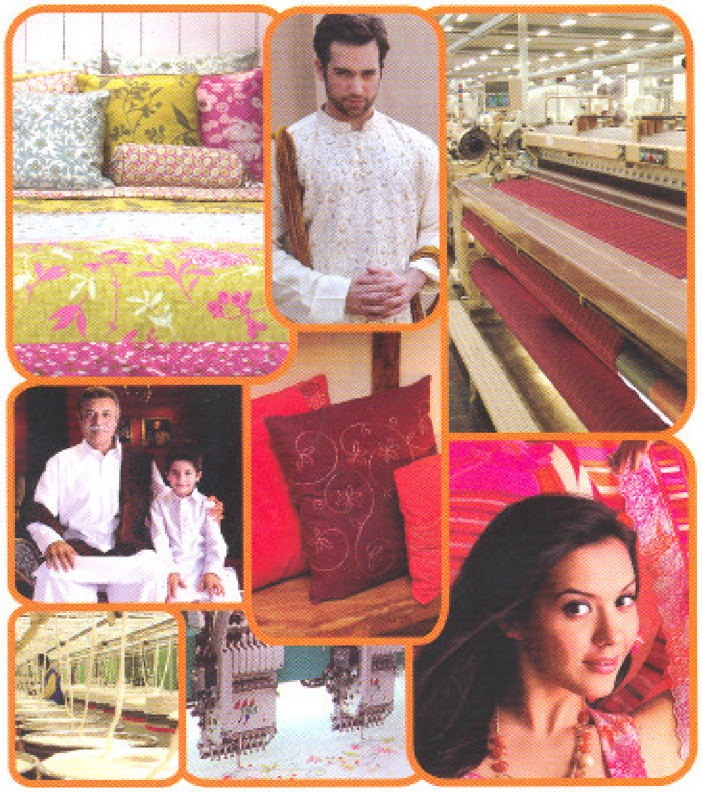
Annual Report
2007



Gul Ahmed
TEXTILE MILLS LIMITED, KARACHI

www.gulahmed.com

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Gul Ahmed Textile Mills Ltd.

Consolidated Financial Statements

Company Information

BOARD OF DIRECTORS	BASHIR H. ALIMOHAMMED - Chairman & Chief Executive A. RAZAK HAJI SATTAR YASIN HAJI KASSAM YOUNUS HAJI LATIF ZAIN BASHIR ZIAD BASHIR ABDUL AZIZ YOUSUF
COMPANY SECRETARY	MOHAMMED SALIM GHAFFAR
AUDIT COMMITTEE	A. RAZAK HAJI SATTAR - Chairman YOUNUS HAJI LATIF - Member ZAIN BASHIR - Member
BANKERS	ABN AMRO BANK (PAKISTAN) LIMITED ALLIED BANK OF PAKISTAN BANK AL HABIB LIMITED CITIBANK, N.A. HABIB BANK LIMITED HABIB METROPOLITAN BANK LIMITED MEEZAN BANK LIMITED NATIONAL BANK OF PAKISTAN NIB BANK LIMITED STANDARD CHARTERED BANK (PAKISTAN) LTD. THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED UNITED BANK LIMITED
AUDITORS	GARDEZI & CO. Chartered Accountants
REGISTERED OFFICE	PLOT NO. 82 MAIN NATIONAL HIGHWAY LANDHI, KARACHI-75120
SHARES DEPARTMENT	PLOT NO. HT/3A LANDHI INDUSTRIAL AREA KARACHI-75120
MILLS	LANDHI INDUSTRIAL AREA KARACHI-75120
E-MAIL	finance@gulahmed.com
URL	www.gulahmed.com

Notice Of Meeting

Notice is hereby given that the 55th Annual General Meeting of Gul Ahmed Textile Mills Limited will be held at the Moosa D. Dessai ICAP Auditorium, Institute of Chartered Accountants of Pakistan, G-31/8, Chartered Accountants Avenue, Clifton, Karachi, on Wednesday, October 31, 2007 at 10:00 a.m. to transact the following business:

1. To receive, consider and adopt the Directors' Report and Audited Accounts for the year ended June 30, 2007 and Auditors' Report thereon.

2. To appoint Auditors for the year ending June 30, 2008 and to fix their remuneration. The retiring Auditors Gardezi & Co. Chartered Accountants, have not offered themselves for reappointment. The Company has received a notice from one of the members under section 253(2) of the Companies Ordinance, 1984 proposing the name of Hyder Bhimji & Co. Chartered Accountants as Auditors of the Company.

By Order of the Board

Karachi
October 2, 2007

MOHAMMED SALIM GHAFFAR
Company Secretary

NOTES:

1. Share Transfer Books of the Company will remain closed from October 23, 2007 to October 31, 2007 (both days inclusive).

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 National Identity Card (NIC) 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 NIC 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. Shareholders are requested to immediately notify the change of address, if any.

Directors' Report

Your Directors take pleasure in presenting 55th Annual Report and the audited financial statements for the year ended June 30, 2007.

OPERATING RESULTS

	Rs.000s
Operating results of the Company are noted below:	
Profit after providing depreciation/amortization of Rs. 426 million	262,191
Less: Provision for taxation	(97,791)
Profit after taxation	164,400
Add: Unappropriated profit brought forward	752
Amount available for appropriation	165,152
Appropriations	
Transfer to general reserve	160,000
Amount carried forward	5,152
	165,152

A satisfactory sales growth of 21% has been recorded from Rs. 8,102 million to Rs. 9,798 million. Increase in sales as well as improvement in operations alongwith production efficiencies has helped the Company to earn after tax profit of Rs. 164 million.

FUTURE PROSPECTS

Going forward your Directors view the year 2007-2008 with cautious optimism.

We are optimistic because we expect the sales growth momentum to continue this year in line with the pattern set last year. Added capacities will come online and should result in achieving greater production efficiencies. Our gas turbine is now fully operational and it should yield significantly lower energy costs. We aim to increase the number of retail outlets as we have had a terrific response from our previous years initiative. We now aim to have retail outlets nationwide and ensure that we provide our loyal customers with genuine “Gul Ahmed” products across Pakistan.

We say cautious optimism because some of the corrective actions are yet to be taken and implemented by the Government that would bring Pakistan’s textile industry on to a level playing field with its competitors such as Bangladesh, China and India. Among the measures the Government must restore the suspended Long Term Finance for Export Oriented Projects (LTF-EOP) Scheme and formalize the measures introduced in the Trade Policy.

CORPORATE AND FINANCIAL REPORTING FRAMEWORK

We are pleased to report that your Company has taken necessary steps to comply with the provisions of the Code of Corporate Governance as incorporated in the Listing Rules of the Stock Exchanges.

- 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 account 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 Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and departure, if any, has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored. The process of review will continue and any weaknesses in controls will be removed.
- 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.
- The key operating and financial data for the last six years, in a summarized form, is annexed.
- During the year four board meetings were held and the attendance by each Director is included in the annual report.
- The value of investment of provident fund based on its un-audited accounts as on June 30, 2007 (audit in progress) is Rs. 61 million.

PATTERN OF SHAREHOLDING

A statement showing the pattern of shareholding in the Company as at June 30, 2007 is included in the annual report.

AUDITORS

The retiring Auditors Gardezi & Co. Chartered Accountants, have not offered themselves for reappointment. The Company has received a notice from one of the members under section 253(2) of the Companies Ordinance, 1984 proposing the name of Hyder Bhimji & Co. Chartered Accountants as Auditors of the Company.

CONSOLIDATED ACCOUNTS

Consolidated accounts for the year ended June 30, 2007 of the Company and its subsidiaries Gul Ahmed International Limited (FZC) and GTM (Europe) Limited are attached.

ACKNOWLEDGMENT

Your Directors are pleased to record their appreciation for the continued dedication, commitment and loyalty of the employees of the Company. We also appreciate the assistance and continued support of the various Government Departments and Bankers.

For and on behalf of the Board

Karachi
October 2, 2007

BASHIR H. ALIMOHAMMED
Chairman & Chief Executive

Six Years At A Glance

Rs. in Million

	2007	2006	2005 *	2004	2003	2002
Operating Results						
Sales	9,798	8,102	5,774	6,538	5,448	5,639
Gross profit	1,426	1,165	861	917	1,059	1,104
Operating profit	732	541	352	349	557	765
Profit before tax	262	12	122	251	382	400
Profit/(loss) after tax	164	(35)	76	203	302	336
Balance Sheet						
Property, plant and equipment	4,703	4,410	4,012	3,450	2,915	2,564
Intangible	30	39	16	20	11	6
Long term investment, loans, advances and deposits	74	71	69	70	69	15
Net current assets	(278)	16	276	151	176	79
Total assets employed	4,528	4,536	4,373	3,691	3,171	2,664
Represented by:						
Share capital	552	460	383	341	341	341
Reserves	2,107	1,851	1,885	1,852	1,751	1,449
Shareholders' equity	2,659	2,311	2,269	2,193	2,092	1,790
Long term loans	1,772	2,151	2,036	1,387	948	757
Deferred liabilities	98	74	68	111	131	117
Total capital employed	4,528	4,536	4,373	3,691	3,171	2,664
Financial Ratios						
Gross profit as % of sales	14.55	14.38	14.91	14.03	19.44	19.58
Profit before tax as % of sales	2.68	0.15	2.11	3.84	7.01	7.09
Earning/(loss) per share (Rs.)	3.11	(0.68)	1.53	4.08	6.07	6.75
Dividend per share (Rs.)	–	–	–	–	3.00	5.00
Bonus (%)	–	–	10.00	12.50	–	–
Debt/Equity ratio						
Debt	0.40	0.48	0.47	0.39	0.31	0.30
Equity	0.60	0.52	0.53	0.61	0.69	0.70
Current ratio	0.95	1.00	1.05	1.03	1.06	1.03
Break up value (Rs./share)	48.17	50.24	59.19	64.36	61.41	52.55

* Results for nine months ended June, 2005.

Statement Of Compliance With The Code Of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance 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 Code 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. At present the Board includes three independent non-executive directors.

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

3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI. None of the directors is a member of a stock exchange.

4. No casual vacancy occurred in the Board during the year.

5. The Company has prepared "Statement of Ethics and Business Practices", which has been singed by all the directors, managerial and secretarial staff of the Company.

6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies alongwith the dates on which they were approved or amended has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.

8. The meetings of the Board were presided over by the Chairman and, 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. All the directors on the Board are fully conversant with their duties and responsibilities as directors of corporate bodies. The Board had previously arranged an orientation course of the Code of Corporate Governance for its directors to apprise them of their role and responsibilities.

10. 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 Code and fully describes the salient matters required to be disclosed.

12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.

13. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

14. The Company has complied with all the corporate and financial reporting requirements of the Code.

15. The Board has formed an audit committee. It comprises three members, of whom two are non executive directors including the chairman of the committee.

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 Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

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

18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

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

BASHIR H. ALIMOHAMMED
Chairman and Chief Executive

ZAIN BASHIR
Director

Karachi
October 2, 2007

Review Report To The Members On Statement Of Compliance With Best Practices Of 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, 2007 prepared by the Board of Directors of Gul Ahmed Textile Mills Limited 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.

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, 2007.

Karachi
October 2, 2007

GARDEZI & CO.
Chartered Accountants

Auditors Report To The Members

We have audited the annexed Balance Sheet of GUL AHMED TEXTILE MILLS LIMITED as at June 30, 2007 and the related Profit and Loss Account, Cash Flow Statement and Statement of Changes in Equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

We conduct 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 accounts have been kept by the Company as required by the Companies Ordinance, 1984;

(b) in our opinion:

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

(c) in our opinion and to the best of our information and according to the explanations given to us, the Balance Sheet, Profit and Loss Account, Cash Flow Statement and Statement of Changes in Equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2007 and of the profit, its cash flows and changes in equity for the year then ended; and

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

GARDEZI & CO.
Chartered Accountants

Karachi
October 2, 2007

Balance Sheet As At June 30, 2007

	Note	2007	2006
		Rs. 000s	
SHARE CAPITAL AND RESERVES			
Authorised capital 75,000,000 ordinary shares of Rs.10 each		750,000	500,000
Issued, subscribed and paid-up capital	4	551,987	459,989
Reserves	5	1,942,052	1,850,054
Unappropriated profit		165,152	752
		2,659,191	2,310,795
NON-CURRENT LIABILITIES			
Long term loans	6	1,772,007	2,151,331
Deferred liabilities	7	97,825	74,432
CURRENT LIABILITIES			
Short term borrowings	8	4,010,209	4,365,701
Current maturity of long term loans		495,900	294,583
Trade and other payables	9	879,529	654,140
Accrued interest	10	95,288	119,967
Provision for taxation		74,291	47,000
		5,555,217	5,481,391
CONTINGENCIES AND COMMITMENTS	11		
		10,084,240	10,017,949

