

Strategic Case Study

Pre-Exam Information

Zarnaab Apparel (Pvt.) Ltd

Textiles – knitwear and activewear exports

Knoovo practice case ZAL-01. Modelled on the format of ICAP's Strategic Case Study pre-exam information.

Guidance notes

- 1 This pre-exam information is released before the exam so that you can study the case, research the industry and prepare your analysis. It is a practice case modelled on ICAP's Strategic Case Study format.
- 2 You may take this material and your own preparatory notes into the exam. You will need to find information quickly, so large amounts of extra material are unlikely to help.
- 3 Analyse this information thoroughly. Research the textile and apparel industry, the markets ZAL serves, and any terms you are unsure of.
- 4 At the start of the exam you will receive further information that completes the scenario, together with the requirements. The new information may update facts given here.
- 5 Marks are earned by demonstrating professional skills, not by repeating the case. To succeed you must: (a) show that you understand the case and use your preparatory work; (b) analyse the problems and structure your proposed solutions; (c) apply judgement based on that analysis; and (d) reach practical, commercial recommendations. Leaving out any of these will seriously reduce your chances of success.
- 6 All amounts are in Pakistani Rupees (Rs) million unless stated. ZAL's financial year ends on 30 June; "FY2026" means the year ended 30 June 2026.
- 7 Zarnaab Apparel (Pvt.) Ltd, its people, buyers and figures are fictional. Industry and economic data in Appendices 1 and 2 are drawn from published sources.

Zarnaab Apparel (Pvt.) Ltd ("ZAL")

Zarnaab Apparel (Pvt.) Ltd ("ZAL") is a family-owned, vertically integrated knitwear and activewear manufacturer based in Faisalabad. It knits, dyes, cuts, stitches and prints garments for international sportswear brands and retailers, and exports about 93% of its output, mainly to the USA and Europe. Revenue in the year ended 30 June 2026 was Rs 29,689 million.

ZAL was founded in 2004 by Tariq Mehmood, who remains Chairman and Chief Executive and, with his family, owns all of the company's shares. Over the last two years ZAL has invested heavily in a new activewear line and in rooftop solar power. The board now wants to grow exports to USD 150 million by FY2029, and is considering a second activewear line, new systems and, possibly, outside investors to fund that growth.

Tariq Mehmood describes the business as follows:

“We started with forty knitting machines and a promise to deliver on time. Today the world's sportswear brands trust us with their best programmes. Our job is to stay their first choice from South Asia: on time, right first time, and at a fair cost to people and the planet.”

— Tariq Mehmood, Chairman and Chief Executive

Available information:

- Appendix 1: Textile and apparel industry in Pakistan
- Appendix 2: Economic outlook for Pakistan's textile exporters
- Appendix 3: Article: "Squeezed between the brands and the bills"
- Appendix 4: About Zarnaab Apparel (Pvt.) Ltd
- Appendix 5: Overview of ZAL operations, board and governance
- Appendix 6: ZAL management accounts for the year ended 30 June 2026
- Appendix 7: CEO commentary on performance for the year ended 30 June 2026
- Appendix 8: Compliance, taxation and financing framework
- Appendix 9: Extract from ZAL board minutes: strategic options
- Appendix 10: HR notes from activewear plant interviews

APPENDIX 1 – TEXTILE AND APPAREL INDUSTRY IN PAKISTAN

Importance to the economy

Textiles and clothing are Pakistan's largest export sector. In FY2026 textile exports were USD 17.93 billion, almost unchanged from USD 17.88 billion in FY2025, while Pakistan's total exports fell 5.9% to USD 30.14 billion. Textiles therefore earned about 59% of the country's export income.

The year ended weakly: textile exports in June 2026 were 16.7% lower than in June 2025. The new financial year started better, with July 2026 textile exports 8.1% higher than July 2025 at USD 1.81 billion.

