at par i.e. an issue price of Rs. 10/- per share. These right shares rank pari passu with the existing shares in all respect. In addition, the Board of Directors have approved transfer to accumulated loss from revenue reserve of Rs. 250 million (2011: transfer to revenue reserve from unappropriated profit of Rs. 1,000 million)

## 39 DETAIL OF SUBSIDIARIES

	<u>Accounting year end</u>	<u>Percentage of holding</u>	<u>Country of incorporation</u>
Gul Ahmed International Limited (FZC)	June 30, 2012	100%	U.A.E.
GTM (Europe) Limited	June 30, 2012	100%	U.K.
GTM USA Corp.	June 30, 2012	100%	U.S.A.

## 40 DATE OF AUTHORIZATION

These financial statements were authorized for issue on September 24, 2012 by the Board of Directors of the Parent Company.

## 41 CORRESPONDING FIGURES

For better presentation, reclassification made in the financial statements is as follows:

<u>Reclassification from component</u>	<u>Reclassification to component</u>	<u>Amount</u>
		Rs. 000s
Other operating income	Other operating expenses	
Loss on sale of property, plant and equipment	Loss on sale of property, plant and equipment	314

## 42 GENERAL

Figures have been rounded off to the nearest thousand rupees.

**BASHIR ALI MOHOMMED**  
Chairman and Chief Executive

**ZAIN BASHIR**  
Director