	Note	2007	2006
		Rs. 000s	
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	12	**4,702,826**	4,410,230
Intangible	13	**30,435**	38,965
Long term investment	14	**58,450**	58,450
Long term loans and advances	15	**4,943**	7,720
Long term deposits		**10,579**	5,089
		4,807,233	4,520,454
CURRENT ASSETS			
Stores, spares and loose tools	16	**387,278**	369,882
Stock-in-trade	17	**2,254,144**	2,517,285
Trade debts	18	**2,164,671**	1,839,545
Loans and advances	19	**171,747**	118,590
Deposits and prepayments	20	**19,050**	13,971
Other receivables	21	**252,272**	172,107
Short term investment	22	**—**	426,193
Cash and bank balances	23	**27,845**	39,922
		5,277,007	5,497,495
		10,084,240	10,017,949

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

BASHIR H. ALIMOHAMMED
Chairman and Chief Executive

ZAIN BASHIR
Director

Profit And Loss Account

For The Year Ended June 30, 2007

	Note	2007	2006
		Rs. 000s	
Sales	24	9,798,338	8,101,673
Cost of sales	25	8,372,437	6,937,020
Gross profit		1,425,901	1,164,653
Administrative expenses	26	473,867	464,516
Distribution cost	27	200,443	158,058
Other operating expenses	28	19,432	899
		693,742	623,473
Operating profit		732,159	541,180
Other operating income	29	6,277	7,503
		738,436	548,683
Finance cost	30	476,245	536,302
Profit for the year before taxation		262,191	12,381
Provision for taxation	31	97,791	47,000
Profit/(loss) for the year after taxation		164,400	(34,619)
Earnings/(loss) per share (Rs.) (Based on weighted average number of shares)	32	3.11	(0.68)

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

BASHIR H. ALIMOHAMMED
Chairman and Chief Executive

ZAIN BASHIR
Director

Cash Flow Statement

For The Year Ended June 30, 2007

	2007	2006
	Rs. 000s	
CASH FLOW FROM OPERATING ACTIVITIES		
Profit for the year before taxation	262,191	12,381
Adjustments for:		
Depreciation/amortization	425,712	392,622
Gratuity	4,519	8,293
Finance cost	483,526	587,049
Provision for slow moving/obsolete items	409	981
Provision for doubtful debts	489	940
Profit on sale of operating assets	(2,100)	(2,194)
Interest income/exchange differences	(7,281)	(50,747)
	1,167,465	949,325
Changes in working capital:		
(Increase)/decrease in current assets		
Stores, spares and loose tools	(17,805)	(32,488)
Stock-in-trade	263,141	(108,637)
Trade debts	(325,615)	85,007
Loans and advances	(26,484)	21,407
Deposits and prepayments	(5,079)	4,964
Other receivables	(99,027)	13,977
	(210,869)	(15,770)
Increase/(decrease) in current liabilities		
Trade and other payables	225,389	(196,623)
	14,520	(212,393)
Cash generated from operations	1,181,985	736,932
Payments for/receipts from:		
Gratuity	(4,626)	(8,228)
Finance cost	(508,205)	(553,426)
Income tax paid	(73,673)	(12,936)
Long term loans and advances	2,777	(699)
Net cash generated from operating activities	598,258	161,643
CASH FLOW FROM INVESTING ACTIVITIES		
Capital expenditure	(714,200)	(818,971)
Proceeds from sale of operating assets	6,522	7,856
Interest income/exchange differences	26,143	47,863
Long term deposits	(5,490)	(1,529)
Net cash used in investing activities	(687,025)	(764,781)

	2007	2006
	Rs. 000s	
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from long term loans	178,875	409,664
Repayments of long term loans	(356,882)	(73,993)
Right shares subscription	183,996	76,665
Net cash generated from financing activities	5,989	412,336
Net decrease in cash and cash equivalents	(82,778)	(190,802)
Cash and cash equivalents - at the beginning of the year	(3,899,586)	(3,708,784)
Cash and cash equivalents - at the end of the year	(3,982,364)	(3,899,586)

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include:

	2007	2006
Short term investment	—	426,193
Cash and bank balances	27,845	39,922
Short term borrowings	(4,010,209)	(4,365,701)
	(3,982,364)	(3,899,586)

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

BASHIR H. ALIMOHAMMED
Chairman and Chief Executive

ZAIN BASHIR
Director

Statement Of Changes In Equity

For The Year Ended June 30, 2007

Rs. 000s

	Share capital	Revenue reserve	Capital reserve	Unappropriated profit	Proposed bonus shares	Total
Balance as at June 30, 2005	383,325	1,770,000	71,721	5,371	38,332	2,268,749
Bonus shares issue	38,332	—	—	—	(38,332)	—
Issue of right shares	38,332	—	38,333	—	—	76,665
Loss for the year	—	—	—	(34,619)	—	(34,619)
Transfer from general reserve	—	(30,000)	—	30,000	—	—
Balance as at June 30, 2006	459,989	1,740,000	110,054	752	—	2,310,795
Issue of right shares	91,998	—	91,998	—	—	183,996
Profit for the year	—	—	—	164,400	—	164,400
Balance as at June 30, 2007	**551,987**	**1,740,000**	**202,052**	**165,152**	**—**	**2,659,191**

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

BASHIR H. ALIMOHAMMED
Chairman and Chief Executive

ZAIN BASHIR
Director

1. THE COMPANY AND ITS OPERATIONS

1.1 Gul Ahmed Textile Mills Limited is a public limited company incorporated in Pakistan and is listed on the Karachi and Lahore Stock Exchanges. It is engaged in the manufacture and sale of textile products.

2. BASIS OF PREPARATION

2.1 **Accounting convention**

Accounts of the Company have been prepared on historical cost convention except as has been stated below in respective policy notes.

2.2 **Statement of compliance**

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise of such International Accounting Standards as notified under the provision of the Companies Ordinance, 1984. Wherever, the requirements of the Companies Ordinance, 1984 or directive issued by the Securities and Exchange Commission of Pakistan (SECP) differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.3 **Accounting standards not yet effective**

The following new standards and amendments of approved accounting standards are applicable in Pakistan from the dates mentioned below against the respective standard or amendment:

IAS - 1 Presentation of Financial Statements amendments relating to capital disclosures	effective from accounting period beginning on or after January 1, 2007
IAS - 23 (Revised) Borrowing Costs	effective from accounting period beginning on or after January 1, 2009
IFRS -2 Share based Payment	effective from accounting period beginning on or after December 6, 2006
IFRS - 3 Business Combinations	effective for business combinations for which agreement date is on or after December 6, 2006
IFRS - 5 Non-current Assets Held for Sale and Discontinued Operations	effective from accounting period beginning on or after December 6, 2006

In addition, interpretations in relation to certain IFRSs have been issued by the International Accounting Standards Board that are not yet affective.

The Company expects that the adoption of the above standards, amendments and interpretations will have no impact on the Company's financial statements in the period of initial application.

2.4 **Functional and presentation currency**

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

2.5 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:

1) Provision for slow moving/obsolete items (note 16)
2) Provision for doubtful trade debts (note 18)
3) Provision for taxation (note 31)

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Foreign currency translation

Assets and liabilities in foreign currencies are translated into Pak Rupees at the rates ruling on the balance sheet date or as fixed under contractual agreements.

Foreign currency transactions are translated into Pak Rupees at the rates ruling on the transaction date or as fixed under contractual agreements.

Exchange differences on foreign currency loans are capitalized upto the date of commissioning of the respective qualifying assets, acquired out of the proceeds of such loans. Other exchange differences are included in current year's income.

3.2 Borrowing cost

Mark-up, interest and other charges on loans are capitalized upto the date of commissioning of the respective qualifying asset, acquired out of the proceeds of such loans. All other mark-up, interest, profit and other charges are charged to income.

3.3 Retirement benefits

The Company operates an approved funded contributory provident fund for its eligible employees to which equal monthly contribution is made both by the Company and the employees. The Company also operates an unfunded gratuity scheme for eligible employees who are not part of the provident fund scheme. Gratuity is payable to the employees under the law. Consequent to the adoption of IAS 19, the Company now accounts for gratuity provision on the basis of actuarial valuation on projected unit credit method.

3.4 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 in the balance sheet when the Company has legal or constructive obligation as a result of past event, and it is probable that outflow of economic benefits will be required to settle the obligation. However, provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

3.6 Taxation

Provision for current taxation is based on taxable income at the current rates of taxation after considering tax credits and rebates, if any. Deferred taxation is accounted for on all material temporary differences using the liability method.

3.7 **Property, plant and equipment**
Operating assets

These are stated at cost less accumulated depreciation except leasehold land which is stated at cost. No amortization 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 respective note. 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. Gains and losses on disposal of fixed assets are included in current year's income.

Capital work-in-progress

Capital work-in-progress is stated at cost.

3.8 **Intangible assets**

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

3.9 **Investments**
Investment in related parties

Investments are initially measured at cost. At subsequent reporting dates, 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 not exceeding the amount of original cost.

Investments held for trading

These are stated at fair value and changes in carrying values are included in profit and loss account.

Investments available for sale

These are stated at fair value and changes in carrying values are recognized in equity until investment is sold or determined to be impaired at which time accumulated gain or loss previously recognized in equity is included in profit and loss account for the year.

Investments held to maturity

These are stated at amortized cost, less impairment loss, if any, recognized to reflect irrecoverable amounts. Impairment losses are charged to profit and loss account.

3.10 **Stores, spares and loose tools**

These are valued at average cost and goods-in-transit are stated at actual cost.

3.11 **Stock-in-trade**

Raw materials are valued at average cost. Finished goods are valued at lower of average manufacturing cost and net realisable value. Work-in-process is valued at average cost of raw materials plus a proportion of the production overheads. Waste products are valued at net realisable value. Goods-in-transit are stated at actual cost.

3.12 **Trade debts**

Trade debts are carried at original invoice amount. Debts considered irrecoverable are written off and provision is made for debts considered doubtful.

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 cost, as the case may be.

3.15 **Derivative financial instruments**

The Company uses derivative financial instruments to hedge its risks associated with interest and exchange rate fluctuations. Derivative financial instruments are carried as assets when fair value is positive and liabilities when fair value is negative. Any change in the fair value of the derivative financial instruments is taken to the profit and loss account.

3.16 **Offsetting of financial assets and liabilities**

A financial asset and financial liability is 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.

3.17 **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 exists the assets recoverable amount 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.

3.18 **Revenue recognition**

Sales are recorded on despatch of goods to buyers.
Return on investment is recognised on accrual basis.

3.19 **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 on hand, with banks on current, savings and deposit accounts, running finance under mark-up arrangements and short-term finance.

3.20 **Dividend and appropriation to reserves**

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

			2007	2006
			Rs. 000s	

4. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2007	2006		2007	2006
30,517,756	21,317,967	Ordinary shares of Rs.10 each fully paid in cash	305,177	213,179
5,447,326	5,447,326	Ordinary shares of Rs.10 each fully paid under scheme of arrangement for amalgamation	54,473	54,473
19,233,656	19,233,656	Ordinary shares of Rs.10 each issued as fully paid bonus shares	192,337	192,337
			551,987	459,989

5. RESERVES

	2007	2006
Revenue reserve		
General reserve	1,740,000	1,770,000
Add/less: Transfer from/to profit and loss account	–	(30,000)
	1,740,000	1,740,000
Capital reserve		
Share premium	88,495	50,162
Add: Premium on right shares issued during the year	91,998	38,333
	180,493	88,495
Book difference of share capital under scheme of arrangement for amalgamation	21,559	21,559
	202,052	110,054
	1,942,052	1,850,054

6. LONG TERM LOANS - SECURED

		2007	2006
6.1	Habib Bank Limited Loan 3	466,664	700,000
6.2	Habib Bank Limited Loan 4	118,400	—
6.3	United Bank Limited Loan 1	75,000	125,000
6.4	United Bank Limited Loan 2	500,000	500,000
6.5	NIB Bank Limited	—	11,250
6.6	National Bank of Pakistan Loan 1	263,929	700,000
6.7	National Bank of Pakistan Loan 1-A	373,775	—
6.8	National Bank of Pakistan Loan 2	145,767	180,000
6.9	National Bank of Pakistan Loan 2-A	34,233	—
6.10	Suppliers Credit	229,664	229,664
6.11	Bank Al-Habib Limited Loan 1	27,775	—
6.12	Habib Metropolitan Bank Limited Loan 1	32,700	—
		2,267,907	2,445,914
Less: Current maturity shown under current liabilities		495,900	294,583
		1,772,007	2,151,331

6.1 Habib Bank Limited Loan 3 is repayable in six half yearly equal installments commencing from September, 2006. Mark-up is payable on six month KIBOR Ask Rate plus 60 basis points, immediately preceding the mark-up payment period with no floor and no cap. State Bank of Pakistan (SBP) has allowed swap of loans meeting specified conditions to the SBP's scheme of Long Term Finance - Export Oriented Projects (LTF-EOP). This loan has been approved for swap under the LTF-EOP scheme from October, 2006 and is now repayable in 5 half yearly equal installments commencing from April 21, 2007, with revised mark-up payable quarterly @ 6% p.a. The loan is secured by equitable mortgage charge over land, building, plant and machinery of the Company.

6.2 Out of Habib Bank Limited Loan 4 of Rs. 118.400 million, Rs. 64.995 million is repayable in 12 half yearly equal installments commencing from June, 2009. Mark-up is payable quarterly @ 7% p.a. For the balance amount finalisation of payment terms and mark-up rate is pending. Presently bank is charging mark-up @ 11.02% p.a. The loan is secured by equitable mortgage charge over land, building, plant and machinery of the Company.

