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Company Information

BOARD OF DIRECTORS:

Mr. Mussaid Hanif
Chairman/Chief Executive Officer
Mr. Burhan Muhammad Khan
Mr. Arbab Muhammad Khan
Mr. Aftab Ahmad Khan
Mr. Sheikh Muhammad Iqbal
Ms. Tahniyat Mussaid
Ms. Sabah Burhan

AUDIT COMMITTEE:

Mr. Arbab Muhammad Khan
Chairman/Member
Sheikh Muhammad Iqbal
Member
Ms. Tahniyat Mussaid
Member

COMPANY SECRETARY:

Mr. Anjum Pervaiz

CHIEF FINANCIAL OFFICER:

Mr. Gauhar Abdul Hai

AUDITORS:

Anjum Asim Shahid Rahman
Chartered Accountants

BANKERS TO THE COMPANY:

Habib Bank Limited
National Bank of Pakistan
The Bank of Punjab
United Bank Limited
Faysal Bank Limited
NIB Bank Limited
Citibank N.A.
ABN AMRO Bank N.V.
Standard Chartered Bank

SHARE REGISTRAR:

THK Associates (Pvt) Limited
Ground Floor Modern Motor House, Beaumont Road, Karachi.
Tel: 021 – 5689021 – 5686658
Fax: 021 - 5655595

MILLS:

1 Kilometer Balloki Bhai Pheru Road, Bhai Pheru
Tel: 04941 – 512007-9
Fax: 04941 - 512010

REGISTERED AND HEAD OFFICE:

3rd Floor IEP Building, 97 B/D-I, Gulberg III, Lahore.
Tel: 042 – 5782905
Fax: 042 - 5753202

Notice of Annual General Meeting

Notice is hereby given that the 7th Annual General Meeting of the shareholders of Zephyr Textiles Limited will be held at the Registered office of the company, 3rd Floor IEP Building, 97 B/D-I, Gulberg III, Lahore on December 31, 2005 (Saturday) at 11:00 AM to transact the following business:-

1. To confirm the minutes of the last General meeting.
2. To receive, consider and adopt the audited accounts of the company for the year ended June 30, 2005 together with the Directors' and Auditors' report thereon.
3. To appoint auditors for the year ending June 30, 2006 and to fix their remuneration. The present Auditors M/s Anjum Asim Shahid Rahman, Chartered Accountants, retire and being eligible offer themselves for reappointment.
4. To transact any other business with the permission of the Chair.

By order of the Board

Lahore:
December 05, 2005

Anjum Pervaiz
Company Secretary

NOTES:

1. Share transfer books of the company will remain closed from December 22, 2005 to December 31, 2005 (both days inclusive) and no transfer will be accepted during this period.
2. A shareholder entitled to attend and vote at this meeting may appoint another shareholder as his/her proxy to attend and vote as his/her proxy to attend and vote on his/her behalf. The instrument appointing a proxy and the power of attorney or other authority under which it is signed or a notarially certified copy of the power of attorney must be received at the registered Office of the Company, duly stamped, signed and witnessed not later than 48 hours before the meeting.
3. Shareholders whose shares are deposited with Central Depository Company (CDC) are requested to bring their National Identity Card (NIC) along with their Account Number in CDC for verification. In case of corporate entity, the Board of Directors resolution/power of attorney with specimen signatures of the nominee shall be produced (unless it has been provided earlier) at the time of meeting.
4. In case of proxy for and individual beneficial owner of CDC attested copies of beneficial owner's NIC or passport, account and participants ID numbers must be deposited along with the form of proxy. Representatives of corporate members should bring the usual documents required for such purpose.
5. Shareholders are requested to notify any change in their addresses immediately.

Directors' Report

On behalf of the Board of directors, I am pleased to welcome you to the 7th Annual General Meeting of the company and place before you the audited financial statements and Auditors' report thereon for the year ended June 30, 2005.

Change of corporate status

The corporate status of the company was changed from private limited company to public limited company effective October 04, 2004 and thereafter, the company was listed on the Karachi and Lahore Stock Exchanges on August 08, 2005. The management of the Company, pursuant to its expansion plans, i.e. Expansion Project of 96 airjet looms and Towel Manufacturing Project, has conducted a Pre-IPO Placement of Rs. 80 million and an IPO in the amount of Rs. 120 million to cater partially for the funding requirements of the establishment of a towel manufacturing plant and for repayment of financial commitments related to 96 airjet looms expansion project. The paid up capital of the company which on the balance sheet date was Rs. 474,287,290 subsequently enhanced by Rs. 120 million to Rs. 594,287,290 as a result of IPO. Furthermore, the authorized capital of the company has increased from Rs. 300 million to Rs. 625 million during the year under review.