Textile exports by category (USD million)

Category	FY2026	FY2025	Change
Knitwear	4,966	5,010	-0.9%
Readymade garments	4,288	4,130	+3.9%
Bedwear	3,112	3,113	0.0%
Cotton cloth	1,672	1,808	-7.6%
Towels	1,060	1,081	-1.9%
Cotton yarn	765	681	+12.4%
Total textile exports (all categories)	17,930	17,880	+0.3%

FY2025 figures for knitwear, cloth and towels are derived from the reported growth rates. Categories shown do not add up to the total.

Structure of the industry

The industry runs from cotton ginning and spinning through weaving and knitting, dyeing and finishing, to garments and home textiles. The value-added end (knitwear, garments, bedwear and towels) earns most export revenue. The basic end (yarn and greige cloth) competes mainly on price and is exposed to swings in cotton prices.

Production is concentrated in clusters. Faisalabad is the centre for knitwear and home textiles; Karachi for denim, towels and garments; Lahore for apparel; and Sialkot for sportswear. Most large exporters are family-owned groups, some of them listed on the Pakistan Stock Exchange; many medium-sized firms remain private.

Markets and competition

The USA and the European Union are the main markets. Access to the EU benefits from GSP+ tariff preferences, which depend on Pakistan continuing to implement international conventions on human rights, labour and the environment.

Pakistani exporters compete with Bangladesh, Vietnam, India, China and Cambodia. Buyers place orders after comparing quotes from several countries each season, and switch quickly when price, lead time or compliance falls short.

How buyers work with suppliers

Global brands work through approved-supplier lists. To stay on them, factories must pass regular audits covering social compliance (wages, hours, health and safety), chemical management and product quality. Orders are placed four to six months ahead at fixed US dollar prices, usually on open account with payment 30 to 90 days after shipment. Late or defective shipments can lead to penalties, air freight at the supplier's cost, or loss of future programmes.

END OF APPENDIX 1

APPENDIX 2 – ECONOMIC OUTLOOK FOR PAKISTAN'S TEXTILE EXPORTERS

Interest rates and inflation

After peaking at a record 22% in 2023, the State Bank of Pakistan (SBP) cut its policy rate steadily, reaching 10.5% by early 2026. As conflict in the Middle East pushed up global commodity prices, the SBP raised the rate by 100 basis points to 11.5% on 27 April 2026. It has held the rate there since, most recently on 14 September 2026, when seven of the ten committee members voted to hold.

Headline inflation rose from 9.2% in July 2026 to 11.1% in August 2026, well above the SBP's medium-term target of 5%–7%, and the SBP noted that businesses' and consumers' inflation expectations had increased. Exporters that rely on floating-rate short-term borrowing are therefore exposed to the risk of further rate increases.

Exchange rate

The rupee was broadly stable against the US dollar during FY2026, at an average of about Rs 281. Exporters earn US dollars, but many also pay for imported yarn, dyes, chemicals and machinery in US dollars.

Energy

Industrial electricity and gas tariffs in Pakistan are among the highest in the region, a point repeatedly raised by large exporters. Many manufacturers are investing in rooftop solar to reduce grid costs.

Taxation of exporters

- From tax year 2025, tax withheld on export proceeds became a minimum tax rather than a final tax, so exporters must also calculate normal tax on their profits and pay the higher amount.
- The Finance Act 2026 raised the rate withheld on export proceeds from 1% to 1.25% from 1 July 2026 and abolished a separate 1% advance tax on export proceeds. It also took exporters whose export proceeds exceed 80% of turnover out of super tax.

Sales tax and the Export Facilitation Scheme

The FBR's Export Facilitation Scheme allows exporters to import inputs free of duty and sales tax. Since the FY2025 budget, however, inputs bought locally for export production carry 18% sales tax, which exporters must reclaim as a refund, often only after long delays. The FY2026 budget then imposed 18% sales tax on imported cotton yarn under the scheme. Industry bodies claim that more than Rs 327 billion of refunds were pending in May 2026.