6.3 United Bank Limited Loan 1 is repayable in eight half yearly equal installments commencing from September, 2002. Mark-up is payable half yearly @ 2.50% above prevailing SBP's discount rate at the time of due date of the relevant installments or six months T-Bill+1.50%, whichever is higher. This amount is now repayable in six half yearly equal installments commencing from March, 2006. Mark-up is payable half yearly at six months T-Bill cut-off yield immediately preceding the mark-up payment date plus 1%. The loan is secured by way of pari passu charge over the fixed assets of the Company.

6.4 United Bank Limited Loan 2 is repayable at the time of maturity in September, 2008. Mark-up is payable half yearly @ 0.85% above six months T-Bill cut-off yield immediately preceding the mark-up payment date upto March 27, 2005. Effective from March 28, 2005 mark-up rate has been swapped @ 8.30% fixed rate plus 0.85%. The loan is secured by way of hypothecation of stock, book debts and receivables.

6.5 NIB Bank Limited Loan was repaid during the year.

6.6 Out of the National Bank of Pakistan Loan 1 of Rs. 700 million, a portion of the loan Rs. 436.071 million has been swapped under the LTF-EOP scheme and is shown under note 6.7. The balance amount of Rs. 263.929 million is repayable in six half yearly equal installments commencing from December, 2007. Mark-up is payable half yearly on average six months KIBOR Ask Rate+1.25% prevailing on the disbursement date and then on the immediately preceding day before the start of each semi-annual period. The loan is secured by first pari passu charge over moveable fixed assets of the Company.

6.7 As stated in note 6.6 above this amount is the converted portion of the original loan of Rs. 700 million (from National Bank of Pakistan) which has been approved for swap under the LTF-EOP scheme from December, 2006 and is now payable in seven half yearly equal installments commencing from June, 2007. Mark-up is payable quarterly @ 7% p.a. The loan is secured by first pari passu charge over moveable fixed assets of the Company.

6.8 Out of National Bank of Pakistan Loan 2 of Rs.180 million, a portion of the loan Rs. 34.233 million has been swapped under the LTF-EOP scheme and is shown under note 6.9. The balance amount of Rs.145.767 million is repayable in six half yearly equal installments commencing from September, 2008. Mark-up is payable half yearly on average six months KIBOR Ask Rate+1.50% prevailing on the disbursement date and then on the immediately preceding day before the start of each semi-annual period. The loan is secured by first pari passu charge over present and future fixed assets of the Company, and equitable mortgage over land.

6.9 As stated in note 6.8 above this amount is the converted portion of the original loan of Rs.180 million (from National Bank of Pakistan) which has been approved under the LTF-EOP scheme from December, 2006 and is now payable in six half yearly equal installments commencing from September, 2008. Mark-up is payable quarterly @ 7% p.a. The loan is secured by first pari passu charge over present and future fixed assets of the Company, and equitable mortgage over land.

6.10 Supplier Credit is payable in November, 2007 and does not carry any interest or mark-up and is secured against letter of credit. The supplier credit on maturity will be refinanced under the SBP LTF-EOP scheme.

6.11 Bank Al-Habib Ltd Loan 1 is repayable in 12 half yearly equal installments commencing from December, 2008. Mark-up is payable quarterly @ 7% p.a. The loan is secured by hypothecation charge over specified machinery.

6.12 Habib Metropolitan Bank Ltd Loan 1 is repayable in 12 half yearly equal installments commencing from March, 2009 and April, 2009. Mark-up is payable quarterly @ 7% p.a. The loan is secured by hypothecation charge over specified machinery.

7. DEFERRED LIABILITIES

	2007	2006
	Rs. 000s	
Taxation - 7.1	**91,773**	68,273
Gratuity - 7.2	**6,052**	6,159
	97,825	74,432

7.1 Deferred taxation

	2007	2006
Opening balance	**68,273**	68,273
Provision during the year	**23,500**	—
	91,773	68,273

This represents the net deferred tax liability arising mainly due to temporary differences in respect of accelerated tax depreciation allowance and deductible temporary differences in respect of provision against gratuity, doubtful debts and slow moving items.

7.2 Gratuity

	2007	2006
Opening balance as at July 1	**6,159**	6,094
Provision during the year	**4,519**	8,293
	10,678	14,387
Paid during the year	**(4,626)**	(8,228)
Closing balance as at June 30	**6,052**	6,159

Following significant assumptions have been made for the purpose of actuarial valuation.

- Expected rate of increase in salary	9% p.a.
- Discount rate	10% p.a.
- Mortality rate	EFU 61-66 mortality table
- Withdrawal rate	Age dependant

	2007	2006
	Rs. 000s	

8. SHORT TERM BORROWINGS - SECURED

	2007	2006
Short term bank borrowings	3,340,449	4,257,065
Short term running finance	519,760	108,636
Murabaha	150,000	—
	4,010,209	4,365,701

Short term borrowing includes Rs. 3,510 million (2006: Rs. 3,474 million) which is secured by pari passu hypothecation charge over stores and spares, stock-in-trade, trade debts and other receivables, Rs. 500 million (2006: Rs. 500 million) which is secured against charge over the fixed assets. Unavailed facility at the year end was Rs. 2,500 million (2006: Rs. 2,448 million).

Mark-up rates range from 5.74% to 13.15% (2006: 3.58% to 10.88%) per annum.

9. TRADE AND OTHER PAYABLES

	2007	2006
Creditors	603,888	464,598
Due to associated undertakings	2,262	190
Accrued expenses	243,201	183,350
Workers' profit participation fund (note 9.1)	14,172	1,578
Unclaimed dividend	352	360
Others	15,654	4,064
	879,529	654,140

9.1 Workers' profit participation fund

	2007	2006
Opening balance as at July 1	1,578	7,680
Provision for the year	14,081	664
Interest for the year	92	914
	15,751	9,258
Less: Payments made during the year	1,578	7,680
Closing balance as at June 30	14,172	1,578

10. ACCRUED INTEREST

	2007	2006
Interest/mark-up accrued on loans (secured)	32,439	37,576
Mark-up on short term borrowings (secured)	62,849	82,391
	95,288	119,967

11. CONTINGENCIES AND COMMITMENTS

11.1 The Company is contingently liable for:

(a) Rs. 107 million (2006: Rs. 88 million) against guarantees issued by Banks which are secured by pari passu hypothecation charge over stores and spares, stock-in-trade, trade debts and other receivables.

(b) Post dated cheques Rs. 4 million (2006: Rs. 10 million) issued to various Government Agencies.

(c) Bills discounted Rs. 47 million (2006: Rs. 369 million).

(d) Corporate guarantee of Rs. 24.554 million (2006: Rs. NIL) has been issued to a bank in favour of subsidiary company.

11.2 The Company has filed a suit for recovery of Rs. 33.409 million (2006: Rs. 33.409 million) included in other receivable. 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.

11.3 The Company is committed for capital expenditure as at June 30, 2007 of Rs. 283 million (2006: Rs. 169 million).

11.4 The Company is committed for non capital expenditure items under letters of credits as at June 30, 2007 of Rs. 215 million (2006: Rs. 23 million).

12. PROPERTY, PLANT AND EQUIPMENT

	2007	2006
	Rs. 000s	
Operating assets - 12.1	**4,485,121**	3,547,811
Capital work in progress - 12.2	**217,705**	862,419
	4,702,826	4,410,230

12.1 OPERATING ASSETS

	Leasehold land	Buildings on leasehold land	Plant and machinery	Office equipment	Furniture and fixtures	Transport equipment	Total
	Rupees in thousand						
Net carrying value basis year ended June 30, 2007							
Opening net book value (NBV)	233,755	466,566	2,639,998	83,827	31,557	92,108	3,547,811
Addition/transfer (at Cost)	352	574,811	721,382	16,047	18,868	22,548	1,354,008
Disposal/transfer at NBV	—	—	(199)	(334)	(131)	(3,758)	(4,422)
Depreciation charge	—	(70,253)	(294,101)	(20,533)	(5,210)	(22,180)	(412,276)
Closing net book value	**234,107**	**971,124**	**3,067,080**	**79,007**	**45,084**	**88,718**	**4,485,121**
Gross carrying value basis as at June 30, 2007							
Cost	234,107	1,377,695	5,814,999	221,721	70,310	209,027	7,927,859
Accumulated depreciation	—	(406,571)	(2,747,919)	(142,714)	(25,226)	(120,309)	(3,442,738)
Net book value	**234,107**	**971,124**	**3,067,080**	**79,007**	**45,084**	**88,718**	**4,485,121**
Net carrying value basis year ended June 30, 2006							
Opening net book value (NBV)	233,655	435,237	2,569,699	92,769	34,047	104,939	3,470,346
Addition/transfer (at Cost)	100	83,170	348,535	14,612	1,693	14,350	462,460
Disposal/transfer at NBV	—	—	—	(1,056)	(453)	(4,153)	(5,662)
Depreciation charge	—	(51,841)	(278,236)	(22,498)	(3,730)	(23,028)	(379,333)
Closing net book value	**233,755**	**466,566**	**2,639,998**	**83,827**	**31,557**	**92,108**	**3,547,811**
Gross carrying value basis as at June 30, 2006							
Cost	233,755	802,884	5,096,043	207,701	51,829	198,430	6,590,642
Accumulated depreciation	—	(336,318)	(2,456,045)	(123,874)	(20,272)	(106,322)	(3,042,831)
Net book value	**233,755**	**466,566**	**2,639,998**	**83,827**	**31,557**	**92,108**	**3,547,811**
Depreciation rate % per annum	**—**	**10**	**10**	**15 to 30**	**10 to 12**	**20**	

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

		2007	2006
Cost of goods manufactured	(note 25.1)	**365,571**	331,374
Administrative expenses	(note 26)	**46,705**	47,958
		412,276	379,332

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

Particulars	Cost	Written down value	Sale proceeds	Particulars of purchasers
Plant and machinery	2,426	199	200	Standard Textile Mills Ltd. 504, Haji Adamjee Chamber 5th Floor, New Challi Karachi
Office equipment, furniture and fixtures	2,383	459	—	Scrapped
Transport equipment	1,209	270	572	Mr. Muhammad Amir House No.B-514, Sector-11/E North Karachi
	464	129	186	Mr. Imran Ahmed A/435, Block No.1 Gulshan-e-Iqbal Karachi
	555	155	290	Mr. Nauman Shamim House No.B-24 Noveed Cottage Gulistan-e-Johar, Block#17 Karachi
	765	213	306	Ms. Perveen S-36 Jami Staff Lane No.2 Phase II (Ext) DHA Karachi
	3,438	1,582	2,190	Swisstex Chemicals (Pvt) Ltd. E-54, SITE Karachi
	355	79	203	Mr. Yasir Nishan Malik House No.10-D/2 Haji Commercial Phase VIII DHA, Karachi
	729	130	292	Mr. Moosa S/o Abdul Ghani House No. A-45 N.D. Colony Block#4, Gulshan-e-Iqbal Karachi
	1,125	313	455	Syed Mohammad Atif Qazzafi House No. R-167, Street/Sector Z-6 Gulshan-e-Maymar Karachi
	399	89	124	Mr. Muhammed Zarif Khan S/o Qasim Khan House No. B-433, Street No.8 Landhi Town Karachi

Particulars	Cost	Written down value	Sale proceeds	Particulars of purchasers
Transport equipment (continued)	399	89	118	Mr. Shaikh Muhammad Ejaz S/o Sheikh Muhammad Rafiq House No. C-28 PECHS, Block-2 Karachi.
	469	131	188	Mr. Nasir Ali Khan S/o Ghulam Ali Khan House No. C-40/1, Sector 11-B North Karachi
	981	470	1,000	Insurance claim
Written down value below Rs. 50,000 each	1,094	114	398	Various
2007	**16,791**	**4,422**	**6,522**	
2006	19,277	6,915	9,921	

	2007	2006
	Rs. 000s	

12.2 CAPITAL WORK-IN-PROGRESS

	2007	2006
Machinery under installation	192,122	340,625
Building construction	22,227	517,988
Store items held for capitalization	3,356	3,806
	217,705	862,419

13. INTANGIBLE - COMPUTER SOFTWARE

	2007	2006
Net carrying value basis - year ended June 30		
Opening net book value (NBV)	38,965	16,035
Additions (at cost)	4,906	36,220
Amortisation charge - note 13.1	(13,436)	(13,290)
Closing net book value	30,435	38,965
Gross carrying value basis- as at June 30		
Cost	78,558	73,652
Accumulated amortisation	(48,123)	(34,687)
Net book value	30,435	38,965

13.1 The cost is being amortised over a period of five years.

14. LONG TERM INVESTMENT

Subsidiary-unquoted

	2007	2006
Gul Ahmed International Limited - FZC 10,000 (2006: 10,000) Ordinary shares of USD 100 each Equity held 100 % (2006: 100%) Value of investment based on the net assets shown in the audited accounts as at June 30, 2007 Rs. 105 million (2006: Rs. 93 million)	58,450	58,450

15. LONG TERM LOANS AND ADVANCES

	2007	2006
Considered good, due from		
Executives		
Opening balance as at July 1	8,458	8,310
Add: Disbursement	1,279	7,020
	9,737	15,330
Less: Repayment	(3,342)	(6,872)
Closing balance as at June 30	6,395	8,458
Less: Receivable within one year	(2,350)	(2,448)
	4,045	6,010
Other employees	2,160	3,604
Less: Receivable within one year	(1,262)	(1,894)
	898	1,710
	4,943	7,720

15.1 Loans and advances have been given for the purchase of cars, scooters and household equipment and housing assistance in accordance with the terms of employment and are repayable in monthly installments. These loans are secured against retirement benefits and other dues of the employees. Maximum balance due from executives at the end of any month during the year was Rs. 8 million (2006: Rs. 9 million)

	2007	2006
	Rs. 000s	

16. STORES, SPARES AND LOOSE TOOLS

	2007	2006
Stores including in transit Rs. 1 million (2006: Rs. 1 million)	227,386	187,448
Spares including in transit Rs. 7 million (2006: Rs. 6 million)	181,995	204,061
Loose tools	2,815	2,882
	412,196	394,391
Less: Provision for slow moving/obsolete items	24,918	24,509
	387,278	369,882

17. STOCK-IN-TRADE

	2007	2006
Raw materials	467,213	792,329
Work-in-process	89,888	80,616
Finished goods	1,697,043	1,644,340
	2,254,144	2,517,285

18. TRADE DEBTS - UNSECURED

	2007	2006
Considered good	2,164,671	1,839,545
Considered doubtful	22,970	22,481
	2,187,641	1,862,026
Less: Provision for doubtful trade debts	22,970	22,481
	2,164,671	1,839,545

18.1 Includes Rs. 88 million (2006: Rs. 314 million) due from related parties.

18.2 The maximum aggregate month end balance due from related parties during the year is Rs. 272 million (2006: Rs. 398 million).