Economic environment

During the year under review Pakistan's economy posted a healthy growth. However, mounting inflation became a major concern, resulting in higher interest rates which increased by over 100% as compared to corresponding year. With the trade barriers coming down and quota regime being liberalized, the global price in the textile industry remained under pressure. However, with the placement of WTO agreement, Pakistan envisages a lucrative global market for its textile products in coming years.

Operational review

During the year under review the company has added, disposed, replaced and modernized certain machines and equipments in line with the already approved future expansion plans. In various segments work has been completed and in certain areas works are under progress. The company has successfully installed modern state of the art 96 air jet weaving machines which have commenced trial run operations between April – June 2005. The commercial operation of this expansion has commenced from October 01, 2005. Meanwhile the company disposed certain shuttles less Sulzer weaving machines to replace the same with 48 airjet projectile wider width weaving machines. This modernization and replacement will provide the company with the capability to participate in the competitive global market in coming years. Due to replacement and modernization of the project, production was not able to operate at its peak efficiency during the year under review.

Operating financial results

The company has registered sales net of commission and sales tax of Rs. 1,072.621 million (2004:- Rs. 784.194 million) showing increase of 36.86%. The gross profit of Rs. 114.543 million (2004:- Rs. 98.426 million) depicts an increase of 16.37% as against corresponding year. The operating profit of the company stands at Rs. 68.618 million (2004:- Rs. 59.736 million). The profit after charging financial charges of Rs. 38.493 million (2004:- Rs. 24.904 million) is Rs. 30.125 million (2004:- Rs. 34.831 million). The net profit of the company during the year after providing tax provisions of Rs. 5.743 million is Rs. 24.382 million (2004:- Rs. 24.650 million).

The profit for the year was affected due to loss of production efficiency owing to replacement and modernization of manufacturing facilities, decline in selling prices and exports owing to quota phase out, sharp increase in interest rates, increase in oil based industrial inputs and increase in some direct costs due to the lag between the cost incurred and productivity gains from enhanced capacity. However, there has been a relief on account of depreciation of the Pak Rupee although it does not match the decline in selling prices.

Earning Per Share

The Earning Per Share (EPS) of the company stood at Rs. 0.75 (2004:- Rs. 2.02). The decline in EPS is due to increase of capital of the company during the year for expansion projects which have not started contribution to company's revenue owing to their installation phase during the year under review. The expansion project of 96 air jet weaving machines has

commenced commercial operation from October 01, 2005 whereas the commencement of towel manufacturing plant is expected by mid of third quarter of year 2006.

Appropriation of Profit

The profit for the year has been appropriated as under:-

	June 30, 2005 Rupees	June 30, 2004 Rupees
Profit for the year before taxation	30,125,351	34,831,424
Taxation	5,743,399	10,181,261
Profit for the year after taxation	24,381,952	24,650,163
Unappropriated profit brought forward	934,658	36,562,955
Profit available for appropriation	25,316,610	61,213,118
Appropriation of profit		
- Bonus shares issued - Prior to Listing	15,000,000	60,278,460
Unappropriated profit carried forward	10,316,610	934,658

Marketing strategy

The expansion project of 96 airjet looms has commenced commercial production from October 01, 2005 and is running smoothly. These looms are capable of producing wide range of apparel and home furnishing fabrics. Subsequent to addition of 96 airjet looms to existing manufacturing facilities the management is making endeavor to capture new export market of apparel and home furnishing fabrics. In this context the management has explored the eastern markets of Sri Lanka and Bangladesh as well as new buyers in US and European markets. However, in recent period the domestic market has shown very robust growth. Demand of high quality greige fabric is rising due to gradual closure of manufacturing facilities in the west and establishment of highly modernized finishing plants in Pakistan. This has created a great opportunity and market for the domestic weavers. Conversely, with the imposition of quantitative restrictions on Chinese imports by US and European Union, we once again foresee a rising trend of fabric exports from Pakistan in coming months which is reflected from the recent inquiries from international buyers.

Future prospects

Having been successful in the field of weaving and trading, the Management plans to expand its manufacturing facilities via investment of Rs. 1.1 – 2.022 billion over the next three years in the textile value added sector. In this regard, our plans include the establishment of production units for finished home textile products with the possibility of integrating backwards into spinning to ensure availability of consistent quality of the critical raw material for weaving. The concept is to build on the company's inherent marketing strength in the area of home textiles.