Cotton

Severe monsoon floods in August and September 2025 inundated farmland across Punjab and damaged a large share of the cotton crop, adding to price volatility for spinners and knitters.

Outlook

Exporters expect demand to recover gradually, helped by buyers diversifying away from a few supplier countries after US tariff changes since 2025. Higher interest rates, energy costs, refund delays and buyers' rising compliance demands will continue to squeeze margins, especially for companies with high borrowings.

END OF APPENDIX 2

APPENDIX 3 – ARTICLE: "SQUEEZED BETWEEN THE BRANDS AND THE BILLS"

By Nadia Qureshi, Textile Insight Pakistan, August 2026 (fictional publication, for case purposes)

A good order book is not enough

Walk around any knitwear mill in Faisalabad and the managers will tell you the same story: orders are coming in, but the money is not. Buyers that once paid in 45 or 60 days are pushing suppliers onto 90-day terms, and some offer their own bank's supply-chain finance so suppliers can be paid early, at a price. "The brands have discovered that their suppliers are a cheap source of funding," one Karachi exporter told us.

At the same time, local yarn now carries sales tax that must be reclaimed, and refunds can take months. Mid-sized exporters, without the balance sheets of the listed groups, are funding their customers and the tax authorities at the same time, using short-term bank lines that cost well over 12%.

Activewear: the prize and the trap

The brightest spot is activewear. Leggings, sports bras and performance tops sell for more than twice the price of a basic T-shirt, and global sportswear brands are looking for new suppliers outside China. Several Pakistani mills have installed lines for synthetic fabrics, bonded seams and sublimation printing.

But activewear is unforgiving. Synthetics behave differently on the machines, defects are expensive, and delivery windows are tight. "The first year on activewear, everyone loses money," said the production head of a Lahore exporter. "The question is whether you survive long enough to get good at it." Skilled operators are scarce, and mills poach them from each other.

Compliance is now a licence to trade

Social-compliance audits used to be a box-ticking exercise. Not any more. European due-diligence rules and brands' own climate targets mean buyers now want to trace every garment back to its fibre and to know its carbon footprint. Several brands have told Pakistani suppliers that they will need product-level data from 2028.

For family-run mills that still plan production on spreadsheets, that means new systems, new skills and money they may not have. "The brands will not drop you for being expensive," one compliance consultant said. "They will drop you for not having the data."

Winners and losers

The likely winners are exporters that combine scale, strong balance sheets, credible compliance and good systems. Some are bringing in private equity investors or preparing to list, accepting independent directors and tighter governance as the price of capital.

The losers, observers fear, will be mid-sized family firms that chase growth with short-term debt, depend on one or two big customers and leave governance to the founder. "In this market," said a banker who lends to the sector, "growth without cash is the fastest way to fail."

END OF APPENDIX 3

APPENDIX 4 – ABOUT ZARNAAB APPAREL (PVT.) LTD

Background

ZAL was founded in 2004 by Tariq Mehmood as a 40-machine knitting unit supplying fabric to local garment makers. It added dyeing and finishing in 2009, when it won its first direct export order, and opened its first stitching plant in 2014, becoming a full-package supplier of knitted garments. In 2018 it won its first programme with Summit Athletic Inc., a US sportswear brand that is now its largest customer.

All manufacturing is in Faisalabad: a knitting and dyeing mill at Khurrianwala and two stitching plants on Sargodha Road. A small liaison office in Lahore handles buyer visits and banking relationships.

Vision and mission

Vision: "To be the partner of choice for responsible performance apparel from South Asia." Mission: to deliver on time, right first time and at a competitive cost, while treating people and the environment fairly.

