

**GulAhmed**  
TEXTILE MILLS LIMITED, KARACHI  
Annual Report 2011



The Colours of Creativity



# vision

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

# mission

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

# values

Integrity • Passion • Creativity • Teamwork



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## Company Information

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



Colours of Nature



### Colours of Nature Working Towards a Greener Future

At Gul Ahmed, we understand that every successful business needs to give back to the community it functions in. Which is why, since our inception, the Company has embraced environment friendly steps within the production process. It is this commitment to sow the seeds for a greener future, that drives the Company to constantly update the steps taken to ensure the environment benefits from our presence.

To this end, Gul Ahmed has spear-headed tree plantation efforts in areas surrounding the production facilities. Our commitment to cultivate a greener tomorrow has also resulted in greenbelts in several parts of Landhi; a vicinity previously known for its dusty and treeless environment.

Today, with lush green plants and trees dotting the areas, Gul Ahmed has managed to create verdant areas which not only provide visual relief to the noisy, chaotic industrial area but are a calming oasis for the residents of the locality too.

Over the years, we have tried to promote the idea that protecting the environment is not just a pleasure but also a duty. Our commitment to the environment with this green vision is more than just a lip service; it is a point of pride throughout the Company and can be taken as a benchmark for other businesses on how eco sustainability needs to be woven into the Company's philosophy.



Colours of Fashion



### Colours of Fashion One Stop Guide to Fashion

Gul Ahmed has redefined retail fashion in Pakistan. Decades ago, when the industry was looking at fabric as just a product, Gul Ahmed became a 'fashion brand' for the consumer. This is because of the innovative spirit that drives us forth.

Gul Ahmed was the first fabric brand to launch its very own seasonal fashion magazine a few years ago. The magazine presented the entire Gul Ahmed range in the endless possibilities it could be worn as. It was very well received by the public at large and played a pivotal role in bringing lawn into mainstream fashion. The magazine has helped high-end fashion designers perceive this seasonal fabric as a separate entity with endless possibilities in creativity.

With our fashion range extending beyond apparel to include accessories, the magazine has evolved into a complete fashion guide by showing how our millions of customers can create a complete look that is stylish and well put together.





**GulAhmed**  
FASHION  
AWARDS

Colours of Youth



### Colours of Youth Supporting & Nourishing Young Talent

In 2010, Gul Ahmed achieved yet another milestone by launching the first-ever Gul Ahmed Fashion Awards. The launch of Gul Ahmed Fashion Awards was our way of telling the youth of the country that we believe in their passion, their talent and their skills and that we believe it should be showcased at a broader forum. In conjunction with fashion schools throughout Pakistan, Gul Ahmed Fashion Awards provided students with the opportunity to design, manufacture and model their own fashion garments and accessories. Entries came in from all over Pakistan and the crème de la crème of these creations were presented at an exclusive, high profile Fashion Awards ceremony and fashion show on March 30, 2011. The fashion design students presented their two piece collection using Gul Ahmed prints. Art schools also participated in an accessory competition that was displayed at the event. It was for the first time that students of any fashion school were presenting their creations on the top models of the country as we wanted them to feel pride and excitement on their achievements. What added to the presentation was the fact that big names from the fashion industry also showcased their designs on the catwalk. These names included Kammar Rokni, Karma and Ayesha Hashwani who used Gul Ahmed print for their twenty-two piece collection.

The winners in the fashion and accessory competition received a cash prize of Rs. 100,000. The judges for the competition were Muniba Kamal, Aamna Isani, Nabila, Fareshteh Aslam, Ayesha Tammy Haq, Kammar Rokni, Maheen Khardar, Tariq Amin, and Ayesha Haswani. The appreciation we have received from the fashion industry and from the students speaks volumes for the need our country has for such platforms to be launched. Gul Ahmed takes pride in initiating this event and is committed to working with the youth of Pakistan to nurture their creativity and passion for fashion.



Colours of Patriotism



### Colours of Patriotism Lending a Helping Hand

It was last year when our nation was hit by devastating floods that left millions of families homeless. It was one of the greatest catastrophic disasters witnessed by the world that engulfed one-fifth of Pakistan, affecting almost 20 million of the country's inhabitants. Before the world responded to calls for help or started making pledges, we as a Company were already on the frontline – committed to help our fellow countrymen in this national tragedy.

We had a clear strategy in mind to ensure help went to the right people, and at the right time. Our initial efforts were dedicated to ensuring the survival of those severely affected by the floods followed by collaborating with several organizations to play our part in the rebuilding and reconstruction phase.

The challenges were many, but with high spirits and passion to serve, we successfully delivered medical supplies and life-saving medical aid as well as distributed food, clothing and shelter. One year on, while the focus of many has shifted elsewhere, Gul Ahmed continues to work actively towards rehabilitation of the flood affectees specifically on helping children get back to school and start a normal life.



Colours of Community



### Colours of Community Keeping the Interest of People at Heart

Our vision is to create a community that protects people's interest and well-being throughout local communities.

Keeping the community's interest at large, we have always attached a great amount of importance to the community policing and surveillance. We have also collaborated with LATI (Landhi Association of Trade and Industry) and the local police, and through this association, we have helped the police of Landhi establish Madadgar Police Posts and a communication system to stay in touch with the people of the area. To further strengthen this association, we have also provided the police with mobiles and motorbikes to effectively patrol the area at all times.

We have also established an IP surveillance network of cameras within our campus facing the external areas near our gates and boundary walls to help the police monitor and improve the safety for our workers and public at large in Landhi. The police have also been extremely proactive and worked effortlessly with us to combat and control crime in the area.



Colours of Technology



### Colours of Technology Technology Driving us into the Future

Gul Ahmed has always believed in the power of technology and is an industry leader when it comes to being tech-savvy.

Ever since its inception, we have employed state-of-the-art machinery and technology to deliver cutting-edge products and solutions to our customers. We believe that employing state-of-the-art technology is the core of increasing productivity and enhancing quality performance. High-tech equipment and high-end processes make us an organization that excels through perfect amalgamation of man and machine; the two most powerful resources on the globe.

Employing state-of-the-art technology not only enables us to create unique products but also helps us increase efficiency by reducing wastage and lead times; thus enabling us to deliver cost effective solutions to our valued customers.





Colours of Lifestyle



### Colours of Lifestyle Ideas that Complete You

Keeping the essence of Gul Ahmed alive, Ideas offers a plethora of creatively designed home textiles in an effervescent palette of colours, fabrics, patterns, textures and embroidery styles. The store is also home to limited lawn edition and cotton designs. Over the years, Gul Ahmed has established an extensive range of stores across the country for our customers to experience an ultimate and unbeatable shopping experience.

Consumer and professional channels recognize us as the leader in exclusive, high quality, modern designs. Our aim is to provide a distinctive cozy shopping environment with attractive décor, a consistent availability of high quality products and new product innovations. Each Ideas store brings together a diverse range of concepts under one roof, apparel, footwear, bedding to name a few. In less than a decade's time, Ideas has established itself amongst the leading retail companies in Pakistan that offers the convenience of a one-stop shop.

Positioned as a youthful, stylish and vibrant brand, Ideas offers its customers not just the ease of shopping but also an enjoyable shopping experience.



Colours of Imagination



## Colours of Imagination

### Bringing Imagination to Life

Thinking out of the box and exploring new avenues in creativity has always been at the heart of everything we do as a Company. L'Oréal's Summer Fantasy is one such example.

It was an event seeped in magical realism, hosted at a private farm at the edge of Lahore, far removed from the grittiness of urban reality. One could have dreamed the whole experience nibbling on the smoked salmon and sipping cocktails as beautiful nymphs dressed and adorned before your very eyes. The Balochi folk artist Akhtar Channar delivered a stellar live performance. As the beautification process ended, all models dramatically threw over their capes to reveal fanciful ensembles crafted from net, voile and floral lawn prints of Gul Ahmed. Given that the event was themed on spring/summer, the models personified butterflies, emerging from their cocoons, ready to set flight and charm the world with their inherent beauty.

The setting with a beautiful garden, bathed in lilac and powder pink, held influences of Eden in bloom replete with mythical horses (dyed pink) and a centre stage that could have been lifted from a young girl's story book with ornate dressing tables, ribbons, flowers and bubbles. It was as if one has slipped down into Alice's Wonderland sans the Mad Hatter, as the bubbles enveloped guests with a slant sun beam striking down, one was lost in the gorgeous facade of beauty and imagination.

Gul Ahmed helped the creative team behind L'Oréal's Summer Fantasy to go far and beyond the realms of reality to deliver a dose of the surreal, successfully merging high fashion creativity and aesthetics alongside a grounded earthy voice of the soil.



Colours of Diversity



### Colours of Diversity Talent has no boundaries

We are dynamic and competitive beyond measure because of the diversity of our team. Respecting each other's differences, we strongly believe that productivity and profits depend on full utilization of the workforce. Well educated employees skilled to operate in a multicultural environment form a team that understands our culture, values, beliefs, behaviours, strengths and weaknesses.

#### 1. Promoting Fresh Talent

- Internships for Students: Internships are given out to students of various institutions every summer and winter.
- Management Trainee Program: Fresh graduates from reputable universities/institutes are hired for a period of 6-12 months and trained by experienced personnel. They are evaluated through different challenging projects after which they are awarded certificates and employment opportunities depending on assessments and job vacancy.
- Gul Ahmed Fashion Awards 2011 for Promoting Fresh Talent: The first fashion award as part of a corporate social responsibility was held to bridge the gap between classrooms and practical setups. Young talent from various fashion institutes come up with highly innovative ideas in garments and accessories for the competition.

#### 2. Opportunities at International Level

- Our Internship programs are also meant to facilitate overseas candidates willing to work with zest in a multicultural environment. Currently 2 interns, one from Moldova and the other from Kenya work in our Retail Division.
- Moreover, our employees are also sent for visits, exhibitions and training courses abroad.

#### 3. Opportunities for Disabled Candidates

Moving a step ahead, we started hiring people with disabilities through an NGO in our sewing unit. 35 people have been helped under this program and we are continuously aiming for more.

#### 4. Equal Employment Opportunity

We stand strongly on our resolve to empower women and that is why we are purely an equal opportunity employer from basic to managerial positions. They are a part of all decision-making processes of the organization and separate units are allocated for them. More than 1,000 females are working at various positions (including staff and workers) in a cordial working environment and free conveyance.

### Other CSR Activities

#### 1. Awareness Session/Drills

- Health Awareness Programs on HIV/AIDS and Hepatitis B vaccination drills.
- The employees are trained for SHE (Safety, Health & Environment) and trainings on fire fighting, first aid, work place hazards and MSDS (Material Specification Data Sheets of Chemicals) are conducted.
- Employees are rewarded with Medals and Cash Prizes for their feat at any incident.

#### 2. Community Development

- Set up of roads, lights, police check post, footpaths with collaboration of stakeholders.
- Development and maintenance of sewerage and drainage system of local community.
- Development of prayer areas, drinking water taps for local community.
- For its CSR initiatives, Gul Ahmed was awarded a CSR excellence award (2009 & 2010)

# Code of Conduct and Ethics

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

## Abide by the law

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

## Integrity, honesty and respect for others

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

## Confidentiality

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

# Shareholders' Information

## Annual General Meeting

The annual shareholders' meeting will be held on October 31, 2011 at 10:00 a.m at Moosa D. Dessai ICAP Auditorium, Institute of Chartered Accountants of Pakistan, G-31/8, Chartered Accountants Avenue, Clifton, Karachi. Shareholders as of October 24, 2011 are encouraged to participate and vote.

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

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

## Ownership

On June 30, 2011 the Company has 1,982 shareholders.

## Web Reference

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

Karachi Stock Exchange Share Prices 2010-11		
Period	Price in Rupees	
	High	Low
1st Quarter	23.00	18.53
2nd Quarter	29.24	20.01
3rd Quarter	46.01	27.12
4th Quarter	53.65	45.00

## Announcement of Financial Results

The tentative dates of the announcement of financial results and payment of cash dividend (if any) for the year 2011-12 are as follows:

Period	Financial Results	Dividend Payment (if any)
1st Quarter	October 29, 2011	---
2nd Quarter	February 27, 2012	---
3rd Quarter	April 28, 2012	---
Annual Accounts	September 29, 2012	November 30, 2012

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

## Share Registrar

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

## Investor Relations Contact

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



# Notice of Meeting

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Notice is hereby given that the 59th Annual General Meeting of Gul Ahmed Textile Mills Limited will be held at Moosa D. Dessai ICAP Auditorium, Institute of Chartered Accountants of Pakistan, G-31/8, Chartered Accountants Avenue, Clifton, Karachi, on Monday, October 31, 2011 at 10:00 a.m. to transact the following business:

1. To receive, consider and adopt the Audited Accounts of the Company for the year ended June 30, 2011 together with the Directors' and Auditors' Reports thereon.
2. To approve the issue of bonus shares in the ratio of one share for every one share held i.e. 100% as recommended by the Board.
3. To appoint Auditors for the year 2011-2012 and fix their remuneration.

By Order of the Board

Karachi  
October 01, 2011

**Mohammed Salim Ghaffar**  
Company Secretary

## NOTES :

1. Share Transfer Books of the Company will remain closed from October 24, 2011 to October 31, 2011 (both days inclusive) for determining entitlement of bonus shares.
2. A member entitled to vote at the meeting may appoint a proxy. Proxies in order to be effective, must be received at the Registered Office of the Company duly stamped and signed not later than 48 hours before the meeting.
3. Shareholders who have deposited their shares into Central Depository Company of Pakistan Limited, must bring their original Computerized National Identity Card (CNIC) or Original Passport at the time of attending the meeting. If proxies are granted by such shareholders the same must be accompanied with attested copies of the CNIC or the Passport of the beneficial owners. Representatives of corporate members should bring the usual documents required for such purpose.
4. A proxy must be a member of the Company.
5. Members who have not yet submitted photocopy of their CNIC are requested to send the same to the Share Registrar of the Company Famco Associates (Private) Limited, State Life Building No.1-A, 1st Floor, I.I. Chundrigar Road, Karachi at the earliest.
6. Shareholders are requested to immediately notify the change of address, if any, to the Share Registrar of the Company.

# Directors' Report

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## Dear Shareholders

The directors of your Company are pleased to present the Annual Report and the audited financial statements for the year ended June 30, 2011 together with auditors' report thereon. This report represents the financial, operating and corporate social responsibility performance of the Company and highlights the key business challenges to the business of the Company.

## Economy Overview

During the year international uncertainties regarding the future economic outlook re-emerged, as growth figures for many economies had to be adjusted downward due to the devastating earthquake in Japan and doubts about the sustainability of public debt in Europe and the United States which undermined confidence in the ability of governments to take the necessary steps to restore growth.

In this context, policymakers across all regions are facing difficult economic management challenges and many policy dilemmas.

Keeping the international background, Pakistan is currently facing challenges like persistence of high inflation, falling private investment and low growth and rising total public debt due to a low tax to GDP ratio. At the same time, severe energy shortages and volatile security conditions have rendered the domestic economic environment least conducive for productive activities. The jolts to the economy continue in the form of adverse shocks of commodity and oil prices, fallout of the global financial crisis and the unprecedented calamity of the floods which caused a massive damage of \$10 billion on country's economic structure.

For the country, the year under review (FY 2011) remained difficult. The economy grew by 2.4% against the target of 4.5% (FY 2010: 4.1%). Agriculture grew at 1.2% (FY 2010: 2.0%) against the target of 3.8%. Lower growth in agriculture is because of the impact of devastating floods destroying major crops rice, cotton and also the livestock. The large scale manufacturing sector grew at 1.7% (FY 2010: 4.4%). It mainly remained the victim of power outages and lower domestic demand. CPI inflation at 13.9% in June 2011 is higher than the target by 4.4%. Now the recent flood catastrophe, particularly in Sind, due to heavy rains has multiplied Pakistan's economic problems.

The economic management team of Pakistan needs to restructure the policy framework targeted to improve the welfare of public, encourage business activities in the country, broaden tax base for better resource mobilization, improve the efficiency of public sector spending and facilitate the industries to generate revenues and keep up with and increase efforts to further bring foreign currency earnings into the country and create employment. In short, more effective consolidated fiscal policy is needed.

## Industry Overview

Textile industry in Pakistan constitutes 46% of total manufacturing sector and 38% of manufacturing labor is employed in this industry. Textile sector accounted for 62% in export growth. The positive growth in the export market is mostly the effect of price and the contribution of increase in production impact is minimal.

FY 2011 witnessed a significant increase in cotton prices mainly as a result of floods in Pakistan, droughts in USA and unfavorable weather conditions. This was further compounded by export ban by India as well as lower availability of cotton from the major cotton producing countries.

## Business Review

Gul Ahmed Textile Mills Limited (Gul Ahmed) is a Company listed on the Karachi and Lahore Stock Exchanges. It is a composite textile mill and is engaged in the manufacture of textile products. It has state of the art production facilities in its two segments, yarn and processing. We, in the industry, are pioneers in setting up a chain of our own retail outlets in Pakistan. Our passion for designing and creating the world of new style and fashion is also critically important to Gul Ahmed.

## Performance Highlights

Pakistan's textile industry which is the major contributor to the country's exports is dependent on cotton. During the year local cotton prices witnessed a steep increase of around 120% as compared to the previous year. Similarly cotton prices worldwide also rose sharply.

Your Company's financial performance despite the sharp increase in cotton price is par excellence.

## Financial Performance

The Company has shown improvement in all areas – sales have increased by 29%, gross profit by 46%, profit after tax and earnings per share (EPS) by 150%. Table comparing the current FY 2011 with FY 2010 is given below:

	FY 2011	FY 2010	Growth	
	Rupees in Millions		%	
Local Sales	8,297	8,949	(652)	(7.29)
Exports	17,139	10,740	6,399	59.58
Total Sales	25,436	19,689	5,747	29.19
Gross Profit	4,627	3,173	1,454	45.82
Profit before tax	1,537	708	829	117.09
Profit after tax	1,196	478	718	150.21
EPS (Rs.)	18.85	7.52	11.33	150.66

Operating results of the Company are summarized below:

	Rs. 000s
Profit after providing depreciation/ amortization of Rs.724 million	1,537,454
Provision for taxation	(340,997)
Profit after tax	1,196,457
Unappropriated profit brought forward	480,534
Amount available for appropriation	<u>1,676,991</u>
Appropriations	
Final dividend for the FY 2010 @ Rs. 1.25 per share	79,349
General reserve	400,000
Amount carried forward	<u>1,197,642</u>
	<u>1,676,991</u>

#### Subsequent Effects

The Board of Directors of the Company in their meeting held on October 01, 2011 have proposed the following:

	Rs. 000s
Balance of unappropriated profit brought forward	1,197,642
Transfer from capital reserve for issue of bonus shares	450,446
Available for appropriation	1,648,088
Transfer to reserves for issue of bonus shares in ratio of one share for every one share held	(634,785)
Transfer to general reserve	(1,000,000)
Unappropriated profit carried forward	<u>13,303</u>

## Operational Performance

Operationally due to the cotton price scenario, production was somewhat stagnant/curtailed, while on the sales side export quantities of processed fabric have increased, whereas yarn exports and local sales quantities were lower.

## Capital Structure

During the year, authorized share capital was increased from Rs. 750 million to Rs. 1,500 million to cater the future needs of the Company. Shareholders' equity increased by Rs. 1,117 million to Rs. 4,713 million as a result of profits retained in the business.

The debt to equity ratio as at the end of June 30, 2011 improved to 32:68 (June 30, 2010: 38:62). Management continues to focus on rationalization of the gearing ratio.

## Funds Management

The Company considers cash flows as its lifeline. Projected cash flows are regularly compared with actual results and corrective actions are taken wherever it appears necessary. Interest and foreign exchange rates are closely monitored to take timely decisions to manage risks or avail the opportunities.

As a result of efficient fund management procedures current ratio at the year end has improved to 1.03:1 (FY 2010: 0.97:1)

The Company ensures that funds are available as and when required. The Company also has Rs. 2,185 million (2010: Rs. 3,080 million) unutilized credit lines with various banks to cover any temporary mismatches.

## Contribution to National Exchequer

The benefit of your Company's growth and profitability is also shared by the government. The Company incurred a total of Rs. 858 million in 2011 (2010: Rs. 483 million) in various federal, provincial and local taxes - an increase of 78% over last year.

## Health, Safety and Environment

Health, Safety and Environment (HSE) is of prime concern and we give priority to implement HSE standards in all business segments. For this purpose, the HSE department has implemented a number of training sessions and

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programs in order to impart knowledge and raise the awareness of employees in relation to HSE. Fire fighting, first aid and emergency quick response drills are routine matters.

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

## Human Excellence

Human Resource Management is an important management unit of the organizational strategy and plays a role that links employees and organizational success.

Human resource function is playing a major role by nurturing the culture of value addition and adopting positive attitudes.

Your Company stands by the core ethical and moral values and therefore we do not discriminate on the basis of religion, race, sex or disability in the process of recruitment, training and career advancement. Instead, Gul Ahmed promotes hiring of female and special persons and facilitates them with the suitable work environment.

At Gul Ahmed, sports competitions are also arranged for the recreation and health of the employees. Healthy and content employees can perform at the optimum level is the philosophy of the management. In the current year a cricket tournament was arranged beside other healthy activities and was participated by the teams from all departments.

## Management Information System

Timely and accurate reporting which caters the specific needs of the users and to make the decision making process more effective is the basis on which we have set up a well integrated and tested information system. Considering the necessity and needs of the users, we regularly review and upgrade our system.

## Corporate Social Responsibility

At Gul Ahmed we consider it our moral duty to invest and work for the betterment of the community and environment in which it is growing.

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

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

## Employment of Women and Special Persons

Employment of women improves the country's social environment, as the income earned by them supports their families, by enabling them to meet their unattended needs. We, at Gul Ahmed, have employed more than one thousand female workers and staff.

Following the famous Chinese proverb, "Give a man a fish and you feed him for a day. Teach a man to fish and you feed him for life time", similarly Gul Ahmed, instead of providing short term help provides training to special persons enabling them to be capable of earning the livelihood. Some of them are given jobs in the Company. Currently forty six (46) special persons are on the Company's payroll.

## Community Development

Gul Ahmed gives great importance to the wellbeing and safety of the local community. Efforts in this regard are detailed in the earlier part of the Annual Report.

## Recycling

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

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

## Environment

The Company has set in environment friendly steps within the production processes. Efforts in this regard are detailed in the earlier part of the Annual Report.

## Energy

Your Company generates its own power, thus reducing the burden on the power generation capacity of the country. We are now in the process of installing a steam turbine with rated capacity of 2.5 MW power generation costing more than Rs. 200 million. Steam generation will save the country's precious gas resources.

## Donations/Charities for National Cause

Our nation is going through the most difficult days in its history. Environmental disasters and the war on terror have worsen the social life of our beloved countrymen. Efforts of the Company in this regard are detailed in earlier portion of Annual Report.