Expansions

With the textile industry of Pakistan currently entering a state of revitalization after suffering a long period of recession, with the US leaving the towel manufacturing market and the recent WTO regime in place, a new global business opportunity has arisen which the company wants to capitalize on and strategically position itself to enter the towel export market. In this regard, the management has decided to set-up a towel manufacturing plant by focusing on the manufacture and export of quality cotton terry towels. The Towel project is located at Multan Road, Jhamber, District Kasur, with a rated annual production capacity of 1.472 million kilograms of towel. The construction work is in progress and towel weaving terry looms have arrived at site. The letters of credit for import of other machineries have already been opened.

Board of directors

In lieu of conversion of corporate status of the company and its listing on Karachi and Lahore stock exchanges, the Board of Directors was reconstituted in December 2004. Following are the directors of the company for the remainder period

i.e. unexpired tenure of Directors in accordance with the provisions of the Companies Ordinance, 1984:

1.	Mr. Mussaid Hanif	Chairman and Chief Executive
2.	Mr. Burhan Muhammad Khan	Director
3.	Mr. Arbab Muhammad Khan	Director
4.	Mr. Aftab Ahmad Khan	Director
5.	Mr. Sheikh Muhammad Iqbal	Director
6.	Ms. Tahniyat Mussaid	Director
7.	Ms. Sabah Burhan	Director

Compliance of Code of Corporate Governance

The Board in lieu of its strategic plan of listing of the company on stock exchanges, partially established procedures for compliance of Code of Corporate Governance in the intervening period of listing process and implemented the same in later part of the year under review whereas certain remaining procedures were implemented subsequent to the balance sheet date since it was not mandatory requirement of the company being a private/unlisted public limited company during the year under review.

The Board is committed to maintain highest standards of corporate governance. The Board has reviewed the Code of Corporate Governance and confirms that:-

- The financial statements, prepared by the management of the company, presents fairly its state of affairs, the results of its operations, cash flows and changes in equity.
- Proper books of accounts of the company have been maintained.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International accounting standards as applicable in Pakistan have been followed in preparation of financial statements and any departure therefrom has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the company's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations except to the extent as stated in the para 15 & 16 of the "Statement Of Compliance With The Code Of Corporate Governance For The Year Ended June 30, 2005"
- Key operating and financial data of last six years is annexed herewith.

Board Meetings

During the year under review, in aggregate 23 meetings of Board of Directors were held in connection with expansion plans, corporate status, private placement, IPO, banking facilities etc. and the attendance of the directors was as under:-

Name of Directors	Meetings attended
Mr. Mussaid Hanif	23
Mr. Burhan Muhammad Khan	21
Mr. Arbab Muhammad Khan	16
Mr. Aftab Ahmad Khan	1
Mr. Sheikh Muhammad Iqbal	1
Ms. Tahniyat Mussaid	1
Ms. Sabah Burhan	1

Pattern of Shareholding

The statement of shareholding of the company as on July 31, 2005 is annexed with this report. This statement is in compliance with the requirement of the Code of Corporate Governance and the Companies Ordinance, 1984. The company has made allotment to Pre-IPO investors on April 30, 2005 whereas share certificates were issued to them alongwith IPO shares on July 22, 2005 therefore, Pattern of Share holding annexed with report is as of July 31, 2005.

Audit Committee

The Board of Directors in compliance with Code of Corporate Governance has established an Audit committee subsequent to the balance sheet date. The audit committee is comprised of 3 members of whom 2 are non-executive directors. The names of its members are given in Company Information.

Auditors

The present Auditors M/s Anjum Asim Shahid Rahman, Chartered Accountants, retire and being eligible offer themselves for reappointment as Auditors of the Company for the year ending June 30, 2006.

Acknowledgement

Finally the directors would like to extend there gratitude to the employees of the company for their team work, commitments, integrity and professionalism in trying to achieve the targets of the company.