Ownership

ZAL has 200 million ordinary shares of Rs 10 each, all held by the founder's family:

Shareholder	Relationship	Holding
Tariq Mehmood	Founder, Chairman and CEO	45%
Khalid Mehmood	Founder's younger brother	20%
Hamza Tariq	Founder's son	15%
Sana Tariq	Founder's daughter	10%
Mehmood Family Trust	Trustees: Tariq and Khalid Mehmood	10%

Products

ZAL makes two product lines to buyers' own designs:

- **Knitted apparel** (T-shirts, polos and fleece): a mature, price-competitive line. ZAL sold 17.2 million pieces in FY2026 (FY2025: 16.0 million) at an average of USD 4.05 a piece (FY2025: USD 4.10).
- **Activewear** (leggings, sports tops and jackets), made on a dedicated line commissioned in 2025 and expanded in FY2026. Activewear uses synthetic and blended fabrics and needs specialised machines, skilled operators and tight quality control. ZAL sold 3.1 million pieces in FY2026 (FY2025: 2.4 million) at an average of USD 9.20 (FY2025: USD 9.50), after offering launch discounts to win new programmes.

ZAL also sells surplus yarn, fabric and stock lots locally.

Customers and markets

ZAL sells to about 28 buyers. The top three took 72% of export sales in FY2026 (FY2025: 68%).

Buyer	Type	Share of FY2026 export sales	Payment terms
Summit Athletic Inc.	US sportswear brand	41%	90 days from shipment (60 days until December 2025)
Nordhaven Retail	EU value fashion retailer	19%	60 days
Kestrel Outdoor	UK outdoor and leisure brand	12%	45 days
About 25 other buyers	Various	28%	30 to 75 days

In FY2026, 52% of export sales went to the USA (FY2025: 48%), 36% to the EU and UK (FY2025: 40%) and 12% to other markets. All export sales are invoiced in US dollars on FOB terms.

In January 2026, Summit Athletic moved all its suppliers to 90-day payment terms and offered them early payment through its bank's supply-chain finance programme.

Recent developments

In FY2026 ZAL expanded activewear capacity from 3.0 to 4.5 million pieces a year and increased rooftop solar capacity from 2 MW to 6 MW. In May 2026 a social-compliance audit by Summit Athletic scored ZAL at 81 out of 100, below the 85 Summit requires of "preferred" suppliers (Appendix 8).

END OF APPENDIX 4

APPENDIX 5 – OVERVIEW OF ZAL OPERATIONS, BOARD AND GOVERNANCE

Production

ZAL buys yarn, then knits and dyes fabric at Khurrianwala. Fabric is cut, stitched or bonded, printed and packed at the two Sargodha Road plants, and shipped FOB Karachi. All stages are in-house except some printing and embroidery, which is subcontracted at peak times.

At 30 June 2026, annual capacity was 20.0 million pieces of knitted apparel and 4.5 million pieces of activewear. Operating data for FY2025 and FY2026 is included in Appendix 6.

Sourcing

- About 30% of cotton and blended yarn is bought from Mehmood Spinning Mills (Pvt.) Ltd ("MSM"), which is owned by director Khalid Mehmood. The rest comes from other Faisalabad spinners and imports.
- Synthetic yarn and fabric for activewear are mainly imported from China under the Export Facilitation Scheme.
- Dyes and chemicals are imported through agents and restricted to substances on buyers' approved lists.

People

Most production workers are machine operators on monthly wages at or slightly above the Punjab minimum wage, plus overtime in peak season. The activewear expansion needed about 800 extra workers in FY2026, many hired quickly from other factories.

Systems

ZAL uses a locally developed ERP for purchasing, inventory and payroll. Each plant manager plans production on spreadsheets. Buyers increasingly ask for real-time order tracking and fibre traceability data, which these systems cannot provide.

Financial management

The CFO prepares monthly management accounts and a quarterly board pack. The board's headline targets are revenue growth of 12%–15% a year, a gross margin of at least 18% and return on capital employed of at least 15%. ZAL has no written treasury or foreign exchange policy.