## Business Risks and Challenges

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

Major financial risks, considered important for the management, are exchange rate risk and liquidity risk and are discussed in detail in note no. 38 to the financial statements on page no. 76. Some of the risks, including non-financial risks, are discussed below:

### Commodity Price Risk

The Company is exposed to the fluctuations in international prices of cotton and oil. Pricing of both commodities is based on the open market mechanism. Increase in the prices of these commodities will affect the Company's profit margins unless there is a corresponding increase in selling prices.

### Security Conditions

To ensure the smooth running of operations safety and security are important. The incidents of terrorism, violent strikes and extortion force the business to remain closed. It affects the full utilization of production capacity and meeting the shipment targets as agreed with the customers.

The management is fully aware with this scenario and is incurring substantial cost for protection of employees and assets by deploying security guards and has established a system of surveillance through IP cameras installed at every location. The Company has also obtained insurance cover for terrorism risks.

### Environmental and Fire Loss Risks

Company is also exposed to the risk of natural disasters and fire. Natural disasters include heavy rains, flooding, earthquakes, etc.

Fire is considered as an inherent risk in the textile industry. Fire in cotton spreads like wild fire. All possible fire and safety measures have been put in place. The Company has also obtained insurance cover of all its assets against the risk of natural disasters and fire.

### Energy Shortage

So far, the Company's production facilities have not faced any significant gas curtailment, on which its power generation system depends. Future shortages will affect its production schedule.

The Company has arranged with its customers flexible delivery schedules but in case of prolonged shortages supplies will be affected. We also have about 15% to 20% furnace oil power generation capacity. Along with surplus production capacities, the Company can overcome the gas shortage problem partially. We are planning to convert/ install dual fuel and alternate energy power generation facility and are also considering to avail electricity supply from KESC.

### Code of Corporate Governance

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

- The financial statements prepared by the management of the Company present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- Proper books of accounts of the Company have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.

- International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure therefrom has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored. The Audit Committee comprises three members, two of whom are non-executive directors. The Chairman is an independent non-executive director.
- There are no significant doubts upon the Company's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- The value of investment of provident fund based on its un-audited accounts as on June 30, 2011 is Rs. 276 million (FY 2010: Rs. 207 million).
- Statements regarding the following are annexed or are disclosed in the notes to the financial statements:
  - Number of Board meetings held and attendance by directors.
  - Key financial data for the last six years.
  - Pattern of shareholding.
  - Trading in shares of Company by its Directors, Chief Executive, Chief Financial Officer and Company Secretary and their spouses and minor children.

### Board Changes

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

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

The newly elected Board has an optimum combination of executive, non-executive and independent non-executive directors. Five out of the nine directors on the Board are non-executive, three of whom are independent non-executive directors. None of the directors on the Board is a director of more than ten listed companies. All the directors have diverse exposures, all the necessary skills and understanding to deal with various business issues and have the ability to review and challenge management performance.

### Auditors

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

### Consolidated Financial Statements

Consolidated Financial Statements for the year ended June 30, 2011 of the Company and its subsidiaries Gul Ahmed International Limited (FZC) and GTM (Europe) Limited are attached.

### Future Outlook

Locally, business faces volatility in cotton and energy prices and energy shortages, availability of cotton due to recent floods in Sind, worsening security situation, high inflation and a fragile economy.

The Company is in the export market mostly to Europe and North America, where diminishing economic conditions and governments' austerity programs have chilled business and consumer confidence.

The Company is fully live to these areas of concern. The Company is progressively diversifying its product mix as well as product destination.

### Acknowledgement

Finally, we take this opportunity to thank all our stakeholders for the loyalty they have shown us during these difficult times. We could not have achieved these positive results without the cooperation, support and loyalty of our employees, banks, shareholders, various government bodies and board of directors. The Company has come through a difficult period and we look towards your continuous support as always to help us navigate through what looks like another challenging year ahead.

For and on behalf of the Board

Karachi  
October 01, 2011

**BASHIR ALI MOHOMMAD**  
Chairman & Chief Executive

## Financial Performance at a Glance

Profit & Loss		2011	2010	2009	2008	2007	2006
Sales	Rs. Million	25,435	19,689	13,906	11,726	9,848	8,223
Gross profit	Rs. Million	4,627	3,173	2,359	1,775	1,475	1,286
Operating profit	Rs. Million	2,635	1,653	1,209	936	745	598
Profit before tax	Rs. Million	1,537	708	170	202	262	12
Profit / (loss) after tax	Rs. Million	1,196	478	80	103	164	(35)
Cash dividend	Rs. Million	-	79	-	55	-	-
Bonus share	Rs. Million	635	-	-	-	-	-

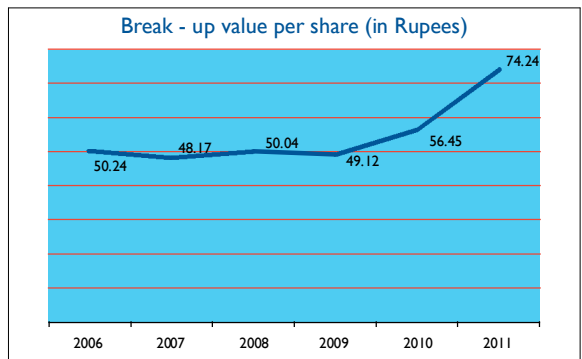
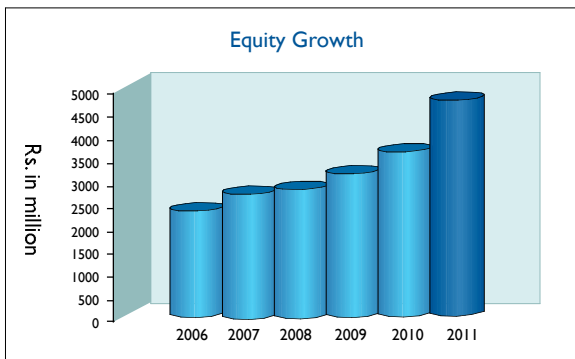
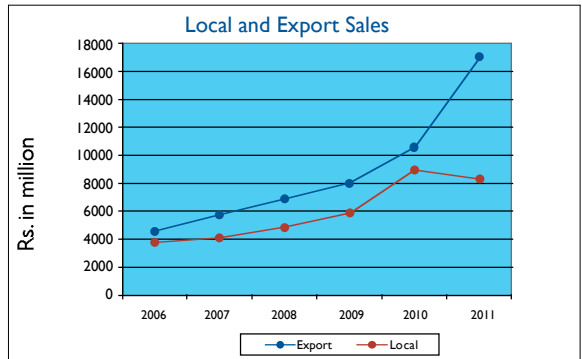
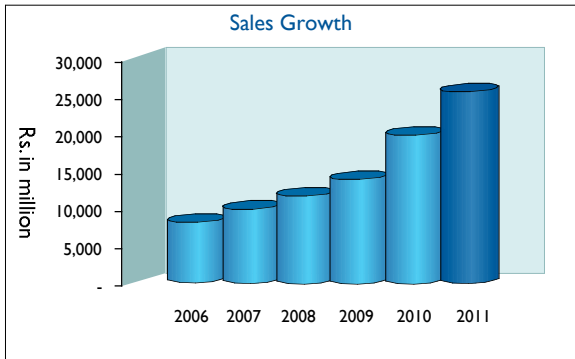
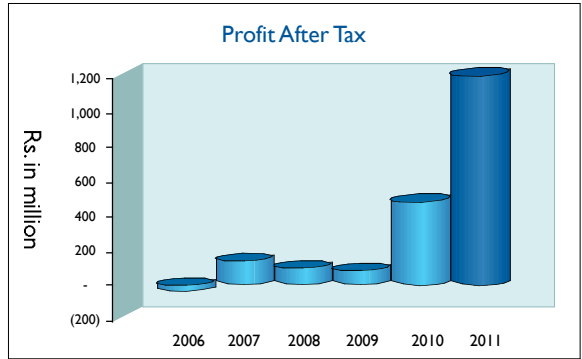
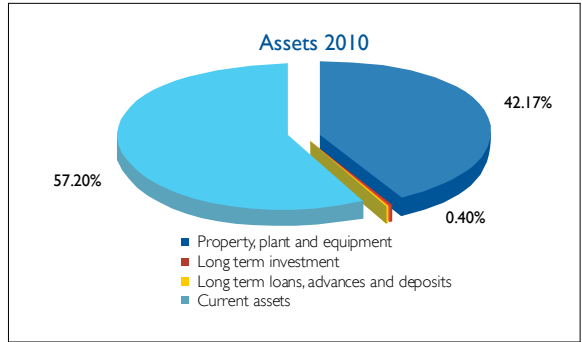
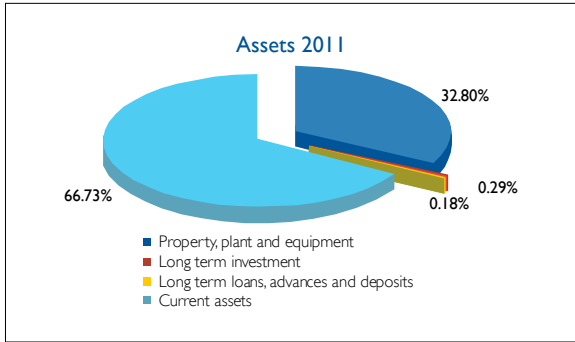
Balance Sheet							
Property, plant and equipment	Rs. Million	6,654	6,140	6,106	5,828	4,703	4,410
Intangible	Rs. Million	39	16	29	28	30	39
Long term investment, loans, advances and deposits	Rs. Million	96	93	90	78	74	71
Net current assets	Rs. Million	422	(224)	(390)	(687)	(278)	16
Total assets employed	Rs. Million	7,211	6,025	5,835	5,247	4,529	4,537
Represented by:							
Share capital	Rs. Million	635	635	635	552	552	460
Reserves	Rs. Million	4,078	2,961	2,483	2,210	2,107	1,851
Shareholders' equity	Rs. Million	4,713	3,596	3,118	2,762	2,659	2,311
Long term loans	Rs. Million	2,199	2,223	2,567	2,354	1,772	2,151
Deferred liabilities	Rs. Million	299	207	149	130	98	74
Total capital employed	Rs. Million	7,211	6,025	5,835	5,247	4,529	4,537

Cash Flow Statement							
Operating activities	Rs. Million	(2,617)	454	442	(339)	774	10
Investing activities	Rs. Million	(1,250)	(711)	(931)	(1,649)	(713)	(813)
Financing activities	Rs. Million	(148)	(170)	398	680	6	412
Cash and cash equivalents at the end of the year	Rs. Million	(9,676)	(5,660)	(5,233)	(5,141)	(3,832)	(3,900)

## Financial Ratios

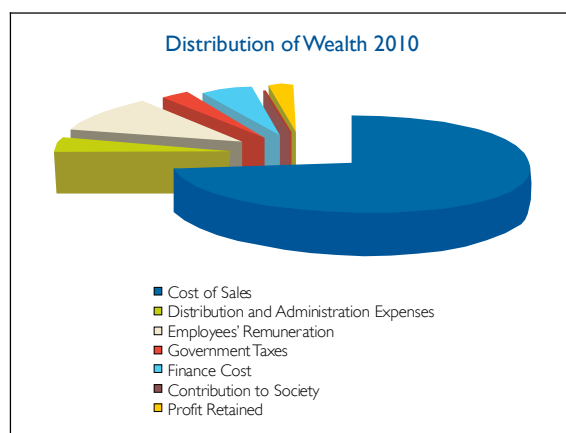
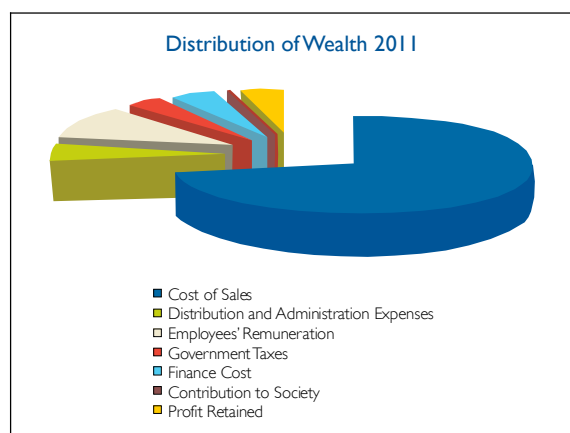
		2011	2010	2009	2008	2007	2006
<b>Profitability ratios</b>							
Gross profit ratio	%	<b>18.19</b>	16.12	16.96	15.14	14.98	15.64
Operating leverage ratio	Times	<b>2.04</b>	0.88	1.57	1.34	1.23	1.25
EBITDA margin to sales	%	<b>13.21</b>	11.92	13.37	12.49	11.90	12.06
Net profit to sales	%	<b>4.70</b>	2.43	0.58	0.88	1.67	(0.42)
Return on equity	%	<b>28.80</b>	14.22	2.73	3.80	6.60	(1.53)
Return on capital employed	%	<b>39.82</b>	27.87	21.82	19.14	16.45	13.42
<b>Liquidity ratios</b>							
Current ratio		<b>1.03</b>	0.97	0.95	0.90	0.95	1.00
Quick / acid test ratio		<b>0.19</b>	0.34	0.39	0.42	0.47	0.47
Cash to current liabilities		<b>0.01</b>	0.01	0.01	0.01	0.01	0.01
Cash flow from operations to sales		<b>(0.10)</b>	0.02	0.03	(0.03)	0.08	-
<b>Capital structure ratios</b>							
Financial leverage ratio		<b>2.67</b>	2.40	2.69	2.95	2.30	2.95
Weighted average cost of debt		<b>0.10</b>	0.11	0.12	0.08	0.07	0.13
Debt to equity ratio		<b>0.47</b>	0.62	0.82	0.85	0.67	0.93
Interest cover ratio		<b>2.40</b>	1.75	1.16	1.28	1.54	1.02
<b>Turnover ratios</b>							
Inventory turnover	Days	<b>134</b>	98	107	95	104	130
Inventory turnover ratio		<b>0.37</b>	0.27	0.29	0.26	0.28	0.23
Debtor turnover	Days	<b>31</b>	45	66	72	74	84
Debtor turnover ratio		<b>0.09</b>	0.12	0.18	0.20	0.20	0.23
Creditor turnover	Days	<b>82</b>	73	76	61	56	82
Creditor turnover ratio		<b>0.23</b>	0.20	0.21	0.17	0.15	0.21
Fixed assets turnover ratio		<b>3.82</b>	3.21	2.27	2.00	2.08	1.85
Total assets turnover ratio		<b>1.25</b>	1.35	1.02	0.95	0.98	0.82
Operating cycle	Days	<b>83</b>	70	97	106	122	131
<b>Investor information</b>							
Earnings per share	Rupees	<b>18.85</b>	7.52	1.45	1.86	3.11	(0.68)
Price earning ratio		<b>2.74</b>	2.46	26.79	21.51	14.68	(60.29)
Price to book ratio		<b>0.16</b>	0.08	0.18	0.18	0.25	0.19
Dividend yield ratio		-	0.07	-	0.03	-	-
Cash dividend per share	Rupees	-	1.25	-	1.00	-	-
Bonus shares issues	%	<b>100</b>	-	-	-	-	-
Dividend payout ratio	%	-	16.60	-	53.68	-	-
Dividend cover ratio	Times	-	6.02	-	1.87	-	-
Break - up value per share	Rupees	<b>74.24</b>	56.45	49.12	50.04	48.17	50.24
Market value per share							
at the end of the year	Rupees	<b>51.73</b>	18.53	38.84	40.00	45.65	41.00
high during the year:	Rupees	<b>53.65</b>	38.84	49.00	51.40	49.90	67.95
low during the year	Rupees	<b>18.53</b>	17.40	28.60	37.25	23.75	25.50
EBTIDA	Rs. million	<b>3,359</b>	2,347	1,860	1,465	1,171	991





## Our Value Addition and its Distribution

	2011		2010	
	Rs. '000	%	Rs. '000	%
<b>Value Addition</b>				
Net sales	25,435,465	99.90	19,688,794	99.87
Other operating income	24,931	0.10	25,116	0.13
	<u>25,460,396</u>	<u>100.00</u>	<u>19,713,910</u>	<u>100.00</u>
<b>Value Distribution</b>				
Cost of sales (Excluding employees' remuneration, duties and taxes)	18,379,932	72.19	14,601,733	74.07
Distribution and administration expenses (Excluding employees' remuneration and taxes)	1,300,743	5.11	1,019,225	5.17
Employees' remuneration	2,668,460	10.48	2,191,440	11.12
Government taxes (Includes income tax, WPPF, WWF, duties, federal & provincial taxes, etc.)	831,647	3.27	477,135	2.42
Providers of capital (Finance cost)	1,079,671	4.24	944,603	4.79
Dividend	79,349	0.31	-	-
Contribution to society (Donations)	3,486	0.01	2,241	0.01
Profit retained	1,117,109	4.39	477,533	2.42
	<u>25,460,396</u>	<u>100.00</u>	<u>19,713,910</u>	<u>100.00</u>



# Horizontal Analysis of Financial Statements

	2011	2010	2009	2008	2007	2006	2011	2010	2009	2008	2007	2006
	Rs. '000s						Variance %					
<b>Balance sheet</b>												
Total equity	4,712,873	3,595,765	3,118,232	2,762,029	2,659,191	2,310,795	31.07	15.31	12.90	3.87	15.08	1.85
Total non-current liabilities	2,497,260	2,429,247	2,715,884	2,484,561	1,869,832	2,225,763	2.80	(10.55)	9.31	32.88	(15.99)	5.46
Total current liabilities	13,194,546	8,574,679	7,749,618	7,085,112	5,480,926	5,434,391	53.88	10.65	9.38	29.27	0.86	0.16
Total equity and liabilities	20,404,679	14,599,691	13,583,734	12,331,702	10,009,949	9,970,949	39.76	7.48	10.15	23.19	0.39	1.69
Total non-current assets	6,788,103	6,249,091	6,224,462	5,933,390	4,807,233	4,520,454	8.63	0.40	4.91	23.43	6.34	10.32
Total current assets	13,616,576	8,350,600	7,359,272	6,398,312	5,202,716	5,450,495	63.06	13.47	15.02	22.98	(4.55)	(4.51)
Total assets	20,404,679	14,599,691	13,583,734	12,331,702	10,009,949	9,970,949	39.76	7.48	10.15	23.19	0.39	1.69
<b>Profit &amp; loss account</b>												
Net sales	25,435,465	19,688,794	13,906,465	11,725,851	9,847,754	8,222,820	29.19	41.58	18.60	19.07	19.76	42.42
Cost of sales	(20,808,843)	(16,515,934)	(11,547,856)	(9,951,072)	(8,372,437)	(6,937,020)	25.99	43.02	16.05	18.86	20.69	41.20
Gross profit	4,626,622	3,172,860	2,358,609	1,774,779	1,475,317	1,285,800	45.82	34.52	32.90	20.30	14.74	49.38
Distribution expenses	(1,090,588)	(776,234)	(585,657)	(278,966)	(249,859)	(279,205)	40.50	32.54	109.94	11.65	(10.51)	85.16
Administrative expenses	(808,926)	(715,293)	(572,983)	(563,336)	(473,867)	(464,516)	13.09	24.84	1.71	18.88	2.01	32.42
Other expenses	(116,604)	(53,619)	(13,712)	(15,050)	(19,891)	(1,742)	117.47	291.04	(8.89)	(24.34)	1,041.85	(75.28)
Other income	24,931	25,116	22,594	18,250	13,759	58,079	(0.74)	11.16	23.80	32.64	(76.31)	764.40
Operating profit	2,635,435	1,652,830	1,208,851	935,677	745,459	598,416	59.45	36.73	29.20	25.52	24.57	66.77
Financial expenses	(1,097,981)	(944,603)	(1,038,990)	(733,839)	(483,268)	(586,035)	16.24	(9.08)	41.58	51.85	(17.54)	147.36
Profit before taxation	1,537,454	708,227	169,861	201,838	262,191	12,381	117.08	316.95	(15.84)	(23.02)	2,017.69	(89.84)
Income tax expense	(340,997)	(230,694)	(89,651)	(99,000)	(97,791)	(47,000)	47.81	157.32	(9.44)	1.24	108.07	2.17
Profit for the year	1,196,457	477,533	80,210	102,838	164,400	(34,619)	150.55	495.35	(22.00)	(37.45)	(574.88)	(145.61)

# Vertical Analysis of Financial Statements

	2011		2010		2009		2008		2007		2006	
	Rs. '000s	%	Rs. '000s	%	Rs. '000s	%	Rs. '000s	%	Rs. '000s	%	Rs. '000s	%
<b>Balance sheet</b>												
Total equity	4,712,873	23.10	3,595,765	24.63	3,118,232	22.96	2,762,029	22.40	2,659,191	26.57	2,310,795	23.18
Total non-current liabilities	2,497,260	12.24	2,429,247	16.64	2,715,884	19.99	2,484,561	20.15	1,869,832	18.68	2,225,763	22.32
Total current liabilities	13,194,546	64.66	8,574,679	58.73	7,749,618	57.05	7,085,112	57.45	5,480,926	54.75	5,434,391	54.50
Total equity and liabilities	20,404,679	100.00	14,599,691	100.00	13,583,734	100.00	12,331,702	100.00	10,009,949	100.00	9,970,949	100.00
Total non-current assets	6,788,103	33.27	6,249,091	42.80	6,224,462	45.82	5,933,390	48.11	4,807,233	48.02	4,520,454	45.34
Total current assets	13,616,576	66.73	8,350,600	57.20	7,359,272	54.18	6,398,312	51.89	5,202,716	51.98	5,450,495	54.66
Total assets	20,404,679	100.00	14,599,691	100.00	13,583,734	100.00	12,331,702	100.00	10,009,949	100.00	9,970,949	100.00
<b>Profit &amp; loss account</b>												
Net sales	25,435,465	100.00	19,688,794	100.00	13,906,465	100.00	11,725,851	100.00	9,847,754	100.00	8,222,820	100.00
Cost of sales	(20,808,843)	(81.81)	(16,515,934)	(83.88)	(11,547,856)	(83.04)	(9,951,072)	(84.86)	(8,372,437)	(85.02)	(6,937,020)	(84.36)
Gross profit	4,626,622	18.19	3,172,860	16.12	2,358,609	16.96	1,774,779	15.14	1,475,317	14.98	1,285,800	15.64
Distribution expenses	(1,090,588)	(4.29)	(776,234)	(3.94)	(585,657)	(4.21)	(278,966)	(2.38)	(249,859)	(2.13)	(279,205)	(2.38)
Administrative expenses	(808,926)	(3.18)	(715,293)	(3.63)	(572,983)	(4.12)	(563,336)	(4.80)	(473,867)	(4.04)	(464,516)	(3.96)
Other income	24,931	0.10	25,116	0.13	22,594	0.16	18,250	0.16	13,759	0.12	58,079	0.50
Other expenses	(116,604)	(0.46)	(53,619)	(0.27)	(13,712)	(0.10)	(15,050)	(0.13)	(19,891)	(0.17)	(1,742)	(0.01)
Operating profit	2,635,435	10.36	1,652,830	8.39	1,208,851	8.69	935,677	7.98	745,459	6.36	598,416	5.10
Financial expenses	(1,097,981)	(4.32)	(944,603)	(4.80)	(1,038,990)	(7.47)	(733,839)	(6.26)	(483,268)	(4.12)	(586,035)	(5.00)
Profit before taxation	1,537,454	6.04	708,227	3.60	169,861	1.22	201,838	1.72	262,191	2.24	12,381	0.11
Income tax expense	(340,997)	(1.34)	(230,694)	(1.17)	(89,651)	(0.64)	(99,000)	(0.84)	(97,791)	(0.83)	(47,000)	(0.40)
Profit for the year	1,196,457	4.70	477,533	2.43	80,210	0.58	102,838	0.88	164,400	1.40	(34,619)	(0.30)

# Statement of Compliance with the Code of Corporate Governance

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This statement is being presented to comply with the Code of Corporate Governance ("the Code") 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 ("the Board"). At present the Board includes three independent non-executive directors and two 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 NBFIs. 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 signed by all the nine directors and other 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 along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer (CEO) 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. The directors have been provided with copies of the Listing Regulations of the Karachi and Lahore Stock Exchanges, Company's Memorandum and Articles of Association and the Code of Corporate Governance and they are well conversant with their duties and responsibilities. In compliance of sub clause (xiv) of clause 35 of the Listing Regulations, four directors have attended and completed Corporate Governance Leadership Skills program under the Board Development Series of Pakistan Institute of Corporate Governance (PICG).
10. No new appointment of Chief Financial Officer (CFO), Company Secretary and Head of Internal Audit was made during the year. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.
11. The directors' report for this year has been prepared in compliance with the requirements of the 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.