19. LOANS AND ADVANCES

Considered good

	2007	2006
Current portion of loans and advance to employees (note 15)	3,612	4,342
Suppliers	69,759	43,321
Advance income tax	97,429	70,756
Letter of credit	947	171
	171,747	118,590

20. DEPOSITS AND PREPAYMENTS

	2007	2006
Prepayments	19,050	13,971

	2007	2006
	Rs. 000s	

21. OTHER RECEIVABLES

	2007	2006
Accrued interest	99	18,961
Sales tax refundable	40,759	58,218
Research and development claim	115,124	—
Duty drawback receivable	32,390	39,346
Derivative financial instrument (note 21.1)	9,105	—
Others	54,795	55,582
	252,272	172,107

21.1 During the year the Company entered into a Pak Rupees (PKR) to US Dollars (USD) cross currency swap to counter its under lying PKR floating rate liability into a USD floating rate liability for a notional amount of Rs. 1,000 million equivalent to USD 16.442 million. This notional amount is reduced every six months and will stand fully adjusted in May, 2011. Under the arrangement, the Company would receive/pay the difference of 6 months KIBOR and 6 months LIBOR plus 1.10% semi annually and the difference of PKR/USD spot rate prevailing at commencement date and end date of every six months period. Value outstanding as at the end of June, 2007 is Rs. 888.888 million equivalent to USD 14.631 million.

22. SHORT TERM INVESTMENT - AVAILABLE FOR SALE

	2007	2006
US Dollar bonds (USD NIL (2006: USD 7.086 million))	—	426,193

23. CASH AND BANK BALANCES

		2007	2006
In hand		1,859	1,461
With banks in	- current accounts	9,172	4,961
	- short term deposits	16,814	33,500
		27,845	39,922

	2007	2006
	Rs. 000s	

24. SALES

	2007	2006
Local	4,091,601	3,617,337
Export		
Direct export	5,780,395	4,484,323
Indirect export	—	144,202
	5,780,395	4,628,525
	9,871,996	8,245,862
Less: Brokerage and commission	24,242	23,042
Freight and insurance	49,416	121,147
	9,798,338	8,101,673

24.1 Sales are exclusive of sales tax amounting Rs. 6.259 million (2006: Rs. 3.778 million).

25. COST OF SALES

	2007	2006
Opening stock of finished goods	1,644,340	1,547,675
Add: Cost of goods manufactured (note 25.1)	6,387,763	6,053,756
Purchases and processing charges	2,037,377	979,929
	10,069,480	8,581,360
Less: Closing stock of finished goods	1,697,043	1,644,340
	8,372,437	6,937,020

25.1 Cost of goods manufactured

	2007	2006
Raw materials consumed (note 25.2)	2,931,455	3,149,545
Stores consumed	1,059,525	830,862
Salaries, wages and benefits	1,001,209	824,603
Fuel, power and water	827,170	749,471
Insurance	34,495	36,762
Repairs and maintenance	179,006	164,488
Depreciation	365,571	331,374
Other expenses	32,508	26,520
Cost of samples shown under distribution cost	(33,904)	(33,549)
	6,397,035	6,080,076
Work-in-process		
Opening	80,616	54,296
Closing	(89,888)	(80,616)
	(9,272)	(26,320)
	6,387,763	6,053,756

Salaries, wages and benefits include Rs. 15 million (2006: Rs. 15 million) and Rs. 18 million (2006: Rs. 15 million) in respect of retirement benefits and staff compensated absences respectively.

25.2 Raw materials consumed

	2007	2006
Opening stock	792,329	751,546
Purchases during the year	2,606,339	3,190,328
Closing stock	(467,213)	(792,329)
	2,931,455	3,149,545

	2007	2006
26. ADMINISTRATIVE EXPENSES	**Rs. 000s**	
Salaries and benefits	**220,377**	213,098
Rent, rates and taxes	**25,377**	19,038
Repairs and maintenance	**14,462**	12,758
Vehicle up keep	**36,083**	34,131
Conveyance and traveling	**39,208**	40,685
Printing and stationery	**24,119**	27,830
Postage and telecommunication	**23,432**	24,212
Legal and consultancy fees	**11,818**	12,410
Depreciation/amortization	**60,141**	61,248
Auditors' remuneration (note 26.1)	**190**	192
Donations (note 26.2)	**3,099**	2,017
Insurance	**4,571**	4,700
Bad/doubtful debts	**489**	940
Provision for slow moving/obsolete items	**409**	981
Other expenses	**10,092**	10,276
	473,867	464,516

Salaries and benefits include Rs. 9 million (2006: Rs. 10 million) and Rs. 6 million (2006: Rs. 4 million) in respect of retirement benefit and staff compensated absences respectively.

26.1 **Auditors' remuneration**

	2007	2006
Audit fee	**125**	125
Half yearly review	**30**	30
Audit of workers' profit participation fund and other services	**2**	2
Out of pocket expenses	**33**	35
	190	192

26.2 None of the Directors or their spouses have any interest in the donees.

	2007	2006
27. DISTRIBUTION COST		
Shipment expenses	**53,461**	66,569
Advertisement and publicity	**70,264**	37,201
Cost of samples transferred from cost of goods manufactured	**33,904**	33,549
Rent, rates and taxes	**22,793**	11,060
Other expenses	**20,021**	9,679
	200,443	158,058
28. OTHER OPERATING EXPENSES		
Workers' profit participation fund	**14,081**	664
Workers' welfare fund	**5,351**	235
	19,432	899

	2007	2006
	Rs. 000s	

29. OTHER OPERATING INCOME

	2007	2006
Profit on sale of operating assets	2,100	2,194
Scrap sales	4,122	4,702
Others	55	607
	6,277	7,503

30. FINANCE COST

	2007	2006
Interest/mark-up on long term loans	180,716	194,366
Mark-up on short term borrowings	284,790	375,223
Interest on workers' profit participation fund	92	914
Bank charges	17,928	16,546
	483,526	587,049
Interest income/exchange differences	(7,281)	(50,747)
	476,245	536,302

31. PROVISION FOR TAXATION

	2007	2006
Current	67,352	47,000
Prior	6,939	—
Deferred	23,500	—
	97,791	47,000

31.1 Reconciliation between accounting profit and tax expense

	2007	2006
Net profit for the year before taxation	262,191	12,381
Tax at the applicable tax rate of 35%	91,767	4,333
Effect of income assessed under presumptive tax regime	1,764	55,065
Effect of expenses deductible for tax purposes less inadmissible expenses	(26,179)	(12,398)
	67,352	47,000

32. EARNINGS PER SHARE

	2007	2006
Profit/(loss) for the year	164,400	(34,619)
Number of shares	52,887,995	51,237,465
Earnings/(loss) per share (Rs.)	3.11	(0.68)

33. REMUNERATION OF DIRECTORS AND EXECUTIVES

	2007				Rs. 000s 2006			
	Chief Executive	**Directors**	**Executives**	**Total**	Chief Executive	Directors	Executives	Total
Managerial remuneration	**2,400**	**5,200**	**55,573**	**63,173**	2,400	5,200	60,096	67,696
House rent allowance	**960**	**2,080**	**22,229**	**25,269**	960	2,080	24,039	27,079
Other allowances	**440**	**1,370**	**17,650**	**19,460**	440	1,261	18,489	20,190
	3,800	**8,650**	**95,452**	**107,902**	3,800	8,541	102,624	114,965
Number of persons	**1**	**3**	**54**	**58**	1	3	58	62

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

33.2 The Chief Executive and some Directors are also provided with free residential telephones.

33.3 Aggregate amount charged in the accounts for the year for meeting fee to two Directors was Rs. 3 (000) (2006: three Directors Rs. 3 (000))

34. RESEARCH AND DEVELOPMENT SUPPORT

Support on account of research and development	**246,964**
Less : Utilization	
Product development	**82,776**
Skill development and training	**13,550**
Upgradation of information technology	**25,584**
Professional consultancy	**3,600**
Market research	**67,884**
Environment improvement	**26,996**
Resource conservation	**20,530**
Production efficiencies	**7,462**
Participation in exhibition	**11,223**
	259,605
Net expenses	**(12,641)**

Research and development support is allowed by the Government of Pakistan in terms of SRO 803(I)/2006 dated August 4, 2006 issued by Ministry of Textile Industries in order to encourage research and development in textile value added sector.

35. TRANSACTIONS WITH RELATED PARTIES

The 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	2007 (Rs. 000s)	2006
Subsidiaries	Purchase of goods	**—**	1,629
	Sale of goods	**567,894**	849,972
Associated Companies and other related parties	Purchase of goods	**29,749**	12,425
	Sale of goods	**22,732**	1,027
	Rent paid	**3,900**	—
	Fees paid	**1,500**	1,500
	Deposit with bank (at year end)	**21,824**	1,695
	Borrowing from bank (at year end)	**420,675**	—
	Bank Guarantee (at year end)	**53,779**	—
	Bills discounted	**66,067**	71,133
	Commission/Bank charges paid	**2,303**	—
	Mark-up/interest paid	**18,579**	817
	Mark-up/interest earned	**444**	—

There are no transactions with directors of the Company and key management personnel other than under the terms of employment. Remuneration of the key management personnel is disclosed in Note 33.

The related parties status of outstanding receivables and payable as at June 30, 2007 are included in respective notes to the financial statements.

36. EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors in their meeting held on October 2, 2007 has proposed transfer to general reserve from un-appropriated profit of Rs. 160 million (2006: transfer from general reserve Rs. 30 million) subject to the approval of members at the Annual General Meeting to the held on October 31, 2007.

37. CAPACITY AND PRODUCTION

		2007		(000s)	2006	
	Unit	Capacity	Production	Working	Capacity	Production
Cloth	Sq. meters (50 Picks converted)	79,238	74,741	3 shifts	79,238	70,278
Yarn	Kgs. (20 Counts converted)	36,186	31,711	3 shifts	36,455	33,551

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

38. FINANCIAL ASSETS AND LIABILITIES

Rs. 000s

	Interest/mark-up bearing			Non Interest/mark-up bearing			2007 Total	2006 Total
	Maturity upto one year	Maturity after one year	Sub Total	Maturity upto one year	Maturity after one year	Sub Total		
Financial assets								
Long term loans	—	—	—	—	4,943	4,943	4,943	7,720
Long term deposits	—	—	—	—	10,579	10,579	10,579	5,089
Trade debts	—	—	—	2,164,671	—	2,164,671	2,164,671	1,839,545
Loans and advances	—	—	—	3,612	—	3,612	3,612	4,342
Deposits and prepayments	—	—	—	36	—	36	36	228
Other receivables	—	—	—	63,999	—	63,999	63,999	74,543
Short term investment	—	—	—	—	—	—	—	426,193
Cash and bank balances	16,814	—	16,814	11,031	—	11,031	27,845	39,922
	16,814	—	16,814	2,243,349	15,522	2,258,871	2,275,685	2,397,582
Financial liabilities								
Long term loans	495,900	1,772,007	2,267,907	—	—	—	2,267,907	2,445,914
Short term borrowings	4,010,209	—	4,010,209	—	—	—	4,010,209	4,365,701
Trade and other payables	14,172	—	14,172	835,002	—	835,002	849,174	636,934
Accrued interest	—	—	—	95,288	—	95,288	95,288	119,967
	4,520,281	1,772,007	6,292,288	930,290	—	930,290	7,222,578	7,568,516
Off balance sheet items								
Financial commitments								
Guarantees	—	—	—	106,670	—	106,670	106,670	88,934
Bills discounted	—	—	—	46,818	—	46,818	46,818	369,419
Commitments	—	—	—	498,356	—	498,356	498,356	192,355
	—	—	—	651,844	—	651,844	651,844	650,708
	4,520,281	**1,772,007**	**6,292,288**	**1,582,134**	**—**	**1,582,134**	**7,874,422**	**8,219,224**

The effective interest/mark-up rates for the monetary financial assets/liabilities are mentioned in the respective notes to the financial statements.

