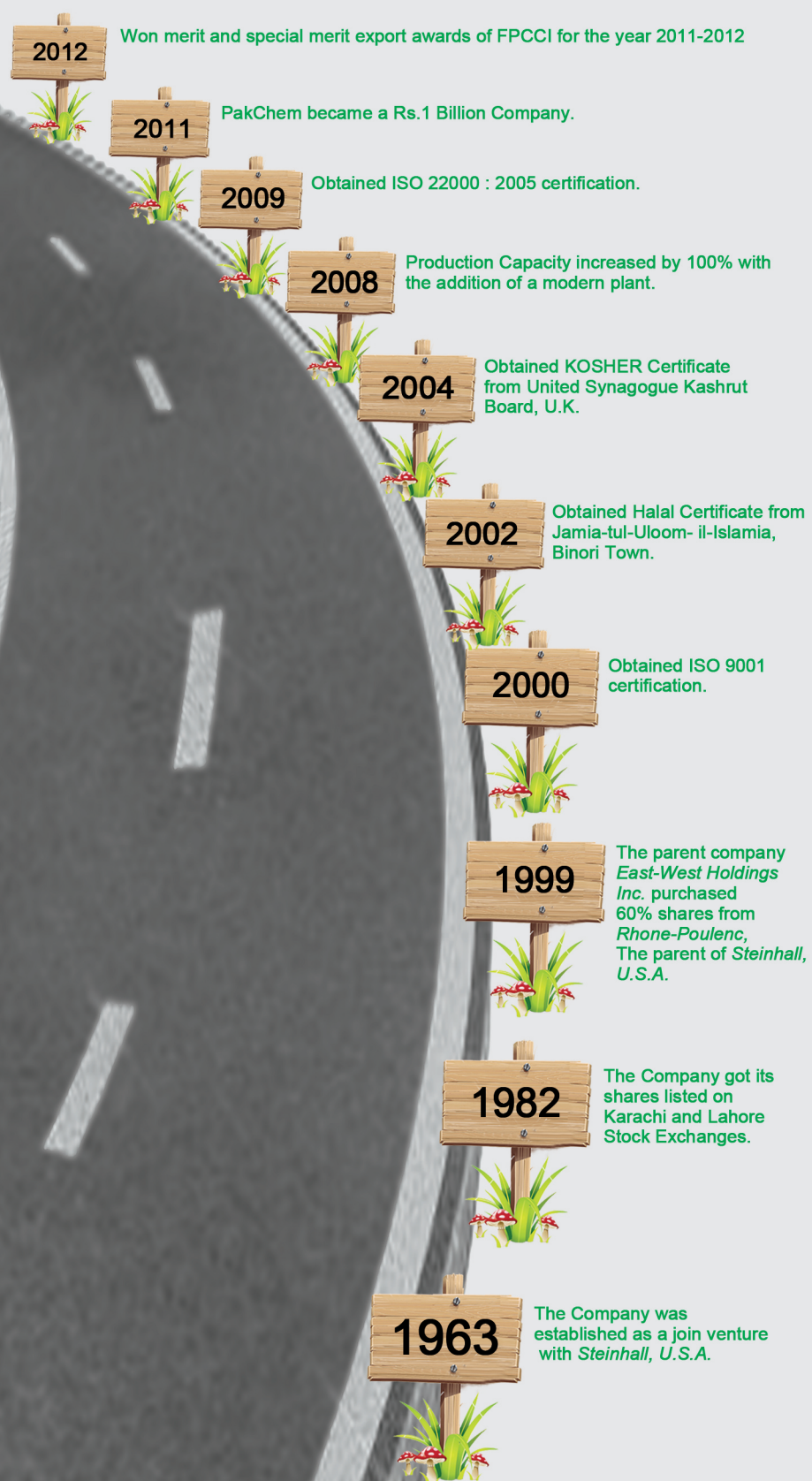


## FIFTY YEARS AT A GLANCE



## TEN YEARS SUMMARY OF STATISTICS

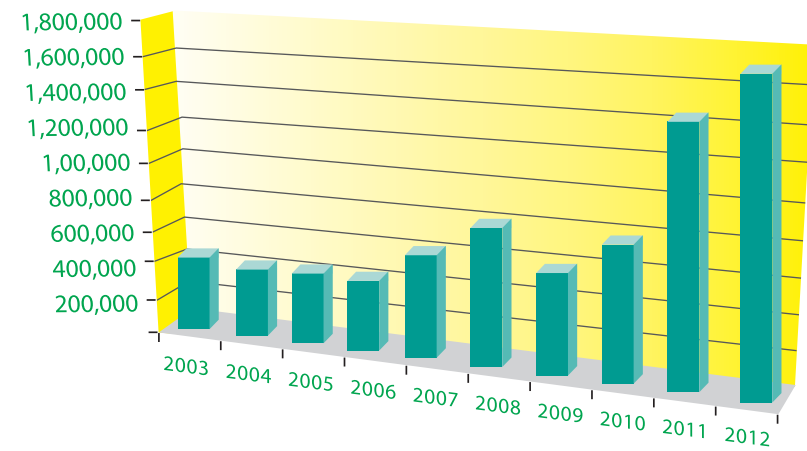
(Rupees in Thousands)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Operating assets	15,644	14,223	16,859	19,326	23,773	27,800	44,955	49,185	49,110	57,557
Capital work-in-progress	595	2,854	2,998	5,088	2,549	16,087	4,425	710	317	30,815
Long-term Loans, Deposits & Retirement Benefits	12,311	22,583	23,002	24,393	770	770	776	776	778	862
Net current and other assets	80,317	87,257	95,811	73,397	109,735	142,253	125,133	70,534	198,929	373,027
Total assets employed	108,867	126,917	138,670	122,204	136,827	186,910	175,289	121,205	249,134	462,261
Ordinary capital	29,260	29,260	32,186	35,405	35,405	42,486	42,486	42,486	42,486	42,486
Reserves	79,607	97,657	106,484	86,799	101,422	144,424	132,803	78,719	206,648	416,598
Long term and deferred liabilities	-	-	-	-	-	-	-	-	-	3,177
Total funds employed	108,867	126,917	138,670	122,204	136,827	186,910	175,289	121,205	249,134	462,261
Net turnover	423,333	396,889	439,231	429,011	615,936	782,752	566,982	734,117	1,450,778	1,726,433
Profit/(Loss) before taxation	22,732	32,029	29,342	(3,111)	20,695	40,501	10,728	(42,426)	156,393	267,072
% of net sales	5.37	8.07	6.68	(0.73)	3.36	5.17	1.89	(5.78)	10.78	15.47
% of average assets employed	22.55	27.17	22.10	(2.39)	15.98	25.02	5.92	(28.62)	84.46	75.08
Profit / (Loss) after taxation	17,132	26,829	23,457	(6,811)	14,623	32,530	5,373	(49,835)	127,929	243,938
Cash dividend - amount	8,778	11,704	9,656	-	7,081	16,994	4,249	-	33,989	-
Bonus Shares - %	-	10	10	-	-	-	-	-	-	-
Right Shares - %	-	-	-	-	20	-	-	-	-	-
Cash dividend - %	30	40	30	-	20	40	10	-	80	-
Earnings/(Loss) per share Rs.	5.86	9.17	7.29	(1.92)	4.13	8.04	1.26	(11.73)	30.11	57.42
Break-up value	37.21	43.38	43.08	34.52	38.65	43.99	41.26	28.53	58.64	108.06
No. of shares	2,926	2,926	3,219	3,541	3,541	4,249	4,249	4,249	4,249	4,249