Board of directors

Director	Role	Background
Tariq Mehmood (64)	Chairman and Chief Executive	Founded ZAL in 2004; 35 years in knitting and dyeing
Khalid Mehmood (58)	Non-executive director	Owner of Mehmood Spinning Mills, a yarn supplier to ZAL
Hamza Tariq (34)	Director Strategy	ACCA, MBA; joined 2021; led the activewear and solar projects
Sana Tariq (31)	Director Human Resources	Joined 2022; leads compliance audits with buyers
Ghulam Rasool (61)	Director Operations	Joined 2006 as knitting manager; not a shareholder

Key managers outside the board are Faisal Anwar, FCA, Chief Financial Officer (joined 2019, reports to the CEO and attends board meetings by invitation); Ayesha Siddiqui, Head of Merchandising; and

Imran Butt, General Manager Quality and Compliance, who reports to the Director Operations.

Governance

The board meets quarterly. In practice, most operating and financing decisions are taken by the Chairman and CEO and reported to the board afterwards.

There are no independent directors and no audit committee. Internal audit is outsourced to a small local firm, which reports to the CFO. Prices for yarn bought from MSM are agreed directly between Tariq and Khalid Mehmood and are not benchmarked against other suppliers. Directors' remuneration is set by the CEO, and there is no formal board evaluation or succession plan. The external auditor, a mid-tier Faisalabad firm, has audited ZAL since 2009, with the same engagement partner since 2017.

Hamza Tariq has told the board that outside investors, or a future listing on the Pakistan Stock Exchange, would require these arrangements to change, including compliance with the Listed Companies (Code of Corporate Governance) Regulations, 2019.

END OF APPENDIX 5

APPENDIX 6 – ZAL MANAGEMENT ACCOUNTS FOR THE YEAR ENDED 30 JUNE 2026

To: The Board of Directors
From: Faisal Anwar, Chief Financial Officer
Date: 6 August 2026
Subject: Management accounts and key performance indicators for FY2026

Dear board members,

Please find below extracts from the summary management accounts for the year ended 30 June 2026, together with operating data.

ZAL Statement of Profit or Loss – year ended 30 June (Rs in million)

	2026	2025
Export sales – knitted apparel	19,574.5	18,335.2
Export sales – activewear	8,014.1	6,372.6
Local sales	2,100.0	1,600.0
Total revenue	29,688.6	26,307.8
Raw materials consumed	(13,805.2)	(12,101.6)
Salaries, wages and benefits	(6,460.0)	(5,304.0)
Fuel and power	(1,840.0)	(1,710.0)
Other manufacturing overheads	(1,721.9)	(1,446.9)
Depreciation (Note 1)	(1,256.4)	(1,116.0)
Total cost of sales	(25,083.5)	(21,678.5)
Gross profit	4,605.1	4,629.3
Distribution costs	(1,187.5)	(1,026.0)
Administrative expenses (Note 1)	(1,589.6)	(1,424.0)
Other operating expenses	(70.0)	(90.0)
Other income	60.0	180.0
Earnings before interest and tax	1,818.0	2,269.3
Finance cost	(1,103.4)	(1,055.0)
Profit before tax	714.6	1,214.3
Taxation	(347.4)	(473.5)
Profit after tax	367.2	740.8
Dividends	(150.0)	(250.0)
Retained profit	217.2	490.8

Note 1: total depreciation was Rs 1,396.0 million in 2026 (2025: Rs 1,240.0 million), of which Rs 139.6 million (2025: Rs 124.0 million) is included in administrative expenses.

