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Company Information

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

Notice Of Meeting

Notice is hereby given that the 54th Annual General Meeting of Gul Ahmed Textile Mills Limited will be held at Avari Towers, 242, Fatima Jinnah Road, Karachi, on Monday, October 30, 2006 at 10:00 a.m. to transact the following business:

1. To receive, consider and adopt the Directors' Report and Audited Accounts for the year ended June 30, 2006 and Auditors' Report thereon.

2. To appoint Auditors and fix their remuneration.

3. To transact any other ordinary business as may be placed before the meeting with the permission of the Chairman.

4. **Special Business**
   To consider and approve increase in Authorized Share Capital of the Company from Rs. 500 million to Rs.750 million and to approve the amendments in the Memorandum and Articles of Association of the Company resulting from this increase.

A statement under section 160(1)(b) of the Companies Ordinance, 1984, pertaining to the Special Business is being sent to the Shareholders with this Notice.

By Order of the Board

Karachi
September 28, 2006

MOHAMMED SALIM GHAFFAR
Company Secretary

NOTES:

1. Share Transfer Books of the Company will remain closed from October 19, 2006 to October 30, 2006 (both days inclusive) for determining entitlement to the right shares.

2. A member entitled to vote at the meeting may appoint a proxy. Proxies in order to be effective, must be received at the Registered Office of the Company duly stamped and signed not later than 48 hours before the meeting.

3. Shareholders who have deposited their shares into Central Depository Company of Pakistan Limited, must bring their original National Identity Card (NIC) or Original Passport at the time of attending the meeting. If proxies are granted by such shareholders the same must be accompanied with attested copies of the NIC or the Passport of the beneficial owners. Representatives of corporate members should bring the usual documents required for such purpose.

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

5. Shareholders are requested to immediately notify the change of address, if any.

STATEMENT OF MATERIAL FACTS UNDER SECTION 160 (1) (b) OF THE COMPANIES ORDINANCE, 1984

It is proposed to increase the Authorized Share Capital from Rs. 500 million to Rs. 750 million to facilitate further issue of capital according to the requirements of the Company. For this purpose it is intended to propose that the following resolution be passed as a Special Resolution.

a) Resolved that the Authorized Share Capital of the Company be and is hereby increased from Rs. 500 million to Rs. 750 million by the creation of 25,000,000 ordinary shares of Rs. 10 each. Such new shares shall rank pari passu with the existing shares.

b) Further Resolved that in view of the increase in Authorized Share Capital, Clause 5 of the Memorandum of Association be and is hereby amended to read as under:

   "The capital of the Company is Rs. 750,000,000 (Rupees seven hundred fifty million) divided into 75,000,000 ordinary shares of Rs. 10 (Rupees ten) each with power to increase or reduce the said capital"

c) Further Resolved that Articles 5 of the Articles of Association be and is hereby amended to read as under:

   "The Share Capital of the Company is Rs. 750,000,000 (Rupees seven hundred fifty million) divided into 75,000,000 ordinary shares of Rs. 10 each"

The Directors are interested in the above Resolution only to the extent of the shares held by them in the Company.

Directors' Report

Your Directors take pleasure in presenting 54th Annual Report and the audited accounts for the year ended June 30, 2006.

CHANGE IN FINANCIAL YEAR END

As per directive of the Central Board of Revenue, your Company changed the closing date of financial year from 30th September to 30th June in the corresponding period. Hence, the accounts now being presented are for the year ended June 30, 2006, whereas the corresponding figures are for nine months.

OPERATING RESULTS	**Rs.000s**
Operating results of the Company are noted below:	
Profit after providing depreciation/amortization of Rs. 393 million	**12,381**
Less: Provision for taxation	**(47,000)**
Loss after taxation	**(34,619)**
Add: Unappropriated profit brought forward	**5,371**
Amount available for appropriation	**(29,248)**
Appropriations	
Transfer from general reserves	**(30,000)**
Amount carried forward	**752**
	(29,248)

On an annualized basis sales have grown by 5.24%. However the Company's profit before tax has decreased due to allround cost increase and more particularly the increase in energy cost and finance cost due to higher mark-up rates.

Export sales are under the presumptive tax regime hence the tax liability is higher than the profit resulting in after tax loss.

RIGHT SHARES

Your Directors have decided to issue 20% right shares on the existing paid-up capital of the Company in the ratio of two shares for every ten shares held. The right shares will be issued at an issue price of Rs. 20/= per share including premium of Rs. 10/= per share.

The right shares are being issued to improve the liquidity of the Company.

FUTURE PROSPECTS

The European Commission has finally approved the revised anti-dumping duty. The reduced rate of 5.6% is in place since May 2006. The Government has taken some positive steps in providing relief to the value-added textile sector. This relief comes at a crucial time in global textile trade, and will be well utilized by your Company. The Government has reduced the mark-up rate on export refinance. The State Bank has announced to refinance long-term borrowings under its Long Term Finance – Export Oriented Projects (LTF-EOP) Scheme. The Company expects that a part of our Long Term Debt will qualify for this scheme and will generate savings in our finance cost. Lastly the Government has introduced a scheme to reimburse the exporters for Research and Development cost. In the case of your Company the reimbursement rate varies from 3% to 5% of the FOB value of the exports depending on the type of product exported.

The Company's management is taking several big steps to curtail its costs and to increase its revenues. The management is curtailing its costs by implementing several key projects. The first project is to lower the ever inflating power bill by setting up a combined cycle power turbine. InshAllah this will come online at the end of the second quarter of the current financial year and result in large savings in fuel, power and energy costs. The second project was lowering its financial costs. The management is working on this and has taken several steps to alter the form of revenue generation so that the Company's cash flow improves. Thus, resulting in a lesser receivable time that will bring down the short term financial charges that are being incurred from receivables remaining outstanding for higher number of days.

The Company is focusing on higher value-added goods in all of its revenue generating sectors and hopes it's per unit value to increase. Your Company is continuing to focus on its 'push' into the retail sector. We have an extremely loyal customer base and we will provide our customers with more retail outlets in the course of the next year so that 'Gul Ahmed' genuine products are available to them in all their local shopping districts.

Based on the current scenario we have a positive outlook of the future. We expect major improvements to appear visible from the third quarter of the next financial year both in terms of top line revenue, and the bottom line. Your Company has a long history in the textile sector. It has played a pivotal role in developing this sector and plans on leveraging all of its strength to battle the onslaught of globalization and retain its leadership role in the global home textile market.

CORPORATE GOVERNANCE

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

The financial statements, prepared by the management of the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.

Proper books of account of the Company have been maintained.

Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.

International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and departure, if any, has been adequately disclosed.

The system of internal control is sound in design and has been effectively implemented and monitored. The process of review will continue and any weaknesses in controls will be removed.

There are no significant doubts upon the Company's ability to continue as a going concern.

There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.

The key operating and financial data for the last six years, in a summarized form, is annexed.

During the year four board meetings were held and the attendance by each Director is included in the annual report.

The value of investment of provident fund based on its un-audited accounts as on June 30, 2006 (audit in progress) is Rs.27 million.

PATTERN OF SHAREHOLDING

A statement showing the pattern of shareholding in the Company as at June 30, 2006 is included in the annual report.

AUDITORS

The present auditors Gardezi & Co., Chartered Accountants, retire and offer themselves for reappointment.

CONSOLIDATED ACCOUNTS

Consolidated accounts for the year ended June 30, 2006 of the Company and its subsidiaries Gul Ahmed International Limited (FZC) and GTM (Europe) Limited are attached.

ACKNOWLEDGMENT

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

For and on behalf of the Board

Karachi
September 28, 2006

BASHIR H. ALIMOHAMMED
Chairman & Chief Executive

Six Years At A Glance

Rs. in Million

	2006	2005 *	2004	2003	2002	2001
Operating Results						
Sales	8,102	5,774	6,538	5,448	5,639	4,900
Gross profit	1,165	861	917	1,059	1,104	1,118
Operating profit	542	359	363	580	790	843
Profit before tax	12	122	251	382	400	519
(Loss)/profit after tax	(35)	76	203	302	336	473
Balance Sheet						
Property, plant and equipment	4,410	4,012	3,450	2,915	2,564	2,615
Intangible	39	16	20	11	6	3
Long term investment, loans, advances and deposits	71	69	70	69	15	13
Net current assets	16	276	151	176	79	91
Total assets employed	4,536	4,373	3,691	3,171	2,664	2,722
Represented by:						
Share capital	460	383	341	341	341	341
Reserves	1,851	1,885	1,852	1,751	1,449	1,284
Shareholders' equity	2,311	2,269	2,193	2,092	1,790	1,625
Long term loans	2,151	2,036	1,387	948	757	999
Deferred liabilities	74	68	111	131	117	98
Total capital employed	4,536	4,373	3,691	3,171	2,664	2,722
Financial Ratios						
Gross profit as % of sales	14.38	14.91	14.03	19.44	19.58	22.82
Profit before tax as % of sales	0.15	2.11	3.84	7.01	7.09	10.59
(Loss)/earning per share (Rs.)	(0.77)	1.71	4.56	6.79	7.55	10.63
Dividend per share (Rs.)	–	–	–	3.00	5.00	5.00
Bonus (%)	–	10.00	12.50	–	–	–
Debt/Equity ratio						
Debt	0.48	0.47	0.39	0.31	0.30	0.38
Equity	0.52	0.53	0.61	0.69	0.70	0.62
Current ratio	1.00	1.05	1.03	1.06	1.03	1.03
Break up value (Rs./share)	50.24	59.19	64.36	61.41	52.55	47.69

* Results for nine months ended June, 2005.

Statement Of Compliance With The Code Of Corporate Governance

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

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

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

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

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

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

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

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

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

8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. The Board arranged an orientation course for its directors during the year to apprise them of their duties and responsibilities.

10. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.

11. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

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

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

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

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

16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

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

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

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

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

ZIAD BASHIR
Director

Karachi
September 28, 2006

Review Report To The Members On Statement Of Compliance With Best Practices Of Code Of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance for the year ended June 30, 2006 prepared by the Board of Directors of Gul Ahmed Textile Mills Limited to comply with the Listing Regulations of the respective Stock Exchanges, where the Company is listed.

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

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

Based on our review nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance, as applicable to the Company for the year ended June 30, 2006.

GARDEZI & CO.
Chartered Accountants

Karachi
September 28, 2006

Auditors Report
To The Members

We have audited the annexed Balance Sheet of GUL AHMED TEXTILE MILLS LIMITED as at June 30, 2006 and the related Profit and Loss Account, Cash Flow Statement and Statement of Changes in Equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

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

(b) in our opinion:

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

(c) in our opinion and to the best of our information and according to the explanations given to us, the Balance Sheet, Profit and Loss Account, Cash Flow Statement and Statement of Changes in Equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company’s affairs as at June 30, 2006 and of the profit, 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.

