



# Pakistan Gum & Chemicals Limited



**Annual Report**  
**2011**

## CORPORATE OBJECTIVES

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Develop a strong organization centered at Karachi, to run the existing business and exploit new opportunities.

Develop relationships with agents and end-users for a world-wide reach for our products and thus improve profitability.

Develop a strategy on procurement of raw material to secure long-term business and development opportunities.

Identify, establish and exploit new markets and technologies through Research and Development and marketing skills.

Identify suitable acquisitions for real synergies to improve our corporate position and profit potential.

In recognition of its responsibilities as a Corporate Body the Company aims to:

Pursue personnel policies, which recognize the aspirations and performance of individuals and which are suited to the diverse levels of skills required and the many career paths available in the company.

Have full regard to the attitudes and expectations of its client base at large and contribute, as appropriate, to the formulation of positive attitudes and opinions.

Act as a reputable, efficient and responsible organization.



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## COMPANY INFORMATION

AS ON DECEMBER 31, 2011

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### Board of Directors

Mohammad Moonis	<i>Chairman</i>
Shuaib Ahmed	<i>Vice-Chairman</i>
Mohammad Ali Hanafi	<i>Director</i>
Mohammed Aslam Hanafi	<i>Director</i>
Ozair Ahmed Hanafi	<i>Director</i>
Tariq Mohamed Amin	<i>Director</i>
Zaeem Ahmad Hanafi	<i>Director</i>
Zahid Zaheer	<i>Director</i>

### Chief Executive Officer

Hamid Ahmed

### Audit Committee

Tariq Mohamed Amin	<i>Chairman</i>
Zaeem Ahmad Hanafi	<i>Member</i>
Zahid Zaheer	<i>Member</i>

### Compensation Committee

Zahid Zaheer	<i>Chairman</i>
Ozair Ahmed Hanafi	<i>Member</i>
Tariq Mohamed Amin	<i>Member</i>

### Chief Financial Officer and Company Secretary

Muhammad Ilyas

### Auditors

Ernst & Young Ford Rhodes Sidat Hyder  
Chartered Accountants

### Legal Advisor

Tahir Ali Tayebi & Co.

### Bankers

Askari Bank Limited  
Habib Bank Limited  
MCB Bank Limited  
Habib Metropolitan Bank Limited  
Summit Bank Limited

### Registrar and Share Transfer Office

Corporate Support Services (Private) Limited  
407-408, Al-Ameera Centre,  
Shahrah-e-Iraq, Saddar, Karachi.  
Phone: (92-21) 35662023-24

### Registered Office

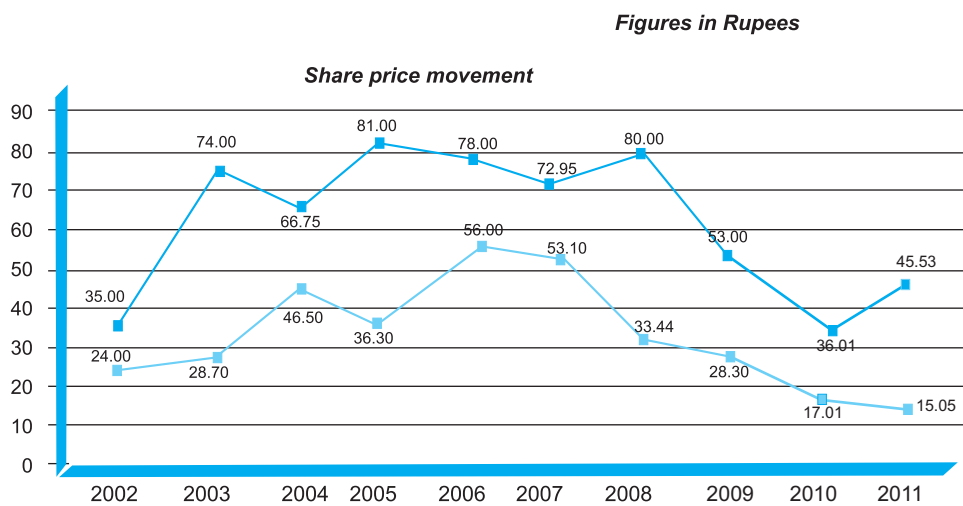
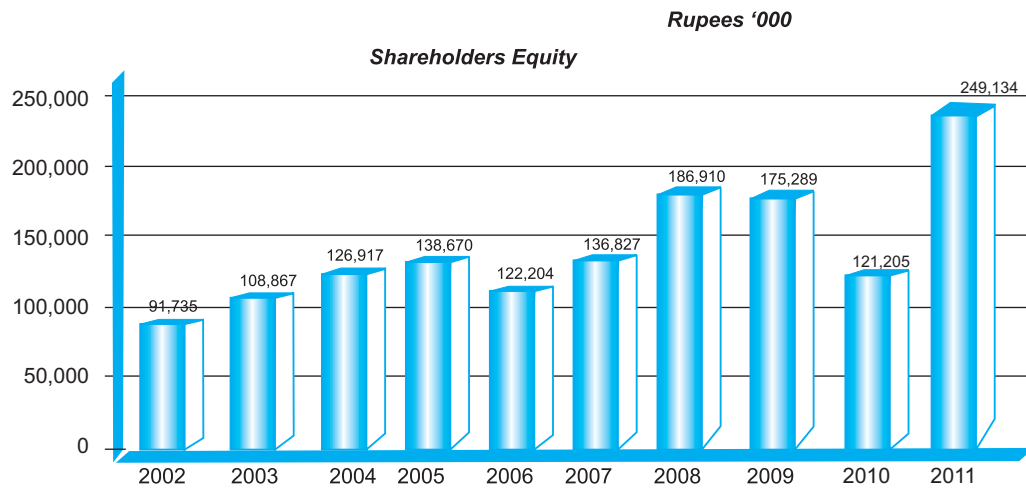
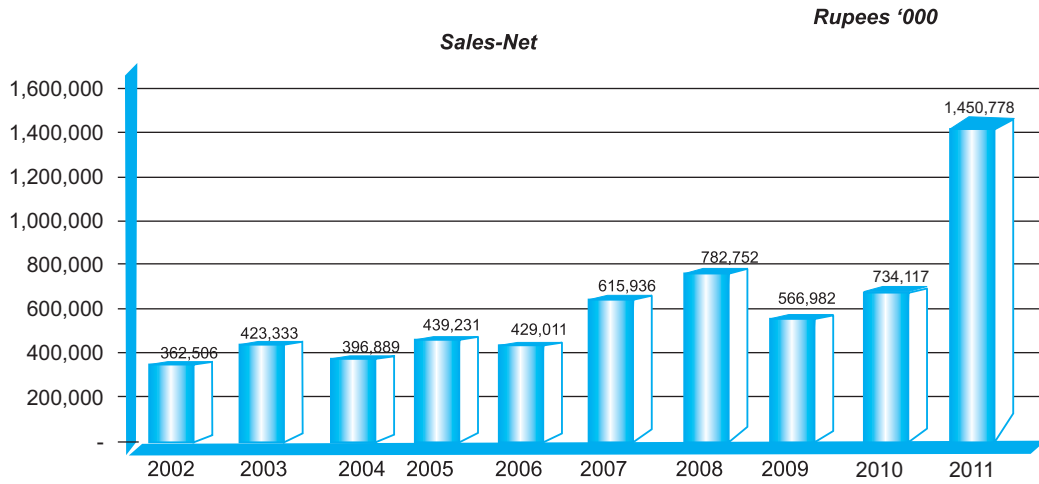
B-19/A, Irshad Qadri Road  
S.I.T.E., Karachi-75700  
P.O. Box 3639

Phone: (92-21) 32561124-26  
Fax: (92-21) 32561320 & (92-21) 32565213  
E-mail: pakchem@cyber.net.pk  
URL: www.pakchem.com.pk