38.1 Concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed to perform as contracted. The Company believes that it is not exposed to major concentration of credit risk. Out of the total financial assets of Rs. 2,275.685 million (2006: Rs. 2,397.582 million), the financial assets which are subject to credit risk amounted to Rs. 2,239.285 million (2006: Rs. 1,919.405 million).

38.2 Foreign exchange risk management

Foreign currency risk arises when receivables and payables exist due to transactions with foreign undertakings. Payables exposed to foreign currency risk are covered partially through forward foreign exchange contracts and partially through hedging by purchase of US Dollar bonds.

38.3 Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Company usually borrows funds at fixed and market based rates and as such the risk is minimized.

38.4 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. Company treasury aims at maintaining flexibility in funding by keeping committed credit lines available.

38.5 Fair value of financial assets and liabilities

The carrying amounts of the financial assets and liabilities approximate their fair values.

39. DATE OF AUTHORIZATION

These financial statements were authorized for issue on October 2, 2007 by the Board of Directors of the Company.

40. GENERAL

Figures have been rounded off to the nearest thousand rupees.

BASHIR H. ALIMOHAMMED
Chairman and Chief Executive

ZAIN BASHIR
Director

ATTENDANCE AT BOARD MEETINGS
For The Year Ended June 30, 2007

Name of Director	Total number of meetings	Number of meeting attended
Bashir H. AliMohammed	4	4
A. Razak Haji Sattar	4	3
Yasin Haji Kassam	4	2
Younus Haji Latif	4	0
Zain Bashir	4	3
Ziad Bashir	4	3
Abdul Aziz Yousuf	4	4

Pattern Of Shareholding

As At June 30, 2007

No. of Shareholders	Shareholding				Shares held
870	From	1	to	100	35,800
756	From	101	to	500	159,103
165	From	501	to	1,000	115,078
114	From	1,001	to	5,000	226,204
25	From	5,001	to	10,000	182,427
8	From	10,001	to	15,000	103,110
4	From	15,001	to	20,000	69,703
2	From	20,001	to	25,000	41,316
3	From	25,001	to	30,000	79,423
1	From	30,001	to	35,000	34,719
1	From	35,001	to	40,000	37,202
3	From	40,001	to	45,000	124,776
4	From	60,001	to	65,000	252,988
3	From	70,001	to	75,000	214,339
2	From	75,001	to	80,000	155,706
1	From	100,001	to	105,000	103,282
1	From	125,001	to	130,000	128,348
1	From	135,001	to	140,000	135,620
1	From	140,001	to	145,000	140,414
1	From	180,001	to	185,000	182,966
1	From	190,001	to	195,000	194,778
1	From	195,001	to	200,000	196,650
1	From	210,001	to	215,000	214,560
1	From	220,001	to	225,000	222,886
1	From	225,001	to	230,000	225,304
1	From	230,001	to	235,000	233,173
1	From	240,001	to	245,000	240,156
1	From	245,001	to	250,000	248,908
2	From	255,001	to	260,000	517,816
1	From	260,001	to	265,000	264,846
2	From	265,001	to	270,000	535,716
1	From	275,001	to	280,000	278,986
1	From	290,001	to	295,000	290,092
1	From	310,001	to	315,000	314,132
1	From	325,001	to	330,000	329,035
1	From	370,001	to	375,000	374,666
1	From	385,001	to	390,000	387,908
1	From	415,001	to	420,000	416,211
1	From	455,001	to	460,000	455,694
1	From	475,001	to	480,000	477,526
1	From	510,001	to	515,000	512,546
1	From	555,001	to	560,000	556,030
1	From	560,001	to	565,000	563,088
1	From	580,001	to	585,000	584,670
1	From	590,001	to	595,000	592,497
4	From	605,001	to	610,000	2,432,068
1	From	740,001	to	745,000	742,623
1	From	780,001	to	785,000	784,760
1	From	915,001	to	920,000	919,924
1	From	1,210,001	to	1,215,000	1,211,487
1	From	1,505,001	to	1,510,000	1,507,176
1	From	2,035,001	to	2,040,000	2,037,009
1	From	2,580,001	to	2,585,000	2,582,461
1	From	3,410,001	to	3,415,000	3,411,546
1	From	4,810,001	to	4,815,000	4,814,260
1	From	5,380,001	to	5,385,000	5,382,446
1	From	5,390,001	to	5,395,000	5,394,536
1	From	6,025,001	to	6,030,000	6,025,748
1	From	6,200,001	to	6,205,000	6,202,296
2,010					**55,198,738**

Categories of Shareholders	Number	Shares held	Percentage
Individuals	1,964	40,043,798	72.54
Investment Companies	21	1,705,071	3.09
Insurance Companies	5	2,465,198	4.47
Joint Stock Companies	6	19,762	0.04
Modaraba Companies	5	144,838	0.26
Financial Institutions	3	10,980	0.02
Foreign Investors	2	10,776,982	19.52
Charitable Institutions	2	26,614	0.05
Government Departments	2	5,495	0.01
	2,010	**55,198,738**	**100.00**

Pattern Of Shareholding As At June 30, 2007

Additional Information

Categories of Shareholders	Number	Shares held
NIT and ICP		
Investment Corporation of Pakistan	1	1,719
National Bank of Pakistan - Trustee Department	1	1,507,176
Investment Companies and Mutual Funds	19	196,176
Insurance Companies	5	2,465,198
Joint Stock Companies	6	19,762
Modaraba Companies	5	144,838
Financial Institutions	3	10,980
Foreign Investors	2	10,776,982
Charitable Institutions	2	26,614
Government Departments	2	5,495
DIRECTORS		
Bashir H. Ali Mohammed (Chief Executive)	1	3,411,546
A. Razak Haji Sattar	1	784,760
Yasin Haji Kassam	1	248,908
Younus Haji Latif	1	4,048
Zain Bashir	1	4,814,260
Ziad Bashir	1	6,025,748
Abdul Aziz Yousuf	1	4,048
DIRECTORS'/CEO'S SPOUSES		
Parveen Haji Bashir	1	2,582,461
Jamila Bai A. Razak	1	455,694
Zohra Bai Haji Yasin	1	194,778
Momin Bai Haji Younus	1	62,576
Tania Zain	1	1,211,487
Shareholders holding 10% or more voting interest		
Ziad Bashir (Director)	1	6,025,748
Zaki Bashir	1	6,202,296

Detail of trading in the shares by:

Directors, CEO, CFO, Company Secretary, their spouses and minor childern

No trading was carried out by Directors, CEO, CFO, Company Secretary, their Spouses and minor children during the year under review.

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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) and GTM (Europe) Limited (the Subsidiaries) as at June 30, 2007 and the related consolidated Profit and Loss Account, 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. 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 present fairly the financial position of the Holding Company and its Subsidiaries as at June 30, 2007 and the results of their operations for the year then ended.

GARDEZI & CO.
Chartered Accountants

Karachi
October 2, 2007

Consolidated Balance Sheet As At June 30, 2007

	Note	2007	2006
		Rs. 000s	
SHARE CAPITAL AND RESERVES			
Authorised capital 75,000,000 ordinary shares of Rs. 10 each		**750,000**	500,000
Issued, subscribed and paid-up capital	4	**551,987**	459,989
Reserves	5	**1,949,950**	1,850,114
Unappropriated profit		**187,766**	20,354
		2,689,703	2,330,457
NON-CURRENT LIABILITIES			
Long term loans	6	**1,772,007**	2,151,331
Deferred liabilities	7	**97,878**	74,550
CURRENT LIABILITIES			
Short term borrowings	8	**4,024,523**	4,367,070
Current maturity of long term loans		**495,900**	294,583
Trade and other payables	9	**917,271**	728,011
Accrued Interest	10	**95,288**	119,967
Provision for taxation		**74,871**	47,425
		5,607,853	5,557,056
CONTINGENT LIABILITIES AND COMMITMENTS	11		
		10,167,441	10,113,394

ASSETS	Note	2007	2006
		Rs. 000s	
NON-CURRENT ASSETS			
Property, plant and equipment	12	4,705,758	4,412,622
Intangible	13	31,167	38,965
Long term loans and advances	14	7,425	7,720
Long term deposits		10,579	5,089
		4,754,929	4,464,396
CURRENT ASSETS			
Stores, spares and loose tools	15	387,278	369,882
Stock-in-trade	16	2,353,835	2,646,472
Trade debts	17	2,164,943	1,854,542
Loans and advances	18	172,473	118,590
Deposits and prepayments	19	26,460	16,315
Other receivables	20	246,228	151,028
Short term investment	21	—	426,193
Cash and bank balances	22	61,295	65,976
		5,412,512	5,648,998
		10,167,441	10,113,394

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

BASHIR H. ALIMOHAMMED
Chairman and Chief Executive

ZAIN BASHIR
Director

Consolidated Profit And Loss Account

For The Year Ended June 30, 2007

	Note	2007	2006
		Rs. 000s	
Sales	23	10,012,101	8,339,430
Cost of sales	24	8,480,875	7,105,955
Gross profit		1,531,226	1,233,475
Administrative expenses	25	508,812	485,385
Distribution cost	26	242,496	192,147
Other operating expenses	27	19,432	899
		770,740	678,431
Operating profit		760,486	555,044
Other operating income	28	6,364	7,557
		766,850	562,601
Finance cost	29	500,151	540,010
Profit for the year before taxation		266,699	22,591
Provision for taxation	30	98,371	47,425
Profit/(loss) for the year after taxation		168,328	(24,834)
Earnings/(loss) per share (Rs.)	31	3.18	(0.48)

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

BASHIR H. ALIMOHAMMED
Chairman and Chief Executive

ZAIN BASHIR
Director

Consolidated Cash Flow Statement

For The Year Ended June 30, 2007

	2007	2006
	Rs. 000s	
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	266,699	22,591
Adjustments for:		
Depreciation/amortization	426,694	393,415
Gratuity	4,572	8,307
Finance cost	487,553	592,167
Provision for slow moving/obsolete stores and spares	409	981
Provision for doubtful debts	489	940
Profit on sale of operating assets	(2,100)	(2,194)
Interest income/exchange differences	12,598	(52,157)
	1,196,914	964,050
Changes in working capital:		
(Increase)/decrease in current assets		
Stores, spares and loose tools	(17,805)	(32,488)
Stock-in-trade	292,637	(168,668)
Trade debts	(310,892)	62,097
Loans and advances	(27,210)	21,407
Deposits and prepayments	(10,145)	8,132
Other receivables	(114,061)	35,057
	(187,476)	(74,463)
Increase/(decrease) in current liabilities		
Trade and other payables	189,259	(146,040)
	1,783	(220,503)
Cash generated from operations	1,198,697	743,547
Payments for/receipts from:		
Gratuity	(4,744)	(8,228)
Finance cost	(512,232)	(558,544)
Income tax paid	(74,098)	(12,936)
Long term loans and advances	295	(699)
Net cash generated from operating activities	607,918	163,140
CASH FLOW FROM INVESTING ACTIVITIES		
Capital expenditure	(716,452)	(820,901)
Proceeds from sale of operating assets	6,522	7,856
Interest income/exchange differences	6,264	49,634
Long term deposits	(5,490)	(1,529)
Net cash used in investing activities	(709,156)	(764,940)

	2007	2006
	Rs. 000s	
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from long term loans	178,875	409,664
Repayments of long term loans	(356,882)	(73,993)
Right shares subscription	183,996	76,665
Net cash generated from financing activities	5,989	412,336
Exchange difference on translation of foreign subsidiaries	6,922	1,005
Net decrease in cash and cash equivalents	(88,327)	(188,459)
Cash and cash equivalents - at the beginning of the year	(3,874,901)	(3,686,442)
Cash and cash equivalents - at the end of the year	(3,963,228)	(3,874,901)

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include:

	2007	2006
Short term investment	—	426,193
Cash and bank balances	61,295	65,976
Short term running finance	(4,024,523)	(4,367,070)
	(3,963,228)	(3,874,901)

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

BASHIR H. ALIMOHAMMED
Chairman and Chief Executive

ZAIN BASHIR
Director

Consolidated Statement of Changes in Equity

For The Year Ended June 30, 2007

Rs. 000s

	Shares capital	Revenue reserve	Exchange difference on translation of foreign subsidiaries	Capital reserve	Statutory reserve	Unappropriated profit	Proposed bonus shares	Total
Balance as at June 30, 2005	383,325	1,770,000	(3,922)	71,721	2,223	15,942	38,332	2,277,621
Bonus issue	38,332	—	—	—	—	—	(38,332)	—
Issue of right shares	38,332	—	—	38,333	—	—	—	76,665
Transfer from/to general reserve	—	(30,000)	—	—	754	29,246	—	—
Loss for the year	—	—	—	—	—	(24,834)	—	(24,834)
Exchange adjustments	—	—	1,005	—	—	—	—	1,005
Balance as at June 30, 2006	459,989	1,740,000	(2,917)	110,054	2,977	20,354	—	2,330,457
Issue of right shares	91,998	—	—	91,998	—	—	—	183,996
Transferred to general reserve	—	—	—	—	916	(916)	—	—
Profit for the year	—	—	—	—	—	168,328	—	168,328
Exchange adjustments	—	—	6,922	—	—	—	—	6,922
Balance as at June 30, 2007	**551,987**	**1,740,000**	**4,005**	**202,052**	**3,893**	**187,766**	**—**	**2,689,703**

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

BASHIR H. ALIMOHAMMED
Chairman and Chief Executive

ZAIN BASHIR
Director

1. THE GROUP AND ITS OPERATIONS

1.1 Gul Ahmed Group comprises the following:
-Gul Ahmed Textile Mills Limited
-Gul Ahmed International Limited (FZC) -UAE
-GTM (Europe) Limited -UK

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.