GARDEZI & CO.
Chartered Accountants

Karachi
September 28, 2006

Balance Sheet As At

	Note	June 30, 2006	June 30, 2005
		Rs. 000s	
SHARE CAPITAL AND RESERVES			
Authorised capital 50,000,000 ordinary shares of Rs.10 each		**500,000**	500,000
Issued, subscribed and paid-up capital	4	**459,989**	383,325
Reserves	5	**1,850,054**	1,841,721
Unappropriated profit		**752**	5,371
Proposed bonus shares		–	38,332
		2,310,795	2,268,749
NON-CURRENT LIABILITIES			
Long term loans	6	**2,151,331**	2,036,250
Deferred liabilities	7	**74,432**	74,367
CURRENT LIABILITIES			
Short term borrowings	8	**4,365,701**	4,375,827
Current maturity of long term loans		**294,583**	73,993
Trade and other payables	9	**774,107**	937,107
Provision for taxation		**47,000**	39,000
		5,481,391	5,425,927
CONTINGENCIES AND COMMITMENTS	10		
		10,017,949	9,805,293

June 30, 2006

	Note	June 30, 2006	June 30, 2005
		Rs. 000s	
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	11	**4,410,230**	4,012,474
Intangible	12	**38,965**	16,035
Long term investment	13	**58,450**	58,450
Long term loans and advances	14	**7,720**	7,021
Long term deposits		**5,089**	3,560
		4,520,454	4,097,540
CURRENT ASSETS			
Stores,spares and loose tools	15	**369,882**	338,375
Stock-in-trade	16	**2,517,285**	2,408,648
Trade debts	17	**1,839,545**	1,925,491
Loans and advances	18	**118,590**	149,421
Deposits and prepayments	19	**13,971**	18,935
Other receivables	20	**172,107**	199,840
Short term investment	21	**426,193**	551,497
Cash and bank balances	22	**39,922**	115,546
		5,497,495	5,707,753
		10,017,949	9,805,293

The annexed notes form an integral part of these accounts.

BASHIR H. ALI MOHAMMED
Chairman and Chief Executive

ZIAD BASHIR
Director

Profit And Loss Account
For The Year Ended June 30, 2006

	Note	For year ended June 30, 2006	For nine month ended June 30, 2005
		Rs. 000s	
Sales	23	**8,101,673**	5,773,617
Cost of sales	24	**6,937,020**	4,912,888
Gross profit		**1,164,653**	860,729
Administrative expenses	25	**464,516**	350,789
Distribution cost	26	**158,058**	150,791
		622,574	501,580
Operating profit		**542,079**	359,149
Other operating income	27	**7,503**	6,719
		549,582	365,868
Finance cost	28	**536,302**	236,912
Workers' profit participation fund		**664**	6,448
Workers' welfare fund		**235**	600
		537,201	243,960
Profit for the year/period before taxation		**12,381**	121,908
Provision for taxation	29	**47,000**	46,000
(Loss)/profit for the year/period after taxation		**(34,619)**	75,908
(Loss)/earnings per share (Rs.) (Based on weighted average number of shares)	30	**(0.77)**	1.71

The annexed notes form an integral part of these accounts.

BASHIR H. ALI MOHAMMED
Chairman and Chief Executive

ZIAD BASHIR
Director

Cash Flow Statement

For The Year Ended June 30, 2006

	For year ended June 30, 2006	For nine month ended June 30, 2005
	Rs. 000s	
CASH FLOW FROM OPERATING ACTIVITIES		
Profit for the year/period before taxation	**12,381**	121,908
Adjustments for:		
Depreciation/amortization	**392,622**	274,672
Gratuity	**8,293**	21,380
Finance cost	**587,049**	269,895
Provision for slow moving/obsolete items	**981**	2,014
Provision for doubtful debts	**940**	2,510
Profit on sale of operating assets	**(2,194)**	(3,006)
Interest income/exchange differences	**(50,747)**	(32,983)
	949,325	656,390
Changes in working capital:		
(Increase)/decrease in current assets		
Stores,spares and loose tools	**(32,488)**	16,164
Stock-in-trade	**(108,637)**	(364,778)
Trade debts	**85,007**	130,427
Loans and advances	**21,407**	67,146
Deposits and prepayments	**4,964**	(16,457)
Other receivables	**13,977**	(4,951)
	(15,770)	(172,449)
(Decrease)/increase in current liabilities		
Trade and other payables	**(196,623)**	126,770
	(212,393)	(45,679)
Cash generated from operations	**736,932**	610,711
Receipts from/payments for:		
Gratuity	**(8,228)**	(8,174)
Finance cost	**(553,426)**	(200,128)
Income tax	**(12,936)**	(34,659)
Long term loans and advances	**(699)**	1,344
Net cash generated from operating activities	**161,643**	369,094
CASH FLOW FROM INVESTING ACTIVITIES		
Capital expenditure	**(818,971)**	(840,477)
Proceeds from sale of operating assets	**7,856**	9,921
Interest income/exchange differences	**47,863**	25,289
Long term deposits	**(1,529)**	–
Net cash used in investing activities	**(764,781)**	(805,267)

	For year ended June 30, 2006	For nine month ended June 30, 2005
	Rs. 000s	
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from long term loans	**409,664**	700,000
Repayments of long term loans	**(73,993)**	(76,461)
Right shares subscription	**76,665**	—
Net cash generated from financing activities	**412,336**	623,539
Net (decrease)/increase in cash and cash equivalents	**(190,802)**	187,366
Cash and cash equivalents - at the beginning of the year/period	**(3,708,784)**	(3,896,150)
Cash and cash equivalents - at the end of the year/period	**(3,899,586)**	(3,708,784)

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include:

Short term investment	**426,193**	551,497
Cash and bank balances	**39,922**	115,546
Short term borrowings	**(4,365,701)**	(4,375,827)
	(3,899,586)	(3,708,784)

The annexed notes form an integral part of these accounts.

BASHIR H. ALI MOHAMMED
Chairman and Chief Executive

ZIAD BASHIR
Director

Statement Of Changes In Equity

For The Year Ended June 30, 2006

Rs. 000s

	Share capital	Revenue reserve	Capital reserve	Unappropriated profit	Proposed bonus shares	Total
Balance as at September 30, 2004	340,733	1,695,000	110,053	4,463	42,592	2,192,841
Bonus shares issue	42,592	—	—	—	(42,592)	—
Profit for the period	—	—	—	75,908	—	75,908
Transferred to general reserve	—	75,000	—	(75,000)	—	—
Bonus shares @ 10%	—	—	(38,332)	—	38,332	—
Balance as at June 30, 2005	383,325	1,770,000	71,721	5,371	38,332	2,268,749
Bonus shares issue	38,332	—	—	—	(38,332)	—
Issue of right shares	38,332	—	38,333	—	—	76,665
Loss for the year	—	—	—	(34,619)	—	(34,619)
Transfer from general reserve	—	(30,000)	—	30,000	—	—
Balance as at June 30, 2006	459,989	1,740,000	110,054	752	—	2,310,795

The annexed notes form an integral part of these accounts.

BASHIR H. ALIMOHAMMED
Chairman and Chief Executive

ZIAD BASHIR
Director

Notes To The Accounts

For The Year Ended June 30, 2006

1. THE COMPANY AND ITS OPERATIONS

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

2. STATEMENT OF COMPLIANCE

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

2.2 **Standards, interpretations and amendments to published approved accounting standards that are not yet effective**

Following amendments to existing standards have been published that are mandatory for the Company's accounting periods beginning on or after January 1, 2006 or later periods:

i) IAS 19	(Amendments) - Employee Benefits	effective from January 1, 2006
ii) IAS 39	Financial Instruments: Recognition and Measurement Fair Value Option	effective from January 1, 2006
iii) IAS 1	Presentation of Financial Statements Capital Disclosures	effective from January 1, 2006

Adoption of the above amendments may only impact the extent of disclosures presented in the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 **Accounting convention**

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

3.2 **Foreign currency translation**

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

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

Exchange differences on loans and deposits created to hedge these loans are capitalized upto the date of commissioning of the assets. Other exchange differences are included in current year's income.

3.3 **Borrowing cost**

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

3.4 **Retirement benefits**

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

3.5 **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.

3.6 **Provisions**

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

3.7 **Taxation**

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

3.8 **Property, plant and equipment**

Operating assets

These are stated at cost less accumulated depreciation except leasehold land which is stated at cost. No amortization is provided on leasehold land since the lease is renewable at the option of the lessee. Depreciation is charged on reducing balance method at rates specified in the respective note. Full year's depreciation is charged on additions except major additions or extensions to production facilities which are depreciated on pro-rata basis for the period of use during the year and no depreciation is charged on assets in the year of their disposal. Gains and losses on disposal of fixed assets are included in current year's income.

Capital work-in-progress

Capital work-in-progress is stated at cost.

3.9 **Intangible assets**

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

3.10 **Investments**

Investment in related parties

Investments are initially measured at cost. At subsequent reporting dates, the Company reconsiders the carrying amount of the investments to assess whether there is any indication of impairment loss. If such indication exists, the carrying amount is reduced to recoverable amount and the difference is recognized as an expense. Where an impairment loss subsequently reverses, the carrying amount of the investment is increased to the revised recoverable amount. The reversal of such impairment loss is recognized as an income not exceeding the amount of original cost.

Investments held for trading

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

Investments available for sale

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

Investments held to maturity

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

3.11 **Stores, spares and loose tools**

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

3.12 **Stock-in-trade**

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

3.13 **Trade debts**

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

3.14 **Financial assets and liabilities**

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

3.15 **Offsetting of financial assets and liabilities**

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

3.16 **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 exists the assets recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment losses are recognized as expense in profit and loss account.

3.17 **Revenue recognition**

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

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

			June 30, 2006	June 30, 2005
4. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL			Rs. 000s	
2006	2005			
21,317,967	17,484,722	Ordinary shares of Rs.10 each fully paid in cash	**213,179**	174,847
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	15,400,411	Ordinary shares of Rs.10 each issued as fully paid bonus shares	**192,337**	154,005
			459,989	383,325

5. RESERVES		
Revenue reserve		
General reserve	**1,770,000**	1,695,000
Less/add: Transfer to/from profit and loss account	**(30,000)**	75,000
	1,740,000	1,770,000
Capital reserve		
Share premium	**50,162**	88,494
Add: Premium on right shares issued during the year	**38,333**	–
	88,495	88,494
Less: Reserve for bonus shares	**–**	(38,332)
	88,495	50,162
Book difference of share capital under scheme of arrangement for amalgamation	**21,559**	21,559
	110,054	71,721
	1,850,054	1,841,721

		June 30, 2006	June 30, 2005
6.	**LONG TERM LOANS - SECURED**	**Rs. 000s**	
6.1	Suppliers Credit 9	**—**	13,993
6.2	Habib Bank Limited Loan 3	**700,000**	700,000
6.3	Standard Chartered Bank	**—**	12,500
6.4	United Bank Limited Loan 1	**125,000**	150,000
6.5	United Bank Limited Loan 2	**500,000**	500,000
6.6	NIB Bank Limited	**11,250**	33,750
6.7	National Bank of Pakistan Loan 1	**700,000**	700,000
6.8	National Bank of Pakistan Loan 2	**180,000**	—
6.9	Suppliers Credit	**229,664**	—
		2,445,914	2,110,243
	Less: Current maturity shown under current liabilities	**294,583**	73,993
		2,151,331	2,036,250

6.1 Suppliers Credit 9 was repaid during the year.

6.2 Habib Bank Limited Loan 3 is repayable in six half yearly equal installments commencing from September, 2006. Mark-up is payable on six month KIBOR Ask Side plus 60 basis points, immediately preceding the mark-up payment period with no floor and no cap. The loan is secured by equitable mortgage charge over land, building, plant and machinery of the Company.

6.3 Standard Chartered Bank Loan was repaid during the year.

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

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

6.6 NIB Bank Limited loan is repayable in eight half yearly equal installments commencing from March, 2003. Mark-up is payable half yearly @ 1.50% above SBP's discount rate prevailing before the beginning of each six months payment period. Effective from September, 2003 mark-up rate has been revised at six month T-Bill cut-off yield plus 2% with a minimum rate of 4% per annum. The loan is secured by hypothecation charge over specified machinery.