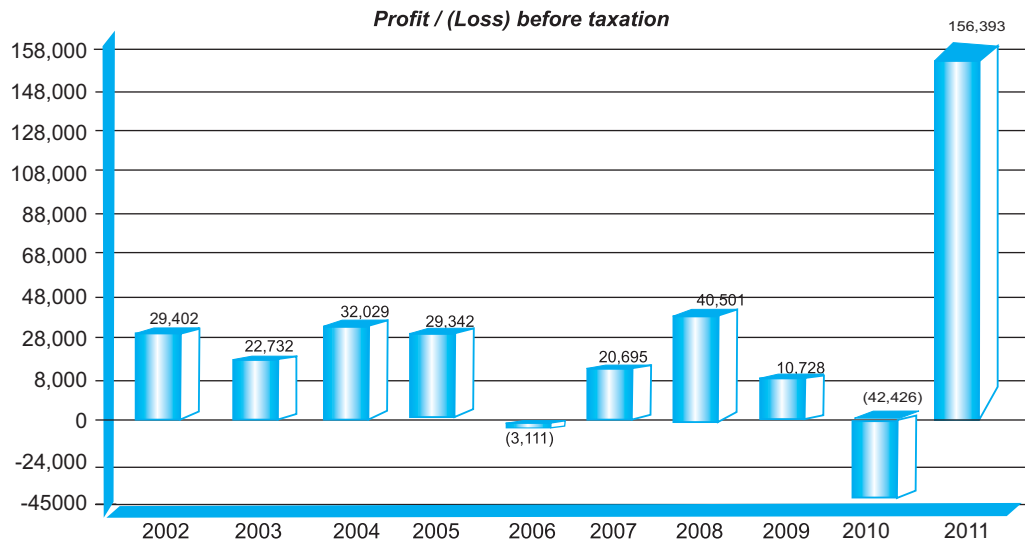


## TEN YEAR SUMMARY OF STATISTICS (Rupees in Thousands)

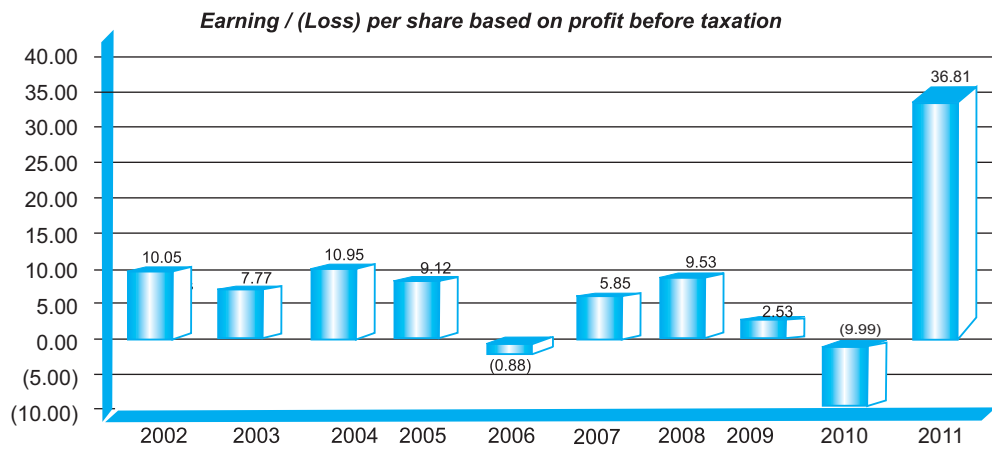
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Operating assets	17,695	15,644	14,223	16,859	19,326	23,773	27,800	44,955	49,185	49,110
Capital work-in-progress	-	595	2,854	2,998	5,088	2,549	16,087	4,425	710	317
Long-term Loans, Deposits & Retirement Benefits	8,500	12,311	22,583	23,002	24,393	770	770	776	776	778
Net current and other assets	66,511	80,317	87,257	95,811	73,397	109,735	142,253	125,133	70,534	198,929
<b>Total assets employed</b>	<b>92,706</b>	<b>108,867</b>	<b>126,917</b>	<b>138,670</b>	<b>122,204</b>	<b>136,827</b>	<b>186,910</b>	<b>175,289</b>	<b>121,205</b>	<b>249,134</b>
Ordinary capital	29,260	29,260	29,260	32,186	35,405	35,405	42,486	42,486	42,486	42,486
Reserves	62,475	79,607	97,657	106,484	86,799	101,422	144,424	132,803	78,719	206,648
Long term and deferred liabilities	971	-	-	-	-	-	-	-	-	-
<b>Total funds employed</b>	<b>92,706</b>	<b>108,867</b>	<b>126,917</b>	<b>138,670</b>	<b>122,204</b>	<b>136,827</b>	<b>186,910</b>	<b>175,289</b>	<b>121,205</b>	<b>249,134</b>
Net turnover	362,506	423,333	396,889	439,231	429,011	615,936	782,752	566,982	734,117	1,450,778
Profit before taxation	29,402	22,732	32,029	29,342	(3,111)	20,695	40,501	10,728	(42,426)	156,393
% of net sales	8.11	5.37	8.07	6.68	(0.73)	3.36	5.17	1.89	(5.78)	10.78
% of average assets employed	34.44	22.55	27.17	22.10	(2.39)	15.98	25.02	5.92	(28.62)	84.00
Profit / (loss) after taxation	23,163	17,132	26,829	23,457	(6,811)	14,623	32,530	5,373	(49,835)	127,929
Cash dividend - amount	8,778	8,778	11,704	9,656	-	7,081	16,994	4,249	-	33,988
Bonus Shares - %	-	-	10	10	-	-	-	-	-	-
Right Share - %	-	-	-	-	-	20	-	-	-	-
Cash dividend - %	30.00	30.00	40.00	30.00	-	20	40	10	-	80
Earnings / (Loss) per share Rs.	7.92	5.86	9.17	7.29	(1.92)	4.13	8.04	1.26	(11.73)	30.11
Break-up Value	31.68	37.21	43.38	43.08	34.52	38.65	43.99	41.26	28.53	58.64
No. of shares	2,926	2,926	2,926	3,219	3,541	3,541	4,249	4,249	4,249	4,249



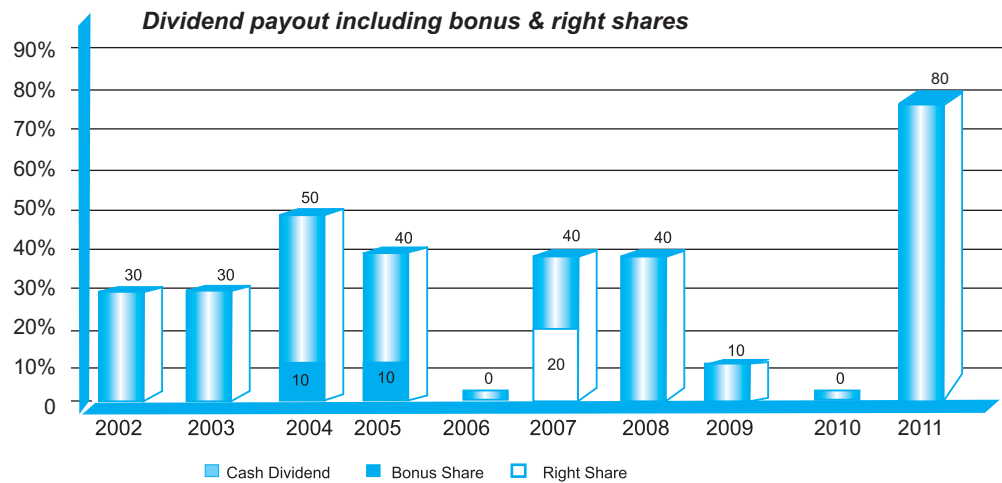
Rupees '000



Figures in Rupees



Figures in %



## NOTICE OF MEETING

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**NOTICE IS HEREBY** given that the 49<sup>th</sup> Annual General Meeting of Pakistan Gum & Chemicals Limited, will be held on Friday, March 30, 2012 at the Council Hall of the Overseas Investors Chamber of Commerce & Industry, Talpur Road, Karachi at 11:00 A.M. to transact the following:

### **Ordinary Business:**

1. To receive, consider and adopt the Annual Audited Accounts for the year ended December 31, 2011 together with the Directors' and Auditors' reports thereon.
2. To consider and approve payment of dividend at Rs.8.00 per share (80%) to the shareholders for the year ended December 31, 2011 as recommended by the Board of Directors.
3. To appoint auditors and to fix their remuneration.

By Order of the Board

**Muhammad Ilyas**  
*Company Secretary*

*Karachi, March 2, 2012*

### **Notes:-**

1. The Share Transfer Books of the Company will remain closed from March 23, 2012 to March 30, 2012 (both days inclusive). Transfers received in order at the office of the Registrar of the Company M/s. Corporate Support Services (Private) Ltd., 407-408, Al-Ameera Centre, Shahrah-e-Iraq, Saddar, Karachi by the close of business on March 22, 2012 will be treated in time for the purpose of payment of dividend to the transferees, and to attend the meeting.
2. CDC shareholders are requested to bring their original CNIC, Account, Sub-Account number and participant's number in Central Depository System for identification purpose for attending the meeting. In case of corporate entity, the Board of Directors resolution/power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the meeting.
3. A member entitled to attend and vote at the meeting may appoint another person on his/her behalf as his/her proxy to attend, speak and vote and a proxy so appointed shall have such right with respect to attending, speaking and voting at the meeting as are available to a Member. Proxies in order to be effective must be received by the Company not less than 48 hours before the meeting. A proxy need not be a member of the Company.
4. Shareholders are requested to notify any change in their addresses immediately. Moreover, the shareholders claiming exemption from Zakat are required to file their Declaration with our Share Registrar.



## DIRECTORS' REPORT

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On behalf of the Board of Directors, it gives us great pleasure to welcome you to the 49<sup>th</sup> Annual General Meeting of the Company.

### Operating Results

Overall operating results show a substantial growth compared to the last year. Net sales during the year were Rs.1,451 million vis-à-vis Rs.734 million for the corresponding period of 2010, registering an increase of 97.68%. Exports in terms of value increased by 93.87% in spite of strong competition from Guar Gum manufacturers from across the border who had some advantages like export rebate and abundant power supply. Local sales registered an improvement of 107.56% from Rs. 185.47 million in 2010 to Rs. 384.47 million in 2011. Operating profit was Rs. 184.29 million in contrast to the operating loss of Rs. 22.22 million in 2010. Profit after tax for the year was Rs.127.93 million compared to loss after tax of Rs.49.84 million in year 2010.

### Manufacturing

We successfully managed the increased demand for sales even though at times it was difficult to deliver sales order on schedule due to frequent electricity and gas outages. Productivity enhancement and cost reduction have received our paramount attention. Preventive and corrective measures were well in place to avoid any major machine break down. Management has planned continuous modernization of the plant with cost efficient equipments to meet daunting challenges stemming from growing production cost.

### Code of Corporate Governance

The management of the Company is in compliance with following good corporate governance policies and states as follows:

- The financial statements, prepared by the management of the Company, present fairly its state of affairs, the result of its operations, cash flow 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 departure, if any, has been adequately disclosed. 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.
- 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 regulation.
- There have been significant deviation from last year in operating results of the Company and deviations have been highlighted and explained in the director's review of operating results and accounts.
- Key operating and financial data of last ten years are annexed.
- The Company operates funded gratuity, pension and provident fund schemes. The fair value of assets based on last audited accounts of the respective funds amounted to Rs.19.02 million.

- During the year five (5) meetings of the board were held. Attendance of each director are given below:

Name	No of meetings attended	Remarks
Mr. Mohammad Moonis	5	
Mr. Shuaib Ahmed	5	
Mr. Mohammed Aslam Hanafi	5	
Mr. Ozair Ahmed Hanafi	5	
Mr. Tariq Mohamed Amin	5	
Mr. Zaeem Ahmad Hanafi	4	
Mr. Zahid Zaheer	4	
Mr. Mohammad Ali Hanafi	2	

- Trades in shares of the company, carried out by its directors, CEO, CFO, Company Secretary and their spouses and minor children are as follows:

<u>Description</u>	<u>Purchase of Shares (No.)</u>	<u>Transfer of Shares (Nos.)</u>
Directors	-	-
Chief Financial Officer	-	-
Company Secretary	-	-
Spouses and minor children of Directors, CFO and Company Secretary	-	-

#### Dividend

The Board of Directors is pleased to recommend 80% final cash dividend.