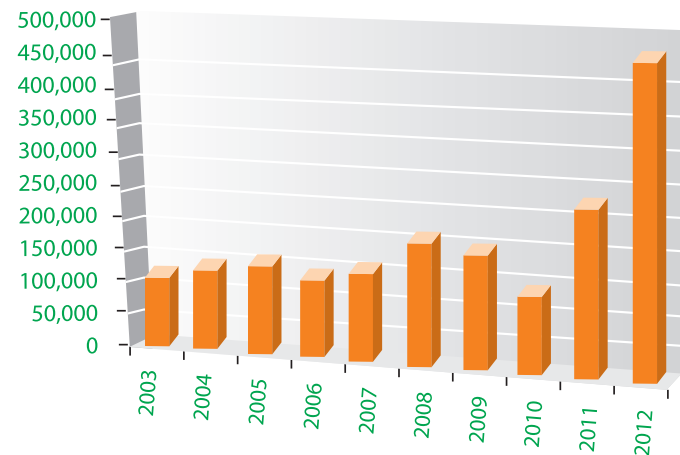
\* From 2007 retirement benefits are included in Net current & other assets instead of Long-term Loans, Deposits and Retirement Benefits.

GRAPHICAL PRESENTATION

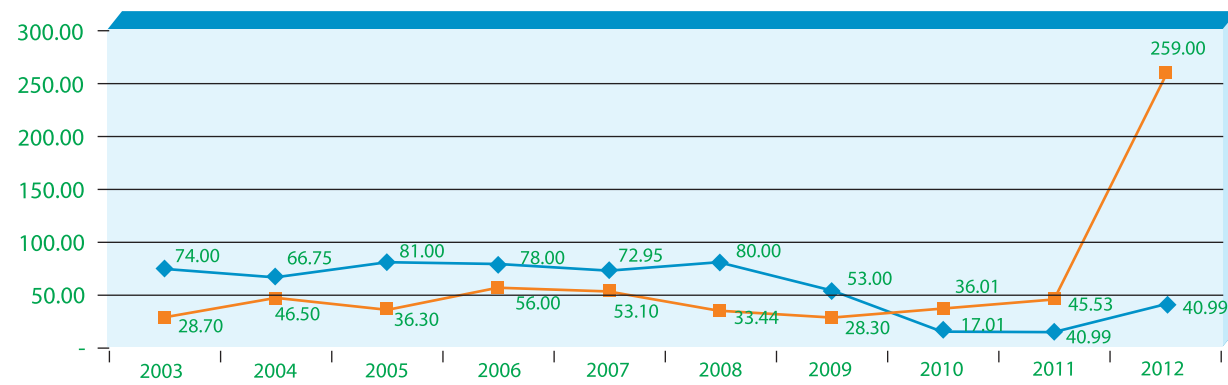
Sales -Net Rupees in '000



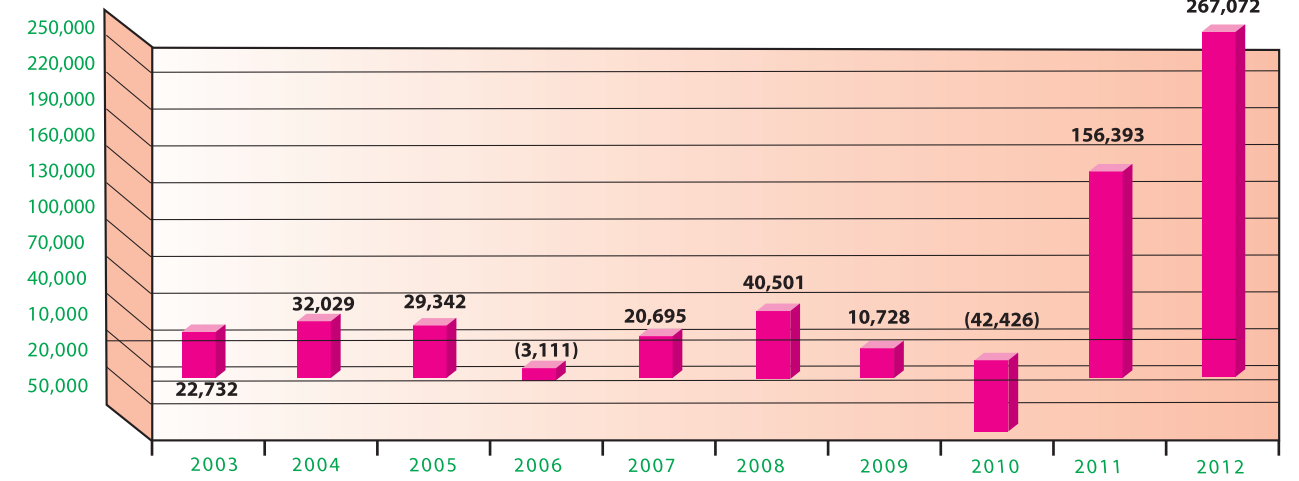
Shareholders Equity Rupees in '000



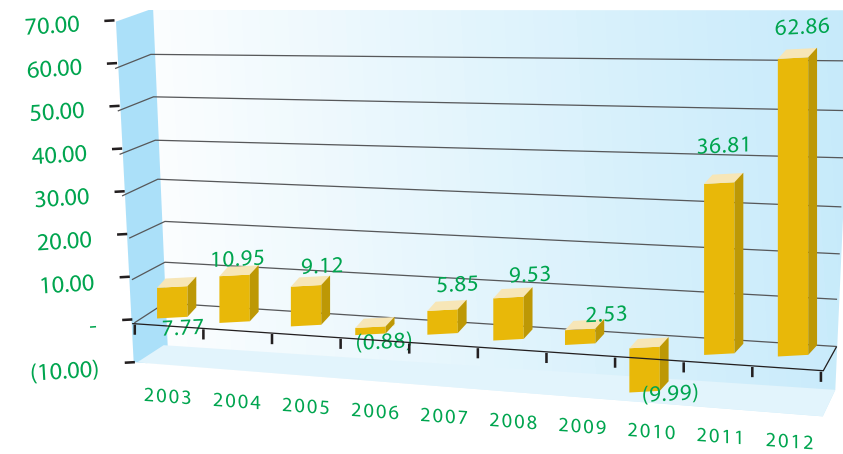
Share Price Movement Rupees



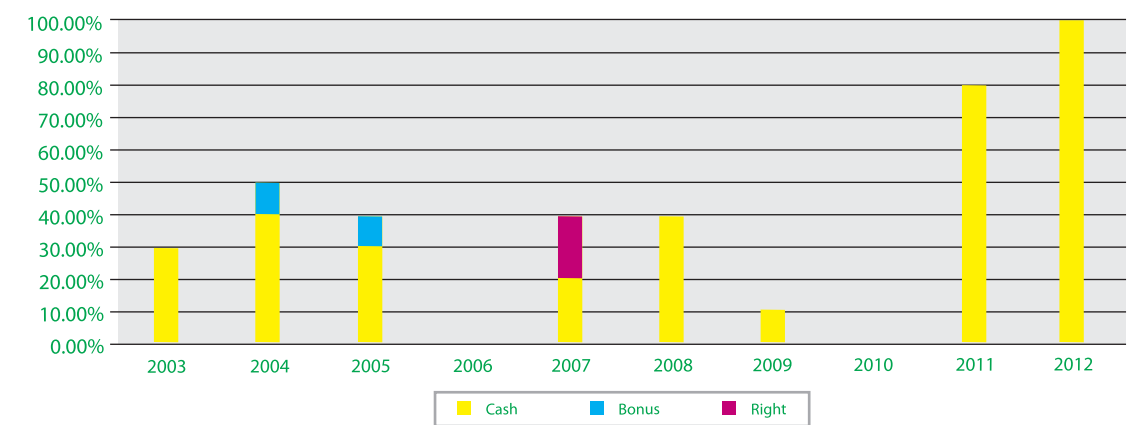
Profit/(Loss) Before Taxation Rupees in '000



Earning/(Loss) per share based on before taxation Rupees



Dividend Payout





## NOTICE OF MEETING

NOTICE IS HEREBY given that the 50th Annual General Meeting of Pakistan Gum & Chemicals Limited, will be held on Thursday, April 11, 2013 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

- To receive, consider and adopt the Annual Audited Accounts for the year ended December 31, 2012 together with the Directors' and Auditors' reports thereon.
- To consider and approve payment of dividend at Rs.10/- per share (100%) to the shareholders for the year ended December 31, 2012 as recommended by the Board of Directors.
- To appoint auditors and to fix their remuneration.