6.7 National Bank of Pakistan Loan 1 is repayable in six half yearly equal installment commencing from December, 2007. Mark-up is payable half yearly on average six months KIBOR Ask Rate+1.25% prevailing on the disbursement date and then on the immediately preceding day before the start of each semi-annual period. The loan is secured by first pari passu charge over moveable fixed assets of the Company.

6.8 National Bank of Pakistan Loan 2 is repayable in six half yearly equal installment commencing from September, 2008. Mark-up is payable half yearly on average six months KIBOR Ask Rate+1.50% prevailing on the disbursement date and then on the immediately preceding day before the start of each semi-annual period. The loan is secured by first pari passu charge over present and future fixed assets of the Company, and equitable mortgage over land.

6.9 Supplier Credit is payable in December 2007 and does not carry any interest or mark-up. The Supplier Credit is secured against letter of credit.

	June 30, 2006	June 30, 2005
	Rs. 000s	

7. DEFERRED LIABILITIES

Taxation - 7.1	**68,273**	68,273
Gratuity - 7.2	**6,159**	6,094
	74,432	74,367

7.1 Deferred taxation

Opening balance	**68,273**	61,273
Provision during the year/period	**—**	7,000
	68,273	68,273

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

7.2 Gratuity

Opening balance as at July 1	**6,094**	49,440
Provision during the year/period	**8,293**	21,380
	14,387	70,820
Paid during the year/period	**(8,228)**	(8,174)
	6,159	62,646
Transferred to current liabilities	**—**	(56,552)
Closing balance as at June 30	**6,159**	6,094

Approved funded contributory provident fund scheme was introduced with effect from July 1, 2005 and gratuity entitlement of employees eligible to the provident fund scheme was reclassified from deferred liabilities to current liabilities. The remaining balance under this head represents gratuity entitlement of those employees who are not eligible to the provident fund scheme.

8. SHORT TERM BORROWINGS - SECURED

Short term bank borrowings	**4,257,065**	3,623,556
Short term running finance	**108,636**	552,271
Murabaha	**—**	200,000
	4,365,701	4,375,827

Short term borrowing includes Rs. 3,474 million (2005: Rs. 3,364 million) which is secured by pari passu hypothecation charge over stores and spares, stock-in-trade, trade debts and other receivables and Rs. 500 million (2005: Rs. 500 million) which is secured against charge over the fixed assets. Unavailed facility at the year/period end was Rs. 2,448 million (2005: Rs. 2,561 million).

The balance amount of short term borrowing Rs. 392 million (2005: Rs. 512 million) is secured against US Dollar bonds, referred to in note 21. Unavailed facility at the year/period end was Rs.Nil (2005: Rs. Nil).

Mark-up rates range from 3.58% to 10.88% (2005: 2.40% to 9.86%) per annum.

	June 30, 2006	June 30, 2005
	Rs. 000s	

9. TRADE AND OTHER PAYABLES

	2006	2005
Creditors	**464,598**	567,332
Due to associated undertakings	**190**	3,666
Accrued expenses	**183,350**	204,520
Workers' profit participation fund (note 9.1)	**1,578**	7,680
Interest/mark-up accrued on loans (secured)	**37,576**	30,610
Mark-up on short term borrowings (secured)	**82,391**	55,734
Gratuity payable (note 7.2)	**—**	56,552
Unclaimed dividend	**360**	387
Others	**4,064**	10,626
	774,107	937,107

9.1 Workers' profit participation fund

	2006	2005
Opening balance as at July 1	**7,680**	15,137
Provision for the year/period	**664**	6,448
Interest for the year/period	**914**	1,232
	9,258	22,817
Less: Payments made during the year/period	**7,680**	15,137
Closing balance as at June 30	**1,578**	7,680

10. CONTINGENCIES AND COMMITMENTS

10.1 The Company is contingently liable for:

(a) Rs. 88 million (2005: Rs. 87 million) against guarantees issued by Banks which are secured by pari passu hypothecation/floating charge over stores and spares, stock-in-trade, trade debts and other receivables.

(b) Post dated cheques Rs. 10 million (2005: Rs. 17 million) issued to various Government Agencies.

(c) Bills discounted Rs. 369 million (2005: Rs. 341 million).

10.2 The Company has filed a suit for recovery of Rs. 33.409 million (2005: Rs. 33.409 million) included in other receivable. Company's management and its legal counsel are of the opinion that the case will be decided in the Company's favour and as such no provision has been made there against.

10.3 The Company is committed for capital expenditure as at June 30, 2006 of Rs. 169 million (2005: Rs. 282 million).

10.4 The Company is committed for non capital expenditure items under letters of credits as at June 30, 2006 of Rs. 23 million (2005: Rs. 143 million).

11. PROPERTY, PLANT AND EQUIPMENT

	June 30, 2006	Rs. 000s	June 30, 2005
Operating assets - 11.1	**3,547,811**		3,470,345
Capital work in progress - 11.2	**862,419**		542,129
	4,410,230		4,012,474

11.1 OPERATING ASSETS

Rs. 000s

	Cost at July 01, 2005	Additions/ (deletions)	Cost at June 30, 2006	Accumulated depreciation at July 01, 2005	Depreciation charge/(deletion) for the year	Accumulated depreciation at June 30, 2006	Written down value at June 30, 2006	Annual rate %
Leasehold land	233,655	100	233,755	—	—	—	233,755	—
Buildings on leasehold land	719,714	83,170	802,884	284,477	51,841	336,318	466,566	10
Plant and machinery	4,747,508	348,535	5,096,043	2,177,809	278,236	2,456,045	2,639,998	10
Office equipment	200,865	14,612 (7,776)	207,701	108,096	22,498 (6,720)	123,874	83,827	10 to 30
Furniture and fixtures	51,429	1,693 (1,293)	51,829	17,382	3,730 (840)	20,272	31,557	10 to 12
Transport equipment	197,474	14,350 (13,394)	198,430	92,535	23,028 (9,241)	106,322	92,108	20
June 30, 2006	**6,150,645**	**462,460** **(22,463)**	**6,590,642**	**2,680,300**	**379,332** **(16,801)**	**3,042,831**	**3,547,811**	
June 30, 2005	5,411,802	758,120 (19,277)	6,150,645	2,422,920	269,742 (12,362)	2,680,300	3,470,345	

11.1.1 Depreciation charge for the year/period has been allocated as follows:

		For year ended June 30, 2006	For nine month ended June 30, 2005
Cost of goods manufactured	(note 24.1)	**331,374**	231,461
Administrative expenses	(note 25)	**47,958**	38,281
		379,332	269,742

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

Rs. 000s

Particulars	Cost	Written down value	Sale proceeds	Particulars of purchasers
Office equipment	282	58	44	R.J. Electronics Regal Chowk, Saddar Karachi
	248	51	55	Rambo Office Automation I.I. Chundrigar Road Karachi
	770	158	162	Junaid Electronics Shop # 59, Electronics Market Karachi
	1,748	133	137	Rauf Computers Jillani Center Karachi
	4,027	566	—	Scrapped
Furniture & fixture	547	196	205	Jameel Furnitures & Mart Aram Bagh Karachi
	746	257	—	Scrapped
Transport equipment	355	99	142	Mr. Muhammad Arif Habib III-H-10/14, Nazimabad No.3 Karachi
	779	217	312	Syed Iqbal Shehzad (Employee) House No.14, Gulistan-e-Johar Karachi
	355	99	142	Mr. Mohammad Ashraf S/o Suleman (Employee) House No. 35 Orange Street Ramswami Tower Islampura Karachi
	525	146	210	Syed Rehan Ali Rizvi (Employee) House No. 5/1, Creek Lane-7, Commercial Avenue, Phase VII, D.H.A. Karachi
	805	280	437	Mr. Abdul Qayyum Khan House No. 399-A Rifah-e-Aam Society Malir Halt Karachi
	471	54	295	Mr. Wasi Haider S/o Musharaf Hussain B-104, Rufi Lack Drive Gulistan-e-Johar, Block-18, Karachi

Particulars	Cost	Written down value	Sale proceeds	Particulars of purchasers
Transport equipment (continued)	685	191	274	Mr. Mohammad Ashraf Habib 142-143, Garden Center Flat No. 203, Garden East Karachi.
	719	160	288	Mr. Muhammad Sadiq Warind Flat No. B-205, Sadaf Square Plot No. 538/9, G.E. off Jahangir Road Karachi.
	365	127	183	Mr. Irfan Ahmed House No. FN 1/2, Malir Extension Colony Khokharapar Karachi.
	809	282	625	Mr. Sikander Aziz (Ex-employee) House No. 61, 7th Commercial Street Phase-4, D.H.A. Karachi.
	1,050	366	455	Mr. Abdul Ghafoor S/o Abdul Wahid House No. G-25, Defence View, Phase-2 Block C-3 Karachi.
	590	257	350	Ms. Farida Yasin W/o Muhammad Yasin Flat No. A-209, Saima Heaven Block-4, Gulshan-e-Iqbal Karachi.
	454	158	182	Ms. Naheed Parveen W/o Amjad Mehmood A4/179, Block-7, Gulistan-e-Jouhar Karachi.
	610	136	130	Mr. Abdul Rauf Khan House No.A-261, Block-10-A W.C.H.S., Gulshan-e-Iqbal Karachi
	745	208	390	Mr. Badshah Zada Malook Khurad Post Office Sherengle Karachi
	775	216	525	Mr. Sh. M. Ejaz C-28, Central Commercial Area Karachi
	1,614	913	1,640	Insurance claim
Written down value below Rs. 50,000 each	2,389	334	673	Various
For the year ended June, 2006	**22,463**	**5,662**	**7,856**	
For nine month ended June, 2005	19,277	6,915	9,921	

	June 30, 2006	June 30, 2005
	Rs. 000s	
11.2 CAPITAL WORK-IN-PROGRESS		
Machinery under installation	**340,625**	179,009
Building construction	**517,988**	359,574
Store items held for capitalization	**3,806**	3,546
	862,419	542,129
12. INTANGIBLE - COMPUTER SOFTWARE		
Balance at beginning of the year/period	**16,035**	20,436
Additions at cost	**36,220**	529
Amortisation charge for the year/period - note 12.1	**(13,290)**	(4,930)
Balance at end of the year/period	**38,965**	16,035

12.1 The cost is being amortized over a period of five years.

13. LONG TERM INVESTMENT		
Subsidiary-unquoted		
Gul Ahmed International Limited - FZC		
10,000 (2005: 10,000) Ordinary shares of USD 100 each		
Equity held 100 % (2005: 100%)		
Value of investment based on the net assets shown in the audited accounts as at June 30, 2006 Rs. 93 million (2005: Rs. 83 million)	**58,450**	58,450
14. LONG TERM LOANS AND ADVANCES		
Considered good, due from		
Executives		
Opening balance as at July 1	**8,310**	5,028
Add: Disbursement during the year/period	**7,020**	6,160
	15,330	11,188
Less: Repayment made during the year/period	**(6,872)**	(2,878)
Closing balance as at June 30	**8,458**	8,310
Less: Receivable within one year	**(2,448)**	(3,790)
	6,010	4,520
Other employees	**3,604**	12,256
Less: Receivable within one year	**(1,894)**	(9,755)
	1,710	2,501
	7,720	7,021

14.1 Loans and advances have been given for the purchase of cars, scooters and household equipment and housing assistance in accordance with the terms of employment and are repayable in monthly installments. These loans are secured against retirement benefits and other dues of the employees.