Gul Ahmed Textile Mills Limited is a public limited company incorporated in Pakistan and is listed on the Karachi and Lahore Stock Exchanges. It is engaged in the manufacture and sale of textile products.

Both subsidiaries are engaged in trading of textile related products.

1.2 Basis of presentation

The consolidated financial statements include the accounts of Gul Ahmed Textile Mills Limited, Gul Ahmed International Limited (FZC) - UAE and GTM (Europe) Limited - UK. The financial statements of the subsidiary companies have been consolidated on a line by line basis.

All inter group balances and transaction have been eliminated.

2. BASIS OF PREPARATION

2.1 Accounting convention

Accounts of the Group have been prepared on historical cost convention except as has been stated below in respective policy notes.

2.2 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise of such International Accounting Standards as notified under the provision of the Companies Ordinance, 1984. Wherever, the requirements of the Companies Ordinance, 1984 or directive issued by the Securities and Exchange Commission of Pakistan (SECP) differ with the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.3 Accounting standards not yet effective

The following new standards and amendments of approved accounting standards are applicable in Pakistan from the dates mentioned below against the respective standard or amendment:

IAS - 1 Presentation of Financial Statement amendments relating to capital disclosures	effective from accounting period beginning on or after January 1, 2007
IAS - 23 (Revised) Borrowing Costs	effective from accounting period beginning on or after January 1, 2009
IFRS -2 Share based Payment	effective from accounting period beginning on or after December 6, 2006
IFRS - 3 Business Combinations	effective for business combinations for which agreement date is on or after December 6, 2006
IFRS - 5 Non-current Assets Held for Sale and Discontinued Operations	effective from accounting period beginning on or after December 6, 2006

In addition, interpretations in relation to certain IFRSs have been issued by the International Accounting Standards Board that are not yet affective.

The Group expects that the adoption of the above standards, amendments and interpretations will have no impact on the Group's financial statements in the period of initial application.

2.4 Functional and presentation currency

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

2.5 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:

1) Provision for slow moving/obsolete items (note 15)
2) Provision for doubtful trade debts (note 17)
3) Provision for taxation (note 30)

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Foreign currency translation

Assets and liabilities in foreign currencies are translated into Pak Rupees at the rates ruling on the balance sheet date or as fixed under contractual agreements.

For the purposes 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

Foreign currency transactions are translated in Pak Rupees at the rates ruling on the transaction date or as fixed under contractual agreements.

Exchange differences on foreign currency loans are capitalized upto the date of commissioning of the respective qualifying asset, acquired out of the proceeds of such loans. Other exchange differences are included in current year's income.

3.2 Borrowing cost

Mark-up, interest and other charges on loans are capitalized upto the date of commissioning of the respective qualifying asset, acquired out of the proceeds of such loans. All other mark-up, interest, profit and other charges are charged to income.

3.3 Retirement gratuity

The Group operates an approved funded contributory provident fund for its eligible employees to which equal monthly contribution is made both by the Group and the employees. The Group also operates an unfunded gratuity scheme for eligible employees who are not part of the provident fund scheme. Gratuity is payable to the employees under the law. Consequent to the adoption of IAS 19, the Group now accounts for gratuity provision on the basis of actuarial valuation on projected unit credit method.

3.4 **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 in the balance sheet when the Group has legal or constructive obligation as a result of past event, and it is probable that outflow of economic benefits will be required to settle the obligation. However, provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

3.6 **Taxation**

Provision for current taxation is based on taxable income at the current rates of taxation after considering tax credits and rebates, if any. Deferred taxation is accounted for on all material temporary differences using the liability method.

3.7 **Property, plant and equipment**
Operating assets

These are stated at cost less accumulated depreciation except leasehold land which is stated at cost. No amortization 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 respective note. 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. Gains and losses on disposal of fixed assets are included in current year's income.

Capital work-in-progress

Capital work-in-progress is stated at cost.

3.8 **Intangible assets**

Intangible assets are stated at cost less accumulated amortization. Amortization 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 the respective note.

3.9 **Investments**

Investments held for trading

These are stated at fair value and changes in carrying values are included in profit and loss account.

Investments available for sale

These are stated at fair value and changes in carrying values are recognized in equity until investment is sold or determined to be impaired at which time accumulated gain or loss previously recognized in equity is included in profit and loss account for the year.

Investments held to maturity

These are stated at amortized cost, less impairment loss, if any, recognized to reflect irrecoverable amounts. Impairment losses are charged to profit and loss account.

3.10 Stores, spares and loose tools

These are valued at average cost and goods-in-transit are stated at actual cost.

3.11 Stock-in-trade

Raw materials are valued at average cost. Finished goods are valued at lower of average manufacturing cost and net realisable value. Work-in-process is valued at average cost of raw materials plus a proportion of the production overheads. Waste products are valued at net realisable value. Goods-in-transit are stated at actual cost.

3.12 Trade debts

Trade debts are carried at original invoice amount. Debts considered irrecoverable are written off and provision is made for debts considered doubtful.

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 cost, as the case may be.

3.15 Derivative financial instruments

The Group uses derivative financial instruments to hedge its risks associated with interest and exchange rate fluctuations. Derivative financial instruments are carried as assets when fair value is positive and liabilities when fair value is negative. Any change in the fair value of the derivative financial instruments is taken to the profit and loss account.

3.16 Offsetting of financial assets and liabilities

A financial asset and financial liability is offset and the net amount is reported in the balance sheet if the Group 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.

3.17 Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exists the assets recoverable amount 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.

3.18 Revenue recognition

Sales are recorded on despatch of goods to buyers.
Return on investment is recognised on accrual basis.

3.19 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 on hand, with banks on current, savings and deposit accounts, running finance under mark-up arrangements and short-term finance.

3.20 Dividend and appropriation to reserves

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

4. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2007	2006		2007 Rs. 000s	2006
30,517,756	21,317,967	Ordinary shares of Rs.10 each fully paid in cash	305,177	213,179
5,447,326	5,447,326	Ordinary shares of Rs.10 each fully paid under scheme of arrangement for amalgamation	54,473	54,473
19,233,656	19,233,656	Ordinary shares of Rs.10 each issued as fully paid bonus shares	192,337	192,337
			551,987	459,989

5. RESERVES

	2007	2006
Revenue reserve		
General reserve	1,740,000	1,770,000
Add/Less: Transfer from/to profit and loss account	—	(30,000)
	1,740,000	1,740,000
Exchange difference on translation of foreign subsidiaries	4,005	(2,917)
Capital reserve		
Share premium	88,495	50,162
Add: Premium on right shares issued during the year	91,998	38,333
	180,493	88,495
Book difference of share capital under scheme of arrangement for amalgamation	21,559	21,559
	202,052	110,054
Statutory reserve	3,893	2,977
	1,949,950	1,850,114

6. LONG TERM LOANS - SECURED

		2007	2006
6.1	Habib Bank Limited Loan 3	466,664	700,000
6.2	Habib Bank Limited Loan 4	118,400	—
6.3	United Bank Limited Loan 1	75,000	125,000
6.4	United Bank Limited Loan 2	500,000	500,000
6.5	NIB Bank Limited	—	11,250
6.6	National Bank of Pakistan Loan 1	263,929	700,000
6.7	National Bank of Pakistan Loan 1-A	373,775	—
6.8	National Bank of Pakistan Loan 2	145,767	180,000
6.9	National Bank of Pakistan Loan 2-A	34,233	—
6.10	Suppliers Credit	229,664	229,664
6.11	Bank Al-Habib Limited Loan 1	27,775	—
6.12	Habib Metropolitan Bank Limited Loan 1	32,700	—
		2,267,907	2,445,914
	Less: Current maturity shown under current liabilities	495,900	294,583
		1,772,007	2,151,331

6.1 Habib Bank Limited Loan 3 is repayable in six half yearly equal installments commencing from September, 2006. Mark-up is payable on six month KIBOR Ask Rate plus 60 basis points, immediately preceding the mark-up payment period with no floor and no cap. State Bank of Pakistan (SBP) has allowed swap of loans meeting specified conditions to the SBP's scheme of Long Term Finance - Export Oriented Projects (LTF-EOP). This loan has been approved for swap under the LTF-EOP scheme from October, 2006 and is now repayable in 5 half yearly equal installments commencing from April 21, 2007, with revised mark-up payable quarterly @ 6% p.a. The loan is secured by equitable mortgage charge over land, building, plant and machinery of the Parent Company.

6.2 Out of Habib Bank Limited Loan 4 of Rs. 118.400 million, Rs. 64.995 million is repayable in 12 half yearly equal installments commencing from June, 2009. Mark-up is payable quarterly @ 7% p.a. For the balance amount finalisation of payment terms and mark-up rate is pending. Presently bank is charging mark-up @ 11.02% p.a. The loan is secured by equitable mortgage charge over land, building, plant and machinery of the Parent Company.

6.3 United Bank Limited Loan 1 is repayable in eight half yearly equal installments commencing from September, 2002. Mark-up is payable half yearly @ 2.50% above prevailing SBP's discount rate at the time of due date of the relevant installment or six months T-Bill+1.50%, whichever is higher. This amount is now repayable in six half yearly equal installments commencing from March, 2006. Mark-up is payable half yearly at six months T-Bill cut-off yield immediately preceding the mark-up payment date plus 1%. The loan is secured by way of pari passu charge over the fixed assets of the Parent Company.

6.4 United Bank Limited Loan 2 is repayable at the time of maturity in September, 2008. Mark-up is payable half yearly @ 0.85% above six months T-Bill cut-off yield immediately preceding the mark-up payment date upto March 27, 2005. Effective from March 28, 2005 mark-up rate has been swapped @ 8.30% fixed rate plus 0.85%. The loan is secured by way of hypothecation of stock, book debts and receivables.

6.5 NIB Bank Limited Loan was repaid during the year.

6.6 Out of the National Bank of Pakistan Loan 1 of Rs. 700 million, a portion of the loan Rs. 436.071 million has been swapped under the LTF-EOP scheme and is shown under note 6.7. The balance amount of Rs. 263.929 million is repayable in six half yearly equal installments commencing from December, 2007. Mark-up is payable half yearly on average six months KIBOR Ask Rate+1.25% prevailing on the disbursement date and then on the immediately preceding day before the start of each semi-annual period. The loan is secured by first pari passu charge over moveable fixed assets of the Parent Company.

6.7 As stated in note 6.6 above this amount is the converted portion of the original loan of Rs. 700 million (from National Bank of Pakistan) which has been approved for swap under the LTF-EOP scheme from December, 2006 and is now payable in seven half yearly equal installments commencing from June, 2007. Mark-up is payable quarterly @ 7% p.a. The loan is secured by first pari passu charge over moveable fixed assets of the Parent Company.

6.8 Out of National Bank of Pakistan Loan 2 of Rs.180 million, a portion of the loan Rs. 34.233 million has been swapped under the LTF-EOP scheme and is shown under note 6.9. The balance amount of Rs. 145.767 million is repayable in six half yearly equal installments commencing from September, 2008. Mark-up is payable half yearly on average six months KIBOR Ask Rate+1.50% prevailing on the disbursement date and then on the immediately preceding day before the start of each semi-annual period. The loan is secured by first pari passu charge over present and future fixed assets of the Parent Company, and equitable mortgage over land.

6.9 As stated in note 6.8 above this amount is the converted portion of the original loan of Rs.180 million (from National Bank of Pakistan) which has been approved under the LTF-EOP scheme from December, 2006 and is now payable in six half yearly equal installments commencing from September, 2008. Mark-up is payable quarterly @ 7% p.a. The loan is secured by first pari passu charge over present and future fixed assets of the Parent Company, and equitable mortgage over land.

6.10 Supplier Credit is payable in November, 2007 and does not carry any interest or mark-up and is secured against letter of credit. The supplier credit on maturity will be refinanced under the SBP LTF-EOP scheme.

6.11 Bank Al-Habib Ltd Loan 1 is repayable in 12 half yearly equal installments commencing from December, 2008. Mark-up is payable quarterly @ 7% p.a. The loan is secured by hypothecation charge over specified machinery.