#### Future Outlook

As a result of increased international demand and our sustained efforts to find new markets / customers, our products reach has widened. The marketing initiatives continue and are expected to yield good results in the future, too.

The fresh crop in Pakistan as well as in India is normal which implies that the raw material prices will remain high in view of the increased international demand specifically in the oil drilling industry.

Utilities as well as other costs have risen further. However, the management of the Company is doing its utmost to improve profitability by focusing on cost control and improvement in manufacturing efficiencies by adding cost effective and fuel efficient production lines to the existing system.

	Rupees '000
<u>Appropriations</u>	
Net Profit for the year before taxation	156,393
Provision for taxation	(28,464)
	127,929
Net Profit for the year after taxation	(21,308)
Accumulated loss brought forward	106,621
<u>Appropriations</u>	
Proposed Cash Dividend	(33,988)
Proposed Bonus Shares	-
Transfer to General Reserve	-
	(33,988)
Unappropriated profit carried forward	72,633
Earning per share	30.11

#### Pattern of shareholdings

The pattern of shareholdings of the Company as at December 31, 2011 is given on page 46 of this report.

#### Holding Company

East West Group Holdings Inc., a company incorporated in British Virgin Islands, U.K. is the primary shareholder of the Company.


#### Auditors

The present auditors Messrs Ernst & Young Ford Rhodes Sidat Hyder & Co., Chartered Accountants, Karachi, retire and being eligible, offer themselves for re-appointment.

#### **ACKNOWLEDGMENT**

We shall be failing in our duty if we do not commend the management and the staff for their hard work in the year 2011. We extend our most sincere thanks to them with best wishes for 2012.

#### **By order of the Board**



**Hamid Ahmed**  
Chief Executive Officer



**Mohammad Moonis**  
Chairman

Karachi: March 2, 2012

## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

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This statement is being presented to comply with the Code of Corporate Governance (the Code) contained in the listing regulations of the 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 minority interest on its Board of Directors (the Board). The Board presently comprises eight directors including six 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 taxpayers and they have confirmed that none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. All Directors have been elected in place of retiring directors in Extra Ordinary General Meeting dated March 28, 2011 for the tenure of three years. No casual vacancy arose in the Board during the year.
5. The Company has prepared and circulated a 'Statement of Ethics and Business Practices', which has been signed 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 along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, CFO, Company Secretary, Head of Internal Audit and other executive directors, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman 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 ensures arrangement of Orientation courses for its Directors to apprise them of their duties and responsibilities. Further, as required by the amended sub-clause (iv) of clause 35 of the Code (Orientation Courses/Directors Educational Program), certification for the Directors under "The Board Development Series" program offered by the Pakistan Institute of Corporate Governance will also be arranged in due course.
10. The Board has established system of sound internal control, which is effectively implemented at all levels within the Company.
11. The directors' report for the 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 Audit Committee comprises of three members, all of whom 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. There exists an effective internal audit function within the Company.
18. All related party transactions have been placed before the audit committee and approved by the Board of Directors along with pricing methods for transactions carried out on terms equivalent to those that prevailed in the arms length transactions.
19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. We confirm that all other material principles contained in the Code have been complied with.



**Mohammad Moonis**  
Chairman



**Hamid Ahmed**  
Chief Executive Officer

**Karachi:** March 2, 2012

## REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

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We have reviewed the Statement of Compliance with the best practices (the statement) contained in the Code of Corporate Governance (the code) prepared by the Board of Directors of **PAKISTAN GUM AND CHEMICALS LIMITED** (the Company) to comply with the Listing Regulations No.35 of the Karachi Stock Exchange (Guarantee) Limited and Listing Regulation No.35 of the Lahore Stock Exchange (Guarantee) Limited, where the Company is listed.

The responsibility for compliance with the Code 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 reflects the status of the Company's compliance with the provisions of the Code and report if it does not. A review is limited primarily to inquiries of the Company's 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 are not required to consider whether the Board's statement on internal control covers all risk and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, Sub-Regulation (xiii a) of Listing Regulations 35 notified by the Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated 19 January 2009 requires the Company to place before the Board of Directors for their consideration and approval related party transactions, distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the Audit Committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code, effective for the year ended **31 December 2011**.

KARACHI: March 2, 2012

**Ernst & Young Ford Rhodes Sidat Hyder**  
Chartered Accountants

## AUDITORS' REPORT TO THE MEMBERS

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We have audited the annexed balance sheet of **PAKISTAN GUM AND CHEMICALS LIMITED** as at **31 December 2011** and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- b) in our opinion:
  - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied, except for the changes in accounting policies, as stated in note 4.3 to the accompanying financial statements, with which we concur;
  - ii) the expenditure incurred during the year was for the purpose of the Company's business; and
  - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at **31 December 2011** and of the income, total comprehensive income, its cash flows and changes in equity for the year then ended; and
- d) in our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980, (XVIII of 1980).

**Ernst & Young Ford Rhodes Sidat Hyder**

Chartered Accountants

**Audit Engagement Partner's Name:** Pervez Muslim

KARACHI: March 2, 2012

**BALANCE SHEET  
AS AT DECEMBER 31, 2011**

	Note	2011	2010
<b>Rupees in thousand</b>			
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
<b>Fixed assets</b>			
Property, plant and equipment	5	49,427	49,895
Long-term deposits	6	778	776
		<b>50,205</b>	<b>50,671</b>
<b>CURRENT ASSETS</b>			
Stores and spares	7	7,246	6,998
Stock-in-trade	8	392,514	142,891
Trade debts	9	120,530	76,606
Loans and advances	10	1,496	1,430
Short-term prepayments	11	417	179
Other receivables	12	4,640	5,838
Short-term investment	13	5,253	3,637
Taxation - net	14	6,387	15,586
Cash and bank balances	15	24,482	14,344
		<b>562,965</b>	<b>267,509</b>
<b>TOTAL ASSETS</b>		<b>613,170</b>	<b>318,180</b>
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
<b>Share capital</b>			
<b>Authorised</b>			
10,000,000 (2010: 10,000,000) Ordinary shares of Rs.10 each		100,000	100,000
<b>Issued, subscribed and paid-up capital</b>	16	42,486	42,486
<b>Reserves</b>	17	206,648	78,719
		<b>249,134</b>	<b>121,205</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	18	141,674	27,511
Accrued markup on short term borrowings		4,695	4,464
Short-term borrowings	19	217,667	165,000
		<b>364,036</b>	<b>196,975</b>
<b>CONTINGENCIES AND COMMITMENTS</b>			
	20		
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>613,170</b>	<b>318,180</b>

The annexed notes 1 to 38 form an integral part of these financial statements.



**Mohammad Moonis**  
Chairman



**Hamid Ahmed**  
Chief Executive Officer



**Muhammad Ilyas**  
Chief Financial Officer



**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Note	2011	2010
<b>Rupees in thousand</b>			
<b>NET SALES</b>	21	<b>1,450,778</b>	734,117
Cost of sales	22	<b>(1,192,830)</b>	(710,978)
<b>GROSS PROFIT</b>		<b>257,948</b>	23,139
Distribution and shipping costs	23	<b>(18,313)</b>	(20,434)
Administrative expenses	24	<b>(46,410)</b>	(26,645)
Other operating expenses	25	<b>(12,147)</b>	-
Other operating income	26	<b>3,213</b>	1,725
		<b>(73,657)</b>	(45,354)
<b>OPERATING PROFIT / (LOSS)</b>		<b>184,291</b>	(22,215)
Finance costs	27	<b>(27,898)</b>	(20,211)
<b>PROFIT / (LOSS) BEFORE TAXATION</b>		<b>156,393</b>	(42,426)
Taxation	28	<b>(28,464)</b>	(7,409)
<b>NET PROFIT / (LOSS) FOR THE YEAR</b>		<b>127,929</b>	<b>(49,835)</b>
<b>EARNINGS / (LOSS) PER SHARE - BASIC (Rs. per share)</b>	29	<b>30.11</b>	<b>(11.73)</b>

The annexed notes 1 to 38 form an integral part of these financial statements.



**Mohammad Moonis**  
Chairman



**Hamid Ahmed**  
Chief Executive Officer



**Muhammad Ilyas**  
Chief Financial Officer

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	2011	2010
Note	Rupees in thousand	
<b>Net Profit / (Loss) for the year</b>	<b>127,929</b>	<b>(49,835)</b>
Other comprehensive income for the year	-	-
<b>Total comprehensive income / (loss) for the year</b>	<b><u>127,929</u></b>	<b><u>(49,835)</u></b>

The annexed notes 1 to 38 form an integral part of these financial statements.



**Mohammad Moonis**  
Chairman



**Hamid Ahmed**  
Chief Executive Officer



**Muhammad Ilyas**  
Chief Financial Officer

**CASH FLOW STATEMENT  
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Note	2011	2010
<b>Rupees in thousand</b>			
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	30	13,258	118,310
Income tax paid		(19,265)	(12,612)
Bonus and compensated absence paid		(3,309)	(2,575)
Long-term deposits		(2)	-
<b>Net cash (used in) / generated from operating activities</b>		<b>(9,318)</b>	<b>103,123</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capital expenditure incurred		(9,397)	(7,999)
Sale proceeds from disposal of operating fixed assets		1,324	1,471
Profit received on term deposits and saving accounts		825	762
Short-term investment made		(1,518)	-
<b>Net cash used in investing activities</b>		<b>(8,766)</b>	<b>(5,766)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Short term borrowings obtained / (repaid)		52,667	(65,462)
Finance cost paid		(24,445)	(20,108)
Dividend paid		-	(4,249)
<b>Net cash generated from / (used in) financing activities</b>		<b>28,222</b>	<b>(89,819)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>10,138</b>	<b>7,538</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>		<b>14,344</b>	<b>6,806</b>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>		<b>24,482</b>	<b>14,344</b>

The annexed notes 1 to 38 form an integral part of these financial statements.