By Order of the Board  
Muhammad Ilyas  
Company Secretary  
Karachi: March 4, 2013

### Notes:

- The Share Transfer Books of the Company will remain closed from April 4, 2013 to April 11, 2013 (both days inclusive). Transfers received in order at the office of the Registrar of the Company M/s. Evaluation Factor (Pvt.) Limited (Formerly Corporate Support Services (Private) Ltd.), 407-408, Al-Ameera Centre, Shahrah-e-Iraq, Saddar, Karachi by the close of business on April 3, 2013 will be treated in time for the purpose of payment of dividend to the transferees, and to attend the meeting.
- 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.
- 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.
- 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

On behalf of the Board of Directors, it gives us great pleasure to welcome you to the 50th 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.1,726 million vis-à-vis Rs.1,451 million for the corresponding period of 2011, registering an increase of 19%. Exports in terms of value increased by 35% in spite of strong competition from Guar Gum manufacturers from across the border who had some advantages like export rebate and regular power supply. Local sales, however, decreased by 27% from Rs. 384 million in 2011 to Rs. 282 million in 2012. Operating profit was Rs. 281 million as compared to the operating profit of Rs. 184 million in 2011. Profit after tax for the year was Rs.244 million compared to profit after tax of Rs.128 million in year 2011.

### Manufacturing

We successfully managed to deliver all sales orders even though at times it was difficult to do so according to the schedule due to frequent electricity and gas outages. Preventive and corrective measures were well in place to avoid any major mechanical break down. Management has planned continuous modernization of the plant with more 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.44.27 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	4	
Mr. Ozair Ahmed Hanafi	5	
Mr. Tariq Mohamed Amin	5	
Mr. Zaeem Ahmad Hanafi	3	
Mr. Zahid Zaheer	5	
Mr. Mohammad Ali Hanafi	5	

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

Description	Purchase of Shares (No.)	Sales of Shares (No.)
Directors	-	2,000
Chief Financial Officer	-	-
Company Secretary	-	-
Spouses and minor children of Directors, CFO and Company Secretary	-	145

#### Dividend

The Board of Directors is pleased to recommend 100% final cash dividend.

#### Future Outlook

The guar gum market changed globally last year. High selling prices as a result of high seed prices have brought about a significant drop in demand particularly from the oil and gas field industry. Although prices are somewhat lower now than its peak in 2012 yet it is not low enough to attract large scale interest from international customers. However, the Company continues to explore new markets to widen its customer base.

The new crop both in India and Pakistan is reportedly larger than that of last year, although inclement weather and heavy rains have damaged the crop, particularly in Punjab.

Utilities as well as other costs have risen further. In this difficult situation, the management is doing all it can to focus on profit through cost control and improvement in production process. However, unless there is revival of demand from oil and gas industry to the level seen in the first half of 2012, we do not expect 2013 earnings to be anywhere close to 2012.

#### Appropriations

	Rupees in '000
Net Profit for the year before taxation	267,072
Provision for taxation	(23,134)
Net Profit for the year after taxation	243,938
Accumulated Profit/(loss) brought forward	-
	243,938
Appropriations	
Proposed Cash Dividend	(42,486)
Proposed Bonus Shares	-
Transfer to General Reserve	(201,452)
	(243,938)
Unappropriated profit carried forward	-
Earning per share	57.42

#### Pattern of shareholdings

The pattern of shareholdings of the Company as at December 31, 2012 is given on page 62 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, Chartered Accountants, Karachi, retire and being eligible, offer themselves for re-appointment.

#### Acknowledgement

We shall be failing in our duty if we do not commend the management and the staff for their dedicated hard work in the year 2012. We extend our most sincere thanks to them with best wishes for 2013.

By order of the Board

**Hamid Ahmed**  
 Chief Executive Officer

**Mohammad Moonis**  
 Chairman

## STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

**Name of company:** PAKISAN GUM & CHEMICALS LIMITED  
**Year ending:** DECEMBER 31, 2012

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 35 of listing regulations of Karachi and Lahore Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

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

- The company encourages representation of independent non-executive directors. At present the board includes:

Category	Names
Independent Directors	Mr. Tariq Mohamed Amin Mr. Zahid Zaheer
Executive Director	Mr. Ozair Ahmed Hanafi Mr. Mohammad Asalm Hanafi
Non-Executive Director	Mr. Mohammad Moonis Mr. Shuaib Ahmed Mr. Mohammad Ali Hanafi Mr. Zaeem Ahmad Hanafi

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

- The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this company.
- 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 NBF1 or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
- No casual vacancy occurred on the board during the year.
- The company has prepared a "Code of Conduct" and has ensured that appropriate steps have been taken to disseminate it throughout the company along with its supporting policies and procedures.
- 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.
- 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, other executive and non-executive directors, have been taken by the board.
- 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.
- The board arranged one training program for its director during the year 2012.
- No new appointments of the Chief Financial Officer (CFO), Company Secretary and Internal Auditor were made during the year. However, any changes to the remuneration, terms and conditions of the employment of CFO, Company Secretary and Head of Internal Audit have been determined by the Chief Executive Officer with the approval of the Board of Directors.



11. The directors' report for this year has been prepared in compliance with the requirements of the CCG and fully describes the salient matters required to be disclosed.
12. The financial statements of the company were duly endorsed by CEO and CFO before approval of the board.
13. The directors, CEO and executives do not hold any interest in the shares of the company other than that disclosed in the pattern of shareholding.
14. The company has complied with all the corporate and financial reporting requirements of the CCG.
15. The board has formed an Audit Committee. It comprises of three members, all of whom are non-executive directors and the chairman of the committee is an independent director.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the company and as required by the CCG. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The board had formed an HR and Remuneration Committee since before the CCG requirement, called Personnel & Compensation Committee. It comprises of three members, of whom two are non-executive directors and the chairman of the committee is an independent director.
18. The board has set up effective internal audit function comprising of an auditor who is suitably experienced for the purpose and is conversant with the policies and procedures of the company. With regard to his qualification, SECP has granted relaxation from the educational qualification requirements as required by the Code.
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. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of company's securities, was determined and intimated to directors, employees and stock exchange(s).
22. During the year there was no material/price sensitive information which should have been disseminated among the market participants through stock exchange(s).
23. We confirm that all other material principles enshrined in the CCG have been complied with except:
  - the Board evaluation, towards which a reasonable progress is being made by the Company seek compliance by the end of next accounting year end, and
  - The position of the CFO and Company Secretary is currently being held by the same person..

  
**Mohammad Moonis**  
 Chairman

**Karachi: March 4, 2013**

  
**Hamid Ahmed**  
 Chief Executive Officer

## 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 (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 of the respective stock exchanges, 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 risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Further, the Listing Regulations require 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 2012.