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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, two of whom are non-executive directors. The Chairman of the Committee is an independent non-executive director.
  16. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the Committee have been formed and advised to the Committee for compliance.
  17. The Board has set-up an effective internal audit function.
  18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the Institute of Chartered Accountants of Pakistan.
  19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the Listing Regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
  20. The related party transactions have been placed before the Audit Committee and approved by the Board of Directors to comply with the requirements of the Listing Regulations of the Karachi and Lahore Stock Exchanges.
  21. We confirm that all other material principles contained in the Code have been complied with.

**BASHIR ALI MOHOMMAD**  
Chairman and Chief Executive

**ZAIN BASHIR**  
Director

Karachi  
October 01, 2011

# Review Report to the Members on Statement of Compliance with Best Practices of the Code of Corporate Governance

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We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance for the year ended June 30, 2011 prepared by the Board of Directors of Gul Ahmed Textile Mills Limited ("the Company") to comply with the Listing Regulations of the respective Stock Exchanges, where the Company is listed.

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

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

Further, Sub-Regulation (xiii a) of Listing Regulations 35 notified by the Karachi and Lahore Stock Exchanges requires the Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance, as applicable to the Company for the year ended June 30, 2011.

Karachi  
October 01, 2011

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

# Auditors' Report to the Members

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We have audited the annexed Balance Sheet of Gul Ahmed Textile Mills Limited ("the Company") as at June 30, 2011 and the related Profit and Loss Account, Statement of Comprehensive Income, Cash Flow Statement and Statement of Changes in Equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- b) in our opinion:
  - i) the Balance Sheet and Profit and Loss Account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
  - ii) the expenditure incurred during the year was for the purpose of the Company's business; and
  - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- c) in our opinion and to the best of our information and according to the explanations given to us, the Balance Sheet, Profit and Loss Account, Statement of Comprehensive Income, Cash Flow Statement and Statement of Changes in Equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2011 and of the profit, total comprehensive income, its cash flows and changes in equity for the year then ended; and
- d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

Karachi  
October 01, 2011

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



## Balance Sheet

As at June 30, 2011

	Note	2011 Rs. 000s	2010
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
Share capital	4	634,785	634,785
Reserves	5	2,880,446	2,480,446
Unappropriated profit		1,197,642	480,534
		<u>4,712,873</u>	<u>3,595,765</u>
<b>NON-CURRENT LIABILITIES</b>			
Long term financing	6	2,198,591	2,222,650
Deferred liabilities			
Deferred taxation - net	7	284,563	194,314
Staff retirement benefits	8	14,106	12,283
		<u>298,669</u>	<u>206,597</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	9	2,586,514	1,964,969
Accrued mark-up	10	216,798	156,589
Short term borrowings	11	9,759,190	5,744,727
Current maturity of long term financing		632,044	676,863
Provision for taxation - net of payment		-	31,531
		<u>13,194,546</u>	<u>8,574,679</u>
<b>CONTINGENCIES AND COMMITMENTS</b>			
	12		
		<u>20,404,679</u>	<u>14,599,691</u>

	Note	<u>2011</u>	<u>2010</u>
		Rs. 000s	
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	13	6,653,725	6,140,114
Intangible assets	14	38,630	16,349
Long term investment	15	58,450	58,450
Long term loans and advances	16	4,241	1,846
Long term deposits		33,057	32,332
		<u>6,788,103</u>	<u>6,249,091</u>
<b>CURRENT ASSETS</b>			
Stores, spares and loose tools	17	706,350	475,422
Stock-in-trade	18	10,334,360	4,943,904
Trade debts	19	2,030,723	2,359,265
Loans and advances	20	159,830	137,263
Prepayments		40,486	47,939
Other receivables	21	212,546	237,936
Tax refunds due from government	22	48,926	63,905
Cash and bank balances	23	83,355	84,966
		<u>13,616,576</u>	<u>8,350,600</u>
		<u><u>20,404,679</u></u>	<u><u>14,599,691</u></u>

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

**BASHIR ALI MOHOMMAD**  
Chairman and Chief Executive

**ZAIN BASHIR**  
Director

## Profit and Loss Account

For the Year Ended June 30, 2011

	Note	2011 Rs. 000s	2010
Sales	24	25,435,465	19,688,794
Cost of sales	25	20,808,843	16,515,934
Gross profit		4,626,622	3,172,860
Distribution cost	26	1,090,588	791,442
Administrative expenses	27	808,926	700,085
Other operating expenses	28	116,604	53,619
		2,016,118	1,545,146
		2,610,504	1,627,714
Other operating income	29	24,931	25,116
Operating profit		2,635,435	1,652,830
Finance cost	30	1,097,981	944,603
Profit before taxation		1,537,454	708,227
Provision for taxation	31	340,997	230,694
Profit after taxation		1,196,457	477,533
Earnings per share - basic and diluted (Rs.)	32	18.85	7.52

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

**BASHIR ALI MOHOMMAD**  
Chairman and Chief Executive

**ZAIN BASHIR**  
Director

## Statement of Comprehensive Income

For the Year Ended June 30, 2011

	<u>2011</u>	<u>2010</u>
	Rs. 000s	
Profit after taxation	1,196,457	477,533
Other comprehensive income - net of tax	-	-
Total comprehensive income	<u>1,196,457</u>	<u>477,533</u>

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

**BASHIR ALI MOHOMMAD**  
Chairman and Chief Executive

**ZAIN BASHIR**  
Director

# Cash Flow Statement

For the Year Ended June 30, 2011

Note	<u>2011</u>	<u>2010</u>
	Rs. 000s	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	1,537,454	708,227
Adjustments for:		
Depreciation	708,255	677,522
Amortisation	15,725	16,672
Provision for gratuity	8,444	7,015
Finance cost	1,097,981	944,603
Provision for slow moving/obsolete items	10,304	7,736
Provision for doubtful debts	29,200	19,031
Property, plant and equipment scrapped	2,657	1,129
Profit on sale of property, plant and equipment	(12,877)	(9,223)
	<u>3,397,143</u>	<u>2,372,712</u>
Changes in working capital:		
(Increase)/decrease in current assets		
Stores, spares and loose tools	(241,232)	(36,095)
Stock-in-trade	(5,390,456)	(1,057,733)
Trade debts	299,342	154,284
Loans and advances	(439)	(14,656)
Prepayments	7,453	(14,008)
Other receivables	25,390	(77,187)
Tax refunds due from government	14,979	(10,226)
	<u>(5,284,963)</u>	<u>(1,055,621)</u>
Increase in current liabilities		
Trade and other payables	621,545	229,051
	<u>(4,663,418)</u>	<u>(826,570)</u>
Cash (used in)/generated from operations	<u>(1,266,275)</u>	1,546,142
(Payments) for/receipts from:		
Gratuity	(6,621)	(4,739)
Finance cost	(1,037,772)	(966,419)
Income tax	(304,407)	(121,297)
Long term loans and advances	(2,395)	416
Net cash (used in)/generated from operating activities	<u>(2,617,470)</u>	<u>454,103</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Addition to property, plant and equipment	(1,242,360)	(738,765)
Addition to intangible assets	(38,006)	(4,138)
Proceeds from sale of property, plant and equipment	30,714	35,055
Long term deposits	(725)	(3,298)
Net cash used in investing activities	<u>(1,250,377)</u>	<u>(711,146)</u>

	Note	<u>2011</u>	<u>2010</u>
		Rs. 000s	
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from long term loans		607,987	328,457
Repayments of long term loans		(676,865)	(498,634)
Dividend paid		(79,349)	-
Net cash used in financing activities		<u>(148,227)</u>	<u>(170,177)</u>
<b>Net decrease in cash and cash equivalents</b>		<b>(4,016,074)</b>	<b>(427,220)</b>
Cash and cash equivalents - at the beginning of the year		<u>(5,659,761)</u>	<u>(5,232,541)</u>
<b>Cash and cash equivalents - at the end of the year</b>	34	<u><u>(9,675,835)</u></u>	<u><u>(5,659,761)</u></u>

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

**BASHIR ALI MOHOMMAD**  
Chairman and Chief Executive

**ZAIN BASHIR**  
Director

## Statement of Changes in Equity

For the Year Ended June 30, 2011

	Share capital	Revenue reserve	Capital reserve	Unappropriated profit	Total
	Rs. 000s				
Balance as at June 30, 2009	634,785	1,950,000	450,446	83,001	3,118,232
Transfer to revenue reserve	-	80,000	-	(80,000)	-
<b>Total comprehensive income</b>					
Profit for the year	-	-	-	477,533	477,533
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	477,533	477,533
Balance as at June 30, 2010	634,785	2,030,000	450,446	480,534	3,595,765
Transfer to revenue reserve	-	400,000	-	(400,000)	-
<b>Transaction with owners</b>					
Final dividend for the year ended June 30, 2010	-	-	-	(79,349)	(79,349)
<b>Total comprehensive income</b>					
Profit for the year	-	-	-	1,196,457	1,196,457
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	1,196,457	1,196,457
Balance as at June 30, 2011	<b>634,785</b>	<b>2,430,000</b>	<b>450,446</b>	<b>1,197,642</b>	<b>4,712,873</b>

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

**BASHIR ALI MOHOMMAD**

Chairman and Chief Executive

**ZAIN BASHIR**

Director

# Notes to the Accounts

For the Year Ended June 30, 2011

## I THE COMPANY AND ITS OPERATIONS

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

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

## 2 BASIS OF PREPARATION

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

### 2.1 Statement of compliance

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

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

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

There are certain new standards, interpretations and amendments to published approved accounting standards that are mandatory for accounting periods beginning on or before January 01, 2010 but considered not to be relevant or to have any significant effect on the Company's operations and are, therefore, not disclosed in these financial statements.

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

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

- IAS 24 Related Party Disclosures (revised 2009) - (effective for annual periods beginning on or after January 01, 2011). The revision amends the definition of a related party and modifies certain related party disclosure requirements for government related entities and include an explicit requirement to disclose commitments involving related parties. The amendment is not likely to have any impact on the Company's financial statements.
- Amendments to IAS 12 - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after January 01, 2012). These amendments provide presumption that the carrying amount of an asset measured using the fair value model in IAS 40 will be through sale. As a result of the amendments, SIC - 21 (Income Taxes: Recovery of revalued non-depreciable assets) will no longer apply to investment properties accrued at fair value. This amendment is not likely to have any impact on the Company's financial statements.



- Amendments to IFRIC 14 - IAS 19 The limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after January 01, 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. This amendment is not likely to have any impact on the Company's financial statements.
- Improvements to IFRSs 2010 - IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after January 01, 2011). These amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements. The amendment may result in certain changes in disclosures.
- Improvements to IFRSs 2010 - IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after January 01, 2011). These amendments clarify that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income is also required to be presented, but may be presented either in the statement of changes in equity or in the notes. The amendment may result in certain changes in disclosures.

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

Further, the following new standards have been issued by IASB which are yet to be notified by the Securities and Exchange Commission of Pakistan (SECP) for the purpose of applicability in Pakistan.

International Financial Reporting Standards (IFRSs)	IASB effective date annual periods beginning on or after
IFRS 9 - Financial Instruments	January 1, 2015
IFRS 10 - Consolidated Financial Statements	January 1, 2013
IFRS 11 - Joint Agreements	January 1, 2013
IFRS 12 - Disclosure of Interests in other Entities	January 1, 2013
IFRS 13 - Fair Value	January 1, 2013

### 2.3 Functional and presentation currency

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

### 2.4 Critical accounting estimates and judgments

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

#### Defined benefit plan

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

### **Contingencies**

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

### **Property, plant and equipment**

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

### **Stock-in-trade and stores & spares**

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

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

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

### **Income taxes**

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

### **Provision for obsolescence**

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

## **3 SIGNIFICANT ACCOUNTING POLICIES**

### **3.1 Foreign currency transactions and translation**

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

### **3.2 Borrowing cost**

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

### **3.3 Staff retirement benefits**

#### **Defined benefit plan**

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

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

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

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

#### **Defined contribution plan**

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

### **3.4 Accumulated employee compensated absences**

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

### **3.5 Provisions**

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

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

### **3.6 Taxation**

#### **Current**

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

#### **Deferred**

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

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

### **3.7 Property, plant and equipment**

#### **Operating assets**

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

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

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### **Capital work-in-progress**

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

### **3.8 Intangible assets**

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

### **3.9 Investments**

Investments in subsidiary company are initially stated 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.

### **3.10 Stores, spares and loose tools**

These are stated at moving average cost less slow moving provision and goods-in-transit are valued at cost accumulated to the balance sheet date. A provision is made for any excess of book value over net realizable value.

### **3.11 Stock-in-trade**

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

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

### **3.12 Trade debts**

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

### **3.13 Trade and other payables**

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

### **3.14 Financial assets and liabilities**

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

### 3.15 Offsetting of financial assets and liabilities

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

### 3.16 Impairment

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

### 3.17 Revenue recognition

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

### 3.18 Cash and cash equivalents

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

### 3.19 Dividend and appropriation to reserves

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

			<u>2011</u>	<u>2010</u>
			Rs. 000s	
<b>4</b>	<b>SHARE CAPITAL</b>			
	<b>4.1 Authorised capital</b>			
			<u>2011</u>	<u>2010</u>
			150,000,000	75,000,000
		Ordinary shares of Rs.10 each	<u>1,500,000</u>	<u>750,000</u>
	<b>4.2 Issued, subscribed and paid - up capital</b>			
			<u>2011</u>	<u>2010</u>
			38,797,566	38,797,566
		Ordinary shares of Rs.10 each fully paid in cash	387,975	387,975
			5,447,326	5,447,326
		Ordinary shares of Rs.10 each fully paid under scheme of arrangement for amalgamation	54,473	54,473
			19,233,656	19,233,656
		Ordinary shares of Rs.10 each issued as fully paid bonus shares	192,337	192,337
			<u>63,478,548</u>	<u>63,478,548</u>
			<u>634,785</u>	<u>634,785</u>

	Note	2011	2010
		Rs. 000s	
<b>5 RESERVES</b>			
Revenue reserve			
General reserve - opening		2,030,000	1,950,000
Transfer from profit and loss account	5.1	400,000	80,000
		<u>2,430,000</u>	<u>2,030,000</u>
Capital reserve			
Share premium		428,887	428,887
Book difference of share capital under scheme of arrangement for amalgamation		21,559	21,559
		<u>450,446</u>	<u>450,446</u>
		<u>2,880,446</u>	<u>2,480,446</u>

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

## 6 LONG TERM FINANCING - SECURED

	Note	Number of installments and commencement month	Installment amount Rs. 000s	Mark-up rate per annum	2011	2010
					Rs. 000s	
Habib Bank Limited Loan 4	6.1, 6.5					
a) Under State Bank of Pakistan (SBP) scheme of Long Term Finance- Export Oriented Projects (LTF-EOP)		12 half yearly June-2010	5,416	7.00% p.a. payable quarterly	48,747	59,579
b) Under LTF-EOP scheme		12 half yearly November-2010	4,450	7.00% p.a. payable quarterly	44,504	53,405
Habib Bank Limited Loan 5 Under LTF-EOP scheme	6.1, 6.5	12 half yearly December-2010	2,571	7.00% p.a. payable quarterly	25,710	30,851
Habib Bank Limited Loan 6 Under LTF-EOP scheme	6.1, 6.5	12 half yearly February-2010	9,510	7.00% p.a. payable quarterly	85,592	104,612
Habib Bank Limited Loan 7 Under LTF-EOP scheme	6.1, 6.5	12 half yearly January-2010	778	7.00% p.a. payable quarterly	6,999	8,555

	Note	Number of installments and commencement month	Installment amount Rs. 000s	Mark-up rate per annum	2011 Rs. 000s	2010 Rs. 000s
Habib Bank Limited Loan 8	6.1, 6.5					
a) Under LTF-EOP scheme		12 half yearly January-2010	1,698	7.00% p.a. payable quarterly	15,282	18,678
b) Under LTF-EOP scheme		12 half yearly February-2010	139	7.00% p.a. payable quarterly	1,247	1,524
Habib Bank Limited Loan 10 Under State Bank of Pakistan (SBP) Scheme of Long Term Financing Facility (LTFF)	6.1, 6.6	16 half yearly July-2011	11,054	10.00% p.a. payable quarterly	176,866	176,866
Habib Bank Limited Loan 11 Under LTFF scheme	6.1, 6.6	16 half yearly August-2011	562	10.00% p.a. payable quarterly	8,995	8,995
Habib Bank Limited Loan 12 Under LTFF scheme	6.1, 6.6	16 half yearly October-2011	710	10.00% p.a. payable quarterly	11,359	11,359
Habib Bank Limited Loan 13 Under LTFF scheme	6.1, 6.6	16 half yearly March-2012	277	10.00% p.a. payable quarterly	4,430	4,430
Habib Bank Limited Loan 14 Under LTFF scheme	6.1, 6.6	16 half yearly August-2012	3,536	10.25% p.a. payable quarterly	56,614	56,614
United Bank Limited Loan 2	6.3	10 half yearly March-2009	50,000	Average three months KIBOR Ask rate + 1.00% payable half yearly	250,000	350,000
United Bank Limited Loan 3 Under LTF-EOP scheme	6.3, 6.5	12 half yearly April-2010	931	7.00% p.a. payable quarterly	8,379	10,241
United Bank Limited Loan 4	6.3	6 half yearly August-2010	48,199	Average six months KIBOR Ask rate + 1.00% payable half yearly	192,795	289,192
United Bank Limited Loan 5 Under LTFF scheme	6.3, 6.6	16 half yearly November-2010	363	10.00% p.a. payable quarterly	5,080	5,806
United Bank Limited Loan 6	6.3	6 half yearly March-2011	25,000	Average six months KIBOR Ask rate + 1.25% payable half yearly	125,000	150,000
United Bank Limited Loan 7 Under LTFF scheme	6.3, 6.6	10 half yearly December-2012	1,319	10.50% p.a. payable quarterly	13,190	13,190
United Bank Limited Loan 8 Under LTFF scheme	6.3, 6.6	12 half yearly December-2011	557	10.50% p.a. payable quarterly	6,690	6,690
United Bank Limited Loan 9 Under LTFF Scheme	6.3, 6.6	12 half yearly January-2012	128	10.50% p.a. payable quarterly	1,540	-

	Note	Number of installments and commencement month	Installment amount Rs. '000s	Mark-up rate per annum	2011 Rs. 000s	2010 Rs. 000s
United Bank Limited Loan 10 Under LTFF scheme	6.3, 6.6	12 half yearly February-2012	741	10.50% p.a. payable quarterly	8,895	-
United Bank Limited Loan 11 Under LTFF scheme	6.3, 6.6	12 half yearly April-2012	3,685	11.20% p.a. payable quarterly	44,227	-
United Bank Limited Loan 12 Under LTFF scheme	6.2, 6.6	19 half yearly Novemembr-2011	7,441	11.20% p.a. payable quarterly	141,385	-
United Bank Limited Loan 13 Under LTFF scheme	6.2, 6.6	19 half yearly December-2011	5,916	11.20% p.a. payable quarterly	112,400	-
National Bank of Pakistan Loan 1 Under LTF-EOP scheme	6.3, 6.5	Repaid during the year	62,296	7.00% p.a. payable quarterly	-	124,592
National Bank of Pakistan Loan 2	6.1	Repaid during the year	24,295	Average six months KIBOR Ask rate + 1.50% payable half yearly	-	48,589
National Bank of Pakistan Loan 2-A Under LTF-EOP scheme	6.1, 6.5	6 half yearly September-2008	5,706	7.00% p.a. payable quarterly	11,410	22,822
National Bank of Pakistan Loan 3	6.3	25 quarterly September-2009	4,000	Average three months KIBOR Ask rate + 1.00% payable quarterly	68,000	84,000
National Bank of Pakistan Loan 4 Under LTFF scheme	6.2, 6.3, 6.6	16 quarterly September-2011	2,351	10.40% p.a. payable quarterly	37,615	37,615
Bank Al-Habib Limited Loan 1 Under LTF-EOP scheme	6.2, 6.5	12 half yearly December-2008	2,315	7.00% p.a. payable quarterly	18,516	23,145
Habib Metropolitan Bank Loan 1 a) Under LTF-EOP scheme	6.2, 6.5	12 half yearly March-2010	684	7.00% p.a. payable quarterly	6,149	7,516
b) Under LTF-EOP scheme		12 half yearly April-2010	2,042	7.00% p.a. payable quarterly	18,374	22,458
Habib Metropolitan Bank Ltd. Loan 2 Under LTF-EOP scheme	6.2, 6.5	12 half yearly November-2010	19,417	7.00% p.a. payable quarterly	194,166	233,000
Habib Metropolitan Bank Ltd. Loan 3 Under LTFF scheme	6.2, 6.6	16 half yearly February-2012	2,719	10.00% p.a. payable quarterly	43,495	43,495
Habib Metropolitan Bank Ltd. Loan 4 Under LTFF scheme	6.2, 6.6	16 half yearly March-2012	2,504	10.00% p.a. payable quarterly	40,065	40,065
Habib Metropolitan Bank Ltd. Loan 5 Under LTFF scheme	6.2, 6.6	16 half yearly June-2012	4,212	10.25% p.a. payable quarterly	67,373	67,373
Habib Metropolitan Bank Ltd. Loan 6 Under LTFF scheme	6.2, 6.6	16 half yearly July-2012	1,804	10.25% p.a. payable quarterly	28,860	28,860
Habib Metropolitan Bank Ltd. Loan 7 Under LTFF scheme	6.2, 6.6	10 half yearly December-2013	3,328	11.20% p.a. payable quarterly	33,280	-