ZAL Statement of Financial Position – as at 30 June (Rs in million)

	2026	2025
Property, plant and equipment	15,464.0	13,460.0
Total non-current assets	15,464.0	13,460.0
Inventory	6,734.7	5,226.6
Trade receivables	6,507.1	5,189.5
Sales tax and duty drawback refunds	1,650.0	950.0
Other receivables and advances	653.1	526.2
Cash and bank balances	220.0	350.0
Total current assets	15,764.9	12,242.3
Total assets	31,228.9	25,702.3
Share capital	2,000.0	2,000.0
Retained profits	7,508.0	7,290.8
Total equity	9,508.0	9,290.8
Long-term finance	4,600.0	3,500.0
Staff retirement benefits	1,050.0	900.0
Total non-current liabilities	5,650.0	4,400.0
Trade payables	3,023.8	2,850.9
Accrued and other liabilities	1,128.2	1,052.3
Current portion of long-term finance	1,300.0	1,100.0
Short-term borrowings (Note 2)	10,618.9	7,008.3
Total current liabilities	16,070.9	12,011.5
Total equity and liabilities	31,228.9	25,702.3

Note 2: short-term borrowings comprise SBP export finance of Rs 5,300.0 million (2025: Rs 4,100.0 million) and running finance of Rs 5,318.9 million (2025: Rs 2,908.3 million). Capital expenditure in FY2026 was Rs 3,400.0 million (2025: Rs 2,200.0 million).

Operating data

	2026	2025
Knitted apparel capacity (million pieces)	20.0	20.0
Knitted apparel sold (million pieces)	17.2	16.0
Activewear capacity (million pieces)	4.5	3.0
Activewear sold (million pieces)	3.1	2.4
Average PKR/USD rate	281.0	279.5
Average production headcount	7,600	6,800
Management and administrative staff	980	900
Production staff attrition	27%	21%
On-time-in-full (OTIF) delivery	84%	91%
Second-quality and rejection rate	4.1%	2.8%
Share of electricity from solar	19%	8%

Regards,
Faisal Anwar

END OF APPENDIX 6

APPENDIX 7 – CEO COMMENTARY ON PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2026

To: The Board of Directors
From: Tariq Mehmood, Chairman and Chief Executive
Date: 18 August 2026
Subject: Commentary on our FY2026 performance

Dear colleagues,

FY2026 was a record year for Zarnaab. Revenue crossed Rs 29.6 billion, up almost 13%, while Pakistan's textile exports stood still. This proves that our decision to invest in activewear was right.

Growth. Activewear sales grew by more than a quarter and now make up over a quarter of our export sales. Summit Athletic has rewarded our commitment with more programmes, and it remains our strongest partner. Our knitting plant is running at its highest utilisation ever.

Margins. Gross profit held at about Rs 4.6 billion despite higher yarn prices and wage increases. The fall in margin is temporary. It reflects start-up costs in activewear and the launch discounts we gave to win new programmes. Once the new line is fully trained, margins will recover.

Cash and borrowing. Working capital rose because we are a bigger business. Summit Athletic's new payment terms are standard industry practice and a sign of a long-term relationship. Our bankers are fully supportive, and export finance is among the cheapest money available in Pakistan. I see no need to slow down.

Tax. Our tax charge is unfairly high because exporters are taxed on turnover rather than profit. We continue to lobby through our trade association, and I expect our refunds to be cleared this year.

Compliance. The May audit raised some administrative points. Sana and Imran are dealing with them, and I am confident we will pass the follow-up audit in November.

Looking ahead. For FY2027 I am targeting revenue of Rs 34 billion, a decision on a second activewear line, and a further 4 MW of solar. I will present a funding plan at the next board meeting.

Tariq Mehmood

END OF APPENDIX 7

APPENDIX 8 – COMPLIANCE, TAXATION AND FINANCING FRAMEWORK

Social compliance

Each major buyer audits ZAL regularly, either directly or through third-party audit firms. Summit Athletic requires its "preferred" suppliers to score at least 85 out of 100. ZAL scored 88 in its 2025 audit but 81 in May 2026, when the auditors raised three findings:

- 1 working hours in the activewear plant exceeded 60 hours a week for some workers during March and April 2026;
- 2 fire-drill records at one stitching plant were incomplete; and
- 3 printing work had been placed with a subcontractor that was not on Summit Athletic's approved-supplier list.