15. STORES, SPARES AND LOOSE TOOLS		
Stores including in transit Rs. 1 million (2005: Rs. 7 million)	**187,448**	185,400
Spares including in transit Rs. 6 million (2005: Rs. 8 million)	**204,061**	174,994
Loose tools	**2,882**	1,509
	394,391	361,903
Less: Provision for slow moving/obsolete items	**24,509**	23,528
	369,882	338,375

	June 30, 2006	June 30, 2005
	Rs. 000s	

16. STOCK-IN-TRADE

Raw materials including in transit Rs. NIL million (2005: Rs. 55 million)	**792,329**	806,677
Work-in-process	**80,616**	54,296
Finished goods	**1,644,340**	1,547,675
	2,517,285	2,408,648

17. TRADE DEBTS - UNSECURED

Considered good	**1,839,545**	1,925,491
Considered doubtful	**22,481**	21,542
	1,862,026	1,947,033
Less: Provision for doubtful trade debts	**22,481**	21,542
	1,839,545	1,925,491

17.1 Includes Rs. 314 million (2005: Rs.148 million) due from subsidiaries.

17.2 The maximum aggregate month end balance due from subsidiaries during the year/period is Rs. 398 million (2005: Rs. 148 million).

18. LOANS AND ADVANCES

Considered good

Current portion of loans and advance to employees (note 14)	**4,342**	13,545
Suppliers	**43,321**	55,594
Advance income tax	**70,756**	80,180
Letter of credit	**171**	102
	118,590	149,421

19. DEPOSITS AND PREPAYMENTS

Prepayments	**13,971**	18,935

20. OTHER RECEIVABLES

Accrued interest	**18,961**	16,077
Sales tax refundable	**58,218**	61,646
Duty drawback receivable	**39,346**	72,068
Income tax refundable	**—**	16,640
Others	**55,582**	33,409
	172,107	199,840

21. SHORT TERM INVESTMENT - AVAILABLE FOR SALE

US Dollar bonds (USD 7.086 million (2005: USD 9.241 million))	**426,193**	551,497

These are under lien for borrowings referred to in note 8.
These bonds carry mark-up between 2% to 4% (2005: 2% to 4%) above six months USD LIBOR.

22. CASH AND BANK BALANCES

In hand		**1,461**	1,648
With banks in	- current accounts	**4,961**	3,278
	- short term deposits	**33,500**	110,620
		39,922	115,546

	For the year ended June 30, 2006	For nine month ended June 30, 2005
	Rs. 000s	

23. SALES

	2006	2005
Local	**3,617,337**	1,741,865
Export		
Direct export	**4,484,323**	3,433,480
Indirect export	**144,202**	717,822
	4,628,525	4,151,302
	8,245,862	5,893,167
Less: Brokerage and commission	**23,042**	16,906
Freight and insurance	**121,147**	102,644
	8,101,673	5,773,617

23.1 Sales are exclusive of sales tax amounting Rs. 3.778 million (2005: Rs. 328.893 million).

24. COST OF SALES

	2006	2005
Opening stock of finished goods	**1,547,675**	1,335,470
Add: Cost of goods manufactured (note 24.1)	**6,053,756**	4,248,124
Purchases and processing charges	**979,929**	876,969
	8,581,360	6,460,563
Less: Closing stock of finished goods	**1,644,340**	1,547,675
	6,937,020	4,912,888

24.1 **Cost of goods manufactured**

	2006	2005
Raw materials consumed (note 24.2)	**3,149,545**	1,993,242
Stores consumed	**830,862**	779,035
Salaries, wages and benefits	**824,603**	632,821
Fuel, power and water	**749,471**	455,435
Insurance	**36,762**	25,653
Repairs and maintenance	**164,488**	124,672
Depreciation	**331,374**	231,461
Other expenses	**26,520**	21,848
Cost of samples shown under distribution cost	**(33,549)**	(29,773)
	6,080,076	4,234,394
Work-in-process		
Opening	**54,296**	68,026
Closing	**(80,616)**	(54,296)
	(26,320)	13,730
	6,053,756	4,248,124

Salaries, wages and benefits include Rs. 15 million (2005: Rs. 13 million) and Rs. 15 million (2005: Rs. 12 million) in respect of retirement benefits and staff compensated absences respectively.

24.2 **Raw materials consumed**

	2006	2005
Opening stock	**751,546**	578,954
Purchases during the year/period	**3,190,328**	2,165,834
Closing stock	**(792,329)**	(751,546)
	3,149,545	1,993,242

	For the year ended June 30, 2006	For nine month ended June 30, 2005
25. ADMINISTRATIVE EXPENSES	**Rs. 000s**	
Salaries and benefits	**213,098**	145,940
Rent, rates and taxes	**19,038**	15,654
Repairs and maintenance	**12,758**	16,537
Vehicle up keep	**34,131**	21,651
Conveyance and traveling	**40,685**	26,708
Printing and stationery	**27,830**	22,471
Postage and telecommunication	**24,212**	17,989
Legal and consultancy fees	**12,410**	17,305
Depreciation/amortization	**61,248**	43,211
Auditors' remuneration (note 25.1)	**192**	190
Donations (note 25.2)	**2,017**	3,252
Insurance	**4,700**	6,147
Bad/doubtful debts	**940**	2,510
Provision for slow moving/obsolete items	**981**	2,014
Other expenses	**10,276**	9,210
	464,516	350,789

Salaries and benefits include Rs. 10 million (2005: Rs. 3 million) and Rs. 4 million (2005: Rs. 3 million) in respect of retirement benefit and staff compensated absences respectively.

25.1 **Auditors' remuneration**

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

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

26. DISTRIBUTION COST

Shipment expenses	**66,569**	41,331
Advertisement and publicity	**37,201**	59,216
Cost of samples transferred from cost of goods manufactured	**33,549**	29,773
Other expenses	**20,739**	20,471
	158,058	150,791

27. OTHER OPERATING INCOME

Profit on sale of operating assets	**2,194**	3,006
Scrap sales	**4,702**	3,648
Others	**607**	65
	7,503	6,719

	For the year ended June 30, 2006	For nine month ended June 30, 2005
	Rs. 000s	

28. FINANCE COST

	2006	2005
Interest/mark-up on long term loans	**194,366**	59,638
Mark-up on short term borrowings	**375,223**	195,195
Interest on workers' profit participation fund	**914**	1,232
Bank charges	**16,546**	13,830
	587,049	269,895
Interest income/exchange differences	**(50,747)**	(32,983)
	536,302	236,912

29. PROVISION FOR TAXATION

	2006	2005
Current	**47,000**	39,000
Deferred	**—**	7,000
	47,000	46,000

29.1 Reconciliation between accounting profit and tax expense

	2006	2005
Net profit for the year/period before taxation	**12,381**	121,908
Tax at the applicable tax rate of 35%	**4,333**	42,668
Effect of income assessed under presumptive tax regime	**55,065**	22,873
Effect of expenses deductible for tax purposes less inadmissible expenses	**(12,398)**	(19,541)
	47,000	46,000

30. EARNINGS PER SHARE

	2006	2005
(Loss)/profit for the year/period	**(34,619)**	75,908
Number of shares	**45,124,637**	44,500,129
(Loss)/earnings per share (Rs.)	**(0.77)**	1.71

31. REMUNERATION OF DIRECTORS AND EXECUTIVES

	June 30, 2006				June 30, 2005			
	Rs. 000s							
	Chief Executive	Directors	Executives	Total	Chief Executive	Directors	Executives	Total
Managerial remuneration	2,400	5,200	60,096	67,696	1,800	3,900	40,355	46,055
House rent allowance	960	2,080	24,039	27,079	720	1,560	16,142	18,422
Utility allowance	240	520	6,010	6,770	180	390	4,036	4,606
Other allowances	200	741	12,479	13,420	—	499	7,819	8,318
	3,800	**8,541**	**102,624**	**114,965**	**2,700**	**6,349**	**68,352**	**77,401**
Number of persons	**1**	**3**	**58**	**62**	**1**	**3**	**56**	**60**

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

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

31.3 Aggregate amount charged in the accounts for the year for meeting fee to three Directors was Rs. 3 (000) (2005: three Directors Rs. 4 (000))

32. TRANSACTIONS WITH RELATED PARTIES

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

Relationship with the Company	Nature of Transactions	June 30, 2006	June 30, 2005
		Rs. 000s	
Subsidiaries	Purchase of goods	**1,629**	—
	Sale of goods	**849,972**	279,298
Associated Companies and other related parties	Purchase of goods	**12,425**	11,283
	Sale of goods	**1,027**	—
	Rent paid	**—**	513
	Fees paid	**1,500**	—
	Deposit with bank	**1,695**	1,316
	Bills discounted	**71,133**	—
	Mark-up paid	**817**	—

There are no transactions with directors of the Company and key management personnel other than under the terms of employment.

The related parties status of outstanding receivable and payable as at June 30, 2006 are included in respective notes to the financial statements.

33. CAPACITY AND PRODUCTION

		June 30, 2006		(000s)	June 30, 2005	
	Unit	**Capacity**	**Production**	**Working**	Capacity	Production
Cloth	Sq. metres (50 Picks converted)	**79,238**	**70,278**	**3 shifts**	83,561	53,109
Yarn	Kgs. (20 Counts converted)	**36,455**	**33,551**	**3 shifts**	36,035	24,773

Production is lower due to variation in production mix and various technical factors. Moreover capacity shown above is for the full year whereas machinery added during the year were put into commercial operation gradually.

34. FINANCIAL ASSETS AND LIABILITIES

Rs. 000s

	Interest/mark-up bearing			Non Interest/mark-up bearing			**June 30, 2006 Total**	June 30, 2005 Total
	Maturity upto one year	Maturity after one year	Sub Total	Maturity upto one year	Maturity after one year	Sub Total		
Financial assets								
Long term loans	—	—	—	—	7,720	7,720	**7,720**	7,021
Long term deposits	—	—	—	—	5,089	5,089	**5,089**	3,560
Trade debts	—	—	—	1,839,545	—	1,839,545	**1,839,545**	1,925,491
Loans and advances	—	—	—	4,342	—	4,342	**4,342**	13,545
Deposits and prepayments	—	—	—	228	—	228	**228**	40
Other receivables	—	—	—	74,543	—	74,543	**74,543**	49,486
Short term investment	426,193	—	426,193	—	—	—	**426,193**	551,497
Cash and bank balances	33,500	—	33,500	6,422	—	6,422	**39,922**	115,546
	459,693	—	459,693	1,925,080	12,809	1,937,889	**2,397,582**	2,666,186
Financial liabilities								
Long term loans	294,583	2,151,331	2,445,914	—	—	—	**2,445,914**	2,110,243
Short term borrowings	4,365,701	—	4,365,701	—	—	—	**4,365,701**	4,375,827
Trade and other payables	1,578	—	1,578	755,323	—	755,323	**756,901**	861,309
	4,661,862	2,151,331	6,813,193	755,323	—	755,323	**7,568,516**	7,347,379
Off balance sheet items								
Financial commitments								
Guarantees	—	—	—	88,934	—	88,934	**88,934**	87,434
Bills discounted	—	—	—	369,419	—	369,419	**369,419**	340,620
Commitments	—	—	—	192,355	—	192,355	**192,355**	424,347
	—	—	—	650,708	—	650,708	**650,708**	852,401
	4,661,862	**2,151,331**	**6,813,193**	**1,406,031**	**—**	**1,406,031**	**8,219,224**	8,199,780

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

34.1 **Concentration of credit risk**

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed to perform as contracted. The Company believes that it is not exposed to major concentration of credit risk.