For and on behalf of the Board of Directors

Lahore
December 05, 2005

MUSSAID HANIF
Chief Executive

Key Operating and Financial Data of Last Six Years

	June 30, 2005	June 30, 2004	June 30, 2003	June 30, 2002	June 30, 2001	June 30, 2000
PROFIT AND LOSS						
	Rupees in '000					
Sales	1,072,621	784,194	281,806	284,008	197,050	184,000
Gross Profit	114,543	98,426	44,506	43,305	24,107	31,148
Operating Profit plus other income	68,618	59,736	18,926	16,612	10,787	20,816
Financial & Other charges	38,493	24,904	3,820	7,184	5,672	7,817
Taxation	5,743	10,181	2,824	2,783	1,989	1,399
Net Profit after tax	24,382	24,650	12,281	6,645	3,126	11,600
BALANCE SHEET						
	Rupees in '000					
Capital	474,287	263,746	125,114	300	300	300
Share subscription money	10,660	-	-	-	-	-
Reserves	10,317	935	36,563	24,282	17,637	14,511
Net worth	495,264	264,680	161,677	24,582	17,937	14,811
Long Term Liabilities	471,431	111,368	98,763	3,250	2,523	2,455
Current Liabilities	766,758	415,271	172,048	81,488	64,352	69,935
Total Liabilities	1,238,189	526,639	270,811	84,737	66,875	72,390
Total Equity & Liabilities	1,733,453	791,319	432,488	109,319	84,812	87,201
Fixed Assets	1,026,638	379,630	257,612	6,952	5,518	4,470
Long Term Deposits	5,424	5,452	7,098	2,078	1,979	1,410
Current Assets	701,391	406,236	167,778	100,289	77,315	81,321
Total Assets	1,733,453	791,319	432,488	109,319	84,812	87,201
INVESTOR INFORMATION						
Break up value per share (Rs.)	10.44	10.04	12.92	819.39	597.90	493.70
Bonus/Cash dividend (Rs. In '000)	15,000	60,278	-	-	-	45
Earning Per Share (Rs.)	0.75	2.02	11.95	221.50	104.19	386.67
Return on Equity (%)	4.92	9.31	7.60	27.03	17.43	78.32
Return on Assets (%)	1.41	3.12	2.84	6.08	3.69	13.30
FINANCIAL RATIOS						
Gross Margin (%)	10.68	12.55	15.79	15.25	12.23	16.93
Net Margin (%)	2.27	3.14	4.36	2.34	1.59	6.30
Current Ratio	0.91	0.98	0.98	1.23	1.20	1.16
Leverage	2.50	1.99	1.68	3.45	3.73	4.89
Long Term Debt : Equity	49:51	30:70	38:62	12:88	12:88	14:86

Statement of Compliance with the Code of Corporate Governance

FOR THE YEAR ENDED JUNE 30, 2005

This statement is being presented to comply with the Code of Corporate Governance contained in the relevant 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 practice of corporate governance.

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

1. The company encourages representation of independent non-executive directors on its Board of Directors. At present the Board includes four independent non-executive directors.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this company.
3. All the resident directors of the company are registered as tax payers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFIs or, being a member of stock exchange, has been declared as a defaulter by the stock exchange.
4. No casual vacancy has occurred during the period under review.
5. The company has prepared a "Statement of Ethics and Business Practice" which has been signed by all the directors and employees of the company
6. The Board has developed a vision and mission statement, overall corporate strategy and significant policies of the company.
7. All the powers of the Board have been duly exercised and decision on material transactions, including appointment and determination of remuneration and terms and conditions of employment of CEO and other executive directors, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notice of the Board meetings, alongwith agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meeting were appropriately recorded and circulated.
9. No specific orientation course for directors was arranged during the year. However, the management continues to apprise and formalize them with the changes in law to discharge their duties and responsibilities.
10. The Directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
11. The financial statements of the company were duly endorsed by CEO and CFO before approval of the Board.
12. 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.
13. The company has complied with all the corporate and financial reporting requirements of the Code.
14. The Board has formed an Audit Committee. It comprises three members, of whom two are non-executive directors.
15. The audit committee has been formed and the terms of reference advised to the committee for compliance. The committee was formed subsequent to balance sheet date in compliance with Code of Corporate Governance in lieu of listing of the company. The company was listed on stock exchanges on August 08, 2005.
16. The Board has set up an effective internal audit function with suitably qualified and experienced staff, conversant with the policies and procedures of the Company and involved in the internal audit function on a full time basis. However,

this appointment was made subsequent to the balance sheet date in lieu of the listing of the company and Code of Corporate Governance.