**KARACHI: March 4, 2013**

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

## AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of PAKISTAN GUM AND CHEMICALS LIMITED as at 31 December 2012 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- b) in our opinion:
  - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied, except for the changes as stated in note 4.2 to the 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 2012 and of the profit, its comprehensive income, 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.

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

**Audit Engagement Partner's Name: Khurram Jameel**

Date: March 04, 2013

Place: Karachi

# FINANCIAL STATEMENTS



## BALANCE SHEET AS AT DECEMBER 31, 2012

	Note	December 31, 2012	December 31, 2011
Rupees in '000			
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	5	88,372	49,427
Long-term deposits	6	862	778
		89,234	50,205
<b>CURRENT ASSETS</b>			
Stores and spares	7	11,766	7,246
Stock-in-trade	8	35,828	392,514
Trade debts	9	36,785	120,530
Loans and advances	10	4,867	1,496
Short-term prepayments	11	415	417
Other receivables	12	582	4,640
Short-term investments	13	309,384	5,253
Taxation – net		1,869	6,387
Cash and bank balances	14	36,693	24,482
		438,189	562,965
<b>TOTAL ASSETS</b>		<b>527,423</b>	<b>613,170</b>
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
Share capital			
Authorised			
10,000,000 (2011: 10,000,000) Ordinary shares of Rs.10 each		100,000	100,000
Issued, subscribed and paid-up capital	15	42,486	42,486
Reserves	16	416,598	206,648
		459,084	249,134
<b>NON-CURRENT LIABILITIES</b>			
Liabilities against assets subject to finance lease	17	3,177	-
<b>CURRENT LIABILITIES</b>			
Trade and other payables	18	63,220	141,674
Accrued markup		-	4,695
Short-term borrowings	19	-	217,667
Current maturity of liabilities against assets subject to finance lease	17	1,942	-
		65,162	364,036
<b>CONTINGENCIES AND COMMITMENTS</b>			
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>527,423</b>	<b>613,170</b>

The annexed notes 1 to 37 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, 2012

	Note	December 31, 2012	December 31, 2011
Rupees in '000			
<b>NET SALES</b>			
	21	1,726,433	1,450,778
Cost of sales	22	(1,369,564)	(1,192,830)
<b>GROSS PROFIT</b>		356,869	257,948
Distribution and shipping costs	23	(18,471)	(18,313)
Administrative expenses	24	(51,417)	(46,410)
Other operating expenses	25	(19,792)	(12,147)
Other operating income	26	13,740	3,213
		(75,940)	(73,657)
<b>OPERATING PROFIT</b>		280,929	184,291
Finance costs	27	(13,857)	(27,898)
<b>PROFIT BEFORE TAXATION</b>		267,072	156,393
Taxation	28	(23,134)	(28,464)
<b>NET PROFIT FOR THE YEAR</b>		243,938	127,929
		Rupees	
<b>EARNINGS PER SHARE – BASIC AND DILUTED</b>	29	57.42	30.11

The annexed notes 1 to 37 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, 2012

	December 31, 2012	December 31, 2011
	Rupees in '000	
<b>Net profit for the year</b>	<b>243,938</b>	<b>127,929</b>
Other comprehensive income	-	-
<b>Total comprehensive income for the year</b>	<b>243,938</b>	<b>127,929</b>

The annexed notes 1 to 37 form an integral part of these financial statements.

## CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2012

Note	December 31, 2012	December 31, 2011
	Rupees in '000	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
	663,143	13,258
30	(18,616)	(19,265)
	(22,949)	(3,309)
	(84)	(2)
	<b>621,494</b>	<b>(9,318)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
	(42,818)	(9,397)
	1,788	1,324
	6,951	825
	-	(1,518)
	<b>(34,079)</b>	<b>(8,766)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
	(217,667)	52,667
	(1,073)	-
	(18,552)	(24,445)
	(33,792)	-
	<b>(271,084)</b>	<b>28,222</b>
	316,331	10,138
	24,482	14,344
	<b>340,813</b>	<b>24,482</b>
31		

The annexed notes 1 to 37 form an integral part of these financial statements.

  
**Mohammad Moonis**  
Chairman

  
**Hamid Ahmed**  
Chief Executive Officer

  
**Muhammad Ilyas**  
Chief Financial Officer

  
**Mohammad Moonis**  
Chairman

  
**Hamid Ahmed**  
Chief Executive Officer

  
**Muhammad Ilyas**  
Chief Financial Officer

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2012

	Revenue Reserves				Total
	Share capital	Capital reserve	General reserve	Unappropriated profit	
	-----Rupees'000-----				
<b>Balance as at January 01, 2011</b>	42,486	17,553	82,474	(21,308)	121,205
Net profit for the year	-	-	-	127,929	127,929
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	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>249,134</b>
Cash dividend @ Rs.8 per share	-	-	-	(33,988)	(33,988)
Transferred to general reserve	-	-	72,633	(72,633)	-
Net profit for the year	-	-	-	243,938	243,938
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	-	-	243,938	243,938
<b>Balance as at December 31, 2012</b>	<b>42,486</b>	<b>17,553</b>	<b>155,107</b>	<b>243,938</b>	<b>459,084</b>

The annexed notes 1 to 37 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, 2012

### 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 (IASB) 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. 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.

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.

## 4.2 Standards, amendments and interpretations adopted 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 follows:

The Company has adapted the following amendments to IFRSs which became effective for the current year:

IFRS 7 - Financial Instruments: Disclosure - Enhanced De-recognition Disclosure Requirements (Amendment)

IAS 12 - Income Taxes – Recovery of Underlying Assets (Amendment)

The adoption of the above amendments did not have any material effect on the financial statements.

## 4.3 Standards, amendments and interpretations 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:

Standard or Interpretation	Effective date (annual periods beginning on or after)
IFRS 7 - Financial Instruments: Disclosures – (Amendments) Amendments enhancing disclosures about offsetting of financial assets and financial liabilities	January 01, 2013
IAS 1 - Presentation of Financial Statements – Presentation of items of comprehensive income	July 01, 2012
IAS 19 - Employee Benefits – (Revised)	January 01, 2013
IAS 32 - Offsetting Financial Assets and Financial Liabilities (Amendment)	January 01, 2014
IFRIC 20 - Shipping Costs in the Production Phase of a Surface Mine	January 01, 2013

The Company expects that the adoption of the above revisions and amendments of the standards will not materially affect the Company's financial statements in the period of initial application other than the amendments to IAS-19 'Employee Benefits'. Such amendments range from fundamental changes to simple clarifications and re-wording. The significant changes include the following:

- For defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e., the corridor approach) has been removed. As revised, actuarial gains and losses are recognised in other comprehensive income when they occur. Amounts recorded in profit and loss will remain limited to current and past service costs, gains or losses on settlements, and net interest income (expense). All other changes in the net defined benefit asset (liability) will recognise in other comprehensive income with no subsequent recycling to profit and loss.
- Objectives for disclosures of defined benefit plans are explicitly stated in the revised standard, along with new or revised disclosure requirements. These new disclosures include quantitative information of the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption.

In addition to above amendments, improvements to various accounting standards have also been issued by the IASB. Such improvements are generally effective for accounting periods beginning on or after January 01, 2013. The Company expects that such improvements will not have any material impact on the Company's financial statements in the period of initial application.