34.2 **Foreign exchange risk management**

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

34.3 **Interest rate risk**

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

34.4 **Liquidity risk**

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

34.5 **Fair value of financial assets and liabilities**

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

35. DATE OF AUTHORIZATION

These financial statements were authorized for issue on September 28, 2006 by the Board of Directors of the Company.

36. CORRESPONDING FIGURES

As per SRO 684(1) 2004 dated August 10, 2004 issued by Central Board of Revenue the Company's accounting year is required to end on June 30, instead of September 30. In order to make the Company's accounting period consistent with aforementioned requirement, the Company prepared its financial statement covering period of nine months ended on June 30, 2005. Since the audited comparative figures are available for nine months ended June 30, 2005, same has been disclosed as comparative figures of profit and loss account, statement of changes in equity, cash flow statement and related notes and are therefore not entirely comparable.

Previous year's figures have been reclassified wherever necessary for the purpose of more appropriate presentation. This reclassification include the following significant changes:

Reclassification from component	Reclassification to component	Amount
Distribution cost	**Sales**	
Freight	Export sales	101,331
Insurance and bank charges	Export sales	1,313
Trade and other payables	**Deferred liabilities**	
Gratuity payable	Gratuity	6,094
Loan and advances	**Other receivables**	
Income tax refundable	Income tax refundable	16,640

37. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statement in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgement in the process of applying the Company's accounting policies. Estimates and judgements 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 judgement was exercised in application of accounting policies are as follows:

1) Provision for slow moving/obsolete items (note 15)
2) Provision for doubtful trade debts (note 17)
3) Provision for taxation (note 29)

38. GENERAL

Figures have been rounded off to the nearest thousand rupees.

BASHIR H. ALI MOHAMMED
Chairman and Chief Executive

ZIAD BASHIR
Director

ATTENDANCE AT BOARD MEETINGS
For The Year Ended June 30, 2006

Name of Director	Total number of meetings	Number of meeting attended
Bashir H. Ali Mohammed	4	4
A. Razak Haji Sattar	4	3
Yasin Haji Kassam	4	2
Younus Haji Latif	4	1
Zain Bashir	4	4
Ziad Bashir	4	4
Abdul Aziz Yousuf	4	4

Pattern Of Shareholding

As At June 30, 2006

No. of Shareholders	Shareholding				Shares held
798	From	1	to	100	27,827
773	From	101	to	500	166,572
153	From	501	to	1,000	104,933
120	From	1,001	to	5,000	259,760
18	From	5,001	to	10,000	136,663
6	From	10,001	to	15,000	73,906
5	From	15,001	to	20,000	86,106
4	From	20,001	to	25,000	87,667
2	From	30,001	to	35,000	62,565
2	From	35,001	to	40,000	72,298
1	From	40,001	to	45,000	41,020
1	From	45,001	to	50,000	48,800
3	From	50,001	to	55,000	157,857
2	From	55,001	to	60,000	117,366
1	From	60,001	to	65,000	63,875
1	From	65,001	to	70,000	65,880
2	From	105,001	to	110,000	212,192
1	From	115,001	to	120,000	117,012
1	From	135,001	to	140,000	135,620
2	From	160,001	to	165,000	326,190
2	From	165,001	to	170,000	339,224
1	From	175,001	to	180,000	178,800
1	From	180,001	to	185,000	182,966
2	From	185,001	to	190,000	373,493
1	From	205,001	to	210,000	207,424
2	From	215,001	to	220,000	431,514
1	From	220,001	to	225,000	220,705
2	From	230,001	to	235,000	466,519
1	From	235,001	to	240,000	237,124
1	From	240,001	to	245,000	241,744
1	From	260,001	to	265,000	261,777
1	From	270,001	to	275,000	274,196
1	From	310,001	to	315,000	312,222
1	From	320,001	to	325,000	323,257
1	From	345,001	to	350,000	346,843
1	From	375,001	to	380,000	379,745
1	From	395,001	to	400,000	397,939
1	From	425,001	to	430,000	427,122
1	From	460,001	to	465,000	463,359
1	From	465,001	to	470,000	469,240
1	From	485,001	to	490,000	487,225
1	From	490,001	to	495,000	493,748
4	From	505,001	to	510,000	2,026,724
1	From	610,001	to	615,000	611,024
1	From	650,001	to	655,000	653,967
1	From	765,001	to	770,000	766,604
1	From	1,005,001	to	1,010,000	1,009,573
1	From	1,395,001	to	1,400,000	1,397,439
1	From	1,555,001	to	1,560,000	1,556,049
1	From	2,150,001	to	2,155,000	2,152,052
1	From	2,760,001	to	2,765,000	2,762,482
1	From	4,010,001	to	4,015,000	4,011,884
1	From	4,485,001	to	4,490,000	4,485,372
1	From	4,495,001	to	4,500,000	4,495,447
1	From	5,020,001	to	5,025,000	5,021,457
1	From	5,165,001	to	5,170,000	5,168,580
1,939					**45,998,949**

Categories of Shareholders	Number	Shares held	Percentage
Individuals	1,894	33,316,612	72.43
Investment Companies	20	1,445,540	3.14
Insurance Companies	5	2,054,342	4.47
Joint Stock Companies	6	19,762	0.04
Modaraba Companies	5	142,662	0.31
Financial Institutions	3	10,624	0.02
Foreign Investors	2	8,980,819	19.53
Charitable Institutions	2	23,093	0.05
Government Departments	2	5,495	0.01
	1,939	**45,998,949**	**100.00**

Pattern Of Shareholding As At June 30, 2006

Additional Information

Categories of Shareholders	Number	Shares held
NIT and ICP		
Investment Corporation of Pakistan	1	3,918
National Bank of Pakistan - Trustee Department	1	1,255,980
Investment Companies and Mutual Funds	18	185,642
Insurance Companies	5	2,054,342
Joint Stock Companies	6	19,762
Modaraba Companies	5	142,662
Financial Institutions	3	10,624
Foreign Investors	2	8,980,819
Charitable Institutions	2	23,093
Government Departments	2	5,495
DIRECTORS		
Bashir H. Ali Mohammed (Chief Executive)	1	2,762,482
A. Razak Haji Sattar	1	653,967
Yasin Haji Kassam	1	207,424
Younus Haji Latif	1	3,374
Zain Bashir	1	4,011,884
Ziad Bashir	1	5,021,457
Abdul Aziz Yousuf	1	3,374
DIRECTORS'/CEO'S SPOUSES		
Parveen Haji Bashir	1	2,152,052
Jamila Bai A. Razak	1	379,745
Zohra Bai Haji Yasin	1	162,315
Momin Bai Haji Younus	1	52,147
Tania Zain	1	1,009,573
Shareholders holding 10% or more voting interest		
Ziad Bashir (Director)	1	5,021,457
Zaki Bashir	1	5,168,580

Detail of trading in the shares by:

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

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

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Auditors Report
On Consolidated Financial Statements

We have examined the annexed consolidated financial statements comprising consolidated Balance Sheet of GUL AHMED TEXTILE MILLS LIMITED (the Holding Company) and Gul Ahmed International Limited (FZC) and GTM (Europe) Limited (the Subsidiaries) as at June 30, 2006 and the related consolidated Profit and Loss Account, consolidated Cash Flow Statement and consolidated Statement of Changes in Equity together with the notes forming part thereof, for the year then ended. We have also expressed separate opinion on the financial statements of the Holding Company. Subsidiaries have been audited by other firms of auditors, whose reports have been furnished to us and our opinion, in so far as it relates to the amounts included for such Subsidiaries, is based solely on the report of such other auditors. These financial statements are the responsibility of the Holding Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements present fairly the financial position of the Holding Company and its Subsidiaries as at June 30, 2006 and the results of their operations for the year then ended.

GARDEZI & CO.
Chartered Accountants

Karachi
September 28, 2006

Consolidated Balance Sheet

	Note	June 30, 2006	June 30, 2005
		Rs. 000s	
SHARE CAPITAL AND RESERVES			
Authorised capital 50,000,000 ordinary shares of Rs. 10 each		**500,000**	500,000
Issued, subscribed and paid-up capital	4	**459,989**	383,325
Reserves	5	**1,850,114**	1,840,022
Unappropriated profit		**20,354**	15,942
Proposed bonus shares		—	38,332
		2,330,457	2,277,621
NON-CURRENT LIABILITIES			
Long term loans	6	**2,151,331**	2,036,250
Deferred liabilities	7	**74,550**	74,471
CURRENT LIABILITIES			
Short term borrowings	8	**4,367,070**	4,376,787
Current maturity of long term loans		**294,583**	73,993
Trade and other payables	9	**847,978**	960,395
Provision for taxation		**47,425**	39,000
		5,557,056	5,450,175
CONTINGENT LIABILITIES AND COMMITMENTS	10		
		10,113,394	9,838,517

As At June 30, 2006

	Note	June 30, 2006	June 30, 2005
		Rs. 000s	
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	11	**4,412,622**	4,013,730
Intangible	12	**38,965**	16,035
Long term loans and advances	13	**7,720**	7,021
Long term deposits		**5,089**	3,560
		4,464,396	4,040,346
CURRENT ASSETS			
Stores, spares and loose tools	14	**369,882**	338,375
Stock-in-trade	15	**2,646,472**	2,477,804
Trade debts	16	**1,854,542**	1,917,578
Loans and advances	17	**118,590**	149,421
Deposits and prepayments	18	**16,315**	24,447
Other receivables	19	**151,028**	200,201
Short term investment	20	**426,193**	566,659
Cash and bank balances	21	**65,976**	123,686
		5,648,998	5,798,171
		10,113,394	9,838,517

The annexed notes form an integral part of these accounts.

BASHIR H. ALIMOHAMMED
Chairman and Chief Executive

ZIAD BASHIR
Director

Consolidated Profit And Loss Account

For The Year Ended June 30, 2006

	Note	For year ended June 30, 2006	For nine month ended June 30, 2005
		Rs. 000s	
Sales	22	**8,339,430**	5,827,516
Cost of sales	23	**7,105,955**	4,934,163
Gross profit		**1,233,475**	893,353
Administrative expenses	24	**485,385**	357,329
Distribution cost	25	**192,147**	165,452
		677,532	522,781
Operating profit		**555,943**	370,572
Other operating income	26	**7,557**	6,719
		563,500	377,291
Finance cost	27	**540,010**	243,647
Workers' profit participation fund		**664**	6,448
Workers' welfare fund		**235**	600
		540,909	250,695
Profit for the year/period before taxation		**22,591**	126,596
Provision for taxation	28	**47,425**	46,000
(Loss)/profit after taxation		**(24,834)**	80,596
(Loss)/earnings per share (Rs.)	29	**(0.55)**	1.81

The annexed notes form an integral part of these accounts.