**Mohammad Moonis**  
Chairman



**Hamid Ahmed**  
Chief Executive Officer



**Muhammad Ilyas**  
Chief Financial Officer

# STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2011

	Issued, subscribed and paid-up capital	Capital reserve	REVENUE RESERVES		Total	Total
			General Reserve	Unappro- priated Profit/(accu- mulated loss)		
Rupees in thousand						
<b>Balance as at January 01, 2010</b>	42,486	17,553	82,474	32,776	115,250	175,289
Final Cash Dividend @ Re.1 per Ordinary share of Rs.10 each, declared on April 19, 2010	-	-	-	(4,249)	(4,249)	(4,249)
Net (loss) for the year	-	-	-	(49,835)	(49,835)	(49,835)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive (loss)	-	-	-	(49,835)	(49,835)	(49,835)
<b>Balance as at December 31, 2010</b>	<b>42,486</b>	<b>17,553</b>	<b>82,474</b>	<b>(21,308)</b>	<b>61,166</b>	<b>121,205</b>
Net profit for the year	-	-	-	127,929	127,929	127,929
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income	-	-	-	127,929	127,929	127,929
<b>Balance as at December 31, 2011</b>	<b>42,486</b>	<b>17,553</b>	<b>82,474</b>	<b>106,621</b>	<b>189,095</b>	<b>249,134</b>

The annexed notes 1 to 38 form an integral part of these financial statements.



**Mohammad Moonis**  
Chairman



**Hamid Ahmed**  
Chief Executive Officer



**Muhammad Ilyas**  
Chief Financial Officer

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2011

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## 1. THE COMPANY AND ITS OPERATIONS

The Company was incorporated in Pakistan as a public company limited by shares in 1982 under the Companies Act, 1913 (now the Companies Ordinance, 1984). The shares of the Company are quoted on the Karachi and Lahore Stock Exchanges. Its main business activity is production and sale of guar gum and its allied products.

The registered office of the Company is situated at B-19/A, Irshad Qadri Road, S.I.T.E., Karachi.

## 2. STATEMENT OF COMPLIANCE

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

## 3. BASIS OF PREPARATION

These financial statements have been prepared under the historical cost convention.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 4.1 Significant accounting judgments and estimates

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The matters involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are as follows:

#### (i) Staff Retirement benefits

Certain actuarial assumptions have been adopted as disclosed in note 18.2 to the financial statements for valuation of present value of defined benefit obligations and fair value of plan assets. Any changes in these assumptions in future years might affect unrecognised gains and losses in those years.

#### (ii) Property, plant and equipment

The Company reviews appropriateness of the rate of depreciation, useful life and residual value used in the calculation of depreciation. Further, where applicable, an estimate of the recoverable amount of assets is made for possible impairment on an annual basis. In making these estimates, Company uses the technical resources available with the Company. Any change in the estimates in the future might affect the carrying amount of respective item of property, plant and equipment, with corresponding effects on the depreciation charge and impairment.

#### (iii) Stock-in-trade

The Company reviews the net realisable values of stock-in-trade to assess any diminution in the respective carrying values. Net realisable value is estimated with reference to the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

#### (iv) Taxation

In making the estimate for income tax payable by the Company, the Company takes into account the applicable tax laws and the decision by appellate authorities on certain issues in the past.

#### (v) Future estimation of export sale

Deferred tax calculation has been made (and found to be immaterial for the disclosure purpose) based on an estimate of future ratio of export and local sales.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future event that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

There have been no critical judgments made by the Company's management in applying the accounting policies that would have a significant effect on the amounts recognised in the financial statements.

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

The following revised standards, amendments and interpretations with respect to the approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standard or interpretation:

<b>Standard or Interpretation</b>	<b>Effective date (accounting periods beginning on or after)</b>
IFRS 7 - Financial Instruments : Disclosures - (Amendments)	
- Amendments enhancing disclosures about transfers of financial Assets	01 July 2011
- Amendments enhancing disclosures about offsetting of financial assets and financial liabilities	01 January 2013
IAS 1 - Presentation of Financial Statements - Presentation of items of comprehensive income	01 July 2012
IAS 12 - Income Taxes (Amendment) - Recovery of Underlying Assets	01 January 2012
IAS 19 - Employee Benefits - (Amendment)	01 January 2013

The Company expects that the adoption of the above revisions, amendments and interpretations of the standards will not affect the Company's financial statements in the period of initial application.

In addition to the above, the following new standards have been issued by IASB which are yet to be notified by the SECP for the purpose of applicability in Pakistan.

<b>Standard</b>	<b>IASB Effective date (accounting periods beginning on or after)</b>
IFRS 9 - Financial Instruments: Classification and measurement	01 January 2015
IFRS 10 - Consolidated Financial Statements	01 January 2013
IFRS 11 - Joint Arrangements	01 January 2013
IFRS 12 - Disclosure of Interests in Other Entities	01 January 2013
IFRS 13 - Fair Value Measurement	01 January 2013

#### 4.3 Changes in accounting policies and disclosures resulting from adoption of standards, amendments and interpretations during the year

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year except as describe below:

##### New and amended standards and interpretations

The Company has adopted the following new and amended IFRS and IFRIC interpretations which became effective during the year:

- IAS 24 - Related Party Disclosures (Revised)
- IAS 32 - Financial Instruments: Presentation - Classification of Rights Issues (Amendment)
- IFRIC 14 - Prepayments of a Minimum Funding Requirement (Amendment)
- IFRIC 19 - Extinguishing Financial Liabilities with Equity Instruments

In May 2010, International Accounting Standards Board (IASB) issued amendments to various standards primarily with a view to removing inconsistencies and clarifying wording. These improvements are listed below:

- IFRS 3 - Business Combinations
  - Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS
  - Measurement of non-controlling interests (NCI)
  - Un-replaced and voluntarily replaced share-based payment awards
- IFRS 7 - Financial Instruments: Disclosures - Clarification of disclosures
- IAS 1 - Presentation of Financial Statements - Clarification of statement of changes in equity
- IAS 27 - Consolidated and Separate Financial Statements
  - Transition requirements for amendments made as a result of IAS 27 Consolidated and Separate Financial Statements
- IAS 34 - Interim Financial Reporting - Significant events and transactions
- IFRIC 13 - Customer Loyalty Programmes - Fair value of award credits

The adoption of the above standards, amendments, interpretations and improvements did not have any material effect on the financial statements.

#### 4.4 Property, plant and equipment

##### Operating fixed assets

These are stated at cost less accumulated depreciation and impairment, if any.

Leasehold land is depreciated over the period of the lease. Depreciation on all other assets is charged to income applying the straight-line method whereby the cost of an asset is written off over its estimated useful life. The rates used are stated in note 5.1 to the financial statements.

In respect of additions and deletions of assets during the year, depreciation is charged from the month of acquisition and up to the month preceding the deletion respectively.

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 asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment losses are charged to income.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit and loss account in the year the asset is derecognised.

The assets' residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end.

Maintenance and normal repairs are charged to income as and when incurred. Assets having cost of less than a predetermined material amount are charged off when purchased. Currently, such materiality amount is fixed at Rs. 40,000.

Gains and losses on disposal of fixed assets, if any, are taken to profit and loss account.

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

Capital work-in-progress is stated at cost less impairment in value, if any. It consists of expenditure incurred and advances made in respect of fixed assets in the course of their erection, acquisition and installation.

### **4.5 Employee benefits**

#### **(a) Defined contribution plan**

The Company operates an approved contributory provident fund for all permanent employees. Equal monthly contributions are made, both by the Company and the employees, to the fund at the rate of 8.33% of basic salary and cost of living allowance.

#### **(b) Defined benefit plans**

The Company operates the following approved funded schemes:

- (i) pension scheme for its Executives and Executive Director. Provision is made, annually, to cover obligations under the scheme, by way of a charge to profit and loss account, calculated in accordance with the actuarial valuation. The most recent valuation in this regard was carried out as at December 31, 2011, using the Projected Unit Credit Method; and
- (ii) gratuity scheme for all permanent and contractual employees of the Company. Provision is made, annually, to cover obligations under the scheme, by way of a charge to profit and loss account, calculated in accordance with the actuarial valuation. The most recent valuation in this regard was carried out as at December 31, 2011, using the Projected Unit Credit Method.

### **4.6 Actuarial gains and losses**

Actuarial gains and losses are recognised as income or expense when the cumulative unrecognised actuarial gains or losses as of the beginning of the period exceed 10% of the defined benefit obligation except for compensated absences. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plan.

### **4.7 Compensated absences**

The Company provides for compensated absences of its employees on unavailed leave balances in the period in which the leave is earned on the basis of accumulated leaves and the last drawn pay.

### **4.8 Stores and spares**

These are valued at weighted (moving) average cost less provision for slow moving and obsolete items wherever necessary.



#### 4.9 Stock-in-trade

These are valued at the lower of cost and NRV, except for feed meal, which is valued at NRV. Cost is determined as follows:

Raw material	-	First in First Out basis
Packing material	-	Weighted average basis
Finished goods	-	Cost of direct materials and labour plus attributable overheads on First-In-First-Out basis.

Goods in transit are stated at invoice price plus other charges paid thereon up to the balance sheet date.

Provision is made for obsolete inventory based on management's judgment.

NRV signifies the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

#### 4.10 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand, balances with banks on current and saving account.

#### 4.11 Trade debts and other receivables

These are recognised and carried at original invoice value less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off when identified.

#### 4.12 Loans and advances

These are recognised at cost, which is the fair value of the consideration given. However, an assessment is made at each balance sheet date to determine whether there is an indication that a financial asset or group of assets may be impaired. If such indication exists, the estimated recoverable amount of that asset is determined and any impairment loss is recognised for the difference between the recoverable amount and the carrying value.

#### 4.13 Trade and other payables

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

#### 4.14 Financial instruments

All the financial assets and financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. All the financial assets are derecognised at the time when the Company loses control of the contractual rights that comprise the financial assets. All financial liabilities are derecognised at the time when they are extinguished that is, when the obligation specified in the contract is discharged, cancelled, or expires. Any gains or losses on derecognition of the financial assets and financial liabilities are taken to profit and loss account currently.