ZAL must close all three findings before a follow-up audit in November 2026. If its score remains below 85, Summit Athletic may reduce ZAL's share of new programmes.

Environmental requirements

The dyeing mill's effluent treatment plant, built in 2016, has been running close to its capacity since the activewear line started. ZAL follows buyers' restricted-substances lists for dyes and chemicals. It does not yet measure its carbon footprint.

Summit Athletic and Nordhaven Retail have told ZAL they will require product-level carbon and fibre-origin data from FY2028. Summit also expects 50% of the fibre it buys to come from sustainable sources (organic or recycled) by 2030; ZAL's share was 26% in FY2026 (FY2025: 22%). Rooftop solar now provides 19% of ZAL's electricity.

Taxation

- 1 *Income tax, tax years 2025 and 2026.* Income tax of 1% was withheld on export proceeds as a minimum tax. ZAL paid the higher of this and normal tax at 29% of taxable profit. ZAL was also liable to super tax on income above Rs 500 million.
- 2 *Changes from tax year 2027 (Finance Act 2026).* The rate withheld on export proceeds rises to 1.25%, still a minimum tax, and the separate advance tax on export proceeds is abolished. Super tax no longer applies to taxpayers whose export proceeds exceed 80% of total turnover.
- 3 *Dividends.* Tax is withheld on dividends paid to shareholders, generally at 15%.
- 4 *Sales tax.* ZAL pays 18% sales tax on yarn and other inputs bought locally and reclaims it as a refund. Refunds outstanding were Rs 1,650 million at 30 June 2026 (2025: Rs 950 million); some claims are more than nine months old.

Bank financing

- *Short-term facilities.* ZAL uses SBP export finance, which is cheaper than commercial borrowing, and running finance at three-month KIBOR plus 1.0%. Short-term limits with three banks totalled Rs 12,000 million at 30 June 2026 and are reviewed each October.
- *Long-term finance.* Long-term loans, mainly under SBP concessionary schemes for machinery and solar equipment plus some term loans, carry fixed rates averaging about 7%. Repayments due in FY2027 are Rs 1,300 million.
- *Covenants.* The lead bank's term facility for the activewear line requires ZAL to maintain a current ratio of at least 1.0 and debt to equity of no more than 1.75, tested on audited annual accounts.

Foreign exchange

All export sales are invoiced in US dollars (about USD 98 million in FY2026). Imported synthetic yarn, dyes and chemicals cost about USD 30 million a year, also paid in US dollars. The CFO sometimes sells up to 25% of expected receipts forward for up to three months, but there is no board-approved hedging policy.

Corporate governance requirements

As a private company, ZAL is not required to follow the Listed Companies (Code of Corporate Governance) Regulations, 2019. These would apply if ZAL listed on the Pakistan Stock Exchange, and institutional investors often expect similar standards. Transactions with related parties, such as purchases from Mehmood Spinning Mills, must be properly approved and disclosed under the Companies Act, 2017 and IAS 24.

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APPENDIX 9 – EXTRACT FROM ZAL BOARD MINUTES: STRATEGIC OPTIONS

Date: 22 July 2026, 11:00 am
Location: Head office, Khurrianwala, Faisalabad
Present: Tariq Mehmood (Chairman and CEO), Khalid Mehmood (Non-executive Director), Hamza Tariq (Director Strategy), Sana Tariq (Director Human Resources), Ghulam Rasool (Director Operations)
In attendance: Faisal Anwar (Chief Financial Officer)

1. Three-year plan, FY2027 to FY2029

Hamza Tariq presented the three-year plan. Its central aim is to lift export sales to USD 150 million by FY2029, mainly through activewear. The board approved the following objectives:

Objective	Target by FY2029
Export sales	USD 150 million
Revenue growth	12%–15% a year
Activewear share of export sales	40%
Gross margin	at least 18%
Return on capital employed	at least 15%
Largest buyer's share of export sales	below 35%
On-time-in-full delivery	at least 95%
Sustainable fibre share	50% by FY2030
Installed solar capacity	10 MW by FY2028