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

Standard	IASB Effective date (annual periods beginning on or after)
IFRS 9 – Financial Instruments: Classification and Measurement	January 01, 2015
IFRS 10 – Consolidated Financial Statements	January 01, 2013
IFRS 11 – Joint Arrangements	January 01, 2013
IFRS 12 – Disclosure of Interests in Other Entities	January 01, 2013
IFRS 13 – Fair Value Measurement	January 01, 2013

## 4.4 Property, plant and equipment

### 4.4.1 Operating fixed assets

#### Owned

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, whereas major renewals are capitalized to the respective item of fixed assets.

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

#### Leased

Assets subject to finance lease are stated at lower of the present value of minimum lease payments under the lease agreement and fair value of the asset. The related obligations of the lease are accounted for as liabilities. Assets acquired under finance lease are depreciated over the useful life of the assets on the same basis as of owned assets.

#### 4.4.2 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; and
- (ii) gratuity scheme for all permanent 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.

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.

##### (c) 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.

#### 4.6 Stores and spares

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

#### 4.7 Stock-in-trade

These are valued at the lower of cost and net realisable value, except for the by-products, which are valued at net realisable value. 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. |

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

#### 4.8 Cash and cash equivalents

There are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand, bank balances and short-term investments having a maturity of three months or less from the date of acquisition.

#### 4.9 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.

#### 4.10 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.

#### 4.11 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.

#### 4.12 Financial instruments

Financial assets and financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. 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.

**4.13 Investments**

All investments are initially recognised at cost being the fair value of the consideration given including acquisition charges associated with the investments. Investments where the intention of the Company to hold such investments till maturity are stated at amortised cost. The amount of any discount or premium is amortised over a period of investments.

**4.14 Taxation**

**Current**

The Company falls under the final tax regime under Section 169 of the Income Tax Ordinance, 2001. Provision for tax on 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.

**Deferred**

Since the income of the Company is subject to tax under final tax regime, no deferred tax liability has been accounted for in these financial statements as the Company's tax liability will be assessed under the said regime and, hence, no temporary differences are likely to arise in respect of sales whereas, temporary differences in respect of other income are expected to be negligible.

**4.15 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.

**4.16 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.

**4.17 Revenue recognition**

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

Return on bank deposits and term deposit receipts are recognised on accrual basis.

**5. PROPERTY, PLANT AND EQUIPMENT**

	Note	December 31, 2012	December 31, 2012
Rupees in '000			
Operating fixed assets	5.1	57,557	49,110
Capital work-in-progress	5.2	30,815	317
		<u>88,372</u>	<u>49,427</u>

**5.1 Operating fixed assets**

	COST		As at December 31, 2012	Rate %	ACCUMULATED DEPRECIATION		As at December 31, 2012	WRITTEN DOWN VALUE As at December 31, 2012
	As at January 01, 2012	Additions			(Disposals)	As at January 01, 2012		
Rupees in '000								
<b>December 31, 2012</b>								
<b>Owned</b>								
Leasehold land	225	-	-	225	1.01	2	110	115
Building on leasehold land	21,090	1,927	-	23,017	3 to 10	933	17,053	5,964
Plant and machinery	86,978	6,883	(450)	93,411	7 & 10	5,230	58,434	34,977
Furniture and fixtures	1,138	109	-	1,247	10 & 15	24	1,111	136
Vehicles	9,883	1,260	(2,913)	8,230	15 & 20	1,106	2,333	5,897
Office equipment	11,361	442	-	11,803	10 to 33	635	8,539	3,264
Electrical installations	756	-	-	756	7 & 10	50	694	62
	131,431	10,621	(3,363)	138,689		7,980	88,274	50,415
<b>Leased</b>								
Vehicles	-	7,891	-	7,891	15	749	749	7,142
	131,431	18,512	(3,363)	146,580		8,729	89,023	57,557
Rupees in '000								
<b>December 31, 2011</b>								
<b>Owned</b>								
Leasehold land	225	-	-	225	1.01	2	108	117
Building on leasehold land	19,801	1,506	-	21,090	3 to 10	770	16,120	4,970
Plant and machinery	85,105	2,796	(217)*	86,978	7 & 10	5,323	(200)*	33,374
Furniture and fixtures	1,143	-	(5)	1,138	10 & 15	16	(5)	51
Vehicles	6,438	5,209	(1,764)	9,883	15 & 20	1,222	(445)	7,029
Office equipment	11,119	279	(37)	11,361	10 to 33	608	(37)	3,457
Electrical installations	756	-	-	756	7 & 10	49	644	112
	124,587	9,790	(1,806)	131,431		7,990	(487)	49,110
			(1,140)*				(584)*	

5.1.1 The cost of fully depreciated assets on December 31, 2012 is Rs.47.091 (2011: Rs.46.551) million.

5.1.2 Depreciation for the year has been allocated as follows:

Cost of sales  
Administrative expenses

Note	December 31, 2012	December 31, 2011
Rupees in '000		
22	6,968	6,893
24	1,761	1,097
	<u>8,729</u>	<u>7,990</u>

5.1.3 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 '000						
Plant and machinery	450	400	50	50	Negotiation	Mr. S.M. Haider - Employee, Karachi
Vehicles	819	287	532	593	-do-	Mr. Jawwad Mehfooz - Employee, Karachi
	866	574	292	303	-do-	Mr. Aslam Hanafi - Employee, Karachi
	715	277	438	400	-do-	Mr. Naseeb Khan, Karachi
	43	19	24	27	-do-	Mr. Saleem Khan - Employee, Karachi
	470	470	-	415	-do-	
December 31, 2012	<u>3,363</u>	<u>2,027</u>	<u>1,336</u>	<u>1,788</u>		
December 31, 2011	<u>1,806</u>	<u>487</u>	<u>1,319</u>	<u>1,324</u>		

## 5.2 Capital work-in-progress

Building on leasehold land  
Plant and machinery  
Furniture and fixture  
Vehicles

December 31, 2012	Additions / (transfers)	December 31, 2011
Rupees in '000		
9,682	11,292	317
19,306	(1,927)	-
-	24,665	-
-	(5,359)	-
1,827	109	-
	(109)	-
	3,087	-
	(1,260)	-
<u>30,815</u>	<u>39,153</u>	<u>317</u>
	<u>(8,655)</u>	

## 6. LONG-TERM DEPOSITS

Utilities  
Others

Note	December 31, 2012	December 31, 2011
Rupees in '000		
6.1	757	757
	105	21
	<u>862</u>	<u>778</u>

6.1 These include deposits carrying interest at the rates ranging between 4% and 5% (2011: 4% and 5%) per annum.

## 7. STORES AND SPARES

Stores and spares  
Provision against slow moving stores and spares

7.1 Provision against slow moving stores and spares

Balance at the beginning of the year  
Provision made during the year

Note	December 31, 2012	December 31, 2011
Rupees in '000		
	14,384	9,640
7.1	(2,618)	(2,394)
	<u>11,766</u>	<u>7,246</u>
	2,394	2,185
22	224	209
	<u>2,618</u>	<u>2,394</u>

## 8. STOCK-IN-TRADE

Raw material  
Packing material  
Finished goods

8.1 Includes stock-in-trade carried at net realizable value amounting to Rs.8.138 (2011: Rs.7.212) million.

Note	December 31, 2012	December 31, 2011
	-	372,333
	2,764	2,864
8.1	33,064	17,317
	<u>35,828</u>	<u>392,514</u>

## 9. TRADE DEBTS

Considered good  
Secured – against letter of credit  
Unsecured

Considered doubtful  
Unsecured  
Provision against doubtful debts

Note	December 31, 2012	December 31, 2011
	35,938	105,505
	847	15,025
	<u>36,785</u>	<u>120,530</u>
	287	-
24	(287)	-
	<u>-</u>	<u>-</u>
	<u>36,785</u>	<u>120,530</u>