BASHIR H. ALIMOHAMMED
Chairman and Chief Executive

ZIAD BASHIR
Director

Consolidated Cash Flow Statement

For The Year Ended June 30, 2006

	For year ended June 30, 2006	Rs. 000s	For nine month ended June 30, 2005
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation	**22,591**		126,596
Adjustments for:			
Depreciation/amortization	**393,415**		274,962
Gratuity	**8,307**		21,484
Finance cost	**592,167**		270,922
Provision for slow moving/obsolete stores and spares	**981**		2,014
Provision for doubtful debts	**940**		2,510
Profit on sale of operating assets	**(2,194)**		(3,006)
Interest income/exchange differences	**(52,157)**		(27,275)
	964,050		668,207
Changes in working capital:			
(Increase)/decrease in current assets			
Stores, spare and loose tools	**(32,488)**		16,164
Stock-in-trade	**(168,668)**		(390,988)
Trade debts	**62,097**		103,529
Loans and advances	**21,407**		67,146
Deposits and prepayments	**8,132**		(21,577)
Other receivables	**35,057**		(4,951)
	(74,463)		(230,677)
(Decrease)/increase in current liabilities			
Trade and other payables	**(146,040)**		138,172
	(220,503)		(92,505)
Cash generated from operations	**743,547**		575,702
Receipts from/payments for:			
Gratuity	**(8,228)**		(8,174)
Finance cost	**(558,544)**		(201,155)
Income tax	**(12,936)**		(34,783)
Long term loans and advances	**(699)**		1,344
Net cash generated from operating activities	**163,140**		332,934
CASH FLOW FROM INVESTING ACTIVITIES			
Capital expenditure	**(820,901)**		(841,825)
Proceeds from sale of operating assets	**7,856**		9,921
Interest income/exchange differences	**49,634**		19,338
Long term deposits	**(1,529)**		—
	(764,940)		(812,566)
Net cash used in investing activities			

	For year ended June 30, 2006	For nine months ended June 30, 2005
	Rs. 000s	
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from long term loans	**409,664**	700,000
Repayments of long term loans	**(73,993)**	(76,461)
Right shares subscription	**76,665**	_
Net cash generated from financing activities	**412,336**	623,539
Exchange difference on translation of foreign subsidiaries	**1,005**	(1,572)
Net (decrease)/increase in cash and cash equivalents	**(188,459)**	142,335
Cash and cash equivalents - at the beginning of the year/period	**(3,686,442)**	(3,828,777)
Cash and cash equivalents - at the end of the year/period	**(3,874,901)**	(3,686,442)

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include:

Short term investment	**426,193**	566,659
Cash and bank balances	**65,976**	123,686
Short term running finance	**(4,367,070)**	(4,376,787)
	(3,874,901)	(3,686,442)

The annexed notes form an integral part of these accounts.

BASHIR H. ALI MOHAMMED
Chairman and Chief Executive

ZIAD BASHIR
Director

Consolidated Statement of Changes in Equity

For The Year Ended June 30, 2006

Rs. 000s

	Shares capital	Revenue reserve	Exchange difference on translation of foreign subsidiaries	Capital reserve	Statutory reserve	Unappropriated profit	Proposed bonus shares	Total
Balance as at September 30, 2004	340,733	1,695,000	(2,350)	110,053	1,045	11,524	42,592	2,198,597
Bonus shares issued	42,592	—	—	—	—	—	(42,592)	—
Profit for the period	—	—	—	—	—	80,596	—	80,596
Transferred to general reserve	—	75,000	—	—	1,178	(76,178)	—	—
Bonus shares @ 10%	—	—	—	(38,332)	—	—	38,332	—
Exchange adjustments	—	—	(1,572)	—	—	—	—	(1,572)
Balance as at June 30, 2005	383,325	1,770,000	(3,922)	71,721	2,223	15,942	38,332	2,277,621
Bonus issue	38,332	—	—	—	—	—	(38,332)	—
Issue of right shares	38,332	—	—	38,333	—	—	—	76,665
Transferred from/to general reserve	—	(30,000)	—	—	754	29,246	—	—
Loss for the year	—	—	—	—	—	(24,834)	—	(24,834)
Exchange adjustments	—	—	1,005	—	—	—	—	1,005
Balance as at June 30, 2006	**459,989**	**1,740,000**	**(2,917)**	**110,054**	**2,977**	**20,354**	**—**	**2,330,457**

The annexed notes form an integral part of these accounts.

BASHIR H. ALI MOHAMMED
Chairman and Chief Executive

ZIAD BASHIR
Director

Consolidated Notes To The Accounts

For The Year Ended June 30, 2006

1. THE GROUP AND ITS OPERATIONS

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

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

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

Both subsidiaries are engaged in trading of textile related products.

1.2 **Basis of presentation**

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

All inter group balances and transactions have been eliminated.

2. STATEMENT OF COMPLIANCE

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

2.2 **Standards, interpretations and amendments to published approved accounting standards that are not yet effective**

Following amendments to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after January 1, 2006 or later periods:

i) IAS 19	(Amendments) - Employee Benefits	effective from January 1, 2006
ii) IAS 39	Financial Instruments: Recognition and Measurement Fair Value Option	effective from January 1, 2006
iii) IAS 1	Presentation of Financial Statements Capital Disclosures	effective from January 1, 2006

Adoption of the above amendments may only impact the extent of disclosures presented in the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 **Accounting convention**

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

3.2 **Foreign currency translation**

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

For the purposes of consolidation, income and expenses items of the foreign subsidiaries are translated at annual average exchange rate. All monetary and non monetary assets and liabilities are translated at the exchange rate prevailing at the balance sheet date except for share capital which is translated at historical rate. Exchange differences arising on the translation of foreign subsidiaries are classified as equity reserve until the disposal of interest in such subsidiaries. Foreign currency transactions are translated in Pak Rupees at the rates ruling on the transaction date or as fixed under contractual agreements.

Exchange differences on loans and deposits created to hedge these loans are capitalized upto the date of commissioning of the assets. Other exchange differences are included in current year's income.

3.3 **Borrowing cost**

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

3.4 **Retirement gratuity**

The Group operates an approved funded contributory provident fund for its eligible employees to which equal monthly contribution is made both by the Group and the employees.

The Group also operates an unfunded gratuity scheme for eligible employees who are not part of the provident fund scheme. Gratuity is payable to the employees under the law. Consequent to the adoption of IAS 19, the Group now accounts for gratuity provision on the basis of actuarial valuation on projected unit credit method.

3.5 **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.

3.6 **Provisions**

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

3.7 **Taxation**

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

3.8 **Property, plant and equipment**

Operating assets

These are stated at cost less accumulated depreciation except leasehold land which is stated at cost. No amortization is provided on leasehold land since the lease is renewable at the option of the lessee. Depreciation is charged on reducing balance method at rates specified in the respective note. Full year's depreciation is charged on additions except major additions or extensions to production facilities which are depreciated on pro-rata basis for the period of use during the year and no depreciation is charged on assets in the year of their disposal. Gains and losses on disposal of fixed assets are included in current year's income.

Capital work-in-progress

Capital work-in-progress is stated at cost.

3.9 **Intangible operating assets**

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

3.10 **Investments**

Investments held for trading

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

Investments available for sale

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

Investments held to maturity

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

3.11 **Stores, spares and loose tools**

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

3.12 **Stock-in-trade**

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

3.13 **Trade debts**

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

3.14 **Financial assets and liabilities**

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

3.15 **Offsetting of financial assets and liabilities**

A financial assets and financial liability is offset and the net amount is reported in the balance sheet if the Group has a legal enforceable right to set off the recognized amount 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 Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exists the assets recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment losses are recognized as expense in profit and loss account.

3.17 **Revenue recognition**

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

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

			June 30, 2006	June 30, 2005
			Rs. 000s	

4. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2006	2005		June 30, 2006	June 30, 2005
21,317,967	17,484,722	Ordinary shares of Rs.10 each fully paid in cash	213,179	174,847
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	15,400,411	Ordinary shares of Rs.10 each issued as fully paid bonus shares	192,337	154,005
			459,989	383,325

5. RESERVES

	June 30, 2006	June 30, 2005
Revenue reserve		
General reserve	1,770,000	1,695,000
Less/add: Transfer to/from profit and loss account	(30,000)	75,000
	1,740,000	1,770,000
Exchange difference on translation of foreign subsidiaries	(2,917)	(3,922)
Capital reserve		
Share premium	50,162	88,494
Add: Premium on right shares issued during the year	38,333	—
	88,495	88,494
Less: Reserve for bonus shares	—	(38,332)
	88,495	50,162
Book difference of share capital under scheme of arrangement for amalgamation	21,559	21,559
	110,054	71,721
Statutory reserve	2,977	2,223
	1,850,114	1,840,022

6. LONG TERM LOANS - SECURED

		June 30, 2006	June 30, 2005
6.1	Suppliers Credit 9	—	13,993
6.2	Habib Bank Limited Loan 3	700,000	700,000
6.3	Standard Chartered Bank	—	12,500
6.4	United Bank Limited Loan 1	125,000	150,000
6.5	United Bank Limited Loan 2	500,000	500,000
6.6	NIB Bank Limited	11,250	33,750
6.7	National Bank of Pakistan Loan 1	700,000	700,000
6.8	National Bank of Pakistan Loan 2	180,000	—
6.9	Suppliers Credit	229,664	—
		2,445,914	2,110,243
	Less: Current maturity shown under current liabilities	294,583	73,993
		2,151,331	2,036,250

6.1 Suppliers Credit 9 was repaid during the year.

6.2 Habib Bank Limited Loan 3 is repayable in six half yearly equal installments commencing from September, 2006. Mark-up is payable on six month KIBOR Ask Side plus 60 basis points, immediately preceding the mark-up payment period with no floor and no cap. The loan is secured by equitable mortgage charge over land, building, plant and machinery of the company.

6.3 Standard Chartered Bank Loan was repaid during the year.

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

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

6.6 NIB Bank Loan is repayable in eight half yearly equal installments commencing from March, 2003. Mark-up is payable half yearly @ 1.50% above SBP's discount rate prevailing before the beginning of each six months payment period. Effective from September, 2003 mark-up rate has been revised at six month T-Bill cut-off yield plus 2% with a minimum rate of 4% per annum. The loan is secured by hypothecation charge over specified machinery.

6.7 National Bank of Pakistan Loan is repayable in six half yearly equal installments commencing from December, 2007. Mark-up is payable half yearly on average six months KIBOR Ask Rate + 1.25% prevailing on the disbursement date and then on the immediately preceding day before the start of each semi-annual period. The loan is secured by first pari passu charge over moveable fixed assets of the Company.

6.8 National Bank of Pakistan Loan 2 is repayable in six half yearly equal installment commencing from September, 2008. Mark-up is payable half yearly on average six months KIBOR Ask Rate+1.50% prevailing on the disbursement date and then on the immediately preceding day before the start of each semi-annual period. The loan is secured by first pari passu charge over present and future fixed assets of the Company, and equitable mortgage over land.

6.9 Supplier Credit is payable in December 2007 and does not carry any interest or mark-up. The Supplier Credit is secured against letter of credit.

	June 30, 2006	June 30, 2005
	Rs. 000s	

7. DEFERRED LIABILITIES

Taxation - 7.1	**68,273**	68,273
Gratuity - 7.2	**6,277**	6,198
	74,550	74,471

7.1 Deferred taxation

Opening balance	**68,273**	61,273
Provision during the year/period	—	7,000
	68,273	68,273

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

7.2 Gratuity

Opening balance as at July 1	**6,198**	49,440
Provision during the year/period	**8,307**	21,484
	14,505	70,924
Paid during the year/period	**(8,228)**	(8,174)
	6,277	62,750
Transferred to current liabilities	—	(56,552)
Closing balance as at June 30	**6,277**	6,198

Approved funded contributory provident fund scheme was introduced with effect from July 1, 2005 and gratuity entitlement of employees eligible to the provident fund scheme was reclassified from deferred liabilities to current liabilities. The remaining balance under this head represents gratuity entitlement of those employees who are not eligible to the provident fund scheme. Subsidiary companies have only six employees therefore gratuity provision is calculated on the basis of actual amount payable to the employees.