	Note	Number of installments and commencement month	Installment amount Rs. 000s	Mark-up rate per annum	2011 Rs. 000s	2010 Rs. 000s
HSBC Bank Middle East Ltd Loan 1	6.2, 6.5					
a) Under LTF-EOP scheme		12 half yearly October-2010	2,883	7.00% p.a. payable quarterly	28,833	34,599
b) Under LTF-EOP scheme		12 half yearly November-2010	1,038	7.00% p.a. payable quarterly	10,376	12,451
HSBC Bank Middle East Ltd Loan 2	6.2, 6.5	12 half yearly December-2010	1,838	7.00% p.a. payable quarterly	18,384	22,061
HSBC Bank Middle East Ltd Loan 3	6.2, 6.5	12 half yearly February-2010	875	7.00% p.a. payable quarterly	7,873	9,623
HSBC Bank Middle East Ltd Loan 4	6.2, 6.5	12 half yearly March-2010	844	7.00% p.a. payable quarterly	7,596	9,285
Allied Bank Limited Loan 1	6.3	12 quarterly March-2010	16,667	Average three months KIBOR Ask rate + 1.00% payable quarterly	100,000	166,667
Allied Bank Limited Loan 2	6.3, 6.6	32 quarterly July-2010	9,256	10.00% p.a. payable quarterly	259,177	296,201
Meezan Bank Ltd Diminishing Musharaka 1	6.3	6 half yearly February-2011	15,266	Average six months KIBOR Ask rate + 1.00% payable half yearly	76,328	91,594
Meezan Bank Ltd Diminishing Musharaka 2	6.3	6 half yearly June-2011	1,449	Average six months KIBOR Ask rate + 1.50% payable half yearly	7,247	8,696
Meezan Bank Ltd Diminishing Musharaka 3	6.3	6 half yearly July-2011	5,253	Average six months KIBOR Ask rate + 1.50% payable half yearly	31,516	31,516
NIB Bank Limited Loan 1	6.3, 6.6	16 quarterly June-2010	2,839	9.00% p.a. payable quarterly	31,222	42,578
NIB Bank Limited Loan 2	6.3, 6.6	16 quarterly September-2010	1,883	9.00% p.a. payable quarterly	22,594	30,125
Faysal Bank Limited Under LTFF scheme	6.2, 6.6	10 half yearly January-2014	6,720	11.20% p.a. payable quarterly	67,200	-
Standard Chartered Bank Loan 1	6.3, 6.6	8 half yearly October-2012	2,995	11.10% p.a. payable quarterly	23,960	-
Standard Chartered Bank Loan 2	6.3, 6.6	8 half yearly November-2012	21,886	11.10% p.a. payable quarterly	175,100	-
					<b>2,830,635</b>	2,899,513
Current portion shown under current liabilities					<b>(632,044)</b>	(676,863)
					<b>2,198,591</b>	2,222,650

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

	<u>2011</u>	<u>2010</u>
	Rs. 000s	
<b>7 DEFERRED TAXATION - NET</b>		
<b>Taxable temporary difference in respect of</b>		
Accelerated tax depreciation allowance	303,824	208,763
<b>Deductible temporary differences in respect of</b>		
Provision for gratuity	(1,993)	(1,868)
Provision for doubtful debts	(10,889)	(7,281)
Provision for slow moving items	(6,379)	(5,300)
	<u>(19,261)</u>	<u>(14,449)</u>
	<u>284,563</u>	<u>194,314</u>

## 8 STAFF RETIREMENT BENEFITS

### 8.1 Principal actuarial assumptions

Following principal actuarial assumptions were used for the valuation:

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

### Note

### 8.2 Movement in liability

Balance as at opening		12,283	10,007
Charge for the year	8.4	8,444	7,015
Payments during the year		(6,621)	(4,739)
Balance as at closing		<u>14,106</u>	<u>12,283</u>

	Note	2011	2010
		Rs. 000s	
<b>8.3 Changes in present value of defined benefit obligation</b>			
Balance as at opening		12,283	10,007
Current service cost		6,970	6,223
Interest cost		1,474	1,501
Actuarial gain on present value of defined benefit obligation		-	(709)
Benefits paid		(6,621)	(4,739)
Balance as at closing		<u>14,106</u>	<u>12,283</u>
<b>8.4 Charge for the year</b>			
Current service cost		6,970	6,223
Interest cost		1,474	1,501
Actuarial gain		-	(709)
		<u>8,444</u>	<u>7,015</u>
<b>9 TRADE AND OTHER PAYABLES</b>			
Creditors		1,923,045	918,130
Due to related parties		9,083	2,872
Murabaha		-	461,189
Accrued expenses		478,469	420,996
Advance from customers		66,287	22,630
Advance from related parties		-	76,559
Payable to employees' provident fund		5,340	4,329
Workers' profit participation fund	9.1	85,424	39,020
Unclaimed dividend		527	411
Others		18,339	18,833
		<u>2,586,514</u>	<u>1,964,969</u>
<b>9.1 Workers' profit participation fund</b>			
Opening balance		39,020	10,290
Provision for the year		82,570	38,036
Interest for the year		2,854	984
		<u>124,444</u>	<u>49,310</u>
Payments made during the year		(39,020)	(10,290)
Closing balance		<u>85,424</u>	<u>39,020</u>
<b>10 ACCRUED MARK-UP - SECURED</b>			
Mark-up on long term financing		64,867	52,009
Mark-up on short term borrowings		151,931	104,580
		<u>216,798</u>	<u>156,589</u>

	Note	<u>2011</u>	<u>2010</u>
		Rs. 000s	
<b>11 SHORT TERM BORROWINGS - SECURED</b>			
Short term bank borrowings	11.1	9,266,752	5,013,222
Short term running finance		492,438	731,505
		<u>9,759,190</u>	<u>5,744,727</u>

11.1 It includes short term istisna amounting to Rs. 493 million (2010: Nil).

11.2 Short term borrowings are secured by pari passu hypothecation charge over stores and spares, stock-in-trade, trade debts, other receivables and pledge over cotton. Unavailed facility at the year end was Rs. 2,185 million (2010: Rs. 3,041 million). The facility for short term borrowings mature within twelve months. Short term borrowings include Rs. 587 million (2010: Rs. 27 million) from related party.

Mark-up rates range from 1.54% to 16.65% (2010: 1.54% to 16.30%) per annum.

## 12 CONTINGENCIES AND COMMITMENTS

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

12.2 The Company has filed a suit in the Sindh High Court for recovery of Rs. 33.409 million (2010: Rs. 33.409 million) included in other receivables. Company's management and its legal counsel are of the opinion that the case will be decided in the Company's favour and as such no provision has been made there against.

12.3 The Company has filed a petition in the Sindh High Court against order passed by the Board of Trustees, Employees Old Age Benefits Institution (EOBI) for upholding the unjustified additional demand of payment raised by EOBI for accounting years 2000-01 and 2001-02 amounting to Rs. 50.827 million (2010: Rs. 50.827 million). This demand has been raised after lapse of more than two years although the records and books of the Company were verified by the EOBI to their entire satisfaction and finalization of all matters by EOBI. The Honorable Sindh High Court has already restrained EOBI from taking any action or proceedings against the Company. No provision has been made there against in these financial statements as the Company is confident of the favourable outcome of the petition.

## 12.4 Guarantees

- (a) Rs. 257 million (2010: Rs. 146 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. 71 million (2010: Rs. 42 million) issued to various Government Agencies.
- (c) Bills discounted Rs. 1,306 million (2010: Rs. 1,156 million).
- (d) Corporate guarantee of Rs. 96.965 million (2010: Rs. 85.795 million) has been issued to a bank in favour of subsidiary company.

12.5 The Company is committed for capital expenditure as at June 30, 2011 of Rs. 340 million (2010: Rs. 444 million).

12.6 The Company is committed for non capital expenditure items under letters of credits as at June 30, 2011 of Rs. 581 million (2010: Rs. 412 million).

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

	Note	2011	2010
		Rs. 000s	
- Not Later than one year		192,728	186,611
- Later than one year and not later than five years		828,357	802,963
- Later than five year		907,230	1,125,353
		<u>1,928,315</u>	<u>2,114,927</u>

## 13 PROPERTY, PLANT AND EQUIPMENT

Operating assets	13.1	6,582,082	6,088,782
Capital work in progress	13.2	71,643	51,332
		<u>6,653,725</u>	<u>6,140,114</u>

### 13.1 Operating assets

	Leasehold land	Buildings and structures on leasehold land	Plant and machinery	Office equipment	Furniture and fixtures	Vehicles	Total
Rs. 000s							

#### Net carrying value basis year ended June 30, 2011

Opening net book value (NBV)	234,107	1,070,408	4,439,777	136,467	44,178	163,845	6,088,782
Additions (at Cost)	-	88,692	975,122	40,641	33,169	84,425	1,222,049
Disposal at NBV	-	-	(551)	(2,333)	(4,792)	(12,818)	(20,494)
Depreciation charge	-	(118,456)	(501,328)	(33,401)	(7,978)	(47,092)	(708,255)
Closing net book value	<b>234,107</b>	<b>1,040,644</b>	<b>4,913,020</b>	<b>141,374</b>	<b>64,577</b>	<b>188,360</b>	<b>6,582,082</b>

#### Gross carrying value basis as at June 30, 2011

Cost	234,107	1,921,565	9,282,567	336,613	99,154	364,281	12,238,287
Accumulated depreciation	-	(880,921)	(4,369,547)	(195,239)	(34,577)	(175,921)	(5,656,205)
Net book value	<b>234,107</b>	<b>1,040,644</b>	<b>4,913,020</b>	<b>141,374</b>	<b>64,577</b>	<b>188,360</b>	<b>6,582,082</b>

#### Net carrying value basis year ended June 30, 2010

Opening net book value (NBV)	234,107	1,109,874	4,442,184	115,753	47,440	120,867	6,070,225
Additions (at Cost)	-	83,638	484,100	55,525	2,651	97,126	723,040
Disposal at NBV	-	-	(10,318)	(2,606)	(853)	(13,184)	(26,961)
Depreciation charge	-	(123,104)	(476,189)	(32,205)	(5,060)	(40,964)	(677,522)
Closing net book value	<b>234,107</b>	<b>1,070,408</b>	<b>4,439,777</b>	<b>136,467</b>	<b>44,178</b>	<b>163,845</b>	<b>6,088,782</b>

#### Gross carrying value basis as at June 30, 2010

Cost	234,107	1,832,873	8,315,723	318,042	79,320	316,510	11,096,575
Accumulated depreciation	-	(762,465)	(3,875,946)	(181,575)	(35,142)	(152,665)	(5,007,793)
Net book value	<b>234,107</b>	<b>1,070,408</b>	<b>4,439,777</b>	<b>136,467</b>	<b>44,178</b>	<b>163,845</b>	<b>6,088,782</b>

Depreciation rate % per annum - 10 10 15 to 30 10 to 12 20

13.1.1 Structures on leased retail outlets are depreciated over the respective lease term.

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

	Note	2011 Rs. 000s	2010 Rs. 000s
Cost of goods manufactured	25.1	591,974	583,463
Distribution cost	26	45,412	34,235
Administrative expenses	27	70,869	59,824
		<b>708,255</b>	<b>677,522</b>

13.1.3 Disposals include assets scrapped during the year amounting to Rs. 2.657 million (2010: Rs. 1.129 million)

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

Particulars	Cost	Written down value Rs.000s	Sale proceeds	Particulars of purchasers
<b>Plant and machinery</b>				
Auto mach coner splicer	7,722	496	1,800	Rajab Enterprises H. No. A-304, Sector 16, Block-9, PIA Housing Society, Gulistan-e-Johar, Basti Lal Khan, Tooba Road, Jhang
<b>Office equipment, furniture and fixtures</b>				
Various wooden furniture	648	242	313	Al-Mustaqeem Furnishers Liaquatabad Furniture Market, Karachi
Vacuum cleaners	673	163	164	Mr. Bahadur Khan Kabari Market, Shershah, Karachi
Various wooden furniture	1,558	586	610	Ghaziani Furniture Mart Liaquatabad Furniture Market, Karachi
Electrical appliance	340	82	86	Masha Allah Communication Electronic Market, Saddar, Karachi
Computers	440	106	109	Pak Computer Accessories Uni Tower, I.I. Chundrigar Road, Karachi
Various wooden furniture	728	261	350	Popular Furniture Garden, Aga Khan Road, Karachi
Various office, electrical & furniture items	21,063	2,116	1,850	Insurance Claim
<b>Vehicles</b>				
Toyota Corolla	1,189	265	450	Mr. Abdul Fatah Bhutto P.O. Bangul Dero, Taluka Ratodero, District Larkana
Toyota Estima	2,165	709	918	Mr. Anjum Anis Ansari Phase No. 6, Khayaban-e-Badar, DHA, Karachi
Honda City	845	188	601	Mr. Farhan Shahzad House No. 4, Street No. C-42, C Area, Malir Colony, Saudabad, Karachi
Suzuki Baleno	699	100	125	Mr. Ghulam Hussain Area Old Thana Village, Tahsil & District Malir, Karachi

Particulars	Cost	Written down value Rs.000s	Sale proceeds	Particulars of purchasers
<b>Vehicles (continued)</b>				
Toyota Corolla	1,189	265	667	Mr. Gul Dad House No. HK-579, KPT Building, New Qadri, Karachi
Suzuki Alto	496	111	202	Mr. Irtaza Akbar Baloch House No. B-12, Block-B, Gulshan-e-Iqbal, Karachi
Toyota Corolla	1,189	265	718	Mr. Kher Mohammad House No. 182/B, Rab Nawaz Wakeel Railway Road Banno, Karachi
Suzuki Cultus	585	104	238	Mr. Mohammad Ameen Khan (Employee) House No. 9-C-1, 15 Commerical Street, Phase II, D.H.A., Extention, Karachi
Suzuki Alto & Toyota Corolla	1,945	1,247	1,746	Mr. Mohammad Arif House No. B-30, Sector-I I-C/I, North Karachi, Karachi
Honda City	917	375	513	Mr. Mohammad Asif Gadit House No. 55/1, 6th Commercial Street, Phase-4, D.H.A., Karachi
Suzuki Cultus	590	164	427	Mr. Mohammad Faheem Khan House No. 308, Street No. 5, 37/D Area, Landhi No. 1, Malir, Karachi
Honda City	897	294	359	Mr. Mohammad Yasin (Employee) House No. A-209, Saima Heaven, Block # 4, Gulshan-e-Iqbal, Karachi
Honda Civic	1,228	274	393	Mr. Mohinuddin Office # 8, 3rd Floor, Gulshan Centers, B-13, Block 13-C, Gulshan-e-Iqbal, Karachi
Suzuki Alto & Suzuki Bolan	904	296	756	Mr. Muhammad Aamir House No. B-514, Sector-I IE, New Fatima Jinnah Colony, Karachi
Suzuki Alto & Suzuki Cultus	1,086	216	776	Mr. Muhammad Arif House No. B-30, I I-C/I, North Karachi, Karachi
Suzuki Cultus	610	250	366	Mr. Muhammad Asif Khan (Employee) Flat No. A-24, Street No. 8/B, Al-Haram Garden Appartment, Gulshan-e-Iqbal, Karachi
Suzuki Bolan	396	88	339	Mr. Muhammad Furqan House No. G-935, Adamjee Road, Karachi



Particulars	Cost	Written down value Rs.000s	Sale proceeds	Particulars of purchasers
<b>Vehicles (continued)</b>				
Suzuki Bolan	453	101	367	Mr. Muhammad Hamid House No. E-106, Block-1, Metro Well, S.I.T.E., Karachi
Suzuki Alto	496	111	402	Mr. Muhammad Haroon Flat No. 23, Soni Appartment, Ghulam Hussain Qasim Road, Karachi
Toyota Corolla	1,018	286	408	Mr. Muhammad House No. J.M. 664, Block-2, Tapal Ghar New Town, Fatima Jinnah Colony, Jamshed Road, Karachi
Toyota Corolla	1,189	265	727	Mr. Muhammad Sadiq House No. G-935, Adamjee Road, Quaidabad, Landhi, Karachi
Suzuki Alto	496	88	331	Mr. Muhammad Shakeel House No. B-14, Block-A, Sindhi Muslim Society, Karachi
Suzuki Alto	496	138	407	Mr. Muhammad Yameen House No. 875/3, Block-3, Federal B Area, Karachi
Suzuki Alto	496	111	176	Mr. Muhammad Yaqoob Diwan House No. 25-CA-401, Metro View, New Town, Chandni Chowk, Karachi
Toyota Corolla	1,052	354	950	Mr. Nisar Ahmed House No. 1167, Block-9, Federal 'B' Area, Karachi
Honda Civic & Suzuki Cultus	1,808	517	1,403	Mr. Noman Hassan Khan House No. A-908, Block-12, Gulburg, Ancholi, Federal "B" Area, Karachi
Daihatsu Coure	399	57	262	Mr. Rehan-ul-Haq House No. B-473, B-Area, Malir Colony, Karachi
Suzuki Alto	513	210	465	Mr. Shahzad Zahoor House No. 5-C-8/11, Paposh Nager, Nazimabad, Karachi
Honda City	899	250	450	Syed Irfan Ali Rizvi House No. 644, Section G-10/1, Mail Service Road, Islamabad
Suzuki Alto	496	111	325	Syed Kabir Ahmed House No. 102/6, Landhi No.1, Sector-1-D, Karachi

Particulars	Cost	Written down value Rs.000s	Sale proceeds	Particulars of purchasers
<b>Vehicles (continued)</b>				
Honda Civic	1,198	334	479	Mr. Zulfiqar Ali House No. 364, Street No. 6, Area 37-D, Landhi, Karachi
Various	6,222	4,340	6,068	Insurance Claim
Written down value below Rs.50,000 each	5,592	1,301	2,618	Various
<b>2011</b>	<b>72,925</b>	<b>17,837</b>	<b>30,714</b>	
2010	74,835	25,832	35,055	

### 13.2 Capital work-in-progress

	2011				2010			
	Machinery and store items held for capitalisation	Building construction	Other assets	Total	Machinery and store items held for capitalisation	Building construction	Other assets	Total
	Rs. 000s							
Cost as at July 1	1,050	21,382	28,900	51,332	30,101	5,507	-	35,608
Capital expenditure incurred during the year	921,488	77,281	27,220	1,025,989	407,035	91,545	45,218	543,798
Transferred to property, plant and equipment	(897,939)	(60,990)	(8,743)	(967,672)	(436,086)	(75,670)	(16,318)	(528,074)
Transferred to intangible assets	-	-	(38,006)	(38,006)	-	-	-	-
Cost as at June 30	24,599	37,673	9,371	71,643	1,050	21,382	28,900	51,332

	Note	2011	2010
		Rs. 000s	

### 14 INTANGIBLE ASSETS - COMPUTER SOFTWARE

#### Net carrying value as at June 30

Opening net book value (NBV)		16,349	28,883
Additions (at Cost)		38,006	4,138
Amortisation charge	14.1	(15,725)	(16,672)
Closing net book value		38,630	16,349
Gross carrying value as at June 30			
Cost		147,453	109,447
Accumulated amortisation		(108,823)	(93,098)
Net book value		38,630	16,349
Amortisation rate is 20% per annum and the charge has been allocated as follows:			
Distribution cost	26	1,808	1,883
Administrative expenses	27	13,917	14,789
		15,725	16,672

14.1 The cost is being amortised over a period of five years. Remaining useful life range from one to four years.

	Note	2011	2010
		Rs. 000s	

### 15 LONG TERM INVESTMENT

Gul Ahmed International Limited - FZC UAE	15.1	58,450	58,450
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15.1 Gul Ahmed International Limited - FZC UAE is a wholly owned unquoted subsidiary (the subsidiary) of the Company having 10,000 (2010:10,000) ordinary shares of USD 100 each, valued at cost. The subsidiary is incorporated in United Arab Emirates (UAE). The Investment value on net assets basis as per the audited accounts for the year ended June 30, 2011 is Rs.202 million (2010: Rs. 187 million)

	Note	2011	2010
		Rs. 000s	
<b>16 LONG TERM LOANS AND ADVANCES - SECURED</b>			
Considered good			
- Due from executives	16.2	5,845	2,968
- Due from non-executive employees		2,387	1,465
		8,232	4,433
Current portion of			
- Due from executives		(3,016)	(1,668)
- Due from non-executive employees	20	(975)	(919)
		(3,991)	(2,587)
		4,241	1,846

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

Included in these are loans of Rs. 1.1 million (2010: Rs. 0.6 million) which carry no interest. The balance amount carries interest ranging from 10.5% to 15%.

The maximum aggregate amount due from executives at the end of any month during the year was Rs. 6.059 million (2010: Rs. 4.654 million).

	Note	2011	2010
		Rs. 000s	
<b>16.2 Reconciliation of carrying amount of loans to executives</b>			
Balance at the beginning of the year		2,968	2,416
Disbursement during the year		4,892	2,850
Transfer from non-executive to executive employees		851	521
Repayment during the year		(2,866)	(2,819)
Balance at the end of the year		5,845	2,968
<b>17 STORES, SPARES AND LOOSE TOOLS</b>			
Stores		296,415	250,954
Spares		452,058	256,428
Loose tools		3,021	2,880
		751,494	510,262
Provision for slow moving/obsolete items	17.1	(45,144)	(34,840)
		706,350	475,422

	Note	2011	2010
		Rs. 000s	
<b>17.1 Movement in provision for slow moving/obsolete items</b>			
Balance at beginning of the year		34,840	27,104
Charge for the year		10,304	7,736
Balance at end of the year		<u>45,144</u>	<u>34,840</u>
<b>18 STOCK-IN-TRADE</b>			
Raw materials	18.1	3,807,318	1,532,769
Stock-in-transit		-	84,994
		<u>3,807,318</u>	<u>1,617,763</u>
Work-in-process		310,160	167,278
Finished goods	18.2	6,216,882	3,158,863
		<u>10,334,360</u>	<u>4,943,904</u>

18.1 Raw materials amounting to Rs. 589 million ( 2010: Rs. Nil) has been pledged with the banks.

18.2 Finished goods include stock of waste valuing Rs. 31.611 million (2010: Rs. 35.748 million) determined at net realizable value.

	Note	2011	2010
		Rs. 000s	
<b>19 TRADE DEBTS</b>			
Export debts - secured	19.1	1,219,130	1,147,631
Local debts - unsecured			
- Considered good		811,593	1,211,634
- Considered doubtful		77,064	47,864
		<u>888,657</u>	<u>1,259,498</u>
Provision for doubtful trade debts	19.3	(77,064)	(47,864)
		<u>2,030,723</u>	<u>2,359,265</u>

19.1 Includes Rs. 133 million (2010: Rs. 190 million) due from Gul Ahmed International Limited (FZC)-UAE and GTM (Europe) Limited being wholly owned subsidiary and sub-sub-sidiary of the Company respectively.