6.12 Habib Metropolitan Bank Ltd Loan 1 is repayable in 12 half yearly equal installments commencing from March, 2009 and April, 2009. Mark-up is payable quarterly @ 7% p.a. The loan is secured by hypothecation charge over specified machinery.

7. DEFERRED LIABILITIES

	2007	2006
	Rs. 000s	
Taxation - 7.1	**91,773**	68,273
Gratuity - 7.2	**6,105**	6,277
	97,878	74,550

7.1 Deferred taxation

Opening balance	**68,273**	68,273
Provision during the year	**23,500**	—
	91,773	68,273

This represents the net deferred tax liability arising mainly due to temporary differences in respect of accelerated tax depreciation allowance and deductible temporary differences in respect of provision against gratuity, doubtful debts and slow moving items.

7.2 Gratuity

Opening balance as at July 1	**6,277**	6,198
Provision during the year	**4,572**	8,307
	10,849	14,505
Paid during the year	**(4,744)**	(8,228)
Closing balance as at June 30	**6,105**	6,277

Following significant assumptions have been made for the purpose of actuarial valuation:

- Expected rate of increase in salary	9% p.a.
- Discount rate	10% p.a.
- Mortality rate	EFU 61-66 mortality table
- Withdrawal rate	Age dependant

	2007	2006
	Rs. 000s	

8. SHORT TERM BORROWINGS

	2007	2006
Short term bank borrowings	**3,354,763**	4,258,434
Short term running finance	**519,760**	108,636
Murabaha	**150,000**	—
	4,024,523	4,367,070

Short term borrowing includes Rs. 3,510 million (2006: Rs. 3,475 million) which is secured by pari passu hypothecation charge over stores and spares, stock-in-trade, trade debts and other receivables, Rs. 500 million (2006: Rs. 500 million) which is secured against charge over the fixed assets and Rs. 14.314 million (2006: Rs. NIL) which is secured against counter guarantee of the Parent Company. Unavailed facility at the year end was Rs. 2,510 million (2006: Rs. 2,448 million).

Mark-up rates range from 5.74% to 13.15% (2006: 3.58 % to 10.88%) per annum.

9. TRADE AND OTHER PAYABLES

	2007	2006
Creditors	**632,421**	506,833
Due to associated undertakings	**2,262**	190
Accrued expenses	**252,410**	210,978
Workers' profit participation fund (note 9.1)	**14,172**	1,578
Unclaimed dividend	**352**	360
Others	**15,654**	8,072
	917,271	728,011

9.1 Workers' profit participation fund

	2007	2006
Opening balance as at July 1	**1,578**	7,680
Provision for the year	**14,081**	664
Interest for the year	**92**	914
	15,751	9,258
Less: Payments made during the year	**1,578**	7,680
Closing balance as at June 30	**14,172**	1,578

10. ACCRUED INTEREST

	2007	2006
Interest/mark-up accrued on loans (secured)	**32,439**	37,576
Mark-up on short term borrowings (secured)	**62,849**	82,391
	95,288	119,967

11. CONTINGENCIES AND COMMITMENTS

11.1 The Group is contingently liable for:

(a) Rs. 107 million (2006: Rs. 88 million) against guarantees issued by Banks which are secured by pari passu hypothecation charge over stores and spares, stock-in-trade, trade debts and other receivables.

(b) Post dated cheques Rs. 4 million (2006: Rs. 10 million) issued to various Government Agencies.

(c) Bills discounted Rs. 47 million (2006: Rs. 369 million).

(d) Corporate guarantee of Rs. 24.554 million (2006: Rs. NIL) has been issued to a bank in favour of subsidiary company.

11.2 The Group has filed a suit for recovery of Rs. 33.409 million (2006: Rs. 33.409 million) included in other receivable. 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.

11.3 The Group is committed for capital expenditure as at June 30, 2007 of Rs. 283 million (2006: Rs. 169 million).

11.4 The Group is committed for non capital expenditure items under letters of credit as at June 30, 2007 of Rs. 215 million (2006: Rs. 23 million).

12. PROPERTY, PLANT AND EQUIPMENT

	2007	2006
	Rs. 000s	
Operating assets - 12.1	**4,488,053**	3,550,203
Capital work in progress - 12.2	**217,705**	862,419
	4,705,758	4,412,622

12.1 OPERATING ASSETS

	Leasehold land	Buildings on leasehold land	Plant and machinery	Office equipment	Furniture and fixture	Transport equipment	Total
	Rupees in thousand						
Net carrying value basis year ended June 30, 2007							
Opening net book value (NBV)	233,755	466,566	2,639,995	86,227	31,557	92,108	3,550,208
Addition/transfer (at Cost)	352	574,811	721,382	17,548	18,868	22,548	1,355,509
Disposal/transfer at NBV	—	—	(199)	(334)	(131)	(3,758)	(4,422)
Depreciation charge	—	(70,253)	(294,101)	(21,499)	(5,210)	(22,180)	(413,242)
Closing net book value	**234,107**	**971,124**	**3,067,077**	**81,942**	**45,084**	**88,718**	**4,488,053**
Gross carrying value basis as at June 30, 2007							
Cost	234,107	1,377,695	5,814,999	226,771	70,310	209,027	7,932,909
Accumulated depreciation	—	(406,571)	(2,747,922)	(144,829)	(25,226)	(120,309)	(3,444,856)
Net book value	**234,107**	**971,124**	**3,067,077**	**81,942**	**45,084**	**88,718**	**4,488,053**
Net carrying value basis year ended June 30, 2006							
Opening net book value (NBV)	233,655	435,237	2,569,699	94,026	34,047	104,939	3,471,603
Addition/transfer (at Cost)	100	83,170	348,535	16,548	1,693	14,350	464,396
Disposal/transfer at NBV	—	—	—	(1,056)	(453)	(4,153)	(5,662)
Depreciation charge	—	(51,841)	(278,236)	(23,291)	(3,730)	(23,028)	(380,126)
Closing net book value	**233,755**	**466,566**	**2,639,998**	**86,227**	**31,557**	**92,108**	**3,550,211**
Gross carrying value basis as at June 30, 2006							
Cost	233,755	802,884	5,096,041	211,250	51,829	198,430	6,594,189
Accumulated depreciation	—	(336,318)	(2,456,046)	(125,023)	(20,272)	(106,322)	(3,043,981)
Net book value	**233,755**	**466,566**	**2,639,995**	**86,227**	**31,557**	**92,108**	**3,550,208**
Depreciation rate % per annum	**—**	**10**	**10**	**15 to 30**	**10 to 12**	**20 to 25**	

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

		2007	2006
Cost of goods manufactured	(note 24.1)	**365,571**	331,374
Administrative expenses	(note 25)	**47,671**	48,752
		413,242	380,126

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

Rs. 000s

Particulars	Cost	Written down value	Sale proceeds	Particulars of purchasers
Plant and machinery	2,426	199	200	Standard Textile Mills Ltd. 504, Haji Adamjee Chamber 5th Floor, New Challi Karachi
Office equipment, furniture and fixtures	2,383	459	—	Scrapped
Transport equipment	1,209	270	572	Mr. Muhammad Amir House No.B-514, Sector-11/E North Karachi
	464	129	186	Mr. Imran Ahmed A/435, Block No.1 Gulshan-e-Iqbal Karachi
	555	155	290	Mr. Nauman Shamim House No.B-24 Noveed Cottage Gulistan-e-Johar, Block#17 Karachi
	765	213	306	Ms. Perveen S-36 Jami Staff Lane No.2 Phase II (Ext) DHA Karachi
	3,438	1,582	2,190	Swisstex Chemicals (Pvt) Ltd. E-54, SITE Karachi
	355	79	203	Mr. Yasir Nishan Malik House No.10-D/2 Haji Commercial Phase VIII DHA, Karachi
	729	130	292	Mr. Moosa S/o Abdul Ghani House No. A-45 N.D. Colony Block#4, Gulshan-e-Iqbal Karachi
	1,125	313	455	Syed Mohammad Atif Qazzafi House No. R-167, Street/Sector Z-6 Gulshan-e-Maymar Karachi
	399	89	124	Mr. Muhammed Zarif Khan S/o Qasim Khan House No. B-433, Street No.8 Landhi Town Karachi

Particulars	Cost	Written down value	Sale proceeds	Particulars of purchasers
Transport equipment (continued)	399	89	118	Mr. Shaikh Muhammad Ejaz S/o Sheikh Muhammad Rafiq House No. C-28 PECHS, Block-2 Karachi.
	469	131	188	Mr. Nasir Ali Khan S/o Ghulam Ali Khan House No. C-40/1, Sector 11-B North Karachi
	981	470	1,000	Insurance claim
Written down value below Rs. 50,000 each	1,094	114	398	Various
2007	**16,791**	**4,422**	**6,522**	
2006	19,277	6,915	9,921	

	2007	2006
	Rs. 000s	

12.2 CAPITAL WORK-IN-PROGRESS

	2007	2006
Machinery under installation	192,122	340,625
Building construction	22,227	517,988
Store items held for capitalization	3,356	3,806
	217,705	862,419

13. INTANGIBLE

	Computer Software	Trade Marks	Total	
Net carrying value basis - year ended June 30				
Opening net book value (NBV)	38,965	—	38,965	16,035
Additions (at cost)	4,906	749	5,655	36,220
Amortisation charge	(13,436)	(17)	(13,453)	(13,290)
Closing net book value	30,435	732	31,167	38,965
Gross carrying value basis - as at June 30				
Cost	78,558	749	79,307	73,652
Accumulated amortisation	(48,123)	(17)	(48,140)	(34,687)
Net book value	30,435	732	31,167	38,965
Amortisation rate % per annum	20	10		

14. LONG TERM LOANS AND ADVANCES

	2007	2006
Considered good, due from		
Executives		
Opening balance as at July 1	8,458	8,310
Add: Disbursement	4,547	7,020
	13,005	15,330
Less: Repayment	(3,402)	(6,872)
Closing Balance as at June 30	9,603	8,458
Less: Receivable within one year	(3,076)	(2,448)
	6,527	6,010
Other employees	2,160	3,604
Less: Receivable within one year	(1,262)	(1,894)
	898	1,710
	7,425	7,720

14.1 Loans and advances have been given for the purchase of cars, scooters and household equipment and housing assistance in accordance with the terms of employment and are repayable in monthly installments. These loans are secured against retirement benefits and other dues of the employees. Maximum balance due from executives at the end of any month during the year was Rs. 11 million (2006: Rs. 9 million)

	2007		2006
		Rs. 000s	

15. STORES, SPARES AND LOOSE TOOLS

	2007	2006
Stores including in transit Rs. 1 million (2006: Rs. 1 million)	**227,386**	187,448
Spares including in transit Rs. 7 million (2006: Rs. 6 million)	**181,995**	204,061
Loose tools	**2,815**	2,882
	412,196	394,391
Less: Provision for slow moving/obsolete items	**24,918**	24,509
	387,278	369,882

16. STOCK-IN-TRADE

	2007	2006
Raw materials	**467,213**	792,329
Work-in-process	**89,888**	80,616
Finished goods	**1,796,734**	1,773,527
	2,353,835	2,646,472

17. TRADE DEBTS - UNSECURED

	2007	2006
Considered good	**2,164,943**	1,854,542
Considered doubtful	**22,970**	22,481
	2,187,913	1,877,023
Less: Provision for doubtful trade debts	**22,970**	22,481
	2,164,943	1,854,542

17.1 Includes Rs. 0.065 million (2006: Rs. NIL) due from related parties.

17.2 The maximum aggregate month end balance due from related parties during the year is Rs. 13 million (2006: Rs. NIL).

18. LOANS AND ADVANCES

Considered good

	2007	2006
Current portion of loans and advance to employees (note 14)	**4,338**	4,342
Suppliers	**69,759**	43,321
Advance income tax	**97,429**	70,756
Letter of credit	**947**	171
	172,473	118,590

19. DEPOSITS AND PREPAYMENTS

	2007	2006
Prepayments	**26,460**	16,315

	2007	2006
	Rs. 000s	

20. OTHER RECEIVABLES

	2007	2006
Accrued interest	**99**	18,961
Sales tax refundable	**44,246**	58,218
Research and development claim	**115,124**	—
Duty drawback receivable	**32,390**	39,346
Derivative financial instrument (Note 20.1)	**9,105**	—
Others	**45,264**	34,503
	246,228	151,028

20.1 During the year the Group entered into a Pak Rupees (PKR) to US Dollars (USD) cross currency swap to counter its under lying PKR floating rate liability into a USD floating rate liability with for a notional amount of Rs. 1,000 million equivalent to USD 16.442 million. This notional amount is reduced every six months and will stand fully adjusted in May, 2011. Under the arrangement, the Group would receive/pay the difference of 6 months KIBOR and 6 months LIBOR plus 1.10% semi annually and the difference of PKR/USD spot rate prevailing at commencement date and end date of every six months period. Value outstanding as at the end of June, 2007 is Rs. 888.888 million equivalent to USD 14.631 million.