8. SHORT TERM BORROWINGS

Short term bank borrowings	**4,258,434**	3,624,516
Short term running finance	**108,636**	552,271
Murabaha	—	200,000
	4,367,070	4,376,787

Short term borrowing includes Rs. 3,475 million (2005: Rs. 3,364 million) which is secured by pari passu hypothecation charge over stores and spares, stock-in-trade, trade debts and other receivables and Rs. 500 million (2005: Rs. 500 million) which is secured against charge over the fixed assets. Unavailed facility at the year/period end was Rs. 2,448 million (2005: Rs. 2,561 million).

The balance amount of short term borrowing Rs. 392 million (2005: Rs. 512 million) is secured against US Dollar bonds, referred to in note 20. Unavailed facility at the year/period end was Rs. Nil (2005: Rs. Nil).

Mark-up rates range from 3.58% to 10.88% (2005: 2.40 % to 9.86%) per annum.

	June 30, 2006	June 30, 2005
	Rs. 000s	

9. TRADE AND OTHER PAYABLES

	June 30, 2006	June 30, 2005
Creditors	**506,833**	582,949
Due to associated undertakings	**190**	3,666
Accrued expenses	**210,978**	212,191
Workers' profit participation fund (note 9.1)	**1,578**	7,680
Interest/mark-up accrued on loans (secured)	**37,576**	30,610
Mark-up on short term borrowings (secured)	**82,391**	55,734
Gratuity payable (note 7.2)	—	56,552
Unclaimed dividend	**360**	387
Others	**8,072**	10,626
	847,978	960,395

9.1 Workers' profit participation fund

	June 30, 2006	June 30, 2005
Opening balance as at July 1	**7,680**	15,137
Provision for the year/period	**664**	6,448
Interest for the year/period	**914**	1,232
	9,258	22,817
Less: Payments made during the year/period	**7,680**	15,137
Closing balance as at June 30	**1,578**	7,680

10. CONTINGENCIES AND COMMITMENTS

10.1 The Group is contingently liable for:

(a) Rs. 88 million (2005: Rs. 87 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. 10 million (2005: Rs. 17 million) issued to various Government Agencies.

(c) Bills discounted Rs. 386 million (2005: Rs. 341 million).

10.2 The Group has field a suit for recovery of Rs.33.409 million (2005: Rs.33.409 million) included in other receivable. Group’s management and its legal counsel are of the opinion that the case will be decided in the Group’s favour and as such no provision has been made there against.

10.3 The Group is committed for capital expenditure as at June 30, 2006 of Rs. 169 million (2005: Rs.282 million).

10.4 The Group is committed for non capital expenditure items under letters of credits as at June 30, 2006 of Rs. 23 million (2005: Rs. 149 million).

11. PROPERTY, PLANT AND EQUIPMENT

	June 30, 2006	June 30, 2005
	Rs. 000s	
Operating assets - 11.1	**3,550,203**	3,471,601
Capital work in progress - 11.2	**862,419**	542,129
	4,412,622	4,013,730

11.1 OPERATING ASSETS

Rs. 000s

	Cost at July 01, 2005	Additions/ (deletions)	Cost at June 30, 2006	Accumulated depreciation at July 01, 2005	Depreciation/ charge/(deletion) for the year	Accumulated depreciation at June 30, 2006	Written down value at June 30, 2006	Annual rate %
Leasehold land	233,655	100	233,755	—	—	—	233,755	—
Buildings on leasehold land	719,714	83,170	802,884	284,477	51,841	336,318	466,566	10
Plant and machinery	4,747,508	348,533	5,096,041	2,177,810	278,236	2,456,046	2,639,995	10
Office equipment	202,478	16,548 (7,776)	211,250	108,452	23,291 (6,720)	125,023	86,227	10 to 30
Furniture and fixtures	51,429	1,693 (1,293)	51,829	17,382	3,730 (840)	20,272	31,557	10 to 12
Transport equipment	197,474	14,350 (13,394)	198,430	92,535	23,028 (9,241)	106,322	92,108	20
June 30, 2006	**6,152,258**	**464,394** **(22,463)**	**6,594,189**	**2,680,656**	**380,126** **(16,801)**	**3,043,981**	**3,550,203**	
June 30, 2005	5,412,067	759,468 (19,277)	6,152,258	2,422,986	270,032 (12,362)	2,680,656	3,471,601	

11.1.1 Depreciation charge for the year/period has been allocated as follows:

		For year ended June 30, 2006	For nine month ended June 30, 2005
Cost of goods manufactured	(note 23.1)	**331,374**	231,461
Administrative expenses	(note 24)	**48,752**	38,571
		380,126	270,032

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

Rs. 000s

Particulars	Cost	Written down value	Sale proceeds	Particulars of purchasers
Office equipment	282	58	44	R.J. Electronics Regal Chowk, Saddar Karachi
	248	51	55	Rambo Office Automation I.I. Chundrigar Road Karachi
	770	158	162	Junaid Electronics Shop # 59, Electronics Market Karachi
	1,748	133	137	Rauf Computers Jillani Center Karachi
	4,027	566	—	Scrapped
Furniture & fixture	547	196	205	Jameel Furnitures & Mart Aram Bagh Karachi
	746	257	—	Scrapped
Transport equipment	355	99	142	Mr. Muhammad Arif Habib III-H-10/14, Nazimabad No.3 Karachi
	779	217	312	Syed Iqbal Shehzad (Employee) House No.14, Gulistan-e-Johar Karachi
	355	99	142	Mr. Mohammad Ashraf S/o Suleman (Employee) House No. 35 Orange Street Ramswami Tower Islampura Karachi
	525	146	210	Syed Rehan Ali Rizvi (Employee) House No. 5/1, Creek Lane-7, Commercial Avenue, Phase VII, D.H.A. Karachi
	805	280	437	Mr. Abdul Qayyum Khan House No. 399-A Rifah-e-Aam Society Malir Halt Karachi
	471	54	295	Mr. Wasi Haider S/o Musharaf Hussain B-104, Rufi Lack Drive Gulistan-e-Johar, Block-18, Karachi

Particulars	Cost	Written down value	Sale proceeds	Particulars of purchasers
Transport equipment (continued)	685	191	274	Mr. Mohammad Ashraf Habib 142-143, Garden Center Flat No. 203, Garden East Karachi.
	719	160	288	Mr. Muhammad Sadiq Warind Flat No. B-205, Sadaf Square Plot No. 538/9, G.E. off Jahangir Road Karachi.
	365	127	183	Mr. Irfan Ahmed House No. FN 1/2, Malir Extension Colony Khokharapar Karachi.
	809	282	625	Mr. Sikander Aziz (Ex-employee) House No. 61, 7th Commercial Street Phase-4, D.H.A. Karachi.
	1,050	366	455	Mr. Abdul Ghafoor S/o Abdul Wahid House No. G-25, Defence View, Phase-2 Block C-3 Karachi.
	590	257	350	Ms. Farida Yasin W/o Muhammad Yasin Flat No. A-209, Saima Heaven Block-4, Gulshan-e-Iqbal Karachi.
	454	158	182	Ms. Naheed Parveen W/o Amjad Mehmood A4/179, Block-7, Gulistan-e-Jouhar Karachi.
	610	136	130	Mr. Abdul Rauf Khan House No.A-261, Block-10-A W.C.H.S., Gulshan-e-Iqbal Karachi
	745	208	390	Mr. Badshah Zada Malook Khurad Post Office Sherengle Karachi
	775	216	525	Mr. Sh. M. Ejaz C-28, Central Commercial Area Karachi
	1,614	913	1,640	Insurance claim
Written down value below Rs. 50,000 each	2,389	334	673	Various
For the year ended June, 2006	**22,463**	**5,662**	**7,856**	
For nine month ended June, 2005	19,277	6,915	9,921	

	June 30, 2006	June 30, 2005
	Rs. 000s	

11.2 CAPITAL WORK-IN-PROGRESS

Machinery under installation	**340,625**	179,009
Building construction	**517,988**	359,574
Store items held for capitalization	**3,806**	3,546
	862,419	542,129

12. INTANGIBLE - COMPUTER SOFTWARE

Balance at beginning of the year/period	**16,035**	20,436
Additions at cost	**36,220**	529
Amortisation charge for the year/period - note 12.1	**(13,290)**	(4,930)
Balance at end of the year/period	**38,965**	16,035

12.1 The cost is being amortized over a period of 5 years

13. LONG TERM LOANS AND ADVANCES

Considered good, due from		
Executives		
Opening balance as at July 1	**8,310**	5,028
Add: Disbursement during the year/period	**7,020**	6,160
	15,330	11,188
Less: Repayment made during the year/period	**(6,872)**	(2,878)
Closing Balance as at June 30	**8,458**	8,310
Less: Receivable within one year	**(2,448)**	(3,790)
	6,010	4,520
Other employees	**3,604**	12,256
Less: Receivable within one year	**(1,894)**	(9,755)
	1,710	2,501
	7,720	7,021

13.1 Loans and advances have been given for the purchase of cars, scooters and household equipment and housing assistance in accordance with the terms of employment and are repayable in monthly installments. These loans are secured against retirement benefits and other dues of the employees.

14. STORES, SPARES AND LOOSE TOOLS

Stores including in transit Rs. 1 million (2005: Rs. 7 million)	**187,448**	185,400
Spares including in transit Rs. 6 million (2005: Rs. 8 million)	**204,061**	174,994
Loose tools	**2,882**	1,509
	394,391	361,903
Less: Provision for slow moving/obsolete items	**24,509**	23,528
	369,882	338,375

	June 30, 2006	June 30, 2005
	Rs. 000s	
15. STOCK-IN-TRADE		
Raw materials	**792,329**	806,677
including in transit Rs. NIL million (2005: Rs. 55 million)		
Work-in-process	**80,616**	54,296
Finished goods	**1,773,527**	1,616,831
	2,646,472	2,477,804
16. TRADE DEBTS - UNSECURED		
Considered good	**1,854,542**	1,917,578
Considered doubtful	**22,481**	21,542
	1,877,023	1,939,120
Less: Provision for doubtful trade debts	**22,481**	21,542
	1,854,542	1,917,578
17. LOANS AND ADVANCES		
Considered good		
Current portion of loans and advance to employees (note 13)	**4,342**	13,545
Suppliers	**43,321**	55,594
Advance income tax	**70,756**	80,180
Letter of credit	**171**	102
	118,590	149,421
18. DEPOSITS AND PREPAYMENTS		
Prepayments	**16,315**	24,447
19. OTHER RECEIVABLES		
Accrued interest	**18,961**	16,438
Sales tax refundable	**58,218**	61,646
Duty drawback receivable	**39,346**	72,068
Income tax refundable	**—**	16,640
Others	**34,503**	33,409
	151,028	200,201
20. SHORT TERM INVESTMENT		
US Dollar bonds - Available for sale (note 20.1) (USD 7.086 million (2005: USD 9.241 million))	**426,193**	551,497
Euro bonds - Held for trading	**—**	15,162
(USD NIL (2005: USD 0.25 million))	**426,193**	566,659

20.1 These are under lien for borrowings referred to in note 8.
These bonds carry mark-up between 2% to 4% (2005: 2% to 4%) above six months USD LIBOR.