9.1 As at December 31, 2012, 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 '000					
2012	<u>36,785</u>	<u>36,750</u>	<u>-</u>	<u>14</u>	<u>21</u>
2011	<u>120,530</u>	<u>102,940</u>	<u>16,895</u>	<u>180</u>	<u>515</u>



**10. LOANS AND ADVANCES**

	Note	December 31, 2012	December 31, 2011
Rupees in '000			
Loans - secured Employees	10.1	3,573	876
Advances - unsecured, considered good Employees Suppliers		402 892	200 420
		<u>4,867</u>	<u>1,496</u>

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

**11. SHORT-TERM PREPAYMENTS**

Fees and subscription	268	297
Others	147	120
	<u>415</u>	<u>417</u>

**12. OTHER RECEIVABLES**

Sales tax	1,934	4,489
Others	-	151
	1,934	4,640
Provision against doubtful receivables	(1,352)	-
	<u>582</u>	<u>4,640</u>

**13. SHORT-TERM INVESTMENTS – held to maturity**

Term Deposit Receipts	13.1	309,384	5,253
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**13.1** These carry interest rates ranging between 8.5% and 10.5% (2011: 8%) per annum, maturing latest by November 27, 2013. Accrued interest of Rs.4.266 (2011: Rs.0.135) million is included herein.

**14. CASH AND BANK BALANCES**

<b>In hand</b>			
Local currency		106	219
Foreign currency		239	153
		345	372
<b>At banks in</b>			
Current accounts			
Local currency		7,442	3,568
Foreign currency		910	856
		8,352	4,424
Savings accounts – local currency	14.1	27,996	19,686
		<u>36,693</u>	<u>24,482</u>

**14.1** These carry interest rates, ranging between 4.5% and 5.5% (2011: 4.5% and 5.5%) per annum.

**15. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL**

Number of Shares			December 31, 2012	December 31, 2011
2012	2011		Rupees in '000	
3,634,092	3,634,092	Ordinary shares of Rs.10 each, fully paid in cash	36,341	36,341
614,460	614,460	Ordinary shares of Rs.10 each, issued as fully paid bonus shares	6,145	6,145
<u>4,248,552</u>	<u>4,248,552</u>		<u>42,486</u>	<u>42,486</u>

**15.1** East West Group Holding Inc., British Virgin Island - the Parent Company, held 2,549,131 (60%) [2011: 2,549,131 (60%)] Ordinary shares of Rs.10 each as at December 31, 2012.

**16. RESERVES**

Capital reserve			
Share Premium on issue of Ordinary shares		17,553	17,553
Revenue reserves			
General		155,107	82,474
Unappropriated profit		243,938	106,621
		<u>416,598</u>	<u>206,648</u>

**17. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE**

The Company has entered into a finance lease agreement with a bank in respect of vehicles. The rate of returns used as the discounting factor is one year's KIBOR plus 2% per annum. The amount of future lease payments together with the present value of the minimum lease payments and the periods during which they fall due are as follows:

	2012		2011	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Rupees in '000				
Within one year	2,551	1,942	-	-
After one year but not more than five years	3,527	3,177	-	-
Total minimum lease payments	<u>6,078</u>	<u>5,119</u>	-	-
Finance charges allocated to future periods	(959)	-	-	-
Present value of minimum lease payments	5,119	5,119	-	-
Current maturity shown under current liabilities	(1,942)	(1,942)	-	-
	<u>3,177</u>	<u>3,177</u>	-	-

**18. TRADE AND OTHER PAYABLES**

	Note	December 31, 2012	December 31, 2011
Rupees in '000			
Trade Creditors		1,527	84,028
Other payables			
Accrued liabilities	18.1	4,325	13,907
Employees' Pension Fund	18.2	1,060	152
Employees' Gratuity Fund	18.2	2,074	1,272
Compensated absences		3,276	2,550
Bonus to employees		25,000	25,000
Advances from customers		423	146
Workers' Profits Participation Fund	18.4	14,345	8,399
Workers' Welfare Fund		7,526	3,240
Tax deducted at source		138	149
Unclaimed dividends		806	611
Employees' Car and Motorcycle Loan Schemes		2,720	2,220
		<u>63,220</u>	<u>141,674</u>

**18.1** Included herein an aggregate sum of Rs.0.050 (2011: Rs.2.736) million due to related parties.

**18.2** The status of the funds as of December 31, 2012 were as follows:

	Pension Fund		Gratuity Fund	
	2012	2011	2012	2011
Rs. in '000				
<b>Balance sheet reconciliation as at December 31</b>				
Present value of defined benefit obligation	15,800	15,577	11,986	9,629
Fair value of plan assets	(14,677)	(11,407)	(7,308)	(7,615)
Net actuarial gain / (loss) not recognised	951	(2,898)	(3,618)	(1,862)
Net liability / (asset) in balance sheet	<u>2,074</u>	<u>1,272</u>	<u>1,060</u>	<u>152</u>
<b>Movement in (asset) / liability</b>				
Prepayment as at January 1,	1,272	1,854	152	(1,507)
Charge for the year	2,247	754	2,197	3,158
Contribution during the year	(1,445)	(1,336)	(1,289)	(1,499)
Liability as at December 31	<u>2,074</u>	<u>1,272</u>	<u>1,060</u>	<u>152</u>
<b>(Credit) / Expense recognised</b>				
Service cost	476	446	1,091	1,686
Interest cost	1,857	1,779	1,055	996
Expected return on plan assets	(1,426)	(1,471)	(848)	(991)
Net actuarial losses recognised	1,340	-	899	1,467
	<u>2,247</u>	<u>754</u>	<u>2,197</u>	<u>3,158</u>
<b>Actual return on plan assets</b>	<u>3,270</u>	<u>903</u>	<u>788</u>	<u>968</u>

**Movement in the defined benefit obligation**

	Pension Fund		Gratuity Fund	
	2012	2011	2012	2011
Rs. in '000				
Obligation as at January 1,	15,577	13,376	9,629	8,295
Service cost	476	446	1,091	1,686
Interest cost	1,857	1,779	1,055	996
Benefits paid	(1,445)	(1,336)	(2,384)	(2,358)
Actuarial (gain) / loss	(665)	1,312	2,595	1,010
Obligation as at December, 31	<u>15,800</u>	<u>15,577</u>	<u>11,986</u>	<u>9,629</u>

**Movement in fair value of plan assets**

	Pension Fund		Gratuity Fund	
	2012	2011	2012	2011
Rs. in '000				
Fair value as at January 1,	11,407	10,504	7,615	7,506
Expected return on plan assets	1,426	1,471	848	991
Employer contributions	1,445	1,336	1,289	1,499
Benefits paid	(1,445)	(1,336)	(2,384)	(2,358)
Actuarial gain / (loss)	1,844	(568)	(60)	(23)
Fair value as at December 31,	<u>14,677</u>	<u>11,407</u>	<u>7,308</u>	<u>7,615</u>

**Key actuarial assumptions used are as follows:**

Discount factor used	11.50%	12.5%	11.50%	12.5%
Expected rate of returns per annum on plan assets	11.50%	12.5%	11.50%	12.5%
Expected rate of increase in future salaries per annum	11.50%	12.5%	11.50%	12.5%

**Plan assets comprise of:**

**Funded pension plan**

	2012		2011	
	Rupees '000	%	Rupees '000	%
Bonds	10,218	69.62	4,300	37.70
Equities	1,671	11.39	1,758	15.41
Cash and net current assets	2,788	18.99	5,349	46.89
	<u>14,677</u>	<u>100.00</u>	<u>11,407</u>	<u>100.00</u>