19.2 The maximum aggregate month end balance due from related parties during the year is Rs. 704 million (2010: Rs. 114 million).

		2011	2010
		Rs. 000s	
<b>19.3 Movement in provision for doubtful trade debts</b>			
Balance at beginning of the year		47,864	28,832
Charge for the year		29,200	19,032
Balance at end of the year		<u>77,064</u>	<u>47,864</u>

	Note	2011	2010
		Rs. 000s	
<b>20 LOANS AND ADVANCES</b>			
Considered good			
Current portion of loans and advances to employees			
- Executives		3,016	1,668
- Other employees		975	919
	16	3,991	2,587
Suppliers		118,204	119,421
Income tax - net of provision		22,128	-
Letters of credit		15,507	15,255
		<u>159,830</u>	<u>137,263</u>
<b>21 OTHER RECEIVABLES</b>			
Research and development claim		999	1,915
Duty drawback local taxes and levies		20,348	57,499
Duty drawback receivable		117,968	58,861
Mark-up rate subsidy		26,109	75,908
Others	21.1	47,122	43,753
		<u>212,546</u>	<u>237,936</u>
<b>21.1 Others</b>			
Receivable against sale of property	12.2	33,409	33,409
Others		13,713	10,344
		<u>47,122</u>	<u>43,753</u>
<b>22 TAX REFUNDS DUE FROM GOVERNMENT</b>			
Sales tax		48,926	58,639
Income tax		-	5,266
		<u>48,926</u>	<u>63,905</u>
<b>23 CASH AND BANK BALANCES</b>			
Cash and cheques in hand		6,407	4,685
With banks in current accounts			
- Local currency		70,303	51,974
- Foreign currency		6,645	28,307
	23.1	76,948	80,281
		<u>83,355</u>	<u>84,966</u>

**23.1** Bank balances include Rs. 31 million (2010: Rs. 61 million) with related party.

	Note	2011	2010
		Rs. 000s	
<b>24 SALES</b>			
Local	24.1	8,296,560	8,948,698
<b>Export</b>			
Direct export		16,385,611	10,572,046
Indirect export		650,489	-
		17,036,100	10,572,046
Duty drawback		132,123	209,480
Brokerage and commission		(29,318)	(41,430)
		<u>25,435,465</u>	<u>19,688,794</u>

24.1 Sales are exclusive of sales tax amounting to Rs. 57.164 million (2010: Rs. 16.284 million).

	Note	2011	2010
		Rs. 000s	
<b>25 COST OF SALES</b>			
Opening stock of finished goods		3,158,863	3,093,307
Cost of goods manufactured	25.1	18,063,758	13,404,716
Purchases and processing charges		5,803,104	3,176,774
		27,025,725	19,674,797
Closing stock of finished goods		(6,216,882)	(3,158,863)
		<u>20,808,843</u>	<u>16,515,934</u>
<b>25.1 Cost of goods manufactured</b>			
Raw materials consumed	25.2	10,733,599	7,297,486
Stores consumed		2,518,573	1,974,823
Staff Cost	27.1	2,126,625	1,781,950
Fuel, power and water		1,488,592	1,265,330
Insurance		75,076	51,211
Repairs and maintenance		651,415	495,253
Depreciation		591,974	583,463
Other expenses		71,585	56,151
Cost of samples shown under distribution cost		(50,799)	(53,467)
		18,206,640	13,452,200
<b>Work-in-process</b>			
Opening		167,278	119,794
Closing		(310,160)	(167,278)
		(142,882)	(47,484)
		<u>18,063,758</u>	<u>13,404,716</u>
<b>25.2 Raw materials consumed</b>			
Opening stock		1,532,769	673,071
Purchases during the year		13,008,148	8,157,184
Closing stock		(3,807,318)	(1,532,769)
		<u>10,733,599</u>	<u>7,297,486</u>

	Note	2011	2010
		Rs. 000s	
<b>26 DISTRIBUTION COST</b>			
Freight and shipment expenses		177,054	185,052
Staff cost	27.1	257,719	176,861
Insurance		3,878	5,656
Advertisement and publicity		292,550	139,971
Cost of samples transferred from cost of goods manufactured		50,799	53,467
Rent, rates and taxes		195,929	140,592
Depreciation		45,412	34,235
Amortisation		1,808	1,883
Export development surcharge		41,757	27,331
Other expenses		23,682	26,394
		<u>1,090,588</u>	<u>791,442</u>
<b>27 ADMINISTRATIVE EXPENSES</b>			
Staff Cost	27.1	284,116	232,629
Rent, rates and taxes		17,129	38,332
Repairs and maintenance		47,232	36,235
Vehicle up keep		67,707	59,076
Conveyance and traveling		68,271	58,708
Printing and stationery		40,919	31,700
Postage and telecommunication		49,676	42,708
Legal and consultancy fees		54,125	52,633
Depreciation		70,869	59,824
Amortisation		13,917	14,789
Auditors' remuneration	27.2	1,422	1,396
Donations	27.3	3,486	2,241
Insurance		11,004	7,506
Provision for doubtful trade debts		29,200	19,031
Provision for slow moving/obsolete items		10,304	7,736
Other expenses		39,549	35,541
		<u>808,926</u>	<u>700,085</u>

#### 27.1 Staff cost

	Cost of sales		Distribution cost		Administrative expenses		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
	Rs. 000s							
- Salaries, wages & benefits	2,061,834	1,722,939	250,495	170,988	270,569	220,065	2,582,898	2,113,992
<b>Retirement benefits</b>								
- Gratuity	8,444	7,015	-	-	-	-	8,444	7,015
- Contribution to provident fund	23,572	20,214	7,069	5,572	11,684	8,610	42,325	34,396
	<u>32,016</u>	<u>27,229</u>	<u>7,069</u>	<u>5,572</u>	<u>11,684</u>	<u>8,610</u>	<u>50,769</u>	<u>41,411</u>
- Staff compensated absences	32,775	31,782	155	301	1,863	3,954	34,793	36,037
	<u>2,126,625</u>	<u>1,781,950</u>	<u>257,719</u>	<u>176,861</u>	<u>284,116</u>	<u>232,629</u>	<u>2,668,460</u>	<u>2,191,440</u>



	<u>2011</u>	<u>2010</u>
	Rs. 000s	
<b>27.2 Auditor's Remuneration</b>		
Audit fee	1,000	1,000
Review of half yearly accounts	30	30
Fee for consolidation of holding and subsidiaries	150	-
Review of statement of compliance with code of corporate governance	50	-
Out of pocket expenses	62	199
Others	130	167
	<u>1,422</u>	<u>1,396</u>

**27.3** None of the directors or their spouses have any interest in the donees.

## 28 OTHER OPERATING EXPENSES

Workers' profit participation fund	82,570	38,036
Workers' welfare fund	31,377	14,454
Property, plant and equipment scrapped	2,657	1,129
	<u>116,604</u>	<u>53,619</u>

## 29 OTHER OPERATING INCOME

<b>Income from financial assets</b>		
Interest income from loans and advances	766	590
<b>Income from non-financial assets</b>		
Profit on sale of property, plant and equipment - net	12,877	9,223
Unclaimed liabilities written back	-	268
Scrap sales	7,586	5,628
Others	3,702	9,407
	<u>24,931</u>	<u>25,116</u>

## 30 FINANCE COST

Mark-up on long term financing	307,360	305,756
Mark-up on short term borrowings	706,444	593,055
Interest on workers' profit participation fund	2,854	984
Bank charges	60,524	44,610
Exchange loss	20,799	198
	<u>1,097,981</u>	<u>944,603</u>

**30.1** Mark-up on long term financing/short term borrowings include Rs. 102 million (2010: Rs. 64 million) in respect of long term financing/short term borrowings from related party.

	Note	<u>2011</u>	<u>2010</u>
		Rs. 000s	
<b>31 PROVISION FOR TAXATION</b>			
Current			
- for the year		266,000	181,000
- prior		(15,252)	(5,347)
		<u>250,748</u>	<u>175,653</u>
Deferred		90,249	55,041
	31.1	<u>340,997</u>	<u>230,694</u>

### 31.1 Reconciliation between accounting profit and tax expense

Net profit for the year before taxation	<u>1,537,454</u>	<u>708,227</u>
Tax rate	35%	35%
Tax on accounting profit	538,109	247,879
Tax surcharge levied	11,137	-
Tax on prior periods	(15,252)	(5,347)
Tax effect of minimum tax / FTR	(136,228)	(28,756)
Others	(56,769)	16,918
	<u>340,997</u>	<u>230,694</u>

31.2 Income tax assessments of the Company have been finalised upto fiscal year 2009-10 (Tax year 2010).

	<u>2011</u>	<u>2010</u>
	Rs. 000s	
<b>32 EARNINGS PER SHARE - basic and diluted</b>		
Profit for the year	<u>1,196,457</u>	<u>477,533</u>
Weighted average number of shares	<u>63,478,548</u>	<u>63,478,548</u>
Earnings per share (Rs.)	18.85	7.52

There is no dilutive effect on the earnings per share of the Company.

### 33 SEGMENT INFORMATION

The Company has the following two reportable business segments:

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

Transactions among the business segments are recorded at cost.

#### 33.1 Segmental profitability

	Spinning		Processing		Elimination of inter segment transactions		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Rs. 000s								
Sales	10,171,350	7,596,121	20,070,568	13,405,665	(4,806,453)	(1,312,992)	25,435,465	19,688,794
Cost of sales	9,337,618	6,560,489	16,277,678	11,268,437	(4,806,453)	(1,312,992)	20,808,843	16,515,934
Gross profit	833,732	1,035,632	3,792,890	2,137,228	-	-	4,626,622	3,172,860
Distribution & Administrative expenses	76,494	105,339	1,823,020	1,386,188	-	-	1,899,514	1,491,527
Profit before tax and unallocated expenses & income	757,238	930,293	1,969,870	751,040	-	-	2,727,108	1,681,333
Financial charges							1,097,981	944,603
Other operating expenses							116,604	53,619
Other operating income							(24,931)	(25,116)
Provision of taxation							340,997	230,694
Profit after taxation							1,196,457	477,533

#### 33.2 Segment assets and liabilities

	Spinning		Processing		Unallocated		Total Company	
	2011	2010	2011	2010	2011	2010	2011	2010
Rs. 000s								
Assets	6,247,289	4,251,924	12,677,786	9,235,507	1,479,604	1,112,260	20,404,679	14,599,691
Liabilities	1,724,763	1,374,579	3,343,943	3,062,836	10,623,100	6,566,511	15,691,806	11,003,926

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

### 33.4 Information by geographical area

	<u>Revenue</u>		<u>Non-current assets</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	Rs. 000s			
Pakistan	8,267,242	8,907,268	6,729,653	6,190,641
United Kingdom	2,734,677	3,188,092	-	-
Germany	3,253,901	1,595,129	-	-
China	2,127,413	1,279,824	-	-
United States	1,625,623	1,073,554	-	-
Netherlands	1,226,964	823,042	-	-
France	1,287,452	465,278	-	-
Brazil	1,218,348	359,256	-	-
United Arab Emirates	240,764	169,115	58,450	58,450
Other Countries	3,453,081	1,828,236	-	-
Total	<u>25,435,465</u>	<u>19,688,794</u>	<u>6,788,103</u>	<u>6,249,091</u>

### 34 CASH AND CASH EQUIVALENTS

	Note	<u>2011</u>	<u>2010</u>
		Rs. 000s	
Cash and bank balances	23	83,355	84,966
Short term borrowings	11	(9,759,190)	(5,744,727)
		<u>(9,675,835)</u>	<u>(5,659,761)</u>

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

	<u>2011</u>				<u>2010</u>			
	<u>Chief Executive</u>	<u>Directors</u>	<u>Executives</u>	<u>Total</u>	<u>Chief Executive</u>	<u>Directors</u>	<u>Executives</u>	<u>Total</u>
	Rs. 000s							
Managerial remuneration	3,000	8,300	167,324	178,624	2,400	6,800	123,317	132,517
House rent allowance	1,200	3,320	66,929	71,449	960	2,720	49,326	53,006
Other allowances	500	1,462	32,367	34,329	240	1,007	25,686	26,933
Contribution to provident fund	250	691	12,061	13,002	200	566	8,913	9,679
	<u>4,950</u>	<u>13,773</u>	<u>278,681</u>	<u>297,404</u>	<u>3,800</u>	<u>11,093</u>	<u>207,242</u>	<u>222,135</u>
Number of persons	1	5	166	172	1	4	127	132

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

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

35.3 Aggregate amount charged in the accounts for the year for meeting fee to seven Directors was Rs. 126 thousand (2010: four Directors Rs. 6 thousand).

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

## 36 TRANSACTIONS WITH RELATED PARTIES

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

Relationship with the Company	Nature of Transactions	2011	2010
		Rs. 000s	
Subsidiaries	Purchase of goods	1,073	7,471
	Sale of goods	1,935,860	506,521
	Corporate guarantee issued in favour of Subsidiary Company (at year end)	96,965	85,795
Associated companies and others related parties	Purchase of goods	31,943	22,423
	Sale of goods	747	334
	Rent paid	4,530	4,530
	Fees paid	750	750
	Commission/Rebate	-	3,329
	Deposit with bank (at year end)	30,620	61,119
	Borrowing from bank (at year end)	1,018,933	470,185
	Bank guarantee (at year end)	203,472	106,508
	Bills discounted	862,903	1,433,250
	Commission/Bank charges paid	26,113	33,904
	Mark-up/interest charged	101,850	64,199
Provident fund contribution	42,238	34,483	

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

Related parties status of outstanding receivables and payables as at June 30, 2011 are included in respective notes to the financial statements.

## 37 CAPACITY AND PRODUCTION

	Unit	2011			2010	
		Capacity	Production	Working	Capacity	Production
Cloth	Sq. meters (50 Picks converted)	124,136	85,067	3 shifts	121,436	84,980
Yarn	Kgs. (20 Counts converted)	48,227	38,716	3 shifts	48,227	41,988

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

## 38 FINANCIAL INSTRUMENTS

### 38.1 Financial risk management objectives

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

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

#### 38.1.1 Market risks

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

##### a. Foreign exchange risk management

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

##### Exposure to foreign currency risk

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

	<u>2011</u>	<u>2010</u>
	USD 000s	
Long term investment	1,000	1,000
Trade debts	14,226	13,711
Cash and bank	77	332
Borrowings from financial institutions	(36,567)	(21,550)
Trade and other payables	(6,674)	(1,247)
Net exposure	<u>(27,938)</u>	<u>(7,754)</u>

Foreign currency commitments outstanding at year end are as follows:

	<u>2011</u>	<u>2010</u>
	Rs. 000s	
EURO	253,622	121,951
USD	377,523	675,957
JPY	3,369	12,420
CHF	6,559	2,503
	<u>641,073</u>	<u>812,651</u>

The following significant exchange rates were applied during the year:

Rupee per USD	
Average rate	84.62
Reporting date rate	85.40 / 85.60

### Foreign currency sensitivity analysis

A 10 percentage strengthening of the PKR against the USD at June 30, 2011 would have decreased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for June 30, 2010.

	<u>2011</u>	<u>2010</u>
	Rs. 000s	
Profit and loss account	<u>239,990</u>	<u>66,374</u>

A 10 percentage weakening of the PKR against the USD at June 30, 2011 would have had the equal but opposite effect on USD to the amounts shown above, on the basis that all other variables remain constant.

#### b. Price risk

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

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

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

Financial assets include balances of Rs. 7 million (2010: Rs. 4 million) which are subject to interest rate risk. Financial liabilities include balances of Rs. 12,675 million (2010: Rs. 9,144 million) which are subject to interest rate risk. Applicable interest rates for financial assets and liabilities are given in respective notes.

## FINANCIAL ASSETS AND LIABILITIES

Interest / mark-up bearing			Non interest / mark-up bearing			2011 Total	2010 Total
Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total		

Rs. 000s

### Financial assets

#### Loans and receivables

Long term deposits	-	-	-	-	33,057	33,057	33,057	32,332
Trade debts	-	-	-	2,030,723	-	2,030,723	2,030,723	2,359,265
Loans and advances	3,586	3,524	7,110	405	717	1,122	8,232	4,433
Other receivables	-	-	-	212,546	-	212,546	212,546	237,936
Cash and bank balances	-	-	-	83,355	-	83,355	83,355	84,966
	3,586	3,524	7,110	2,327,029	33,774	2,360,803	2,367,913	2,718,932

### Financial liabilities

#### At amortised cost

Long term loans	632,044	2,198,591	2,830,635	-	-	-	2,830,635	2,899,513
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#### At fair value through profit and loss account

Short term borrowings	9,759,190	-	9,759,190	-	-	-	9,759,190	5,744,727
Trade and other payables	85,424	-	85,424	2,403,413	-	2,403,413	2,488,837	1,848,769
Accrued interest	-	-	-	216,798	-	216,798	216,798	156,589
	10,476,658	2,198,591	12,675,249	2,620,211	-	2,620,211	15,295,460	10,649,598

### Off balance sheet items

Guarantees	-	-	-	257,061	-	257,061	257,061	146,082
Bills discounted	-	-	-	1,306,092	-	1,306,092	1,306,092	1,156,147
Commitments	-	-	-	920,854	-	920,854	920,854	856,146
	-	-	-	2,484,007	-	2,484,007	2,484,007	2,158,375

#### Fair value sensitivity analysis for fixed rate instruments

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

#### Cash flow sensitivity analysis for variable rate instruments

At June 30, 2011, if interest rates on long term financing had been 1% higher / lower with all other variables held constant, post tax profit for the year would have been Rs. 11 million (2010: Rs. 14 million) higher / lower, mainly as a result of higher / lower interest expense on floating rate borrowings.



At June 30, 2011, if interest rates on short term borrowings had been 1% higher / lower with all other variables held constant, post tax profit for the year would have been Rs. 93 million (2010: Rs. 71 million) higher / lower, mainly as a result of higher / lower interest expense on floating rate borrowings.

### 38.1.2 Credit risk

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

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

#### 38.1.2.1 Trade debts

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

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

#### 38.1.2.2 Bank balances

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

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

	<u>2011</u>	<u>2010</u>
	Rs. 000s	
A1+	52,929	77,518
A1	23,986	2,736
A2	33	27
	<u>76,948</u>	<u>80,281</u>

#### 38.1.2.3 Exposure to credit risk

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

	<u>2011</u>	<u>2010</u>
	Rs. 000s	
Long term investment	58,450	58,450
Long term loans and advances	4,241	1,846
Long term deposit	33,057	32,332
Trade debts	2,030,723	2,359,265
Loans and advances	3,991	2,587
Other receivables	47,122	43,753
Bank balances	76,948	80,281
	<u>2,254,532</u>	<u>2,578,514</u>

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

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

**a. Long term loans**

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

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

**b. Trade debts**

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

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

	<u>2011</u>	<u>2010</u>
	<b>Rs. 000s</b>	
1 to 6 months	<b>1,947,824</b>	2,178,572
6 months to 1 year	<b>26,670</b>	92,932
1 year to 3 years	<b>56,229</b>	87,761
	<b><u>2,030,723</u></b>	<u>2,359,265</u>

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

**c. Other receivables**

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

### **38.1.3 Liquidity risk**

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

The Company manages liquidity risk by maintaining sufficient cash and ensuring the fund availability through adequate credit facilities. At June 30, 2011, the Company has Rs. 11,944 million (2010: Rs. 9,286 million) available borrowing limit from financial institutions. Unutilized borrowing facilities of Rs. 2,185 million (2010: Rs. 3,080 million) and also has Rs. 77 million (2010: Rs. 80 million) being balances at banks. Based on the above, management believes the liquidity risk is insignificant.

### **38.2 Fair value of financial instruments**

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

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

### 38.3 Capital risk management

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

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

During 2011 the Company's strategy was to maintain leveraged gearing. The gearing ratios as at June 30, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
	Rs. 000s	
Total borrowings	12,589,825	8,644,240
Less: Cash and bank	(83,355)	(84,966)
Net debt	<u>12,506,470</u>	<u>8,559,274</u>
Total equity	<u>4,712,873</u>	<u>3,595,765</u>
Total equity and debt	<u>17,219,343</u>	<u>12,155,039</u>
Gearing ratio (%)	73	70

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

### 39 EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors in their meeting held on October 01, 2011 have proposed to issue bonus shares in the ratio of one share for every one share held (2010: Nil) i.e. 100% bonus shares. They have also decided to transfer from capital reserve Rs. 450 million and Rs. 184 million from un-appropriated profit to reserve for issue of bonus shares. In addition, the Board of Directors have approved transfer to revenue reserve from un-appropriated profit of Rs. 1,000 million (2010: Rs. 400 million) subject to the approval of members at Annual General Meeting to be held on October 31, 2011.

### 40 DATE OF AUTHORIZATION

These financial statements were authorized for issue on October 01, 2011 by the Board of Directors of the Company.

### 41 CORRESPONDING FIGURES

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

<u>Reclassification from component</u>	<u>Reclassification to component</u>	<u>Amount</u>
		Rs. 000s
Administrative expenses	Distribution cost	
Depreciation	Depreciation	15,208

### 42 GENERAL

Figures have been rounded off to the nearest thousand rupees.

**BASHIR ALI MOHOMMAD**  
Chairman and Chief Executive

**ZAIN BASHIR**  
Director

## Attendance at Board Meetings

For the Year Ended June 30, 2011

<u>Name of Director</u>	<u>Total number of meetings*</u>	<u>Number of meetings attended</u>
Bashir Ali Mohommad	4	4
Zain Bashir	4	4
Ziad Bashir	4	4
Mohammad Zaki Bashir	4	4
Abdul Aziz Yousuf	4	4
S.M. Nadim Shafiqullah	4	4
Mohammed Saleem Sattar	3	3
Khwaja Fazlur Rahman	3	3
Abdul Razak Bramchari	4	3
Dr. Amjad Waheed	1	1
Adnan Afridi	1	1

\* held during the period the concerned Director was on the Board.