2. Initiatives discussed

- *Second activewear line.* Hamza Tariq proposed a second line with capacity of 4 million pieces a year, at an estimated cost of Rs 3,800 million, to be commissioned in FY2028. Ghulam Rasool cautioned that the first line was not yet running smoothly and that skilled operators were hard to find.
- *External capital.* Hamza Tariq reported informal interest from Indus Growth Partners, a regional private equity fund, in taking a minority stake. He also favours a listing on the Pakistan Stock Exchange by FY2029. Tariq and Khalid Mehmood said they were reluctant to give up control of the family business.
- *Customer diversification.* The board agreed to target new buyers in Japan, the Middle East and EU sportswear, to reduce dependence on Summit Athletic.
- *Systems.* Hamza Tariq proposed replacing the existing ERP with an integrated system providing production planning, buyer order tracking and fibre traceability.
- *Backward integration.* Khalid Mehmood suggested that ZAL should acquire Mehmood Spinning Mills to secure yarn supply. No valuation has been prepared. The minutes do not record any declaration of interest by Khalid Mehmood.
- *Solar.* A further 4 MW of solar is under consideration, possibly through a third-party power purchase agreement rather than ZAL's own investment.

3. Finance Director's comments

Faisal Anwar reminded the board that short-term borrowings had risen sharply during FY2026, that bank covenants would be tested on the audited accounts at 30 June 2026, and that no funding plan for the initiatives had yet been agreed. He also asked the board to approve a formal foreign exchange hedging policy. The Chairman asked him to bring proposals to a future meeting.

4. Principal risks noted by the board

- Loss of programmes from Summit Athletic if audit or delivery performance does not improve.
- Further increases in interest rates and energy tariffs.
- Continuing delays in sales tax refunds.
- Buyers moving orders to Bangladesh, Vietnam or India on price.
- Shortage of skilled activewear operators.

Actions: Hamza Tariq to develop the second-line proposal and continue talks with Indus Growth Partners. Faisal Anwar to prepare a funding plan. Sana Tariq and Imran Butt to close the May audit findings before November.

END OF APPENDIX 9

APPENDIX 10 – HR NOTES FROM ACTIVEWEAR PLANT INTERVIEWS

The extracts below are from notes made by Sana Tariq, Director Human Resources, after exit interviews with a departing line supervisor and a departing sewing operator from the activewear plant in June 2026.

Line supervisor (four years with ZAL; joining a competitor)

Why are you leaving?

"The new mill is paying me more, but that is not the main reason. Since activewear started, every week is a crisis. We hired hundreds of people from other factories in a few months, and nobody had time to train them on synthetic fabrics. My line's rejection rate doubled."

How did you meet shipment dates?

"Overtime, mostly. In March and April many of my operators worked six days, sometimes seven, and long evenings. When the auditors came, some timesheets were 'tidied up' by the office. Near shipment dates we were also told to pass borderline pieces if the buyer's inspector was unlikely to check that carton. I did not like doing that."

What would you change?

"Proper training before people go on the line, and realistic delivery dates from merchandising. Right now merchandising promises the buyer whatever the buyer wants, and production pays for it."

Sewing operator (seven months with ZAL)

Why are you leaving?

"The overtime pay is good, but I am tired all the time. Targets keep going up. If you complain, the supervisor says there are ten people outside waiting for your job."

Did you receive training?

"Two days. Then they put me on bonded seams. I learned from the girl next to me."

Sana Tariq's note to file

Both leavers raised overtime, inadequate training and pressure from shipment deadlines. The supervisor's comments about timesheets and passing borderline pieces are serious and need to be checked. I have not yet raised them with the Chairman or Ghulam Rasool.

END OF APPENDIX 10

END OF PRE-EXAM INFORMATION