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

MUSSAID HANIF
Chairman

December 05, 2005

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

We have reviewed the statement of compliance with the best practices contained in the code of Corporate Governance prepared by the Board of Directors of Zephyr Textiles Limited to comply with the listing Regulations No. 37 (Chapter XI) of the Karachi Stock Exchange (Guarantee) Limited and (Chapter XIII) of the Listing Regulations of Lahore Stock Exchange (Guarantee) Limited, where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of compliance reflects the status of the company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the company'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 have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention, which causes us to believe that the statement of compliance does not appropriately reflect the Company's Compliance, in all material respects, with the best practices contained in the Code of Corporate Governance for the year ended June 30, 2005

Lahore
December 05, 2005

ANJUM ASIM SHAHID RAHMAN
Chartered Accountants

Auditors' Report to the Members

We have audited the annexed balance sheet of Zephyr Textiles Limited as at June 30, 2005 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- a) in our opinion ,proper books of account have been kept by the company as required by the Companies Ordinance, 1984;
- b) in our opinion :
 - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - ii) the expenditure incurred during the year was for the purpose of the company's business; and
 - iii) the business conducted ,investments made and the expenditure incurred during the year were in accordance with the objects of the company;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at June 30, 2005 and of the profit, its cash flow and changes in equity for the year then ended; and
- d) in our opinion no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

Lahore
December 05, 2005

ANJUM ASIM SHAHID RAHMAN
Chartered Accountants

Balance Sheet

	Notes	2005 (Rupees)	2004 (Rupees)
EQUITY AND LIABILITIES			
SHARE CAPITAL			
Authorized share capital 62,500,000 (2004: 30,000,000) ordinary shares of Rs. 10 each		625,000,000	300,000,000
Issued, subscribed and paid-up share capital 47,428,729 (2004: 25,139,229) ordinary shares of Rs. 10 each	3	474,287,290	251,392,290
SHARE DEPOSIT MONEY		-	2,353,436
SHARE SUBSCRIPTION MONEY	4	10,660,000	-
RESERVE FOR ISSUANCE OF BONUS SHARES		-	10,000,000
UNAPPROPRIATED PROFIT		10,316,610	934,658
		495,263,900	264,680,384
LONG TERM LOANS	5	458,359,440	100,750,000
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE	6	10,404,779	9,103,405
DEFERRED LIABILITIES Staff retirement benefits	8	2,667,060	1,514,300
CURRENT LIABILITIES			
Short term finances - Secured	9	642,805,640	357,223,306
Current portion of long term liabilities	7	35,966,479	22,732,488
Creditors, accrued and other liabilities	10	87,985,719	32,165,016
Taxation	30	-	3,150,073
		766,757,838	415,270,883
CONTINGENCIES AND COMMITMENTS	11		
		1,733,453,017	791,318,972

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

CHIEF EXECUTIVE

As at June 30, 2005

	Notes	2005 (Rupees)	2004 (Rupees)
ASSETS			
NON CURRENT ASSETS			
Property, plant & equipment	12	282,759,773	352,698,124
Asset subject to finance lease	13	27,531,401	24,918,021
Capital work in progress	14	716,346,589	2,014,329
		1,026,637,763	379,630,474
Long term advances and deposits	15	5,424,065	5,452,408
CURRENT ASSETS			
Stores, spares and loose tools	16	33,106,786	14,080,809
Stock in trade	17	174,590,713	125,042,593
Trade debts	18	166,529,463	102,223,248
Loans and advances	19	106,194,237	75,434,902
Trade deposits and prepayments	20	83,078,392	61,657,973
Other receivables	21	34,447,773	11,536,434
Cash and bank balances	22	103,443,825	16,260,131
		701,391,189	406,236,090
		1,733,453,017	791,318,972

DIRECTOR

Profit and Loss Account

FOR THE YEAR ENDED JUNE 30, 2005

	Notes	2005 (Rupees)	2004 (Rupees)
SALES	23	1,072,620,831	784,194,436
COST OF SALES	24	958,078,127	685,768,315
GROSS PROFIT		114,542,704	98,426,121
OPERATING EXPENSES			
DISTRIBUTION COSTS	25	24,439,076	25,884,000
ADMINISTRATIVE	26	20,347,540	11,667,875
		44,786,616	37,551,875
		69,756,088	60,874,246
OTHER OPERATING EXPENSES	27	1,997,778	1,606,971
		67,758,310	59,267,275
OTHER OPERATING INCOME	28	859,693	468,535
OPERATING PROFIT		68,618,003	59,735,810
FINANCIAL AND OTHER CHARGES	29	38,492,652	24,904,386
PROFIT FOR THE YEAR BEFORE TAXATION		30,125,351	34,831,424
TAXATION	30	5,743,399	10,181,261
PROFIT FOR THE YEAR AFTER TAXATION		24,381,952	24,650,163
EARNING PER SHARE - BASIC	31	0.75	2.02

The appropriations from profits are set out in the statement of changes in equity.