## Pattern of Shareholding

As at June 30, 2011

No. of Shareholders	Shareholding				Shares held
978	From	1	to	100	45,336
687	From	101	to	500	145,148
150	From	501	to	1,000	103,262
109	From	1,001	to	5,000	221,503
20	From	5,001	to	10,000	142,468
10	From	10,001	to	15,000	124,423
4	From	15,001	to	20,000	71,157
3	From	20,001	to	25,000	63,377
1	From	30,001	to	35,000	30,104
1	From	35,001	to	40,000	36,709
1	From	45,001	to	50,000	49,224
1	From	55,001	to	60,000	57,646
1	From	65,001	to	70,000	69,200
1	From	70,001	to	75,000	71,359
1	From	155,001	to	160,000	155,963
1	From	160,001	to	165,000	161,392
1	From	165,001	to	170,000	166,511
1	From	475,001	to	480,000	475,525
1	From	770,001	to	775,000	771,157
1	From	1,410,001	to	1,415,000	1,413,974
1	From	2,035,001	to	2,040,000	2,037,009
1	From	4,555,001	to	4,560,000	4,558,277
1	From	5,420,001	to	5,425,000	5,421,829
1	From	5,675,001	to	5,680,000	5,677,035
1	From	5,715,001	to	5,720,000	5,716,398
1	From	6,185,001	to	6,190,000	6,189,812
1	From	6,200,001	to	6,205,000	6,203,716
1	From	11,275,001	to	11,280,000	11,275,031
1	From	12,020,001	to	12,025,000	12,024,003
<b>1,982</b>					<b>63,478,548</b>

Categories of Shareholders	Number	Shares Held	Percentage
Individuals	1,942	46,658,084	73.50
Investment Companies	14	1,644,591	2.59
Insurance Companies	4	2,512,583	3.96
Joint Stock Companies	8	56,172	0.09
Modaraba Companies	3	10,498	0.02
Financial Institutions	1	123	-
Foreign Investors	4	12,559,920	19.78
Charitable Institutions	4	31,082	0.05
Government Departments	2	5,495	0.01
	<b>1,982</b>	<b>63,478,548</b>	<b>100.00</b>

# Pattern of Shareholding

As at June 30, 2011

## Additional Information

<u>Categories of Shareholders</u>	<u>Number</u>	<u>Shares held</u>
<b><u>NIT and ICP</u></b>		
IDBP (ICP Unit)	1	1,794
National Bank of Pakistan - Trustee Department	1	1,413,974
National Investment Trust Limited	1	8,794
<b>Investment Companies and Mutual Funds</b>	11	220,029
<b>Insurance Companies</b>	4	2,512,583
<b>Joint Stock Companies</b>	8	56,172
<b>Modaraba Companies</b>	3	10,498
<b>Financial Institutions</b>	1	123
<b>Foreign Investors</b>	4	12,559,920
<b>Charitable Institutions</b>	4	31,082
<b>Government Departments</b>	2	5,495
<b><u>DIRECTORS</u></b>		
Bashir Ali Mohommad (Chairman & Chief Executive)	1	4,558,277
Zain Bashir	1	5,716,398
Ziad Bashir	1	12,024,003
Mohammad Zaki Bashir	1	11,275,031
Abdul Aziz Yousuf	1	4,655
S. M. Nadim Shafiqullah	1	2,875
Abdul Razak Bramchari	1	2,504
Dr. Amjad Waheed	1	2,500
Adnan Afridi	1	2,500
<b><u>DIRECTORS'/CEO'S SPOUSES</u></b>		
Parveen Bashir	1	5,421,829
Tania Zain	1	5,677,035
<b><u>Shareholders holding 10% or more voting interest</u></b>		
Ziad Bashir (Director)	1	12,024,003
Mohammad Zaki Bashir (Director)	1	11,275,031
<b>Detail of trading in the shares by:</b>		
<b><u>DIRECTORS</u></b>		
Bashir Ali Mohommad (Chairman & Chief Executive)	Purchased 635,000 shares	
Zain Bashir	Purchased 180,000 shares	
Ziad Bashir	Purchased 5,094,394 shares	
Mohammad Zaki Bashir	Purchased 4,142,392 shares	
<b><u>DIRECTORS'/CEO'S SPOUSES</u></b>		
Parveen Bashir	Purchased 2,452,000 shares	
Tania Zain	Purchased 4,283,825 shares	

Note: All the above purchase transactions were among consortium of family members.

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# Auditors' Report on Consolidated Financial Statements

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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 (Subsidiaries) as at June 30, 2011 and the related consolidated Profit and Loss Account, consolidated Statement of Comprehensive Income, consolidated Cash Flow Statement and consolidated Statement of Changes in Equity together with the notes forming part thereof, for the year then ended. We have also expressed separate opinion on the financial statements of the Holding Company. Subsidiaries have been audited by other firms of auditors, whose reports have been furnished to us and our opinion, in so far as it relates to the amounts included for such Subsidiaries, is based solely on the report of such other auditors. These financial statements are the responsibility of the Holding Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements examined by us, present fairly the financial position of Gul Ahmed Textile Mills Limited and its Subsidiaries as at June 30, 2011 and the result of their operations for the year then ended.

Karachi  
October 01, 2011

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



# Consolidated Balance Sheet

As at June 30, 2011

	Note	2011	2010
		Rs. 000s	
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
Share capital	4	634,785	634,785
Reserves	5	2,933,524	2,524,491
Unappropriated profit		1,278,023	550,752
		<b>4,846,332</b>	<b>3,710,028</b>
<b>NON-CURRENT LIABILITIES</b>			
Long term financing	6	2,198,591	2,222,650
Deferred liabilities			
Deferred taxation - net	7	292,752	202,281
Staff retirement benefits	8	17,717	15,016
		<b>310,469</b>	<b>217,297</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	9	2,648,510	1,946,397
Accrued mark-up	10	216,798	156,589
Short term borrowings	11	9,818,355	5,824,559
Current maturity of long term financing		632,044	676,863
Provision for income tax - net of payment		-	32,558
		<b>13,315,707</b>	<b>8,636,966</b>
<b>CONTINGENCIES AND COMMITMENTS</b>			
	12		
		<b>20,671,099</b>	<b>14,786,941</b>

	Note	2011	2010
		Rs. 000s	
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	13	6,661,512	6,148,708
Intangible assets	14	42,322	21,253
Long term loans and advances	15	4,241	1,846
Long term deposits		33,057	32,332
		<u>6,741,132</u>	<u>6,204,139</u>
<b>CURRENT ASSETS</b>			
Stores, spares and loose tools	16	706,350	475,422
Stock-in-trade	17	10,430,214	4,991,811
Trade debts	18	2,236,402	2,465,556
Loans and advances	19	160,263	131,373
Prepayments		45,827	56,639
Other receivables	20	212,546	237,936
Tax refunds due from government	21	51,727	66,877
Cash and bank balances	22	86,638	157,188
		<u>13,929,967</u>	<u>8,582,802</u>
		<u><u>20,671,099</u></u>	<u><u>14,786,941</u></u>

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

**BASHIR ALI MOHOMMAD**  
Chairman and Chief Executive

**ZAIN BASHIR**  
Director

## Consolidated Profit and Loss Account

For the Year Ended June 30, 2011

	Note	2011	2010
		Rs. 000s	
Sales	23	25,643,176	19,885,337
Cost of sales	24	20,892,101	16,582,414
Gross profit		4,751,075	3,302,923
Distribution cost	25	1,103,962	815,268
Administrative expenses	26	911,297	793,047
Other operating expenses	27	116,604	53,853
		2,131,863	1,662,168
		2,619,212	1,640,755
Other operating income	28	25,547	26,425
Operating profit		2,644,759	1,667,180
Finance cost	29	1,093,713	959,259
Profit before taxation		1,551,046	707,921
Provision for taxation	30	342,871	239,688
Profit after taxation		1,208,175	468,233
Earnings per share - basic and diluted (Rs.)	31	19.03	7.38

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

**BASHIR ALI MOHOMMAD**  
Chairman and Chief Executive

**ZAIN BASHIR**  
Director

# Consolidated Statement of Comprehensive Income

For the Year Ended June 30, 2011

	<u>2011</u>	<u>2010</u>
	Rs. 000s	
Profit after taxation	1,208,175	468,233
Foreign currency translation differences - Foreign operations	<u>7,478</u>	<u>3,523</u>
Total comprehensive income	<u><u>1,215,653</u></u>	<u><u>471,756</u></u>

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

**BASHIR ALI MOHOMMAD**

Chairman and Chief Executive

**ZAIN BASHIR**

Director

# Consolidated Cash Flow Statement

For the Year Ended June 30, 2011

	Note	<u>2011</u>	<u>2010</u>
		Rs. 000s	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before taxation		1,551,046	707,921
Adjustments for:			
Depreciation		711,737	681,282
Amortisation		17,402	18,170
Provision for gratuity		9,461	7,810
Finance cost		1,093,713	959,247
Provision for slow moving/obsolete items		10,304	7,736
Provision for doubtful debts		29,200	19,031
Property, plant and equipment scrapped		2,657	1,314
Profit on sale of property, plant and equipment		(13,194)	(9,435)
		<u>3,412,326</u>	<u>2,393,076</u>
Changes in working capital:			
(Increase)/decrease in current assets			
Stores, spares and loose tools		(241,232)	(36,095)
Stock-in-trade		(5,438,403)	(1,050,867)
Trade debts		199,954	188,209
Loans and advances		(8,413)	(5,440)
Prepayments		10,812	(14,668)
Other receivables		25,390	(77,209)
Tax refunds due from government		15,150	(10,255)
		<u>(5,436,742)</u>	<u>(1,006,325)</u>
Increase in current liabilities			
Trade and other payables		702,113	200,203
		<u>(4,734,629)</u>	<u>(806,122)</u>
Cash (used in)/generated from operations		<u>(1,322,303)</u>	1,586,954
(Payments) for/receipts from:			
Gratuity		(6,760)	(4,739)
Finance cost		(1,033,504)	(981,063)
Income tax		(305,435)	(122,084)
Long term loans and advances		(2,395)	416
Net cash (used in)/generated from operating activities		<u>(2,670,397)</u>	<u>479,484</u>

	2011	2010
Note	Rs. 000s	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Addition to property, plant and equipment	(1,245,764)	(745,778)
Addition to Intangible assets	(38,471)	(5,898)
Proceeds from sale of property, plant and equipment	31,760	36,542
Long term deposits	(725)	(3,298)
Net cash used in investing activities	(1,253,200)	(718,432)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from long term loans	607,987	328,457
Repayments of long term loans	(676,865)	(498,634)
Dividend Paid	(79,349)	-
Net cash used in financing activities	(148,227)	(170,177)
Exchange difference on translation of foreign subsidiaries	7,478	3,523
<b>Net decrease in cash and cash equivalents</b>	<b>(4,064,346)</b>	<b>(405,602)</b>
Cash and cash equivalents - at the beginning of the year	(5,667,371)	(5,261,769)
<b>Cash and cash equivalents - at the end of the year</b>	<b>(9,731,717)</b>	<b>(5,667,371)</b>
	33	

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

**BASHIR ALI MOHOMMAD**  
Chairman and Chief Executive

**ZAIN BASHIR**  
Director

# Consolidated Statement of Changes in Equity

For the Year Ended June 30, 2011

	Share capital	Revenue reserve	Exchange difference on translation of foreign subsidiaries	Capital reserve	Statutory reserve	Unappropriated profit	Total
Rs. 000s							
Balance as at June 30, 2009	634,785	1,950,000	33,787	450,446	6,587	162,667	3,238,272
Transfer to revenue reserve	-	80,000	-	-	-	(80,000)	-
Transfer to statutory reserve	-	-	-	-	148	(148)	-
<b>Total comprehensive income</b>							
Profit for the year	-	-	-	-	-	468,233	468,233
Other comprehensive income	-	-	3,523	-	-	-	3,523
Total comprehensive income for the year	-	-	3,523	-	-	468,233	471,756
Balance as at June 30, 2010	634,785	2,030,000	37,310	450,446	6,735	550,752	3,710,028
Transfer to revenue reserve	-	400,000	-	-	-	(400,000)	-
Transfer to statutory reserve	-	-	-	-	1,555	(1,555)	-
<b>Transaction with owners</b>							
Final dividend for the year ended - June 30, 2010	-	-	-	-	-	(79,349)	(79,349)
<b>Total comprehensive income</b>							
Profit for the year	-	-	-	-	-	1,208,175	1,208,175
Other comprehensive income	-	-	7,478	-	-	-	7,478
Total comprehensive income for the year	-	-	7,478	-	-	1,208,175	1,215,653
Balance as at June 30, 2011	<b>634,785</b>	<b>2,430,000</b>	<b>44,788</b>	<b>450,446</b>	<b>8,290</b>	<b>1,278,023</b>	<b>4,846,332</b>

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

**BASHIR ALI MOHOMMAD**  
Chairman and Chief Executive

**ZAIN BASHIR**  
Director

# Consolidated Notes to the Accounts

For the Year Ended June 30, 2011

## I THE GROUP AND ITS OPERATIONS

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

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

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

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

Both subsidiaries are engaged in trading of textile related products.

### I.2 Basis of consolidation

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

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

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

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

## 2 BASIS OF PREPARATION

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

### 2.1 Statement of compliance

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

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

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

There are certain new standards, interpretations and amendments to published approved accounting standards that are mandatory for accounting periods beginning on or before January 01, 2010 but considered not to be relevant or to have any significant effect on the Group's operations and are, therefore, not disclosed in these financial statements.



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

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

- IAS 24 Related Party Disclosures (revised 2009) - (effective for annual periods beginning on or after January 01, 2011). The revision amends the definition of a related party and modifies certain related party disclosure requirements for government related entities and include an explicit requirement to disclose commitments involving related parties. The amendment is not likely to have any impact on the Group's financial statements.
- Amendments to IAS 12 - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after January 01, 2012). These amendments provide presumption that the carrying amount of an assets measured using the fair value model in IAS 40 will be through sale. As a result of the amendments, SIC - 21 (Income Taxes: Recovery of revalued non-depreciable assets) will no longer apply to investment properties accrued at fair value. This amendment is not likely to have any impact on the Group's financial statements.
- Amendments to IFRIC 14 - IAS 19 The limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after January 01, 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. This amendment is not likely to have any impact on the Group's financial statements.
- Improvements to IFRSs 2010 - IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after January 01, 2011). These amendments add an explicit statement that qualitative disclosure should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments. In addition, the IASB amended and removed existing disclosure requirements. The amendment may result in certain changes in disclosures.
- Improvements to IFRSs 2010 - IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after January 01, 2011). These amendments clarify that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income also is required to be presented, but may be presented either in the statement of changes in equity or in the notes. The amendment may result in certain changes in disclosures.

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

Further, the following new standards have been issued by IASB which are yet to be notified by the Securities and Exchange Commission of Pakistan (SECP) for the purpose of applicability in Pakistan.

<b>International Financial Reporting Standards (IFRSs)</b>	<b>IASB effective date annual periods beginning on or after</b>
IFRS 9 - Financial Instruments	January 1, 2015
IFRS 10 - Consolidated Financial Statements	January 1, 2013
IFRS 11 - Joint Agreements	January 1, 2013
IFRS 12 - Disclosure of Interests in other Entities	January 1, 2013
IFRS 13 - Fair Value	January 1, 2013

## 2.3 Functional and presentation currency

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

## 2.4 Critical accounting estimates and judgements

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

### Defined benefit plan

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

### Contingencies

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

### Property, plant and equipment

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

### Stock-in-trade and stores & spares

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

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

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

### Income taxes

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

### Provision for obsolescence

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

## 3 SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Foreign currency transactions and translation

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

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

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

### **3.2 Borrowing cost**

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

### **3.3 Staff retirement benefits**

#### **Defined benefit plan**

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

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

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

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

#### **Defined contribution plan**

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

### **3.4 Accumulated employee compensated absences**

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

### **3.5 Provisions**

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

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

### **3.6 Taxation**

#### **Current**

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

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## Deferred

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

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

## 3.7 Property, plant and equipment

### Operating assets

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

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

### Capital work-in-progress

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

## 3.8 Intangible assets

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

## 3.9 Stores, spares and loose tools

These are stated at moving average cost less slow moving provision and goods-in-transit are valued at cost accumulated to the balance sheet date. A provision is made for any excess of book value over net realizable value.

## 3.10 Stock-in-trade

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

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

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### **3.11 Trade debts**

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

### **3.12 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.

### **3.13 Financial assets and liabilities**

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

### **3.14 Offsetting of financial assets and liabilities**

All financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if the 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.

### **3.15 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 exist, the assets' realizable value is estimated in order to determine the extent of the impairment loss, if any. Impairment losses are recognized as expense in profit and loss account.

### **3.16 Revenue recognition**

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

### **3.17 Cash and cash equivalents**

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

### **3.18 Dividend and appropriation to reserves**

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

		<u>2011</u>	<u>2010</u>
4	Note	Rs. 000s	
<b>4 SHARE CAPITAL</b>			
<b>4.1 Authorised capital</b>			
		<u>2011</u>	<u>2010</u>
		<u>150,000,000</u>	<u>75,000,000</u>
		Ordinary shares of Rs.10 each	Ordinary shares of Rs.10 each
		<u>1,500,000</u>	<u>750,000</u>
<b>4.2 Issued, subscribed and paid - up capital</b>			
		<u>2011</u>	<u>2010</u>
		<u>38,797,566</u>	<u>38,797,566</u>
		Ordinary shares of Rs.10 each fully paid in cash	Ordinary shares of Rs.10 each fully paid in cash
		<u>5,447,326</u>	<u>5,447,326</u>
		Ordinary shares of Rs.10 each fully paid under scheme of arrangement for amalgamation	Ordinary shares of Rs.10 each fully paid under scheme of arrangement for amalgamation
		<u>19,233,656</u>	<u>19,233,656</u>
		Ordinary shares of Rs.10 each issued as fully paid bonus shares	Ordinary shares of Rs.10 each issued as fully paid bonus shares
		<u>63,478,548</u>	<u>63,478,548</u>
<b>5 RESERVES</b>			
Revenue reserve			
		<u>2,030,000</u>	1,950,000
		General reserve - opening	General reserve - opening
	5.1	<u>400,000</u>	80,000
		Transfer from profit and loss account	Transfer from profit and loss account
		<u>2,430,000</u>	<u>2,030,000</u>
		Exchange difference on translation of foreign subsidiaries	Exchange difference on translation of foreign subsidiaries
		<u>44,788</u>	37,310
Capital reserve			
		<u>428,887</u>	428,887
		Share premium	Share premium
		<u>21,559</u>	21,559
		Book difference of share capital under scheme of arrangement for amalgamation	Book difference of share capital under scheme of arrangement for amalgamation
		<u>450,446</u>	450,446
Statutory reserve			
		<u>8,290</u>	6,735
		<u>2,933,524</u>	<u>2,524,491</u>

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

## 6 LONG TERM FINANCING - SECURED

	Note	Number of installments and commencement month	Installment amount Rs. 000s	Mark-up rate per annum	<u>2011</u>	<u>2010</u>
					Rs. 000s	
Habib Bank Limited Loan 4	6.1, 6.5					
a) Under State Bank of Pakistan (SBP) scheme of Long Term Finance-Export Oriented Projects (LTF-EOP)		12 half yearly June-2010	5,416	7.00% p.a. payable quarterly	48,747	59,579
b) Under LTF-EOP scheme		12 half yearly November-2010	4,450	7.00% p.a. payable quarterly	44,504	53,405
Habib Bank Limited Loan 5 Under LTF-EOP scheme	6.1, 6.5	12 half yearly December-2010	2,571	7.00% p.a. payable quarterly	25,710	30,851
Habib Bank Limited Loan 6 Under LTF-EOP scheme	6.1, 6.5	12 half yearly February-2010	9,510	7.00% p.a. payable quarterly	85,592	104,612
Habib Bank Limited Loan 7 Under LTF-EOP scheme	6.1, 6.5	12 half yearly January-2010	778	7.00% p.a. payable quarterly	6,999	8,555
Habib Bank Limited Loan 8	6.1, 6.5					
a) Under LTF-EOP scheme		12 half yearly January-2010	1,698	7.00% p.a. payable quarterly	15,282	18,678
b) Under LTF-EOP scheme		12 half yearly February-2010	139	7.00% p.a. payable quarterly	1,247	1,524
Habib Bank Limited Loan 10 Under State Bank of Pakistan (SBP) Scheme of Long Term Financing Facility (LTF)	6.1, 6.6	16 half yearly July-2011	11,054	10.00% p.a. payable quarterly	176,866	176,866
Habib Bank Limited Loan 11 Under LTF scheme	6.1, 6.6	16 half yearly August-2011	562	10.00% p.a. payable quarterly	8,995	8,995
Habib Bank Limited Loan 12 Under LTF scheme	6.1, 6.6	16 half yearly October-2011	710	10.00% p.a. payable quarterly	11,359	11,359
Habib Bank Limited Loan 13 Under LTF scheme	6.1, 6.6	16 half yearly March-2012	277	10.00% p.a. payable quarterly	4,430	4,430
Habib Bank Limited Loan 14 Under LTF scheme	6.1, 6.6	16 half yearly August-2012	3,536	10.25% p.a. payable quarterly	56,614	56,614
United Bank Limited Loan 2	6.3	10 half yearly March-2009	50,000	Average three months KIBOR Ask rate +1.00% payable half yearly	250,000	350,000
United Bank Limited Loan 3 Under LTF-EOP scheme	6.3, 6.5	12 half yearly April-2010	931	7.00% p.a. payable quarterly	8,379	10,241

	Note	Number of installments and commencement month	Installment amount Rs. 000s	Mark-up rate per annum	2011	2010
					Rs. 000s	
United Bank Limited Loan 4	6.3	6 half yearly August-2010	48,199	Average six months KIBOR Ask rate + 1.00% payable half yearly	192,795	289,192
United Bank Limited Loan 5 Under LTFF scheme	6.3, 6.6	16 half yearly November-2010	363	10.00% p.a. payable quarterly	5,080	5,806
United Bank Limited Loan 6	6.3	6 half yearly March-2011	25,000	Average six months KIBOR Ask rate + 1.25% payable half yearly	125,000	150,000
United Bank Limited Loan 7 Under LTFF scheme	6.3, 6.6	10 half yearly December-2012	1,319	10.50% p.a. payable quarterly	13,190	13,190
United Bank Limited Loan 8 Under LTFF scheme	6.3, 6.6	12 half yearly December-2011	557	10.50% p.a. payable quarterly	6,690	6,690
United Bank Limited Loan 9 Under LTFF Scheme	6.3, 6.6	12 half yearly January-2012	128	10.50% p.a. payable quarterly	1,540	-
United Bank Limited Loan 10 Under LTFF scheme	6.3, 6.6	12 half yearly February-2012	741	10.50% p.a. payable quarterly	8,895	-
United Bank Limited Loan 11 Under LTFF scheme	6.3, 6.6	12 half yearly April-2012	3,685	11.20% p.a. payable quarterly	44,227	-
United Bank Limited Loan 12 Under LTFF scheme	6.2, 6.6	19 half yearly November-2011	7,441	11.20% p.a. payable quarterly	141,385	-
United Bank Limited Loan 13 Under LTFF scheme	6.2, 6.6	19 half yearly December-2011	5,916	11.20% p.a. payable quarterly	112,400	-
National Bank of Pakistan Loan 1 Under LTF-EOP scheme	6.3, 6.5	Repaid during the year	62,296	7.00% p.a. payable quarterly	-	124,592
National Bank of Pakistan Loan 2	6.1	Repaid during the year	24,295	Average six months KIBOR Ask rate + 1.50% payable half yearly	-	48,589
National Bank of Pakistan Loan 2-A Under LTF-EOP scheme	6.1, 6.5	6 half yearly September-2008	5,706	7.00% p.a. payable quarterly	11,410	22,822
National Bank of Pakistan Loan 3	6.3	25 quarterly September-2009	4,000	Average three months KIBOR Ask rate + 1.00% payable quarterly	68,000	84,000
National Bank of Pakistan Loan 4 Under LTFF scheme	6.2, 6.3, 6.6	16 quarterly September-2011	2,351	10.40% p.a. payable quarterly	37,615	37,615
Bank Al-Habib Limited Loan 1 Under LTF-EOP scheme	6.2, 6.5	12 half yearly December-2008	2,315	7.00% p.a. payable quarterly	18,516	23,145