#### **4.15 Taxation**

##### **Current**

The Company falls under the final tax regime under Sections 154 of the Income Tax Ordinance, 2001, to the extent of export of goods. Provision of tax on local sales and other income is based on taxable income at the rates applicable for the current tax year, after considering the rebates and tax credits available, if any. The tax charge as calculated above is compared with turnover tax under Section 113 of the Income Tax Ordinance, 2001, and whichever is higher is provided in the financial statements.

##### **Deferred**

Deferred tax is recognised, proportionate to local sales and other income, using the liability method, on all major temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that the temporary differences will reverse in the future and taxable income will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part for the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date (refer note 28).

#### **4.16 Provisions**

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

#### **4.17 Foreign currency transactions**

The financial statements are presented in Pak Rupee, which is the Company's functional and presentation currency. Foreign currency transactions during the year are recorded at the exchange rates approximating those ruling on the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange which approximate those prevailing on the balance sheet date. Gains and losses on translation are taken to income currently. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

#### **4.18 Related party transactions**

Related party transactions are stated at arm's length basis substantiated in the manner given in note 33 to the financial statements.

#### 4.19 Revenue recognition

Sales are recognised on transfer of title to the customers which generally coincides with dispatch of goods to the customers.

Profit on savings accounts is recognised on receipt basis.

Other revenues are recognised on accrual basis.

#### 4.20 Impairment

The carrying amounts of assets are reviewed at each balance sheet date to determine whether there is any indication of impairment of any asset or a group of assets. If any such indication exists, the recoverable amount of that asset is estimated and impairment losses are recognised in the profit and loss account.

#### 4.21 Borrowing Cost

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed out in the period they occur. Borrowing costs consist of interest and other cost that an entity incurs in connection with the borrowing of funds.

### 5. PROPERTY, PLANT AND EQUIPMENT

	Note	2011	2010
Rupees in thousand			
Operating fixed assets	5.1	49,110	49,185
Capital work-in-progress	5.2	317	710
		<u>49,427</u>	<u>49,895</u>



5.1.1 Fixed assets, costing Rs.1.140 million, having a net written down value of Rs.0.556 million have been written-off during the current year on account of being obsolete and redundant with no economic value.

5.1.2 Additions during the year include a sum of Rs.9.374 (2010: Rs.9.319) million transferred from capital work-in-progress, as shown in note 5.2.

5.1.3 The cost of fully depreciated assets on December 31, 2011 is Rs.46.551 (2010: Rs.23.829) million.

5.1.3 Depreciation for the year has been allocated as follows:	Note	2011	2010
		Rupees in thousand	
Cost of sales	22	6,893	6,118
Administrative expenses	24	1,097	856
		<u>7,990</u>	<u>6,974</u>

5.1.4 The details of operating fixed assets disposed off during the year are as follows:

Description	Cost	Accumulated depreciation	Net Book Value	Sale Proceeds	Mode of disposal	Particulars of buyers
Rupees in thousand						
Vehicle	698	44	654	620	Negotiation	Mr. Naseeb Khan-Karachi
	341	149	192	227	Company Policy	Mr. Muhammad Ilyas-Employee-Karachi
	664	191	473	473	-do-	Mr. Rafat Hussain-Employee-Karachi
Assets having book value less than Rs.50,000 each						
Vehicle	61	61	-	-	-do-	
Equipment	37	37	-	4	Scrap	
Furniture and fixtures	5	5	-	-	-do-	
December 31, 2011	<u>1,806</u>	<u>487</u>	<u>1,319</u>	<u>1,324</u>		
December 31, 2010	<u>3,678</u>	<u>3,168</u>	<u>510</u>	<u>1471</u>		

5.2 Capital work-in-progress	Note	2011	Additions / (transfers)	2010
		Rupees in thousand		
<b>Operating fixed assets</b>				
Building on leasehold land	5.1	317	1,823 (1,506)	-
Plant and machinery	5.1	-	2,796 (2,796)	-
Vehicle	5.1	-	4,362 (5,072)	710
	5.1.2	<u>317</u>	<u>8,981</u> <u>(9,374)</u>	<u>710</u>

6. LONG-TERM DEPOSITS	Note	2011	2010
		Rupees in thousand	
Utilities	6.1	757	757
Others		21	19
		<u>778</u>	<u>776</u>

6.1 These include deposits carrying interest at the rate ranging between 4% and 5% (2010: 4% and 5%) per annum.

	Note	2011	2010
Rupees in thousand			
<b>7. STORES AND SPARES</b>			
Stores and spares		9,640	9,183
Provision against slow moving stores and spares	7.1	(2,394)	(2,185)
		<u>7,246</u>	<u>6,998</u>
<b>7.1 Provision against slow moving stores and spares</b>			
Balance at the beginning of the year		2,185	2,251
Provision made / (written back) during the year	22	209	(66)
		<u>2,394</u>	<u>2,185</u>
<b>8. STOCK-IN-TRADE</b>			
Raw material		372,333	7,347
Packing material		2,864	2,735
Finished goods	8.1	17,317	132,809
		<u>392,514</u>	<u>142,891</u>

8.1 Included herein is a sum of Rs.7.212 (2010: Rs.43.834) million, representing stock carried at their net realisable value.

	Note	2011	2010
Rupees in thousand			
<b>9. TRADE DEBTS</b>			
<b>Considered good</b>			
Secured against letter of credit		105,505	71,664
Unsecured	9.1	15,025	4,942
		<u>120,530</u>	<u>76,606</u>

9.1 Included herein is a sum of Rs.Nil (2010: Rs.Nil) due from a related party. The maximum aggregate amount due from a related party, at the end of any month during the year was Rs. 3.773 (2010: Rs.1.825) million.

9.2 As at December 31, 2011, the ageing analysis of unimpaired trade debts is as follows:

	Total	Neither past due nor impaired	Past due but not impaired		
			1-60 days	61-120 days	Above 120 days
Rupees in thousand					
<b>2011</b>	<u>120,530</u>	<u>102,940</u>	<u>16,895</u>	<u>180</u>	<u>515</u>
2010	<u>76,606</u>	<u>76,550</u>	<u>6</u>	<u>1</u>	<u>49</u>

	Note	2011	2010
Rupees in thousand			
<b>10. LOANS AND ADVANCES</b>			
<b>Loans-secured</b>			
Employees	10.1	876	915
<b>Advances-unsecured, considered good</b>			
Employees		200	205
Suppliers		420	310
		<u>1,496</u>	<u>1,430</u>

10.1 The secured loans extended to employees are personal loans. These are granted in accordance with the terms of their employment and are secured against their retirement benefit balances. These loans are recoverable in monthly installments over a period not exceeding one year and carrying an interest charge ranging up to 16%.

	Note	2011	2010
Rupees in thousand			
<b>11. SHORT-TERM PREPAYMENTS</b>			
Fees and subscription		297	44
Others		120	135
		<u>417</u>	<u>179</u>
<b>12. OTHER RECEIVABLES</b>			
Employees' Gratuity Fund		-	1,507
Sales tax		4,489	4,331
Others		151	-
		<u>4,640</u>	<u>5,838</u>
<b>13. SHORT-TERM INVESTMENT</b>			
Term Deposit Receipts	13.1	<u>5,253</u>	<u>3,637</u>

13.1 These represent Term Deposit Receipts, having a fair value of Rs.5.118 (2010: Rs.3.600) million, placed with a commercial bank for a period of 12 months, maturing latest by November 27, 2012. The rate of return thereon, ranges between 8% and 10.5% (2010: 11%) per annum. Accrued interest of Rs.135,000 (2010: Rs.37,000) is included herein.

		2011	2010
Rupees in thousand			
<b>14. TAXATION-Net</b>			
Advance income tax		30,867	16,301
Provision for income tax	28	(28,464)	(7,409)
Income tax refundable		3,984	6,694
		<u>6,387</u>	<u>15,586</u>

15. CASH AND BANK BALANCES	Note	2011	2010
		Rupees in thousand	
<b>In hand</b>			
Local currency		219	95
Foreign currency		153	190
		372	285
<b>At banks in</b>			
<b>Current accounts</b>			
Local currency		3,568	6,778
Foreign currency		856	131
		4,424	6,909
Savings account	15.1	19,686	7,150
		<u>24,482</u>	<u>14,344</u>

15.1 These carry return at the rates, ranging between 4.5% and 5.5% (2010: 4.5% and 5.5%) per annum.

16. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL	Note	2011	2010
		Rupees in thousand	
<b>Number of shares</b>			
<u>2011</u>	<u>2010</u>		
3,634,092	3,634,092	36,341	36,341
614,460	614,460	6,145	6,145
<u>4,248,552</u>	<u>4,248,552</u>	<u>42,486</u>	<u>42,486</u>

16.1 East West Group Holding Inc., British Virgin Island-the Parent Company, held 2,549,131 (60%) [2010: 2,549,131 (60%)] Ordinary shares of Rs.10 each as at December 31, 2011.