21. SHORT TERM INVESTMENT

	2007	2006
US Dollar bonds - Available for sale (USD NIL million (2006: USD 7.086 million))	**—**	426,193

22. CASH AND BANK BALANCES

		2007	2006
In hand		**1,899**	1,666
With banks in	- current accounts	**9,575**	14,473
	- short term deposits	**49,821**	49,837
		61,295	65,976

	2007	2006
	Rs. 000s	

23. SALES

	2007	2006
Local	4,091,601	3,617,337
Export		
Direct export	5,994,158	4,722,080
Indirect export	—	144,202
	5,994,158	4,866,282
	10,085,759	8,483,619
Less: Brokerage and commission	24,242	23,042
Freight and insurance	49,416	121,147
	10,012,101	8,339,430

23.1 Sales are exclusive of sales tax amounting Rs. 6.259 million (2006: Rs. 3.778 million).

24. COST OF SALES

	2007	2006
Opening stock of finished goods	1,726,900	1,616,831
Add: Cost of goods manufactured (note 24.1)	6,387,763	6,053,756
Purchases and processing charges	2,162,946	1,162,268
	10,277,609	8,832,855
Less: Closing stock of finished goods	1,796,734	1,726,900
	8,480,875	7,105,955

24.1 **Cost of goods manufactured**

	2007	2006
Raw materials consumed (note 24.2)	2,931,455	3,149,545
Stores consumed	1,059,525	830,862
Salaries, wages and benefits	1,001,209	824,603
Fuel, power and water	827,170	749,471
Insurance	34,495	36,762
Repairs and maintenance	179,006	164,488
Depreciation	365,571	331,374
Other expenses	32,508	26,520
Cost of samples shown under distribution cost	(33,904)	(33,549)
	6,397,035	6,080,076
Work-in-process		
Opening	80,616	54,296
Closing	(89,888)	(80,616)
	(9,272)	(26,320)
	6,387,763	6,053,756

Salaries, wages and benefits include Rs. 15 million (2006: Rs. 15 million) and Rs. 18 million (2006: Rs. 15 million) in respect of retirement benefit and staff compensated absences respectively.

24.2 **Raw materials consumed**

	2007	2006
Opening stock	792,329	751,546
Purchases during the year	2,606,339	3,190,328
Closing stock	(467,213)	(792,329)
	2,931,455	3,149,545

	2007	2006
	Rs. 000s	

25. ADMINISTRATIVE EXPENSES

	2007	2006
Salaries and benefits	**234,759**	217,898
Rent, rates and taxes	**29,610**	21,963
Repairs and maintenance	**14,790**	12,959
Vehicle up keep	**36,647**	34,214
Conveyance and traveling	**39,708**	44,170
Printing and stationery	**24,291**	28,212
Postage and telecommunication	**24,627**	24,588
Legal and consultancy fees	**21,021**	18,553
Depreciation/amortization	**61,123**	62,041
Auditors' remuneration (note 25.1)	**721**	543
Donations (note 25.2)	**3,099**	2,017
Insurance	**6,046**	5,824
Bad/doubtful debts	**489**	940
Provision for slow moving/obsolete items	**409**	981
Other expenses	**11,472**	10,482
	508,812	485,385

Salaries and benefits include Rs. 9 million (2006: Rs. 10 million) and Rs. 6 million (2006: Rs. 4 million) in respect of retirement benefit and staff compensated absences respectively.

25.1 **Auditors' remuneration**

	2007	2006
Audit fee	**656**	476
Half yearly review	**30**	30
Audit of workers' profit participation fund and other services	**2**	2
Out of pocket expenses	**33**	35
	721	543

25.2 None of the Directors or their spouses have any interest in the donees.

26. DISTRIBUTION COST

	2007	2006
Shipment expenses	**53,461**	95,959
Advertisement and publicity	**92,725**	39,940
Cost of samples transferred from cost of goods manufactured	**33,904**	33,549
Rent, rates and taxes	**22,793**	11,060
Other expenses	**39,613**	11,639
	242,496	192,147

27. OTHER OPERATING EXPENSES

	2007	2006
Workers' profit participation fund	**14,081**	664
Workers' welfare fund	**5,351**	235
	19,432	899

	2007	2006
	Rs. 000s	

28. OTHER OPERATING INCOME

	2007	2006
Profit on sale of operating assets	2,100	2,194
Scrap sales	4,122	4,702
Others	142	661
	6,364	7,557

29. FINANCE COST

	2007	2006
Interest/mark-up on long term loans	180,716	194,366
Mark-up on short term borrowings	284,823	375,465
Interest on workers' profit participation fund	92	914
Bank charges	21,922	21,422
	487,553	592,167
Interest income/exchange differences	12,598	(52,157)
	500,151	540,010

30. PROVISION FOR TAXATION

	2007	2006
Current	67,932	47,425
Prior	6,939	—
Deferred	23,500	—
	98,371	47,425

30.1 Reconciliation between accounting profit and tax expense

	2007	2006
Net profit for the year before taxation	266,699	22,591
Tax at the applicable tax rate of 35%	93,345	7,907
Income not chargeable to tax	(998)	(3,149)
Effect of income assessed under presumptive tax regime	1,764	55,065
Effect of expenses deductible for tax purposes less inadmissible expenses	(26,179)	(12,398)
	67,932	47,425

31. EARNINGS PER SHARE

	2007	2006
Profit/(loss) for the year	168,328	(24,834)
Number of shares	52,887,995	51,237,465
Earnings/(loss) per share (Rs.)	3.18	(0.48)

32. REMUNERATION OF DIRECTORS AND EXECUTIVES

	2007				2006			
	Rs. 000s							
	Chief Executive	Directors	Executives	Total	Chief Executive	Directors	Executives	Total
Managerial remuneration	**2,400**	**5,200**	**55,573**	**63,173**	2,400	5,200	60,096	67,696
House rent allowance	**960**	**2,080**	**22,229**	**25,269**	960	2,080	24,039	27,079
Other allowances	**440**	**1,370**	**17,650**	**19,460**	440	1,261	18,489	20,190
	3,800	**8,650**	**95,452**	**107,902**	3,800	8,541	102,624	114,965
Number of persons	**1**	**3**	**54**	**58**	1	3	58	62

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

32.2 The Chief Executive and some Directors are also provided with free residential telephones.

32.3 Aggregate amount charged in the accounts for the year for meeting fee to two Directors was Rs. 3(000) (2006: three Directors Rs. 3(000))

33. RESEARCH AND DEVELOPMENT SUPPORT

Support on account of research and development	**246,964**
Less : Utilization	
Product development	**82,776**
Skill development and training	**13,550**
Upgradation of information technology	**25,584**
Professional consultancy	**3,600**
Market research	**67,884**
Environment improvement	**26,996**
Resource conservation	**20,530**
Production efficiencies	**7,462**
Participation in exhibition	**11,223**
	259,605
Net expenses	**(12,641)**

Research and development support is allowed by the Government of Pakistan in terms of SRO 803(I)/2006 dated August 4, 2006 issued by Ministry of Textile Industries in order to encourage research and development in textile value added sector.

34. TRANSACTIONS WITH RELATED PARTIES

The 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 Company	Nature of Transactions	2007	2006
		Rs. 000s	
Associated Companies and other related parties	Purchase of goods	**29,749**	12,425
	Sale of goods	**22,732**	1,027
	Rent paid	**3,900**	—
	Fees paid	**1,500**	1,500
	Deposit with bank (at year end)	**21,824**	1,695
	Borrowing from bank (at year end)	**420,675**	—
	Bank Guarantee (at year end)	**53,779**	—
	Bills discounted	**66,067**	71,133
	Commission/Bank charges paid	**2,303**	—
	Mark-up/interest paid	**18,579**	817
	Mark-up/interest earned	**444**	—

There are no transactions with directors of the Group and key management personnel other than under the terms of employment. Remuneration of the key management personnel is disclosed in Note 32.

The related parties status of outstanding receivables and payable as at June 30, 2007 are included in respective notes to the financial statements.

35. EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors of Parent Company in their meeting held on October 2, 2007 has proposed transfer to general reserve from un-appropriated profit of Rs. 160 million (2006: transfer from general reserve Rs. 30 million) subject to the approval of members at the Annual General Meeting to be held on October 31, 2007

36. CAPACITY AND PRODUCTION

		2007		(000s)	2006	
	Unit	Capacity	Production	Working	Capacity	Production
Cloth	Sq. meters (50 Picks converted)	79,238	74,741	3 shifts	79,238	70,278
Yarn	Kgs. (20 Counts converted)	36,186	31,711	3 shifts	36,455	33,551

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

37. FINANCIAL ASSETS AND LIABILITIES

Rs. 000s

	Interest/mark-up bearing			Non Interest/mark-up bearing			2007 Total	2006 Total
	Maturity upto one year	Maturity after one year	Sub Total	Maturity upto one year	Maturity after one year	Sub Total		
Financial assets								
Long term loans	—	—	—	—	4,943	4,943	4,943	7,720
Long term deposits	—	—	—	—	10,579	10,579	10,579	5,089
Trade debts	—	—	—	2,164,943	—	2,164,943	2,164,943	1,854,542
Loans and advances	—	—	—	6,820	—	6,820	6,820	4,342
Deposits and prepayments	—	—	—	36	—	36	36	228
Other receivables	—	—	—	57,955	—	57,955	57,955	53,464
Short term investment	—	—	—	—	—	—	—	426,193
Cash and bank balances	49,821	—	49,821	11,474	—	11,474	61,295	65,976
	49,821	—	49,821	2,241,228	15,522	2,256,750	2,306,571	2,417,554
Financial liabilities								
Long term loans	495,900	1,772,007	2,267,907	—	—	—	2,267,907	2,445,914
Short term borrowings	4,024,523	—	4,024,523	—	—	—	4,024,523	4,367,070
Trade and other payables	14,172	—	14,172	872,743	—	872,743	886,915	706,797
Accrued interest	—	—	—	95,288	—	95,288	95,288	119,967
	4,534,595	1,772,007	6,306,602	968,031	—	968,031	7,274,633	7,639,748
Off balance sheet items								
Financial commitments								
Guarantees	—	—	—	106,670	—	106,670	106,670	88,934
Bills discounted	—	—	—	46,818	—	46,818	46,818	386,360
Commitments	—	—	—	498,356	—	498,356	498,356	192,355
	—	—	—	651,844	—	651,844	651,844	667,649
	4,534,595	**1,772,007**	**6,306,602**	**1,619,875**	**—**	**1,619,875**	**7,926,477**	**8,307,397**

The effective interest/mark-up rates for the monetary financial assets/liabilities are mentioned in the respective notes to the financial statements.

37.1 Concentration of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed to perform as contracted. The Group believes that it is not exposed to major concentration of credit risk. Out of the total financial assets of Rs. 2,306,571 million (2006: Rs. 2,417.554 million), the financial assets which are subject to credit risk amounted to Rs. 2,233.513 million (2006: Rs. 1,913.323 million).

37.2 Foreign exchange risk management

Foreign currency risk arises when receivables and payables exist due to transactions with foreign undertakings. Payables exposed to foreign currency risk are covered partially through forward foreign exchange contracts and partially through hedging by purchase of US Dollar bonds.

37.3 Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Group usually borrows funds at fixed and market based rates and as such the risk is minimized.

37.4 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. Group treasury aims at maintaining flexibility in funding by keeping committed credit lines available.

37.5 Fair value of financial assets and liabilities

The carrying amounts of the financial assets and liabilities approximate their fair values.

38. DETAIL OF SUBSIDIARIES

	Accounting Year end	Percentage of holding	Country of incorporation
Gul Ahmed International Limited (FZC)	June 30, 2007	100%	U.A.E.
GTM (Europe) Limited	June 30, 2007	100%	U.K.

39. DATE OF AUTHORIZATION

These financial statements were authorized for issue on October 2, 2007 by the Board of Directors of the Group.

40. GENERAL

Figures have been rounded off to the nearest thousand rupees.

BASHIR H. ALIMOHAMMED
Chairman and Chief Executive

ZAIN BASHIR
Director

Form Of Proxy

I/We ____

of ____

being a member of GUL AHMED TEXTILE MILLS LIMITED and holder of ______________

Ordinary Shares hereby appoint ______________________________

of ____

or failing him/her ______________________________

of ______________________________ another member of the Company,

as my/our proxy in my/our absence to attend and vote for me/us and on my/our behalf at the 55th ANNUAL GENERAL MEETING of the Company to be held on October 31, 2007 or at any adjournment thereof.

1) Witness ______________

Name ______________

Address ______________

NIC No. ______________

Signed by me this ______________ day of ________ 2007

Signed ______________________

Affix Revenue
Stamp Rs. 5.00

2) Witness ______________

Name ______________

Address ______________

NIC No. ______________

Folio No./CDC Account No. ______________

Notes:

1. 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.

2. Proxies granted by shareholders who have deposited their shares into Central Depository Company of Pakistan Limited must be accompanied with attested copies of the National Identity Card (NIC) or the Passport of the beneficial owners. Representatives of corporate members should bring the usual documents required for such purpose.

3. A proxy must be a member of the Company.

4. If the member is a corporation its common seal should be affixed to the proxy.

5. In case of CDC Account Holders, attested copies of NIC or the Passport of the beneficial owners and the proxy shall be furnished with the proxy form.

GulAhmed
TEXTILE MILLS LIMITED, KARACHI

AWARDED
Superbrands
PAKISTAN
2007/08

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