	Note	Number of installments and commencement month	Installment amount Rs. 000s	Mark-up rate per annum	2011 Rs. 000s	2010 Rs. 000s
Habib Metropolitan Bank Loan 1	6.2, 6.5					
a) Under LTF-EOP scheme		12 half yearly March-2010	684	7.00% p.a. payable quarterly	6,149	7,516
b) Under LTF-EOP scheme		12 half yearly April-2010	2,042	7.00% p.a. payable quarterly	18,374	22,458
Habib Metropolitan Bank Ltd. Loan 2 Under LTF-EOP scheme	6.2, 6.5	12 half yearly November-2010	19,417	7.00% p.a. payable quarterly	194,166	233,000
Habib Metropolitan Bank Ltd. Loan 3 Under LTF scheme	6.2, 6.6	16 half yearly February-2012	2,719	10.00% p.a. payable quarterly	43,495	43,495
Habib Metropolitan Bank Ltd. Loan 4 Under LTF scheme	6.2, 6.6	16 half yearly March-2012	2,504	10.00% p.a. payable quarterly	40,065	40,065
Habib Metropolitan Bank Ltd. Loan 5 Under LTF scheme	6.2, 6.6	16 half yearly June-2012	4,212	10.25% p.a. payable quarterly	67,373	67,373
Habib Metropolitan Bank Ltd. Loan 6 Under LTF scheme	6.2, 6.6	16 half yearly July-2012	1,804	10.25% p.a. payable quarterly	28,860	28,860
Habib Metropolitan Bank Ltd. Loan 7 Under LTF scheme	6.2, 6.6	10 half yearly December-2013	3,328	11.20% p.a. payable quarterly	33,280	-
HSBC Bank Middle East Ltd Loan 1	6.2, 6.5					
a) Under LTF-EOP scheme		12 half yearly October-2010	2,883	7.00% p.a. payable quarterly	28,833	34,599
b) Under LTF-EOP scheme		12 half yearly November-2010	1,038	7.00% p.a. payable quarterly	10,376	12,451
HSBC Bank Middle East Ltd Loan 2 Under LTF-EOP scheme	6.2, 6.5	12 half yearly December-2010	1,838	7.00% p.a. payable quarterly	18,384	22,061
HSBC Bank Middle East Ltd Loan 3 Under LTF-EOP scheme	6.2, 6.5	12 half yearly February-2010	875	7.00% p.a. payable quarterly	7,873	9,623
HSBC Bank Middle East Ltd Loan 4 Under LTF-EOP scheme	6.2, 6.5	12 half yearly March-2010	844	7.00% p.a. payable quarterly	7,596	9,285
Allied Bank Limited Loan 1	6.3	12 quarterly March-2010	16,667	Average three months KIBOR Ask rate + 1.00% payable quarterly	100,000	166,667
Allied Bank Limited Loan 2 Under LTF scheme	6.3, 6.6	32 quarterly July-2010	9,256	10.00% p.a. payable quarterly	259,177	296,201
Meezan Bank Ltd Diminishing Musharaka 1	6.3	6 half yearly February-2011	15,266	Average six months KIBOR Ask rate + 1.00% payable half yearly	76,328	91,594

	Note	Number of installments and commencement month	Installment amount Rs. 000s	Mark-up rate per annum	2011 Rs. 000s	2010 Rs. 000s
Meezan Bank Ltd Diminishing Musharaka 2	6.3	6 half yearly June-2011	1,449	Average six months KIBOR Ask rate + 1.50% payable half yearly	7,247	8,696
Meezan Bank Ltd Diminishing Musharaka 3	6.3	6 half yearly July-2011	5,253	Average six months KIBOR Ask rate + 1.50% payable half yearly	31,516	31,516
NIB Bank Limited Loan 1 Under LTFF scheme	6.3, 6.6	16 quarterly June-2010	2,839	9.00% p.a. payable quarterly	31,222	42,578
NIB Bank Limited Loan 2 Under LTFF scheme	6.3, 6.6	16 quarterly September-2010	1,883	9.00% p.a. payable quarterly	22,594	30,125
Faysal Bank Limited Under LTFF scheme	6.2, 6.6	10 half yearly January-2014	6,720	11.20% p.a. payable quarterly	67,200	-
Standard Chartered Bank Loan 1 Under LTFF scheme	6.3, 6.6	8 half yearly October-2012	2,995	11.10% p.a. payable quarterly	23,960	-
Standard Chartered Bank Loan 2 Under LTFF scheme	6.3, 6.6	8 half yearly November-2012	21,886	11.10% p.a. payable quarterly	175,100	-
					<u>2,830,635</u>	<u>2,899,513</u>
					<u>(632,044)</u>	<u>(676,863)</u>
					<u>2,198,591</u>	<u>2,222,650</u>
Current portion shown under current liabilities						

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

	<u>2011</u>	<u>2010</u>
	Rs. 000s	
<b>7 DEFERRED TAXATION - NET</b>		
<b>Taxable temporary differences in respect of</b>		
Accelerated tax depreciation allowance	303,824	208,763
Provision for income of subsidiaries	8,189	7,967
	<u>312,013</u>	<u>216,730</u>
<b>Deductible temporary differences in respect of</b>		
Provision for gratuity	(1,993)	(1,868)
Provision for doubtful debts	(10,889)	(7,281)
Provision for slow moving items	(6,379)	(5,300)
	<u>(19,261)</u>	<u>(14,449)</u>
	<u>292,752</u>	<u>202,281</u>

## 8 STAFF RETIREMENT BENEFITS

### 8.1 Principal actuarial assumptions

Following principal actuarial assumptions were used for the valuation:

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

	Note	Rs. 000s	
<b>8.2 Movement in liability</b>			
Balance as at opening		15,016	11,945
Charge for the year	8.4	9,461	7,810
Payments during the year		(6,760)	(4,739)
Balance as at closing		<u>17,717</u>	<u>15,016</u>
<b>8.3 Changes in present value of defined benefit obligation</b>			
Balance as at opening		15,016	11,945
Current service cost		7,987	6,928
Interest cost		1,474	1,671
Actuarial gain on present value of defined benefit obligation		-	(789)
Benefits paid		(6,760)	(4,739)
Balance as at closing		<u>17,717</u>	<u>15,016</u>

	Note	2011	2010
		Rs. 000s	
<b>8.4 Charge for the year</b>			
Current service cost		7,987	6,928
Interest cost		1,474	1,671
Actuarial gain		-	(789)
		<u>9,461</u>	<u>7,810</u>
<b>9 TRADE AND OTHER PAYABLES</b>			
Creditors		1,947,284	924,468
Due to related parties		190	2,872
Murabaha		-	461,189
Accrued expenses		524,960	449,041
Advance from customers		66,446	46,234
Payable to employees' provident fund		5,340	4,329
Workers' profit participation fund	9.1	85,424	39,020
Unclaimed dividend		527	411
Others		18,339	18,833
		<u>2,648,510</u>	<u>1,946,397</u>
<b>9.1 Workers' profit participation fund</b>			
Opening		39,020	10,290
Provision for the year		82,570	38,036
Interest for the year		2,854	984
		<u>124,444</u>	<u>49,310</u>
Payments made during the year		(39,020)	(10,290)
Closing balance		<u>85,424</u>	<u>39,020</u>
<b>10 ACCRUED MARK-UP - SECURED</b>			
Mark-up on long term financing		64,867	52,009
Mark-up on short term borrowings		151,931	104,580
		<u>216,798</u>	<u>156,589</u>

	Note	<u>2011</u>	<u>2010</u>
		Rs. 000s	
<b>11 SHORT TERM BORROWINGS - SECURED</b>			
Short term bank borrowings	11.1	<b>9,325,917</b>	5,093,054
Short term running finance		<b>492,438</b>	731,505
		<b><u>9,818,355</u></b>	<u>5,824,559</u>

11.1 It includes short term istisna amounting to Rs. 493 million (2010: Nil).

11.2 Short term borrowings are secured by pari passu hypothecation charge over stores and spares, stock-in-trade, trade debts, other receivables, pledge over cotton, counter guarantee of the ultimate Parent Company and lien on deposit of Gul Ahmed International FZC. Unavailed facility at the year end was Rs. 2,223 million (2010: 3,043 million). The facility for short term borrowings mature within twelve months. Short term borrowings include Rs. 587 million (2010: Rs. 27 million) from related party.

Mark-up rates range from 1.54% to 16.65% (2010: 1.54% to 16.30%) per annum.

## 12 CONTINGENCIES AND COMMITMENTS

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

12.2 The Group has filed a suit in the Sindh High Court for recovery of Rs. 33,409 million (2010: Rs. 33,409 million) included in other receivables. The Group's management and its legal counsel are of the opinion that the case will be decided in the Group's favour and as such no provision has been made there against.

12.3 The Group has filed a petition in the Sindh High Court against order passed by the Board of Trustees, Employees Old-Age Benefits Institution (EOBI) for upholding the unjustified additional demand of payment raised by EOBI for accounting years 2000-01 and 2001-02 amounting to Rs. 50,827 million (2010: Rs. 50,827 million). This demand has been raised after lapse of more than two years although the records and books of the Group were verified by the EOBI to their entire satisfaction and finalization of all matters by EOBI. The Honorable Sindh High Court has already restrained EOBI from taking any action or proceedings against the Group. No provision has been made there against in these financial statements as the Group is confident of the favourable outcome of the petition.

## 12.4 Guarantees

- (a) Rs. 257 million (2010: Rs. 146 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. 71 million (2010: Rs. 42 million) issued to various Government Agencies.
- (c) Bills discounted Rs. 1,306 million (2010: Rs. 1,156 million)
- (d) Corporate guarantee of Rs. 96.965 million (2010: Rs. 85.795 million) has been issued to a bank in favour of subsidiary company.

12.5 The Group is committed for capital expenditure as at June 30, 2011 of Rs. 340 million (2010: Rs. 444 million).

12.6 The Group is committed for non capital expenditure items under letters of credit as at June 30, 2011 of Rs. 581 million (2010: Rs. 412 million).

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

	Note	<u>2011</u>	<u>2010</u>
		Rs. 000s	
- Not Later than one year		192,728	186,611
- Later than one year and not later than five years		828,357	802,963
- Later than five year		907,230	1,125,353
		<u>1,928,315</u>	<u>2,114,927</u>

## 13 PROPERTY, PLANT AND EQUIPMENT

Operating assets	13.1	6,589,869	6,097,376
Capital work in progress	13.2	71,643	51,332
		<u>6,661,512</u>	<u>6,148,708</u>

### 13.1 OPERATING ASSETS

	Leasehold lands	Buildings and structures on leasehold land	Plant and machinery	Office equipment	Furniture and fixtures	Vehicles	Total
<b>Rs. 000s</b>							
<b>Net carrying value basis as at June 30, 2011</b>							
Opening net book value (NBV)	234,107	1,070,408	4,439,774	140,022	44,271	168,796	6,097,376
Additions (at Cost)	-	88,692	975,122	40,747	33,169	87,721	1,225,453
Disposal at NBV	-	-	(551)	(2,333)	(4,792)	(13,547)	(21,223)
Depreciation charge	-	(118,456)	(501,328)	(33,798)	(8,356)	(49,799)	(711,737)
Closing net book value	<b>234,107</b>	<b>1,040,644</b>	<b>4,913,017</b>	<b>144,638</b>	<b>64,292</b>	<b>193,171</b>	<b>6,589,869</b>
<b>Gross carrying value basis as at June 30, 2011</b>							
Cost	234,107	1,921,565	9,282,567	343,280	99,991	374,456	12,255,966
Accumulated depreciation	-	(880,921)	(4,369,550)	(198,642)	(35,699)	(181,285)	(5,666,097)
Net book value	<b>234,107</b>	<b>1,040,644</b>	<b>4,913,017</b>	<b>144,638</b>	<b>64,292</b>	<b>193,171</b>	<b>6,589,869</b>
<b>Net carrying value basis year ended June 30, 2010</b>							
Opening net book value (NBV)	234,107	1,109,874	4,442,181	119,419	47,259	124,186	6,077,026
Additions (at Cost)	-	83,638	484,100	55,817	3,649	102,851	730,055
Disposal at NBV	-	-	(10,318)	(2,606)	(1,087)	(14,410)	(28,421)
Depreciation charge	-	(123,104)	(476,189)	(32,608)	(5,550)	(43,831)	(681,282)
Closing net book value	<b>234,107</b>	<b>1,070,408</b>	<b>4,439,774</b>	<b>140,022</b>	<b>44,271</b>	<b>168,796</b>	<b>6,097,376</b>
<b>Gross carrying value basis as at June 30, 2010</b>							
Cost	234,107	1,832,873	8,315,723	324,603	80,157	326,023	11,113,486
Accumulated depreciation	-	(762,465)	(3,875,949)	(184,581)	(35,886)	(157,227)	(5,016,108)
Net book value	<b>234,107</b>	<b>1,070,408</b>	<b>4,439,774</b>	<b>140,022</b>	<b>44,271</b>	<b>168,796</b>	<b>6,097,376</b>
Depreciation rate % per annum	-	10	10	15 to 30	10 to 12	20 to 25	

13.1.1 Structures on leased retail outlets are depreciated over the respective lease term.

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

	Note	2011 Rs. 000s	2010 Rs. 000s
Cost of goods manufactured	24.1	591,974	583,463
Distribution cost	25	45,412	34,235
Administrative expenses	26	74,351	63,584
		<u>711,737</u>	<u>681,282</u>

13.1.3 Disposals include assets scrapped during the year amounting to Rs. 2.657 million (2010: Rs. 1.363 million)

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

Particulars	Cost	Written down value Rs.000s	Sale proceeds	Particulars of purchasers
<b>Plant and machinery</b>				
Auto mach coner splicer	7,722	496	1,800	Rajab Enterprises H. No. A-304, Sector 16, Block-9, PIA Housing Society, Gulistan-e-Johar, Basti Lal Khan, Tooba Road, Jhang
<b>Office equipment, furniture and fixtures</b>				
Various wooden furniture	648	242	313	Al-Mustaqeem Furnishers Liaquatabad Furniture Market, Karachi
Vacuum cleaners	673	163	164	Mr. Bahadur Khan Kabari Market, Shershah, Karachi
Various wooden furniture	1,558	586	610	Ghaziani Furniture Mart Liaquatabad Furniture Market, Karachi
Electrical appliance	340	82	86	Masha Allah Communication Electronic Market, Saddar, Karachi
Computers	440	106	109	Pak Computer Accessories Uni Tower, I.I. Chundrigar Road, Karachi
Various wooden furniture	728	261	350	Popular Furniture Garden Aga Khan Road, Karachi
Various office, electrical & furniture items	21,063	2,116	1,850	Insurance Claim
<b>Vehicles</b>				
Toyota Corolla	1,189	265	450	Mr. Abdul Fatah Bhutto P.O. Bangul Dero, Taluka Ratodero, District Larkana
Toyota Estima	2,165	709	918	Mr. Anjum Anis Ansari Phase No. 6, Khayaban-e-Badar, DHA, Karachi
Honda City	845	188	601	Mr. Farhan Shahzad House No. 4, Street No. C-42, C Area, Malir Colony, Saudabad, Karachi
Suzuki Baleno	699	100	125	Mr. Ghulam Hussain Area Old Thana Village, Tahsil & District Malir, Karachi



Particulars	Cost	Written down value Rs.000s	Sale proceeds	Particulars of purchasers
<b>Vehicles (continued)</b>				
Toyota Corolla	1,189	265	667	Mr. Gul Dad House No. HK-579, KPT Building, New Qadri, Karachi
Suzuki Alto	496	111	202	Mr. Irtaza Akbar Baloch House No. B-12, Block-B, Gulshan-e-Iqbal, Karachi
Toyota Corolla	1,189	265	718	Mr. Kher Mohammad House No. 182/B, Rab Nawaz Wakeel Railway Road Banno, Karachi
Suzuki Cultus	585	104	238	Mr. Mohammad Ameen Khan (Employee) House No. 9-C-1, 15 Commerical Street, Phase II, D.H.A., Extention, Karachi
Suzuki Alto & Toyota Corolla	1,945	1,247	1,746	Mr. Mohammad Arif House No. B-30, Sector- I I-C/I, North Karachi, Karachi
Honda City	917	375	513	Mr. Mohammad Asif Gadit House No. 55/I, 6th Commercial Street, Phase-4, D.H.A., Karachi
Suzuki Cultus	590	164	427	Mr. Mohammad Faheem Khan House No. 308, Street No. 5, 37/D Area, Landhi No. 1, Malir, Karachi
Honda City	897	294	359	Mr. Mohammad Yasin (Employee) House No. A-209, Saima Heaven, Block # 4, Gulshan-e-Iqbal, Karachi
Honda Civic	1,228	274	393	Mr. Mohinuddin Office # 8, 3rd Floor; Gulshan Centers, B-13, Block 13-C, Gulshan-e-Iqbal, Karachi
Suzuki Alto & Suzuki Bolan	904	296	756	Mr. Muhammad Aamir House No. B-514, Sector- I I E, New Fatima Jinnah Colony, Karachi
Suzuki Alto & Suzuki Cultus	1,086	216	776	Mr. Muhammad Arif House No. B-30, I I-C/I, North Karachi, Karachi
Suzuki Cultus	610	250	366	Mr. Muhammad Asif Khan (Employee) Flat No. A-24, Street No. 8/B, Al-Haram Garden Appartment, Gulshan-e-Iqbal, Karachi
Suzuki Bolan	396	88	339	Mr. Muhammad Furqan House No. G-935, Adamjee Road, Karachi

Particulars	Cost	Written down value Rs.000s	Sale proceeds	Particulars of purchasers
<b>Vehicles (continued)</b>				
Suzuki Bolan	453	101	367	Mr. Muhammad Hamid House No. E-106, Block-I, Metro Well, S.I.T.E., Karachi
Suzuki Alto	496	111	402	Mr. Muhammad Haroon Flat No. 23, Soni Appartment, Ghulam Hussain Qasim Road, Karachi
Toyota Corolla	1,018	286	408	Mr. Muhammad House No. J.M. 664, Block-2, Tapal Ghar New Town, Fatima Jinnah Colony, Jamshed Road, Karachi
Toyota Corolla	1,189	265	727	Mr. Muhammad Sadiq House No. G-935, Adamjee Road, Quaidabad, Landhi, Karachi
Suzuki Alto	496	88	331	Mr. Muhammad Shakeel House No. B-14, Block-A, Sindhi Muslim Society, Karachi
Suzuki Alto	496	138	407	Mr. Muhammad Yameen House No. 875/3, Block-3, Federal B Area, Karachi
Suzuki Alto	496	111	176	Mr. Muhammad Yaqoob Diwan House No. 25-CA-401, Metro View, New Town, Chandni Chowk, Karachi
Toyota Corolla	1,052	354	950	Mr. Nisar Ahmed House No. 1167, Block-9, Federal 'B' Area, Karachi
Honda Civic & Suzuki Cultus	1,808	517	1,403	Mr. Noman Hassan Khan House No. A-908, Block-12, Gulburg, Ancholi, Federal "B" Area, Karachi
Daihatsu Coure	399	57	262	Mr. Rehan-ul-Haq House No. B-473, B-Area, Malir Colony, Karachi
Suzuki Alto	513	210	465	Mr. Shahzad Zahoor House No. 5-C-8/11, Paposh Nager, Nazimabad, Karachi
Honda City	899	250	450	Syed Irfan Ali Rizvi House No. 644, Section G-10/1, Mail Service Road, Islamabad
Suzuki Alto	496	111	325	Syed Kabir Ahmed House No. 102/6, Landhi No.1, Sector-1-D, Karachi

Particulars	Cost	Written down value Rs.000s	Sale proceeds	Particulars of purchasers
<b>Vehicles (continued)</b>				
Honda Civic	1,198	334	479	Mr. Zulfiqar Ali House No. 364, Street No. 6, Area 37-D, Landhi, Karachi
Nissan Sunny	226	127	35	Mr. Masood Malik P.O. Box 85665 Sharjah, U.A.E.
Audi	2,408	602	1,011	Mr. Philp Hodson 63, Blackburn Road, Egerton, Bolton, BL7 9ES
Various	6,222	4,340	6,068	Insurance Claim
Written down value below Rs. 50,000 each	5,592	1,301	2,618	Various
<b>2011</b>	<b>75,559</b>	<b>18,566</b>	<b>31,760</b>	
2010	77,177	27,058	36,542	



		<u>2011</u>	<u>2010</u>
		Rs. 000s	
15 LONG TERM LOANS AND ADVANCES - SECURED	Note		
Considered good			
- Due from executives	15.2	5,845	2,968
- Due from non-executive employees		2,387	1,465
		<u>8,232</u>	<u>4,433</u>
Current portion of			
- Due from executives		(3,016)	(1,668)
- Due from non-executive employees		(975)	(919)
	19	<u>(3,991)</u>	<u>(2,587)</u>
		<u>4,241</u>	<u>1,846</u>

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

Included in these are loans of Rs. 1.1 million (2010: Rs. 0.6 million) which carry no interest. The balance amount carries interest ranging from 10.5% to 15%.

The maximum aggregate amount due from executives at the end of any month during the year was Rs. 6.059 million (2010: Rs. 4.654 million).

		<u>2011</u>	<u>2010</u>
		Rs. 000s	
15.2 Reconciliation of carrying amount of loans to executives	Note		
Balance at the beginning of the year		2,968	2,416
Disbursement during the year		4,892	2,850
Transfer from non-executive to executive employees		851	521
Repayment during the year		(2,866)	(2,819)
Balance at the end of the year		<u>5,845</u>	<u>2,968</u>

## 16 STORES, SPARES AND LOOSE TOOLS

Stores		296,415	250,954
Spares		452,058	256,428
Loose tools		3,021	2,880
		<u>751,494</u>	<u>510,262</u>
Provision for slow moving/obsolete items	16.1	(45,144)	(34,840)
		<u>706,350</u>	<u>475,422</u>
<b>16.1 Movement in provision for slow moving/obsolete items</b>			
Balance at beginning of the year		34,840	27,104
Charge for the year		10,304	7,736
Balance at end of the year		<u>45,144</u>	<u>34,840</u>

		<u>2011</u>	<u>2010</u>
	Note		Rs. 000s
<b>17 STOCK-IN-TRADE</b>			
Raw materials	17.1	3,807,318	1,532,769
Stock-in-transit		-	84,994
		<u>3,807,318</u>	<u>1,617,763</u>
Work-in-process		310,160	167,278
Finished goods	17.2	6,312,736	3,206,770
		<u>10,430,214</u>	<u>4,991,811</u>

17.1 Raw materials amounting to Rs. 589 million (2010: Nil) has been pledged with the banks.

17.2 Finished goods include stock of waste valuing Rs. 31.611 million (2010: Rs. 35.748 million) determined at net realizable value.