	Note	2011	2010
Rupees in thousand			
<b>17. RESERVES</b>			
<b>Capital reserve</b>			
Share Premium on issue of Ordinary shares		17,553	17,553
<b>Revenue reserve</b>			
General		82,474	82,474
Unappropriated profit / (accumulated losses)		106,621	(21,308)
		<u>206,648</u>	<u>78,719</u>
<b>18. TRADE AND OTHER PAYABLES</b>			
<b>Trade</b>			
Creditors		84,028	8,256
<b>Other payables</b>			
Accrued liabilities	18.1	41,457	15,202
Employees' Gratuity Fund	18.2	152	-
Employees' Pension Fund	18.2	1,272	1,854
Advances from customers		146	665
Workers' Profits Participation Fund	18.4	8,399	-
Workers' Welfare Fund		3,240	48
Tax deducted at source		149	10
Unclaimed dividends		611	611
Employees' Car and Motorcycle Loan Schemes		2,220	865
		<u>141,674</u>	<u>27,511</u>

18.1 Included herein an aggregate sum of Rs.2.736 (2010: Rs.1.921) million due to related parties.

18.2 The status of the funds and principal assumptions used in the actuarial valuation as of December 31, 2011 were as follows:

	Pension Fund		Gratuity Fund	
	2011	2010	2011	2010
Rupees in thousand				
<b>Balance sheet reconciliation as at December 31,</b>				
Present value of defined benefit				
Obligation	15,577	13,376	9,629	8,295
Fair value of plan assets	(11,407)	(10,504)	(7,615)	(7,506)
Net actuarial gain not recognised	(2,898)	(1,018)	(1,862)	(2,296)
Net liability / (assets) in balance sheet	<u>1,272</u>	<u>1,854</u>	<u>152</u>	<u>(1,507)</u>
<b>Movement in asset / (liability)</b>				
Prepayment as at January 1,	1,854	2,321	(1,507)	(3,269)
Charge for the year	754	782	3,158	1,762
Contribution during the year	(1,336)	(1,249)	(1,499)	-
Liability / (prepayment) as at December 31	<u>1,272</u>	<u>1,854</u>	<u>152</u>	<u>(1,507)</u>

	Pension Fund		Gratuity Fund	
	2011	2010	2011	2010
<b>Rupees in thousand</b>				
<b>(Credit) / Expense recognised</b>				
Service cost	446	547	1,686	724
Interest cost	1,779	1,552	996	956
Expected return on plan assets	(1,471)	(1,317)	(991)	(1,125)
Net actuarial losses recognised	-	-	1,467	189
Liability of Contractual Employees	-	-	-	1,018
	<u>754</u>	<u>782</u>	<u>3,158</u>	<u>1,762</u>
<b>Actual return on plan assets</b>	<u>903</u>	<u>1,096</u>	<u>968</u>	<u>(35)</u>
<b>Movement in the defined benefit obligation</b>				
Obligation as at January 1,	13,376	11,710	8,295	6,309
Liability of Contractual Employees	-	-	-	1,018
Service cost	446	547	1,686	724
Interest cost	1,779	1,552	996	956
Benefits paid	(1,336)	(1,253)	(2,358)	(994)
Actuarial gain	1,312	820	1,010	282
Obligation as at December, 31	<u>15,577</u>	<u>13,376</u>	<u>9,629</u>	<u>8,295</u>
<b>Movement in fair value of plan Assets</b>				
Fair value as at January 1,	10,504	9,408	7,506	8,535
Expected return on plan assets	1,471	1,317	991	1,125
Employer contributions	1,336	1,249	1,499	-
Benefits paid	(1,336)	(1,253)	(2,358)	(994)
Actuarial gain	(568)	(217)	(23)	(1,160)
Fair value as at December 31,	<u>11,407</u>	<u>10,504</u>	<u>7,615</u>	<u>7,506</u>
<b>Key actuarial assumptions used are as follows:</b>				
Discount factor used	12.5%	14%	12.5%	14%
Expected rate of returns per annum on plan assets	12.5%	14%	12.5%	14%
Expected rate of increase in future salaries per annum	12.5%	14%	12.5%	14%

	2011		2010	
	Rupees '000	%	Rupees '000	%
<b>Plan assets comprise of:</b>				
<b>Funded pension plan</b>				
Bonds	4,300	37.70	3,736	35.57
Equities	1,758	15.41	6,686	63.65
Cash and net current assets	5,349	46.89	82	0.78
	<u>11,407</u>	<u>100.00</u>	<u>10,504</u>	<u>100.00</u>
<b>Funded gratuity plan</b>				
Bonds	7,608	99.91	6,930	92.33
Equities	-	-	457	6.09
Property	-	-	-	-
Cash and net current assets	7	0.09	119	1.58
	<u>7,615</u>	<u>100.00</u>	<u>7,506</u>	<u>100.00</u>

**Comparison for five years:**

	2011	2010	2009	2008	2007
	Rupees in thousand				
<b>Funded pension plan</b>					
Present value of defined benefit obligation	15,577	13,376	11,710	9,293	10,587
Fair value of plan assets	(11,407)	(10,504)	(9,408)	(6,679)	(26,387)
Deficit / (Surplus)	<u>4,170</u>	<u>2,872</u>	<u>2,302</u>	<u>2,614</u>	<u>(15,800)</u>
<b>Experience adjustment</b>					
Actuarial gain / (loss) on obligation	1,312	(820)	(1,347)	2,227	1,150
Actuarial (loss)/gain on plan assets	(568)	(221)	2,295	(7,331)	(3,091)
<b>Funded gratuity plan</b>					
Present value of defined benefit obligation	9,629	8,295	6,309	5,860	5,196
Fair value of plan assets	(7,615)	(7,506)	(8,535)	(8,315)	(8,146)
Deficit / (Surplus)	<u>2,014</u>	<u>789</u>	<u>(2,226)</u>	<u>(2,455)</u>	<u>(2,950)</u>
<b>Experience adjustment</b>					
Actuarial gain / (loss) on obligation	1,010	(282)	243	57	(791)
Actuarial (loss) / gain on plan assets	(23)	(1,160)	(454)	(449)	(99)

**18.3** The latest actuarial valuation of the Funds was carried out as of December 31, 2011 on the basis of the "Projected Unit Credit Method".

	Note	2011	2010
Rupees in thousand			
<b>18.4 Workers' Profits Participation Fund</b>			
Balance at the beginning of the year		-	567
Allocation for the year	25	<b>8,399</b>	-
		<b>8,399</b>	567
Interest on Workers' Profits Participation Fund		-	14
Payments made during the year		-	(581)
		<b>8,399</b>	-
<b>19. SHORT-TERM BORROWINGS - secured</b>			
<b>From commercial banks</b>			
Short term loans	19.1	<b>180,000</b>	165,000
Short term running finance	19.2	<b>37,667</b>	-
		<b>217,667</b>	165,000
<b>19.1 Short term loans</b>			
Export refinance loan	19.1.1	<b>180,000</b>	165,000
		<b>180,000</b>	165,000

**19.1.1** The outstanding balance represents a facility arranged by the Company for short-term loan under export refinance, aggregating to Rs.190.000 (2010: Rs.190.000) million, from various commercial banks on mark-up basis.

The loans are repayable through the realisation of export proceeds / negotiation of export bills within a maximum period of 180 days from the draw-down date. Mark-up is payable upon adjustment of loans or at quarter end, whichever is earlier, at the rate of 1.00% per annum over State Bank of Pakistan minimum export refinance rate.

#### **19.2 Short term running finance**

The Company has arranged a facility for short term running finance from a commercial bank, amounting to Rs.55.000 (2010: Rs.55.000) million. The mark-up is charged at KIBOR plus 1.50% (2010: KIBOR plus 1.50%) per annum.

The export re-finance loan, along with short term running finance are secured against first pari-passu equitable mortgage charge of Rs. 270.000 ( 2010: Rs. 270.000) million over factory premises and on company's stock and receivable aggregating to Rs. 220 million. (2010:Rs.220) million.

## 20. CONTINGENCIES AND COMMITMENTS

### 20.1 Contingencies

**20.1.1** The former employees of the Company have filed law suits against the Company, claiming an aggregate sum of Rs.8.431 million on various accounts. The management is confident, based on the advice of its legal counsel, that the same is not likely to result in any financial loss to the Company. Therefore, no provision has been made in these financial statements in this regard.

**20.1.2** During the tax assessment year 2002-2003, the Taxation Officer did not allow commission expenses, amounting to Rs.1.815 million, in the calculation of taxable income. The Company has filed a rectification application in this regard. Based on the legal advice from the Tax Consultant, the management is of the view that the final outcome of the above referred matter will be in favour of the Company and, hence, no provision has been made for any liability that may arise as a result of this matter in these financial statements.

**20.1.3** A letter of guarantee, amounting to Rs.5.118 million (2010: Rs. 3.600) million in Term Deposits Receipt (note 13.1) has been issued by a commercial bank on behalf of the Company.

### 20.2 Commitments

**20.2.1** Commitment for capital expenditure

## 21. NET SALES

### Gross sales

	2011	2010
	Rupees in thousand	
Local	384,474	185,472
Export	<u>1,076,405</u>	<u>555,440</u>
	<u>1,460,879</u>	<u>740,912</u>
Sales commission	<u>(10,007)</u>	<u>(6,514)</u>
Discounts	<u>(94)</u>	<u>(281)</u>
	<u>(10,101)</u>	<u>(6,795)</u>
	<u>1,450,778</u>	<u>734,117</u>

	Note	2011	2010
Rupees in thousand			
<b>22. COST OF SALES</b>			
<b>Raw material consumed</b>			
Opening stock		7,347	79,719
Purchases		1,261,401	410,793
		<u>1,268,748</u>	<u>490,512</u>
Closing stock		(372,333)	(7,347)
		<u>896,415</u>	<u>483,165</u>
<b>Packing material consumed</b>			
Opening stock		2,735	3,318
Purchases		16,016	12,244
		<u>18,751</u>	<u>15,562</u>
Closing stock		(2,864)	(2,735)
		<u>15,887</u>	<u>12,827</u>
		<u>912,302</u>	<u>495,992</u>
<b>Manufacturing overheads</b>			
Stores and spares consumed		18,899	15,124
Salaries, wages and benefits	22.1	39,516	24,959
Provision made / (Written back) against slow moving stores and spares	7.1	209	(66)
Utilities		84,359	74,349
Depreciation	5.1.3	6,893	6,118
Repairs and maintenance		4,379	2,097
Handling charges		4,805	3,525
Rent, rates and taxes		3,273	2,106
Insurance		968	967
Traveling and conveyance		1,148	987
Laboratory expenses		257	215
Research and development		81	-
Communication		96	96
Others		153	167
		<u>165,036</u>	<u>130,644</u>
<b>Cost of goods manufactured</b>		<u>1,077,338</u>	<u>626,636</u>
Opening stock of finished goods		132,809	217,151
		<u>1,210,147</u>	<u>843,787</u>
Closing stock		(17,317)	(132,809)
		<u>1,192,830</u>	<u>710,978</u>