	June 30, 2006	June 30, 2005
21. CASH AND BANK BALANCES		
Cash in hand	**1,666**	1,867
In hand - current accounts	**14,473**	5,011
With banks in - short term deposits	**49,837**	116,808
	65,976	123,686

	For year ended June 30, 2006 Rs. 000s	For nine month ended June 30, 2005

22. SALES

	2006	2005
Local	**3,617,337**	1,741,865
Export		
Direct export	**4,722,080**	3,487,379
Indirect export	**144,202**	717,822
	4,866,282	4,205,201
	8,483,619	5,947,066
Less: Brokerage and commission	**23,042**	16,906
Freight and insurance	**121,147**	102,644
	8,339,430	5,827,516

22.1 Sales are exclusive of sales tax amounting Rs. 3.778 million (2005: Rs. 328.893 million).

23. COST OF SALES

	2006	2005
Opening stock of finished goods	**1,616,831**	1,378,416
Add: Cost of goods manufactured (note 23.1)	**6,053,756**	4,248,124
Purchases and processing charges	**1,162,268**	924,454
	8,832,855	6,550,994
Less: Closing stock of finished goods	**1,726,900**	1,616,831
	7,105,955	4,934,163

23.1 **Cost of goods manufactured**

	2006	2005
Raw materials consumed (note 23.2)	**3,149,545**	1,993,242
Stores consumed	**830,862**	779,035
Salaries, wages and benefits	**824,603**	632,821
Fuel, power and water	**749,471**	455,435
Insurance	**36,762**	25,653
Repairs and maintenance	**164,488**	124,672
Depreciation	**331,374**	231,461
Other expenses	**26,520**	21,848
Cost of samples shown under distribution cost	**(33,549)**	(29,773)
	6,080,076	4,234,394
Work-in-process		
Opening	**54,296**	68,026
Closing	**(80,616)**	(54,296)
	(26,320)	13,730
	6,053,756	4,248,124

Salaries, wages and benefits include Rs. 15 million (2005: Rs. 13 million) and Rs. 15 million (2005: Rs.12 million) in respect of retirement benefit and staff compensated absences respectively.

23.2 **Raw materials consumed**

	2006	2005
Opening stock	**751,546**	578,954
Purchases during the year/period	**3,190,328**	2,165,834
Closing stock	**(792,329)**	(751,546)
	3,149,545	1,993,242

	For year ended June 30, 2006	Rs. 000s	For nine month ended June 30, 2005
24. ADMINISTRATIVE EXPENSES			
Salaries and benefits	**217,898**		148,160
Rent, rates and taxes	**21,963**		16,760
Repairs and maintenance	**12,959**		16,540
Vehicle up keep	**34,214**		21,651
Conveyance and traveling	**44,170**		26,877
Printing and stationery	**28,212**		22,488
Postage and telecommunication	**24,588**		18,062
Legal and consultancy fees	**18,553**		18,775
Depreciation / amortization	**62,041**		43,501
Auditors' remuneration (note 24.1)	**543**		398
Donations (note 24.2)	**2,017**		3,252
Insurance	**5,824**		6,240
Bad / doubtful debts	**940**		2,510
Provision for slow moving / obsolete items	**981**		2,014
Other expenses	**10,482**		10,101
	485,385		357,329

Salaries and benefits include Rs. 10 million (2005: Rs. 3 million) and Rs. 4 million (2005: Rs. 3 million) in respect of retirement benefit and staff compensated absences respectively.

24.1 **Auditors' remuneration**

	2006	2005
Audit fee	**476**	333
Half yearly review	**30**	30
Audit of workers' profit participation fund and other services	**2**	2
Out of pocket expenses	**35**	33
	543	398

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

25. DISTRIBUTION COST

	2006	2005
Shipment expenses	**95,959**	52,164
Advertisement and publicity	**39,940**	59,216
Cost of samples transferred from cost of goods manufactured	**33,549**	29,773
Other expenses	**22,699**	24,299
	192,147	165,452

26. OTHER OPERATING INCOME

	2006	2005
Profit on sale of operating assets	**2,194**	3,006
Scrap sales	**4,702**	3,648
Others	**661**	65
	7,557	6,719

	For year ended June 30, 2006	Rs. 000s	For nine month ended June 30, 2005
27. FINANCE COST			
Interest / mark-up on long term loans	**194,366**		59,638
Mark-up on short term borrowings	**375,465**		195,205
Interest on workers' profit participation fund	**914**		1,232
Bank charges	**21,422**		14,847
	592,167		270,922
Interest income / exchange differences	**(52,157)**		(27,275)
	540,010		243,647
28. PROVISION FOR TAXATION			
Current	**47,425**		39,000
Deferred	**—**		7000
	47,425		46,000

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

	2006		2005
Net profit for the year/period before taxation	**22,591**		126,596
Tax at the applicable tax rate of 35%	**7,907**		44,309
Income not chargeable to tax	**(3,149)**		(1,641)
Effect of income assessed under presumptive tax regime	**55,065**		22,873
Effect of expenses deductible for tax purposes less inadmissible expenses	**(12,398)**		(19,541)
	47,425		46,000

	2006		2005
29. EARNINGS PER SHARE			
(Loss)/profit for the year/period	**(24,834)**		80,596
Number of shares	**45,124,637**		44,500,129
(Loss)/earnings per share (Rs.)	**(0.55)**		1.81

30. REMUNERATION OF DIRECTORS AND EXECUTIVES

	June-2006				June-2005			
	Rs. 000s							
	Chief Executive	Directors	Executives	Total	Chief Executive	Directors	Executives	Total
Managerial remuneration	2,400	5,200	60,096	67,696	1,800	3,900	40,355	46,055
House rent allowance	960	2,080	24,039	27,079	720	1,560	16,142	18,422
Utility allowance	240	520	6,010	6,770	180	390	4,036	4,606
Other allowances	200	741	12,479	13,420	—	499	7,819	8,318
	3,800	**8,541**	**102,624**	**114,965**	2,700	6,349	68,352	77,401
Number of persons	**1**	**3**	**58**	**62**	1	3	56	60

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

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

30.3 Aggregate amount charged in the accounts for the year/period for meeting fee to three Directors was Rs. 3 (000) (2005: three Directors Rs. 4 (000)).

31. TRANSACTIONS WITH RELATED PARTIES

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

Relationship with the Group	Nature of Transactions	June 30, 2006	June 30, 2005
		Rs. 000s	
Associated Companies and other related parties	Purchase of goods	**12,425**	11,283
	Sale of goods	**1,027**	—
	Rent paid	**—**	513
	Fees paid	**1,500**	—
	Deposit with bank	**1,695**	1,316
	Bills discounted	**71,133**	—
	Mark-up paid	**817**	—

There are no transactions with directors of the Group and key management personnel other than under the terms of employment.

The related parties status of outstanding receivables and payable as at June 30, 2006 are included in respective notes to the financial statements.

32. CAPACITY AND PRODUCTION

		June 30, 2006		(000s)	June 30, 2005	
	Unit	**Capacity**	**Production**	**Working**	Capacity	Production
Cloth	Sq. metres (50 Picks converted)	**79,238**	**70,278**	**3 shifts**	83,561	53,109
Yarn	Kgs. (20 Counts converted)	**36,455**	**33,551**	**3 shifts**	36,035	24,773

Production is lower due to variation in production mix and various technical factors. Moreover capacity shown above is for the full year whereas machinery were put into commercial operation gradually.

33. FINANCIAL ASSETS AND LIABILITIES

Rs. 000s

	Interest/mark-up bearing			Non Interest/mark-up bearing			**June 30, 2006 Total**	June 30, 2005 Total
	Maturity upto one year	Maturity after one year	Sub Total	Maturity upto one year	Maturity after one year	Sub Total		
Financial assets								
Long term loans	—	—	—	—	7,720	7,720	**7,720**	7,021
Long term deposits	—	—	—	—	5,089	5,089	**5,089**	3,560
Trade debts	—	—	—	1,854,542	—	1,854,542	**1,854,542**	1,917,578
Loans and advances	—	—	—	4,342	—	4,342	**4,342**	13,545
Deposits and prepayments	—	—	—	228	—	228	**228**	40
Other receivables	—	—	—	53,464	—	53,464	**53,464**	49,847
Short term investment	426,193	—	426,193	—	—	—	**426,193**	566,659
Cash and bank balances	49,837	—	49,837	16,139	—	16,139	**65,976**	123,684
	476,030	—	**476,030**	**1,928,715**	**12,809**	**1,941,524**	**2,417,554**	2,681,934
Financial liabilities								
Long term loans	294,583	2,151,331	2,445,914	—	—	—	**2,445,914**	2,110,243
Short term borrowings	4,367,070	—	4,367,070	—	—	—	**4,367,070**	4,376,787
Trade and other payables	1,578	—	1,578	825,186	—	825,186	**826,764**	884,597
	4,663,231	2,151,331	6,814,562	825,186	—	825,186	**7,639,748**	7,371,627
Off balance sheet items								
Financial commitments								
Guarantees	—	—	—	88,934	—	88,934	**88,934**	87,434
Bills discounted	—	—	—	386,360	—	386,360	**386,360**	340,620
Commitments	—	—	—	192,355	—	192,355	**192,355**	424,347
	—	—	—	667,649	—	667,649	**667,649**	852,401
	4,663,231	**2,151,331**	**6,814,562**	**1,492,835**	—	**1,492,835**	**8,307,397**	8,224,028

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

33.1 **Concentration of credit risk**

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed to perform as contracted. The Group believes that it is not exposed to major concentration of credit risk.

33.2 **Foreign exchange risk management**

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

33.3 **Interest rate risk**

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

33.4 **Liquidity risk**

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

33.5 **Fair value of financial assets and liabilities**

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

34. DETAIL OF SUBSIDIARIES

	Accounting Year end	Percentage of holding	Country of incorporation
Gul Ahmed International Limited (FZC)	June 30, 2006	100%	U.A.E.
GTM (Europe) Limited	June 30, 2006	100%	U.K.

35. DATE OF AUTHORIZATION

These financial statements were authorized for issue on September 28, 2006 by the Board of Directors of the Group.

36. CORRESPONDING FIGURES

As per SRO 684(1) 2004 dated August 10, 2004 issued by Central Board of Revenue the Group's accounting year is required to end on June 30, instead of September 30. In order to make the Group's accounting period consistent with aforementioned requirement the Group prepared its financial statement covering period of nine months ended on June 30, 2005. Since the audited comparative figures are available for nine months ended June 30, 2005, same has been disclosed as comparative figures of profit and loss account, statement of changes in equity, cash flow statement and related notes and are therefore not entirely comparable.

Previous year's figures have been reclassified wherever necessary for the purpose of more appropriate presentation. The reclassification include the following significant changes.

Reclassification from component	Reclassification to component	Amount
Distribution cost	**Sales**	
Freight	Export sales	101,331
Insurance and bank charges	Export sales	1,313
Trade and other payables	**Deferred liabilities**	
Gratuity payable	Gratuity	6,094
Loan and advances	**Other receivables**	
Income tax refundable	Income tax refundable	16,640

37. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statement in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgement in the process of applying the Group's accounting policies. Estimates and judgements 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 judgement was exercised in application of accounting policies are as follows:

1) Provision for slow moving/obsolete items (note 14)
2) Provision for doubtful trade debts (note 16)
3) Provision for taxation (note 28)

38. GENERAL

Figures have been rounded off to the nearest thousand rupees.

BASHIR H. ALIMOHAMMED
Chairman and Chief Executive

ZIAD BASHIR
Director