**Funded gratuity plan**

Bonds	-	-	7,608	99.91
Equities	-	-	-	-
Property	-	-	-	-
Cash and net current assets	7,308	100.00	7	0.09
	<u>7,308</u>	<u>100.00</u>	<u>7,615</u>	<u>100.00</u>

Comparison for five years:

	2012	2011	2010	2009	2008
	Rupees in '000				
<b>Funded pension plan</b>					
Present value of defined benefit obligation	15,800	15,577	13,376	11,710	9,293
Fair value of plan assets	(14,677)	(11,407)	(10,504)	(9,408)	(6,679)
Deficit / (surplus)	<u>1,123</u>	<u>4,170</u>	<u>2,872</u>	<u>2,302</u>	<u>2,614</u>

	2012	2011	2010	2009	2008
<b>Rupees in '000</b>					
<b>Experience adjustment</b>					
Actuarial loss / (gain) on obligation	(665)	1,312	820	(1,347)	2,227
Actuarial (loss) / gain on plan assets	1,844	(568)	(217)	2,295	(7,331)
<b>Funded gratuity plan</b>					
Present value of defined benefit					
Obligation	11,986	9,629	8,295	6,309	5,860
Fair value of plan assets	(7,308)	(7,615)	(7,506)	(8,535)	(8,315)
Deficit / (surplus)	4,678	2,014	789	(2,226)	(2,455)
<b>Experience adjustment</b>					
Actuarial (gain) / loss on obligation	2,595	1,010	(282)	243	57
Actuarial gain / (loss) on plan assets	(60)	(23)	(1,160)	(454)	(449)

**18.3** The latest actuarial valuation of the Funds was carried out as of December 31, 2012 on the basis of the "Projected Unit Credit Method".

**18.4** Workers' Profits Participation Fund

	Note	December 31, 2012	December 31, 2011
<b>Rupees in '000</b>			
Balance at the beginning of the year		8,399	-
Allocation for the year	25	14,345	8,399
		22,744	8,399
Interest on Workers' Profits Participation Fund	27	287	-
Payment made during the year		(8,686)	-
		14,345	8,399
		-	217,667

**19. SHORT-TERM BORROWINGS**

**19.1** The Company has obtained short-term finance facilities from various banks amounting to Rs.315.000 (2011: Rs.315.000) million, which remained unutilised as of the balance sheet date.

**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.9.031 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.

**20.2 Commitments**

- 20.2.1 Commitment for capital expenditure
- 20.2.2 Outstanding letter of guarantees

Note	December 31, 2012	December 31, 2011
<b>Rupees in '000</b>		
	21,618	81
	5,118	5,118
<b>Gross sales</b>		
Local	281,596	384,474
Export	1,454,692	1,076,405
	1,736,288	1,460,879
Sales commission	(9,287)	(10,007)
Discounts	(568)	(94)
	(9,855)	(10,101)
	1,726,433	1,450,778

**21. NET SALES**

**Gross sales**

- Local
- Export

- Sales commission
- Discounts



**22. COST OF SALES****Raw material consumed**

	December 31, 2012	December 31, 2011
Opening stock	372,333	7,347
Purchases	868,481	1,261,401
	1,240,814	1,268,748
Closing stock	-	(372,333)
	1,240,814	896,415

**Packing material consumed**

	December 31, 2012	December 31, 2011
Opening stock	2,864	2,735
Purchases	11,122	16,016
	13,986	18,751
Closing stock	(2,764)	(2,864)
	11,222	15,887
	1,252,036	912,302

**Manufacturing overheads**

	December 31, 2012	December 31, 2011
Stores and spares consumed	12,497	18,899
Salaries, wages and benefits	37,777	39,516
Provision against slow moving stores and spares	224	209
Utilities	63,450	84,359
Depreciation	6,968	6,893
Repairs and maintenance	4,973	4,379
Handling charges	2,652	4,805
Rent, rates and taxes	1,332	3,273
Insurance	1,088	968
Traveling and conveyance	1,560	1,148
Laboratory expenses	197	257
Research and development	336	81
Communication	101	96
Others	120	153
	133,275	165,036

**Cost of goods manufactured**

	December 31, 2012	December 31, 2011
Opening stock of finished goods	17,317	132,809
	1,402,628	1,210,147
Closing stock of finished goods	(33,064)	(17,317)
	1,369,564	1,192,830

**22.1** Included herein is a sum of Rs.1.723 (2011: Rs.1.970) million in respect of staff retirement benefits.

**23. DISTRIBUTION AND SHIPPING COSTS**

	December 31, 2012	December 31, 2011
Sales promotion expenses	1,643	556
Freight expenses	10,253	10,280
Port expenses	6,344	7,018
Marine insurance	231	459
	18,471	18,313

**24. ADMINISTRATIVE EXPENSES**

	December 31, 2012	December 31, 2011
Salaries and benefits	37,088	34,491
Travelling and conveyance	2,622	3,485
Depreciation	1,761	1,097
Communication	1,293	1,197
Security service charges	663	577
Repairs and maintenance	559	372
Insurance	351	261
Printing and stationery	787	576
Auditors' remuneration	495	594
Subscriptions	867	492
Legal and professional charges	1,463	1,530
Utilities	43	460
Entertainment	820	616
Donation	-	200
Provision against debts considered doubtful	287	-
Provision against doubtful receivable	1,544	-
Rent, rates and taxes	561	176
Advertisement	100	110
Others	113	176
	51,417	46,410

**24.1** Included herein is a sum of Rs.2.721 (2011: Rs.1.942) million in respect of staff retirement benefits.

**24.2 Auditors' remuneration**

	December 31, 2012	December 31, 2011
Audit fee	300	300
Fee for half yearly review	60	60
Fee for Code of Corporate Governance and other certificates	15	125
Out of pocket expenses	120	109
	495	594

**25. OTHER OPERATING EXPENSES**

	December 31, 2012	December 31, 2011
Workers' Profits Participation Fund	14,345	8,399
Workers' Welfare Fund	5,447	3,192
Fixed assets written-off	-	556
	19,792	12,147

**26. OTHER OPERATING INCOME**

	December 31, 2012	December 31, 2011
Interest on:		
Term deposit receipts	10,496	653
Bank deposits	519	259
Loans to employees	67	11
	11,082	923
Gain on sale of fixed assets	452	5
Exchange gain	2,206	2,285
	13,740	3,213

**27. FINANCE COSTS**

	December 31, 2012	December 31, 2011
Interest on:		
Short-term borrowings	9,402	24,676
Lease financing	533	-
Workers' Profits Participation Fund	287	-
Bank charges	3,635	3,222
	<u>13,857</u>	<u>27,898</u>

**28. TAXATION**

	December 31, 2012	December 31, 2011
Current	22,000	28,464
Prior	1,134	-
	<u>23,134</u>	<u>28,464</u>

**28.1** The relationship between tax expense and accounting profit has not been presented in these financial statements as the total income of the Company falls under the final tax regime and is taxed at the rate of 1% of total sales.

**28.2** The income tax assessments of the Company have been finalised up to and including the tax year 2012, corresponding to the income year ended December 31, 2011.