		<u>2011</u>	<u>2010</u>
	Note		Rs. 000s
<b>18 TRADE DEBTS</b>			
Export debts - secured		1,424,809	1,253,922
Local debts - unsecured			
- Considered good		811,593	1,211,634
- Considered doubtful		77,064	47,864
		888,657	1,259,498
Provision for doubtful trade debts	18.1	(77,064)	(47,864)
		<u>2,236,402</u>	<u>2,465,556</u>

**18.1 Movement in provision for doubtful trade debts**

Balance at beginning of the year	47,864	28,832
Charge for the year	29,200	19,032
Balance at end of the year	<u>77,064</u>	<u>47,864</u>

	Note	2011	2010
		Rs. 000s	
<b>19 LOANS AND ADVANCES</b>			
Considered good			
Current portion of loans and advances to employees			
- Executives		3,016	1,668
- Other employees		975	919
	15	3,991	2,587
Suppliers		120,288	113,531
Income tax - net of provision		20,477	-
Letters of credit		15,507	15,255
		<u>160,263</u>	<u>131,373</u>
<b>20 OTHER RECEIVABLES</b>			
Research and development claim		999	1,915
Duty drawback local taxes and levies		20,348	57,499
Duty drawback receivable		117,968	58,861
Mark-up rate subsidy		26,109	75,908
Others	20.1	47,122	43,753
		<u>212,546</u>	<u>237,936</u>
<b>20.1 Others</b>			
Receivable against sale of property	12.2	33,409	33,409
Others		13,713	10,344
		<u>47,122</u>	<u>43,753</u>
<b>21 TAX REFUNDS DUE FROM GOVERNMENT</b>			
Sales tax		51,727	61,611
Income tax		-	5,266
		<u>51,727</u>	<u>66,877</u>
<b>22 CASH AND BANK BALANCES</b>			
Cash and cheques in hand		6,933	4,765
With banks in current accounts			
- Local currency		70,303	51,974
- Foreign currency		9,402	100,449
	22.1	79,705	152,423
		<u>86,638</u>	<u>157,188</u>

22.1 Bank balances include Rs. 31 million (2010: Rs. 61 million) with related party.

	Note	2011	2010
		Rs. 000s	
<b>23 SALES</b>			
Local	23.1	8,296,560	8,948,698
<b>Export</b>			
Direct export		16,593,322	10,768,589
Indirect export		650,489	-
		17,243,811	10,768,589
Duty drawback		132,123	209,480
Brokerage and commission		(29,318)	(41,430)
		<u>25,643,176</u>	<u>19,885,337</u>

23.1 Sales are exclusive of sales tax amounting to Rs. 57.164 million (2010: Rs. 16.284 million).

	Note	2011	2010
		Rs. 000s	
<b>24 COST OF SALES</b>			
Opening stock of finished goods		3,206,770	3,148,079
Cost of goods manufactured	24.1	18,063,758	13,404,716
Purchases and processing charges		5,934,309	3,236,389
		27,204,837	19,789,184
Closing stock of finished goods		(6,312,736)	(3,206,770)
		<u>20,892,101</u>	<u>16,582,414</u>
<b>24.1 Cost of goods manufactured</b>			
Raw materials consumed	24.2	10,733,599	7,297,486
Stores consumed		2,518,573	1,974,823
Staff cost	26.1	2,126,625	1,781,950
Fuel, power and water		1,488,592	1,265,330
Insurance		75,076	51,211
Repairs and maintenance		651,415	495,253
Depreciation		591,974	583,463
Other expenses		71,585	56,151
Cost of samples shown under distribution cost		(50,799)	(53,467)
		18,206,640	13,452,200
<b>Work-in-process</b>			
Opening		167,278	119,794
Closing		(310,160)	(167,278)
		(142,882)	(47,484)
		<u>18,063,758</u>	<u>13,404,716</u>
<b>24.2 Raw materials consumed</b>			
Opening stock		1,532,769	673,071
Purchases during the year		13,008,148	8,157,184
Closing stock		(3,807,318)	(1,532,769)
		<u>10,733,599</u>	<u>7,297,486</u>



	Note	2011	2010
		Rs. 000s	
<b>25 DISTRIBUTION COST</b>			
Freight and shipment expenses		178,749	189,254
Staff cost	26.1	257,719	176,861
Insurance		3,878	5,656
Advertisement and publicity		302,847	157,002
Cost of samples transferred from cost of goods manufactured		50,799	53,467
Rent, rates and taxes		195,929	140,592
Depreciation		45,412	34,235
Amortisation		1,808	1,883
Export development surcharge		41,757	27,331
Other expenses		25,064	28,987
		<u>1,103,962</u>	<u>815,268</u>
<b>26 ADMINISTRATIVE EXPENSES</b>			
Staff cost	26.1	342,039	282,594
Rent, rates and taxes		25,620	44,675
Repairs and maintenance		48,925	37,954
Vehicle up keep		68,721	60,358
Conveyance and traveling		73,636	64,653
Printing and stationery		42,424	32,902
Postage and telecommunication		52,107	45,207
Legal and consultancy fees		57,126	52,082
Depreciation		74,351	63,584
Amortisation		15,594	16,287
Auditors' remuneration	26.2	2,844	3,348
Donations	26.3	3,486	2,241
Insurance		13,836	9,995
Provision for doubtful trade debts		29,200	19,031
Provision for slow moving/obsolete items		10,304	7,736
Other expenses		51,084	50,400
		<u>911,297</u>	<u>793,047</u>

## 26.1 Staff cost

	Cost of sales		Distribution cost		Administrative expenses		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
	Rs. 000s							
- Salaries, wages & benefits	2,061,834	1,722,939	250,495	170,988	327,475	269,166	2,639,804	2,163,093
<b>Retirement benefits</b>								
- Gratuity	8,444	7,015	-	-	1,017	864	9,461	7,879
- Contribution to provident fund	23,572	20,214	7,069	5,572	11,684	8,610	42,325	34,396
	32,016	27,229	7,069	5,572	12,701	9,474	51,786	42,275
- Staff compensated absences	32,775	31,782	155	301	1,863	3,954	34,793	36,037
	<u>2,126,625</u>	<u>1,781,950</u>	<u>257,719</u>	<u>176,861</u>	<u>342,039</u>	<u>282,594</u>	<u>2,726,383</u>	<u>2,241,405</u>

2011                      2010  
Rs. 000s

## 26.2 Auditor's Remuneration

Audit fee	2,422	2,952
Half yearly review	30	30
Fee for consolidation of holding and subsidiaries	150	-
Review of statement of compliance with code of corporate governance	50	-
Out of pocket expenses	62	199
Others	130	167
	<u>2,844</u>	<u>3,348</u>

26.3 None of the directors or their spouses have any interest in the donees.

## 27 OTHER OPERATING EXPENSES

Workers' profit participation fund	82,570	38,036
Workers' welfare fund	31,377	14,454
Property, plant and equipment scrapped	2,657	1,363
	<u>116,604</u>	<u>53,853</u>

## 28 OTHER OPERATING INCOME

### Income from financial assets

Interest income from loan and advances	1,065	1,638
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### Income from non - financial assets

Profit on sale of property, plant and equipment - net	13,194	9,484
Unclaimed liabilities written back	-	268
Scrap sales	7,586	5,628
Others	3,702	9,407
	<u>25,547</u>	<u>26,425</u>

	<u>2011</u>	<u>2010</u>
	Rs. 000s	
<b>29 FINANCE COST</b>		
Mark-up on long term financing	307,360	305,756
Mark-up on short term borrowings	709,935	564,981
Interest on workers' profit participation fund	2,854	984
Bank charges	64,011	76,418
Exchange loss	9,553	11,120
	<u>1,093,713</u>	<u>959,259</u>

29.1 Mark-up on long term financing/short term borrowings include Rs. 102 million (2010: Rs. 64 million) in respect of long term financing/short term borrowings from related party.

	<u>2011</u>	<u>2010</u>
	Rs. 000s	
<b>30 PROVISION FOR TAXATION</b>		
Current		
- for the year	267,652	182,027
- prior	(15,252)	(5,347)
	<u>252,400</u>	<u>176,680</u>
Deferred	90,471	63,008
	<u>342,871</u>	<u>239,688</u>

Note

**30.1 Reconciliation between accounting profit and tax expense**

Net profit for the year before taxation	1,551,046	707,921
Tax rate	35%	35%
Tax on accounting profit	542,866	247,772
Tax surcharge levied	11,137	-
Tax on income of subsidiaries	(3,105)	1,134
Tax on prior periods	(15,252)	(5,347)
Tax effect of minimum tax / FTR	(136,228)	(28,697)
Tax effect of temporary differences of subsidiaries	222	7,967
Others	(56,769)	16,859
	<u>342,871</u>	<u>239,688</u>

30.2 Income tax assessments of the Group have been finalised upto to fiscal year 2009-10 (Tax year 2010).

	<u>2011</u>	<u>2010</u>
	Rs. 000s	
<b>31 EARNINGS PER SHARE - basic and diluted</b>		
Profit for the year	1,208,175	468,233
Weighted average number of shares	63,478,548	63,478,548
Earnings per share (Rs.)	19.03	7.38

There is no dilutive effect on the earnings per share of the Group.

## 32 SEGMENT INFORMATION

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

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

Transactions among the business segments are recorded at cost.

### 32.1 Consolidated segmental profitability

	Spinning		Processing		GulAhmed International Limited FZC - UAE		GTM (Europe) Limited - UK		Elimination of inter segment transaction		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Sales	10,171,350	7,596,121	20,070,568	13,405,665	378,163	231,632	1,782,075	499,046	(6,258,980)	(1,847,127)	25,643,176	19,885,337
Cost of sales	9,337,618	6,560,489	16,277,678	11,268,437	302,258	176,467	1,715,649	429,137	(6,741,102)	(1,852,116)	20,892,101	16,582,414
Gross profit	833,732	1,035,632	3,792,890	2,137,228	75,905	55,165	66,426	69,909	(17,878)	4,889	4,751,075	3,302,923
Administrative & selling expenses	76,494	105,339	1,823,020	1,386,189	59,958	52,987	55,787	63,800	-	-	2,015,259	1,608,315
Profit before tax and unallocated expenses	757,238	930,293	1,969,870	751,039	15,947	2,178	10,639	6,109	(17,878)	4,889	2,735,816	1,694,608
Financial charges											1,093,713	959,259
Other operating expenses											116,604	53,853
Provision of taxation											(25,547)	(26,425)
Profit after taxation											342,871	239,688
											1,208,175	468,233

### 32.2 Consolidated segment assets and liabilities

	Spinning		Processing		GulAhmed International Limited FZC - UAE		GTM (Europe) Limited - UK		Unallocated		Total	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Assets	6,347,289	4,251,847	12,476,215	9,028,608	185,009	200,820	282,984	251,856	1,479,602	1,053,810	20,671,099	14,786,941
Liabilities	1,724,763	1,374,579	3,343,943	2,986,278	1,7051	34,668	115,910	114,877	10,623,100	6,566,511	15,824,767	11,076,913

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

### 32.4 Information by geographical area

	Revenue		Non-current assets	
	2011	2010	2011	2010
Pakistan	8,267,242	8,907,268	6,729,653	6,190,641
United Kingdom	2,178,097	2,998,499	4,235	3,835
Germany	3,253,901	1,595,129	-	-
China	2,127,413	1,279,804	-	-
United State	1,625,623	1,073,554	-	-
Netherlands	1,226,964	887,928	-	-
France	1,738,724	465,278	-	-
Brazil	1,417,839	359,256	-	-
United Arab Emirates	266,931	248,428	7,244	9,663
Other Countries	3,540,442	2,070,173	-	-
Total	25,643,176	19,885,337	6,741,132	6,204,139

33 CASH AND CASH EQUIVALENTS	Note	2011	2010
		Rs. 000s	
Cash and bank balances	22	86,638	157,188
Short term borrowings	11	(9,818,355)	(5,824,559)
		<u>(9,731,717)</u>	<u>(5,667,371)</u>

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

	2011				2010			
	Chief Executive	Directors	Executives	Total	Chief Executive	Directors	Executives	Total
	Rs. 000s							
Managerial remuneration	3,000	8,300	167,324	178,624	2,400	6,800	123,317	132,517
House rent allowance	1,200	3,320	66,929	71,449	960	2,720	49,326	53,006
Other allowances	500	1,462	32,367	34,329	240	1,007	25,686	26,933
Contribution to provident fund	250	691	12,061	13,002	200	566	8,913	9,679
	<u>4,950</u>	<u>13,773</u>	<u>278,681</u>	<u>297,404</u>	<u>3,800</u>	<u>11,093</u>	<u>207,242</u>	<u>222,135</u>
Number of persons	1	5	166	172	1	4	127	132

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

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

34.3 Aggregate amount charged in the accounts for the year for meeting fee to seven Directors was Rs. 126 thousand (2010: four Directors - Rs. 6 thousand).

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

### 35 TRANSACTIONS WITH RELATED PARTIES

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

Relationship with the Company	Nature of Transactions	2011	2010
		Rs. 000s	
Associated companies and other related parties	Purchase of goods	31,943	22,423
	Sale of goods	747	334
	Rent paid	4,530	4,530
	Fees paid	750	750
	Commission/bank charges rebate	-	3,329
	Deposit with bank (at year end)	30,620	61,119
	Borrowing from bank (at year end)	1,018,933	470,185
	Bank guarantee (at year end)	203,472	106,508
	Bills discounted	862,903	1,433,250
	Commission/bank charges paid	26,113	33,904
	Mark-up/interest charged	101,850	64,199
	Provident fund contribution	42,238	34,483

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

Related parties status of outstanding receivables and payables as at June 30, 2011 are included in respective notes to the financial statements.

## 36 CAPACITY AND PRODUCTION

		<u>2011</u> (000s)			<u>2010</u> (000s)	
	Unit	Capacity	Production	Working	Capacity	Production
Cloth	Sq. meters (50 Picks converted)	124,136	85,067	3 shifts	121,436	84,980
Yarn	Kgs. (20 Counts converted)	48,227	38,716	3 shifts	48,227	41,988

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

## 37 FINANCIAL INSTRUMENTS

### 37.1 Financial risk management objectives

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

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

#### 37.1.1 Market risk

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

##### a. Foreign exchange risk management

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

##### Exposure to foreign currency risk

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

	<u>2011</u>	<u>2010</u>
	USD 000s	
Trade debts	16,542	16,611
Cash and bank	116	1,175
Borrowings from financial institutions	(37,262)	(22,485)
Trade and other payables	(7,465)	(3,045)
Net exposure	<u>(28,069)</u>	<u>(7,744)</u>

Foreign currency commitments outstanding at year end are as follows:

	<u>2011</u>	<u>2010</u>
	Rs. 000s	
EURO	253,622	121,951
USD	377,523	675,957
JPY	3,369	12,240
CHF	6,559	2,503
	<u>641,073</u>	<u>812,651</u>

The following significant exchange rates were applied during the year:

	<u>2011</u>	<u>2010</u>
<b>Rupee per USD</b>		
Average rate	85.46	84.62
Reporting date rate	85.70 / 85.90	85.40 / 85.60

#### Foreign currency sensitivity analysis

A 10 percent strengthening of the PKR against the USD at June 30, 2011 would have decreased equity and profit or loss by the amounts shown below. This analysis assumes that all other variable, in particular interest rates, remain constant. The analysis is performed on the same basis for June 30, 2010.

	<u>2011</u>	<u>2010</u>
	Rs. 000s	
Profit and loss account	241,113	66,289

A 10 percent weakening of the PKR against the USD at June 30, 2011 would have had the equal but opposite effect on USD to the amounts shown above, on the basis that all other variables remain constant.

#### b. Price risk

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

#### c. Interest/markup rate risk management

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

Financial assets include balances of Rs. 7 million (2010: Rs. 4 million) which are subject to interest rate risk. Financial liabilities include balances of Rs. 12,734 million (2010: Rs. 9,224 million) which are subject to interest rate risk. Applicable interest rates for financial assets and liabilities are given in respective notes.

## FINANCIAL ASSETS AND LIABILITIES

Interest/mark-up bearing			Non interest/mark-up bearing			2011 Total	2010 Total
Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year	Sub total		

Rs. 000s

### Financial assets

#### Loans and receivables

Long term deposits	-	-	-	-	33,057	33,057	33,057	32,332
Trade debts	-	-	-	2,180,173	56,229	2,236,402	2,236,402	2,465,556
Loans and advances	3,586	3,524	7,110	405	717	1,122	8,232	4,433
Other receivables	-	-	-	212,546	-	212,546	212,546	237,936
Cash and bank balances	-	-	-	86,638	-	86,638	86,638	157,188
	3,586	3,524	7,110	2,479,762	90,003	2,569,765	2,576,875	2,897,445

### Financial liabilities

#### At amortised cost

Long term loans	632,044	2,198,591	2,830,635	-	-	-	2,830,635	2,899,513
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#### At fair value through profit and loss account

Short term borrowings	9,818,355	-	9,818,355	-	-	-	9,818,355	5,824,559
Trade and other payables	85,424	-	85,424	2,465,247	-	2,465,247	2,550,671	1,883,152
Accrued interest	-	-	-	216,798	-	216,798	216,798	156,589
	10,535,823	2,198,591	12,734,414	2,682,045	-	2,682,045	15,416,459	10,763,813

### Off balance sheet items

#### Financial commitments

Guarantees	-	-	-	257,061	-	257,061	257,061	146,082
Bills discounted	-	-	-	1,306,092	-	1,306,092	1,306,092	1,156,147
Commitments	-	-	-	920,854	-	920,854	920,854	856,146
	-	-	-	2,484,007	-	2,484,007	2,484,007	2,158,375

#### Fair value sensitivity analysis for fixed rate instruments

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

#### Cash flow sensitivity analysis for variable rate instruments

At June 30, 2011, if interest rates on long term financing had been 1% higher / lower with all other variables held constant, post tax loss for the year would have been Rs. 11 million (2010: Rs. 14 million) higher / lower, mainly as a result of higher / lower interest expense on floating rate borrowings.

At June 30, 2011, if interest rates on short term borrowings had been 1% higher / lower with all other variables held constant, post tax loss for the year would have been Rs. 94 million (2010: Rs. 72 million) higher / lower, mainly as a result of higher / lower interest expense on floating rate borrowings.



## 37.1.2 Credit risk

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

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

### 37.1.2.1 Trade debts

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

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

### 37.1.2.2 Bank balances

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

The bank balances along with credit ratings are tabulated below:

	<u>2011</u>	<u>2010</u>
	Rs. 000s	
AI+	55,686	149,660
AI	23,986	2,736
A2	33	27
	<u>79,705</u>	<u>152,423</u>

### 37.1.2.3 Exposure to credit risk

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

	<u>2011</u>	<u>2010</u>
	Rs. 000s	
Long term loans and advances	4,241	1,846
Long term deposit	33,057	32,332
Trade debts	2,236,402	2,465,556
Loans and advances	3,991	2,587
Other receivables	47,122	43,753
Bank balances	79,705	152,423
	<u>2,404,518</u>	<u>2,698,497</u>

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

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

a. **Long term loans**

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

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

b. **Trade debts**

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

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

	<u>2011</u>	<u>2010</u>
	Rs. 000s	
1 to 6 months	2,153,503	2,308,348
6 months to 1 year	26,670	69,448
1 year to 3 years	56,229	87,760
	<u>2,236,402</u>	<u>2,465,556</u>

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

c. **Other receivables**

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

### 37.1.3 Liquidity risk

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

The Group manages liquidity risk by maintaining sufficient cash and ensuring the fund availability through adequate credit facilities. At June 30, 2011, the Group has Rs. 12,041 million (2010: Rs. 9,367 million) available borrowing limit from financial institutions. Unutilized borrowing facilities of Rs. 2,223 million (2010: Rs. 3,082 million) and also has Rs. 80 million (2010: Rs.152 million) being balances at banks. Based on the above, management believes the liquidity risk is insignificant.

### 37.2 Fair value of financial instruments

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

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

### 37.3 Capital risk management

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

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

During 2011 the Group's strategy was to maintain leveraged gearing. The gearing ratios as at June 30, 2011 and 2010 were as follows:

	<u>2011</u>	<u>2010</u>
	Rs. 000s	
Total borrowings	12,648,990	8,724,072
Cash and bank	(86,638)	(157,188)
Net debt	<u>12,562,352</u>	<u>8,566,884</u>
Total equity	<u>4,846,332</u>	<u>3,710,028</u>
Total equity and debt	<u>17,408,684</u>	<u>12,276,912</u>
Gearing ratio (%)	71	70

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

### 38 EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors in their meeting held on October 01, 2011 have proposed to issue bonus shares in the ratio of one share for every one share held (2010: Nil) i.e. 100% bonus shares. They have also decided to transfer from capital reserve Rs. 450 million and Rs. 184 million from un-appropriated profit to reserve for issue of bonus shares. In addition, the Board of Directors have approved transfer to revenue reserve from un-appropriated profit of Rs. 1,000 million (2010: Rs. 400 million) subject to the approval of members at Annual General Meeting to be held on October 31, 2011.

### 39 DETAIL OF SUBSIDIARIES

	<u>Accounting year end</u>	<u>Percentage of holding</u>	<u>Country of incorporation</u>
Gul Ahmed International Limited (FZC)	June 30, 2011	100%	U.A.E.
GTM (Europe) Limited	June 30, 2011	100%	U.K.

### 40 DATE OF AUTHORIZATION

These financial statements were authorized for issue on October 01, 2011 by the Board of Directors of the Parent Company.

### 41 CORRESPONDING FIGURES

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

<u>Reclassification from component</u>	<u>Reclassification to component</u>	<u>Amount</u>
		Rs. 000s
Administrative expenses	Distribution cost	
Depreciation	Depreciation	15,208

### 42 GENERAL

Figures have been rounded off to the nearest thousand rupees.

# FORM OF PROXY

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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 59th ANNUAL GENERAL  
MEETING of the Company to be held on October 31, 2011 or at any adjournment thereof.

1) Witness \_\_\_\_\_ Signed by me this \_\_\_\_\_ day of \_\_\_\_\_ 2011  
Name \_\_\_\_\_  
Address \_\_\_\_\_ Signed \_\_\_\_\_  
CNIC No. \_\_\_\_\_

Affix Revenue  
Stamp Rs.5.00

2) Witness \_\_\_\_\_  
Name \_\_\_\_\_  
Address \_\_\_\_\_ Folio No./CDC Account No. \_\_\_\_\_  
CNIC No. \_\_\_\_\_

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## 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 Computerized National Identity Card (CNIC) 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 corporate entity its common seal should be affixed to the proxy.
5. In case of CDC Account Holders, attested copies of CNIC or the Passport of the beneficial owners and the proxy shall be furnished with the proxy form.

 **GulAhmed**  
Textile Mills Limited, Karachi

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