**22.1** Included herein is a sum of Rs.1.970 (2010: Rs.1.01) million in respect of staff retirement benefits.

	Note	2011	2010
Rupees in thousand			
<b>23. DISTRIBUTION AND SHIPPING COSTS</b>			
Sales promotion expenses		556	975
Freight		8,614	11,332
Port expenses		7,018	6,381
Cartage outward		1,666	1,446
Marine insurance		459	300
		<u>18,313</u>	<u>20,434</u>

#### 24. ADMINISTRATIVE EXPENSES

Salaries and benefits	24.1	34,491	18,402
Travelling and conveyance		3,485	1,311
Depreciation	5.1.3	1,097	856
Communication		1,197	1,155
Security service charges		577	672
Repairs and maintenance		372	219
Insurance		261	124
Printing and stationery		576	277
Auditors' remuneration	24.2	594	450
Subscriptions		492	406
Legal and professional charges		1,530	1,586
Utilities		460	278
Entertainment		616	485
Donation	24.3	200	100
Rent, rates and taxes		176	186
Advertisement		110	76
Others		176	62
		<u>46,410</u>	<u>26,645</u>

**24.1** Included herein is a sum of Rs.1.942 (2010: Rs.1.533) million in respect of staff retirement benefits.

#### 24.2 Auditors' remuneration

	2011	2010
Rupees in thousand		
Audit fee	300	300
Review of Code of Corporate Governance compliance and half yearly financial statements	185	75
Other services	-	15
Out of pocket expenses	109	60
	<u>594</u>	<u>450</u>

**24.3** This represents donation given to Al-Khidmat Welfare Trust. None of the directors or their spouses have any interest in the donee's funds.

	Note	2011	2010
Rupees in thousand			
<b>25. OTHER OPERATING EXPENSES</b>			
Workers' Profits Participation Fund	18.4	8,399	-
Workers' Welfare Fund		3,192	-
Operating fixed assets written-off		556	-
		<u>12,147</u>	<u>-</u>
<b>26. OTHER OPERATING INCOME</b>			
<b>Return on:</b>			
Term Deposit accounts		653	632
Savings account		259	130
		912	762
<b>Markup on:</b>			
Loan to employees		11	-
Gain on sale of operating fixed assets		5	961
Exchange gain		2,285	2
		<u>3,213</u>	<u>1,725</u>
<b>27. FINANCE COSTS</b>			
<b>Mark-up on:</b>			
Export refinance loan		20,205	14,750
Short-term running finance		4,471	2,856
Bank charges		3,222	2,591
Interest on Workers' Profit Participation Fund		-	14
		<u>27,898</u>	<u>20,211</u>
<b>28. TAXATION</b>			
Current	28.1	28,464	7,409
		<u>28,464</u>	<u>7,409</u>
<b>28.1 Relationship between accounting profit and tax expense</b>			
Profit / (Loss) before taxation		<u>156,393</u>	<u>(42,426)</u>
Tax at the rate of 35%		54,738	-
Minimum tax at the rate of 1% on turnover		-	7,409
<b>Tax effects of:</b>			
Effect of tax under final tax regime and other adjustments-net		(26,274)	-
		<u>28,464</u>	<u>7,409</u>

The income tax assessments of the Company have been finalised up to and including the tax year 2011, corresponding to the income year ended December 31, 2010.



## Deferred

A major portion of the Company's income is subject to taxation on the 'Final Tax' under Section 169 of the Income Tax Ordinance, 2001. Accordingly, a significant part of the Company's tax liability is determined on the basis of withholding tax deductions made, irrespective of profit. Further, there is no material temporary difference between the tax and accounting bases of carrying value of assets and liabilities. Therefore, the tax effects of temporary differences, which might determine deferred taxation, are not considered to be significant. Hence, no deferred taxes have been recognised in these financial statements.

	2011	2010
	Rupees in thousand	
<b>29. EARNINGS / (LOSS) PER SHARE</b>		
There is no dilutive effect on the basic earnings per share of the Company, which is based on:		
Net profit / (loss) for the year	<u>127,929</u>	<u>(49,835)</u>
	<b>Number of shares</b>	
Ordinary shares in issue during the year	<u>4,248,552</u>	<u>4,248,552</u>
	<b>R u p e e s</b>	
Earnings / (Loss) per share - Basic	<u>30.11</u>	<u>(11.73)</u>
	Note	
<b>30. CASH GENERATED FROM OPERATIONS</b>	2011	2010
	Rupees in thousand	
Profit / (Loss) before taxation	156,393	(42,426)
<b>Adjustments for non-cash items</b>		
Depreciation	7,990	6,974
Fixed assets written off	556	-
Finance costs	24,676	20,211
Provision against compensated absences	1,602	607
Provision for bonus	24,715	2,134
Provision for slow moving stores and spares	209	(66)
Gain on disposal of fixed assets	(5)	(961)
Profit on term deposit & saving accounts	(912)	(762)
Profit on loan to employees	(11)	-
	<u>58,820</u>	<u>28,137</u>
<b>Operating profit / (loss) before working capital changes</b>	<u>215,213</u>	<u>(14,289)</u>
Working capital changes	30.1 <u>(201,955)</u>	<u>132,599</u>
	<u>13,258</u>	<u>118,310</u>
<b>30.1 Working capital changes</b>		
<b>(Increase) / decrease in current assets</b>		
Stores and spares	(457)	(1,077)
Stock-in-trade	(249,623)	157,297
Trade debts	(43,924)	(23,796)
Advances	(66)	195
Short-term prepayments	(238)	448
Other receivables	1,198	16,468
	<u>(293,110)</u>	<u>149,535</u>
<b>Increase / (decrease) in current liabilities</b>		
Trade and other payables	79,564	(16,369)
Workers' Profit Participation Fund	8,399	(567)
Workers' Welfare Fund	3,192	-
	<u>91,155</u>	<u>(16,936)</u>
	<u>201,955</u>	<u>132,599</u>

### 31. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

31.1 The aggregate amounts charged in the financial statements for the year are as follows :

	CHIEF EXECUTIVE		DIRECTORS		EXECUTIVES		TOTAL	
	2011	2010	2011	2010	2011	2010	2011	2010
	<b>Rupees in thousand</b>							
Managerial remuneration	1,935	1,890	2,004	1,906	2,821	2,373	6,760	6,169
Housing	871	850	578	534	1,269	1,068	2,718	2,452
Retirement benefits	-	256	229	178	1,271	165	1,500	599
Bonus	-	235	153	148	376	297	529	680
Medical expenses	200	55	1,448	93	169	159	1,817	307
Utilities	194	189	128	119	282	237	604	545
	<b>3,200</b>	<b>3,475</b>	<b>4,540</b>	<b>2,978</b>	<b>6,188</b>	<b>4,299</b>	<b>13,928</b>	<b>10,752</b>
Number	<b>1</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>8</b>	<b>5</b>	<b>11</b>	<b>8</b>

31.2 The Chief Executive and one of the Directors are also provided with the Company maintained cars and other benefits in accordance with their terms of employment.

31.3 Six Non-Executive Directors (2010: Six) were paid fees to attend the meetings, aggregating Rs.0.360 (2010: Rs.0.340) million.

### 32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's activities expose it to a variety of financial risks i.e. market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

The Company's senior management oversees the management of these risks. The Company's senior management provides policies for overall risk management, as well as policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of financial derivatives, financial instruments and investment of excess liquidity. It is the Company's policy that no trading in derivatives for speculative purposes shall be undertaken.

The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below:

#### 32.1 Market risk

Market risk is the risk that fair value of future cash flows will fluctuate because of changes in market prices. Market prices comprise three types of risk: currency risk, interest rate risk and other price risk, such as equity risk.

Financial instruments affected by market risk include trade debtors, trade payables, bank balances and short-term loan.

##### 32.1.1 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of change in market interest rates. The Company's exposure to the risk of change in market interest rate relates primarily to the Company's liability against short-term borrowings with floating interest rate.

The Company's policy is to keep its short-term borrowings at the lowest level by effectively utilising the positive cash and bank balances.

### Interest rate profile of financial instruments

At the reporting date, the interest rate profile of the Company's interest bearing financial instruments was as follows:

	2011	2010
	Rupees in thousand	
<b>Financial liability</b>		
Short-term borrowings	<u>217,667</u>	<u>165,000</u>

### Sensitivity analysis

A change of 100 basis points (1%) in interest rate at the reporting date would have changed Company's profit before tax for the year and equity by the amounts shown below, with all other variables held constant.

		2011	2010
Change in interest rate	±	1.00%	1.00%
Effect on profit before tax (Rs.000's)	±	247	176
Effect on equity (Rs.000's)	±	160	114

### 32.1.2 Foreign Currency Risk

Foreign currency risk is the risk that the value of financial assets or a financial liability will fluctuate due to a change in a foreign exchange rates. It arises mainly where receivables and payables exist due to transactions in foreign currency. The Company's exposure to foreign currency risk is as follows:

	2011	2010
	Rupees in thousand	
Bank balances	<u>856</u>	<u>131</u>
Trade debts	<u>105,505</u>	<u>71,664</u>
The following significant exchange rates have been applied at the reporting dates:		
Exchange rate (US Dollar)	<u>89.6</u>	<u>85.7</u>

The foreign currency exposure is partly covered as the majority of the Company's billing is determined in dollars which is converted into rupees at the exchange rate prevailing at the transaction date. The Company has assessed that hedging its foreign currency borrowings will be more expensive than assuming the risk itself.

### Sensitivity analysis:

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate, with all other variables held constant, of the Company's profit before tax and the Company's equity.

	Change in US dollar rate (%)	Effect On profit / (loss) Effect on equity	
		Rupees in thousand	
December 31, 2011	+10	10,636	6,913
	-10	(10,636)	(6,913)
December 31, 2010	+10	7,180	4,667
	-10	(7,180)	(4,677)

### 32.1.3 Equity price risk

Equity price risk is the risk of loss arising from movements in prices of equity investments. The Company is not exposed to any equity price risk, as the Company does not have any investment in equity shares.