**29. EARNINGS PER SHARE – BASIC AND DILUTED**

There is no dilutive effect on the basic earnings per share of the Company, which is based on:

Net profit for the year	243,938	127,929
	<b>Number of shares</b>	
Ordinary shares in issue during the year	4,248,552	4,248,552
	<b>Rupees</b>	
Earnings per share – basic and diluted	57.42	30.11

**30. CASH GENERATED FROM OPERATIONS**

	December 31, 2012	December 31, 2011
	<b>Rupees in '000</b>	
Profit before taxation	267,072	156,393
<b>Adjustments for non-cash items</b>		
Depreciation	8,729	7,990
Fixed assets written off	-	556
Finance costs	13,857	24,676
Provision for compensated absences	2,155	1,602
Provision for bonus	21,520	24,715
Provision for slow moving stores and spares	224	209
Provision against doubtful receivable	1,352	-
Provision against debt considered doubtful	287	-
Gain on disposal of fixed assets	(452)	(5)
Interest income	(6,962)	(923)
	<u>40,710</u>	<u>58,820</u>
Operating profit before working capital changes	307,782	215,213
Working capital changes	355,361	(201,955)
	<u>663,143</u>	<u>13,258</u>
<b>30.1 Working capital changes</b>		
<b>(Increase) / decrease in current assets</b>		
Stores and spares	(4,744)	(457)
Stock-in-trade	356,686	(249,623)
Trade debts	83,458	(43,924)
Loans and advances	(3,371)	(66)
Short-term prepayments	2	(238)
Other receivables	2,706	1,198
	<u>434,737</u>	<u>(293,110)</u>
<b>Increase / (decrease) in current liabilities</b>		
Trade and other payables	(79,376)	91,155
	<u>355,361</u>	<u>(201,955)</u>
<b>31. CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	36,693	24,482
Term deposit receipts – maturity of three months	304,120	-
	<u>340,813</u>	<u>24,482</u>

**32. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES**

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

	CHIEF EXECUTIVE		DIRECTORS		EXECUTIVES	
	2012	2011	2012	2011	2012	2011
	Rupees in '000					
Managerial remuneration	1,935	1,935	3,672	2,004	5,433	2,821
Housing	871	871	761	578	1,710	1,269
Retirement benefits	183	-	209	229	782	1,271
Bonus	5,117	-	3,200	153	3,313	376
Medical expenses	200	200	386	1,448	194	169
Utilities	194	194	169	128	380	282
	<u>8,500</u>	<u>3,200</u>	<u>8,397</u>	<u>4,540</u>	<u>11,812</u>	<u>6,188</u>
Number	<u>1</u>	<u>1</u>	<u>3</u>	<u>2</u>	<u>12</u>	<u>8</u>

**32.2** The Chief Executive and a Director are also provided with the Company maintained cars in accordance with their terms of employment.

**32.3** Six Non-Executive Directors (2011: Six) were paid fees to attend the meetings, aggregating Rs.0.380 (2011: Rs.0.360) million.

**33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Company's activities expose it to a variety of financial risks i.e. market risk, credit risk and liquidity risk. The Company's senior management provides policies for overall risk management, as well as policies covering specific areas.

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

**33.1 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 equity price risk.

**33.1.1 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. As of the balance sheet date, the Company is not exposed to such risk.

**33.1.2 Foreign currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in foreign exchange rates. The Company is mainly exposed to such risk in respect of foreign currency trade debts amounting to Rs.35.938 million.

Management of the Company estimate that 1% increase in the exchange rate, with all other factors remaining constant, would increase the Company's profit by Rs.0.221 million and 1% decrease would result in decrease in the Company's profit by the same amount.

**33.1.3 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.

**33.2 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:

**33.2.1 Trade debts**

Customers with no defaults in the past one year

	December 31, 2012	December 31, 2011
	Rupees in '000	
	<u>37,072</u>	<u>120,530</u>
<b>33.2.2 Bank balances</b>		
A-1+	6,644	-
A1+	29,035	23,944
A-1	403	-
A-2	266	166
	<u>36,348</u>	<u>24,110</u>

**33.3 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	Total
Rupees in '000					
Liabilities against assets subject to finance lease	-	486	1,456	3,177	5,119
Trade and other payables	31,802	8,025	23,393	-	63,220
<b>2012</b>	<b>31,802</b>	<b>8,511</b>	<b>24,849</b>	<b>3,177</b>	<b>68,339</b>
Trade and other payables	105,035	33,399	3,240	-	141,674
Accrued mark-up	-	4,695	-	-	4,695
Short-term borrowings	-	-	217,667	-	217,667
<b>2011</b>	<b>105,035</b>	<b>38,094</b>	<b>220,907</b>	<b>-</b>	<b>364,036</b>

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

### 33.4 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.

### 33.5 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.

The Company is currently financing majority of its operations through equity and working capital. The capital structure of the Company is equity based with no financing through long term borrowings.

### 34. TRANSACTIONS WITH RELATED PARTIES

The related party of the Company comprise of parent company, associates, retirement funds, directors and key management personnel of the Company. Amounts due from and to related parties, amounts due from executives and remuneration of directors and executives are disclosed in the relevant notes.

Other material transactions with related parties are given below:

	December 31, 2012	December 31, 2011
Rupees in '000		
<b>Parent company</b>		
Dividend paid	20,393	-
<b>Associates</b>		
Orkila Pakistan (Private) Limited		
Sale of goods	27,039	6,193
Commission on sales	1,344	4,041
Shipwell (Private) Limited		
Commission on sales	5,497	4,317
IAL Pakistan (Private) Limited		
Freight expenses	1,054	1,479

### 35. DIVIDEND AND APPROPRIATION

In the meeting held on March 4, 2013, the Board of Directors of the Company recommended a final cash dividend of Rs. 10 per share for the year ended December 31, 2012, for approval of the members at the Annual General Meeting to be held on April 11, 2013.

### 36. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on March 4, 2013, by the Board of Directors of the Company.

### 37. 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, 2012

SIZE OF HOLDING Rs.10/- EACH	NUMBER OF SHAREHOLDERS	NUMBER OF SHARES HELD	PERCENTAGE OF ISSUED CAPITAL
1 - 100	166	6,087	0.14
101 - 500	180	45,270	1.07
501 - 1,000	41	32,275	0.76
1,001 - 5,000	44	94,866	2.23
5,001 - 10,000	11	76,641	1.80
10,001 - 15,000	2	24,600	0.58
15,001 - 20,000	1	18,101	0.43
20,001 - 30,000	1	33,000	0.78
30,001 - 40,000	1	37,000	0.87
40,001 - 45,000	1	44,617	1.05
45,001 - 50,000	1	47,009	1.11
50,001 - 60,000	1	68,585	1.61
60,001 - 70,000	1	90,750	2.14
70,001 - 80,000	1	97,057	2.28
80,001 - 100,000	1	00,904	4.73
100,001 - 200,000	1	329,725	7.76
200,001 - 300,000	1	452,934	10.66
300,001 - 450,000	1	2,549,131	60.00
450,001 - 1,000,000	1		
1,000,001 - 2,500,000	1		
2,500,001 - 3,000,000	1		
	<u>456</u>	<u>4,248,552</u>	<u>100.00</u>

### ADDITIONAL INFORMATION

CATEGORY NO.	CATEGORIES OF SHARE HOLDERS	NUMBER OF SHARES HELD	PERCENTAGE
1	<b>Individual</b>	684,795	16.12
2	<b>Joint Stock Companies</b>	143,136	3.37
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. Zahid Zaheer	1,000	0.02
	vii. 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	143,297	3.37
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

50th Annual General Meeting of The Company

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 50th **ANNUAL GENERAL MEETING** of the Company to be held on Thursday, the 11th of April, 2013 and at any adjournment thereof.

Signed by me this \_\_\_\_\_ Day of \_\_\_\_\_ 2013

Signature of Proxy

Signature on  
Revenue Stamp

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

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

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

\_\_\_\_\_

### Note:

- 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.
- CDC Shareholders and their proxies must attach either an attested photocopy of their CNIC or Passport with this Proxy Form.