### 32.2 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Concentration of credit risk arises when a number of counterparties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentration of credit risk indicates the relative sensitivity of the Company's performance to developments affecting a particular industry.

The Company is mainly exposed to credit risk on trade debts and bank balances. The Company seeks to minimise the credit risk exposure through having exposure only to customers considered credit worthy and obtaining securities where applicable.

#### Quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings or the historical information about counter party default rates as shown below:

	Carrying values	
	2011	2010
<b>32.2.1 Trade debts</b>	Rupees in thousand	
Customers with no defaults in the past one year	120,530	76,606
<b>32.2.2 Bank balances</b>		
The carrying values of bank balances are analysed as follows:		
Held with banks having a short-term rating of A1+	23,944	13,503

### 32.3 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company applies prudent liquidity risk management by maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities.

Table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted payments. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	On Demand	Less than 3 months	3 to 12 months	1 to 5 years	5 years	Total
Rupees in thousand						
Trade and other payables	105,035	33,399	3,240	-	-	141,674
Accrued mark-up	-	4,695	-	-	-	4,695
Short-term loan	-	-	217,667	-	-	217,667
<b>2011</b>	<b>105,035</b>	<b>38,094</b>	<b>220,907</b>	<b>-</b>	<b>-</b>	<b>364,036</b>
Trade and other payables	3,884	22,714	48	865	-	27,511
Accrued mark-up	-	4,464	-	-	-	4,464
Short-term loan	-	-	165,000	-	-	165,000
<b>2010</b>	<b>3,884</b>	<b>27,178</b>	<b>165,048</b>	<b>865</b>	<b>-</b>	<b>196,975</b>

Effective interest / yield rates for the financial liabilities are mentioned in the respective notes to the financial statements.

### 32.4 Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms length transaction.

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values.

### 32.5 Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

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

No changes were made in the objectives, policies or processes during the years ended December 31, 2011 and December 31, 2010.

The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Company's policy is to keep the gearing ratio between 40% and 65%. The Company includes within net debt, interest bearing loans and borrowings, trade and other payables, accrued mark-up less cash and cash equivalents. Capital includes, equity attributable to the equity holders add revenue reserve.

	2011	2010
	Rupees in thousand	
Short-term borrowings	217,667	165,000
Trade and other payables	141,674	27,511
Mark-up accrued on short-term borrowings	4,695	4,464
Cash and bank balances	<u>(24,482)</u>	<u>(14,344)</u>
<b>Net debt</b>	<b>339,554</b>	182,631
Issued, subscribed and paid-up capital	42,486	42,486
Share Premium	17,553	17,553
Revenue reserve	189,095	61,166
Total capital	<u>249,134</u>	<u>121,205</u>
<b>Capital and net debt</b>	<b><u>588,688</u></b>	<b><u>303,836</u></b>
Gearing ratio	<b>58%</b>	60%

### 33. TRANSACTIONS WITH RELATED PARTIES

The related parties of the Company comprise of associated company, employees' provident fund, employees' pension fund and staff gratuity fund, directors and key management personnel of the Company. The Company in the normal course of business carries out transactions with various related parties. Amounts due from and to related parties, amounts due from executives and remuneration of directors and executives are disclosed in the relevant notes.

#### Terms and conditions of transactions with related parties

The transactions with the related parties are made at normal market prices. Outstanding balances are disclosed in the respective notes. There have been no guarantees provided or received for any related party receivables or payables. For the year ended December 31, 2011, the Company has not made any provision for doubtful debts relating to amounts owed by related parties (2010: Nil). An assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates. Other material transactions with related parties are given below:

	Note	2011	2010
Rupees in thousand			
<b>Orkila Pakistan (Private) Limited - Associated company</b>			
Sale of goods		6,193	3,378
Commission on sales		4,041	1,269
<b>Shipwell (Private) Limited - Associated company</b>			
Sale of goods		-	111
Commission on sales		4,317	2,368
<b>IAL Pakistan (Private) Limited - Associated Company</b>			
Freight Forwarding		29	45
Logistics		1,450	1,463
<b>Staff retirement benefit plan</b>			
Contribution to staff retirement funds		757	800
	Note	2011	2010
<b>34. CAPACITY AND PRODUCTION</b>			
Metric Tons			
Installed capacity (Seed processing)		35,000	35,000
Actual seed processing	34.1	17,636	8,638

**34.1** Actual seeds processing was increased as a result of increased orders for sales during the current year, and in anticipation of increased sales in future. The current capacity was under utilized on account of energy shortages.

### 35. CORRESPONDING FIGURES

Following major corresponding figures have been reclassified for the purposes of better representation:

To	From	Rupees in thousands
Short-term investment	Accrued mark-up	37
Short-term investment	Cash and bank balances	3,600

As the reclassification is considered not to be material in the overall context of the balance sheet and does not have any significant impact on the financial statements for the year ended December 31, 2009, therefore, the Company has not presented the balance sheet as at the beginning of the earliest comparative period presented (i.e. December 31, 2010) and the related notes have also not been presented as of the beginning of that earliest period presented. The related figure for reclassification in 2009 is Rs.3.637 million. The aforesaid reclassification has not had any impact on the figures of total assets as of December 31, 2009 and 2010.

### 36. DIVIDEND AND APPROPRIATION

In the meeting held on March 2, 2012, the Board of Directors of the Company recommended a final cash dividend of Rs.8.00 per share for the year ended December 31, 2011, for approval of the members at the Annual General Meeting to be held on March 30, 2012. These financial statements do not reflect these appropriations and the dividend payable.

### 37. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on March 2, 2012 by the Board of Directors of the Company.

### 38. GENERAL

Amounts have been rounded off to the nearest thousand rupees.



**Mohammad Moonis**  
*Chairman*



**Hamid Ahmed**  
*Chief Executive Officer*



**Muhammad Ilyas**  
*Chief Financial Officer*



**PATTERN OF SHAREHOLDINGS  
AS AT DECEMBER 31, 2011**

<b>SIZE OF HOLDING Rs.10/- EACH</b>	<b>NUMBER OF SHAREHOLDERS</b>	<b>NUMBER OF SHARES HELD</b>	<b>PERCENTAGE OF ISSUED CAPITAL</b>
1 - 100	126	3,532	0.08
101 - 500	137	27,494	0.65
501 - 1,000	31	22,972	0.54
1,001 - 5,000	36	76,231	1.79
5,001 - 10,000	8	63,193	1.49
10,001 - 15,000	3	34,800	0.82
15,001 - 20,000	1	18,101	0.43
20,001 - 25,000	2	45,469	1.07
35,001 - 40,000	2	71,205	1.68
45,001 - 50,000	2	96,469	2.27
65,001 - 70,000	1	68,585	1.61
90,001 - 95,000	1	90,750	2.14
95,001 - 100,000	1	97,057	2.28
200,000 - 205,000	1	200,904	4.73
325,001 - 330,000	1	329,725	7.76
450,001 - 455,000	1	452,934	10.66
2,500,001 - 3,000,000	1	2,549,131	60.00
	<u>355</u>	<u>4,248,552</u>	<u>100.00</u>

**ADDITIONAL INFORMATION**

<b>Category No.</b>	<b>Categories of Share Holders</b>	<b>NUMBER OF SHARES HELD</b>	<b>PERCENTAGE</b>
1	<b>Individual</b>	653,740	15.39
2	<b>Joint Stock Companies</b>	99,318	2.34
3	<b>Directors, Chief Executive Officer, their Spouse and Minor Children</b>		
	i. Mr. Mohammad Moonis	200,904	4.73
	ii. Mr. Mohammad Ali Hanafi	1,600	0.04
	iii. Mr. M. Aslam Hanafi	55,176	1.30
	iv. Mr. Shuaib Ahmed	452,934	10.66
	v. Mr. Ozair Ahmed Hanafi	2,059	0.05
	vi. Mr. Tariq Mohamed Amin	1,000	0.02
	vii. Mr. Zahid Zaheer	1,000	0.02
	viii. Mr. Zaeem A. Hanafi	1,000	0.02
	ix. Mrs. Farah Zaeem Hanafi	145	0.00
	x. Mrs. Kehkashan Hanafi	7,260	0.17
4	Associated Company	2,549,131	60.00
5	Banks, DFIs, NBFIs, Insurance Companies, Investment Cos., Modarbas & Mutual Fund	216,025	5.08
6	Charitable Trust	7,260	0.17
	<b>Total</b>	<b>4,248,552</b>	<b>100.00</b>

**Shareholders holding 10% or more voting interest**

East West Group Holdings Inc.	2,549,131	60.00
Mr. Shuaib Ahmed	452,934	10.66

**PROXY FORM**  
**49<sup>th</sup> ANNUAL GENERAL MEETING OF THE COMPANY**

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I, \_\_\_\_\_ (Name)  
of \_\_\_\_\_ (Address)

being a member of PAKISTAN GUM & CHEMICALS LIMITED and holder of \_\_\_\_\_  
Ordinary Shares as per Register Folio No./CDC Participant's ID and Account No. \_\_\_\_\_  
\_\_\_\_\_

hereby appoint \_\_\_\_\_ (Name)  
of \_\_\_\_\_ (Address)

as my proxy to vote for me and on my behalf at the 49<sup>th</sup> **ANNUAL GENERAL MEETING** of the  
Company to be held on Friday, the 30<sup>th</sup> of March 2012 and at any adjournment thereof.

Signed by me/us this \_\_\_\_\_ day of \_\_\_\_\_ 2012

\_\_\_\_\_  
Signature of Proxy

Signature on  
Revenue Stamp

Signature of Shareholder, must  
be in accordance with the  
Specimen signature registered  
with the company

Witness : \_\_\_\_\_  
(Signature)

Name: \_\_\_\_\_

Address : \_\_\_\_\_  
\_\_\_\_\_

**Note:**

1. The proxy in order to be valid must be signed across five rupees revenue stamp and should be deposited with the Company not later than 48 hours before the time of holding the meeting.
2. CDC Shareholders and their proxies must attach either an attested photocopy of their CNIC or Passport with this Proxy Form.