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

CHIEF EXECUTIVE

DIRECTOR

Cash Flow Statement

FOR THE YEAR ENDED JUNE 30, 2005

	2005 (Rupees)	2004 (Rupees)
CASH FLOW FROM OPERATING ACTIVITIES		
Profit for the year before taxation	30,125,351	34,831,424
Adjustments for:		
Depreciation	23,862,080	23,390,219
Depreciation of leased assets	3,974,639	3,613,657
(Gain) / Loss on sale of fixed assets	(394,970)	118,718
Amortization of deferred costs	1,310,778	1,186,671
Provision for staff gratuity	1,960,073	786,092
Financial charges	38,492,652	24,904,387
	69,205,252	53,999,744
	99,330,603	88,831,168
(Increase)/Decrease in current assets		
Stores, spares and loose tools	(19,025,977)	(12,077,062)
Stock in trade	(49,548,120)	(79,046,562)
Trade debts	(64,306,215)	(82,143,788)
Loans and advances	(30,759,335)	(68,077,738)
Trade deposits and prepayments	(21,420,419)	(30,407,806)
Other receivables	(22,911,339)	47,525,405
	(207,971,405)	(224,227,551)
Increase in current liabilities		
Creditors, accrued and other liabilities	41,313,157	3,540,932
Cash flow from operations	(67,327,645)	(131,855,451)
Financial charges paid	(23,985,106)	(24,006,150)
Taxes paid	(8,893,472)	(7,031,188)
Gratuity paid	(807,313)	(340,530)
	(33,685,891)	(31,377,868)
Net cash flow from operating activities (A)	(101,013,536)	(163,233,319)
CASH FLOW FROM INVESTING ACTIVITIES		
Long term advances, deposits and deferred costs	(1,282,435)	459,149
Sale proceeds of fixed assets	70,466,000	4,321,500
Fixed capital expenditure	(744,915,038)	(149,128,753)
Net cash flow from investing activities (B)	(675,731,473)	(144,348,104)
CASH FLOW FROM FINANCING ACTIVITIES		
Short term finances - secured	285,582,334	221,304,346
Liabilities against assets subject to finance lease	4,340,058	4,334,205
Repayment of lease liabilities	(3,554,693)	(16,680,143)
Long term loans	371,359,440	34,500,000
Share subscription money	10,660,000	-
Paid up Capital	195,541,564	78,353,423
Net cash flow from financing activities (C)	863,928,703	321,811,831
NET INCREASE IN CASH AND CASH EQUIVALENTS (A+B+C)	87,183,694	14,230,408
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	16,260,131	2,029,723
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	103,443,825	16,260,131

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

CHIEF EXECUTIVE

DIRECTOR

Statement of Changes in Equity

FOR THE YEAR ENDED JUNE 30, 2005

Description	Paid-up Capital	Share Deposit Money	Share Subscription Money	Reserve for Issuance of Bonus Shares	Unappropriated Profit	Total
(R u p e e s)						
Balance as at June 30, 2003	89,146,110	35,967,733	-	-	36,562,955	161,676,798
Net profit for the year	-	-	-	-	24,650,163	24,650,163
Share deposit money	-	78,353,423	-	-	-	78,353,423
Shares issued during the period	111,967,720	(111,967,720)	-	-	-	-
Issue of bonus shares	50,278,460	-	-	-	(50,278,460)	-
Reserve for issuance of bonus shares	-	-	-	10,000,000	(10,000,000)	-
Balance as at June 30, 2004	251,392,290	2,353,436	-	10,000,000	934,658	264,680,384
Net profit for the year	-	-	-	-	24,381,952	24,381,952
Share deposit money	2,353,436	(2,353,436)	-	-	-	-
Share subscription money	-	-	10,660,000	-	-	10,660,000
Shares issued during the period	195,541,564	-	-	-	-	195,541,564
Issue of bonus shares	15,000,000	-	-	-	(15,000,000)	-
Reserve for issuance of bonus shares	10,000,000	-	-	(10,000,000)	-	-
Balance as at June 30, 2005	474,287,290	-	10,660,000	-	10,316,610	495,263,900

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

CHIEF EXECUTIVE

DIRECTOR

Notes to the Accounts

FOR THE YEAR ENDED JUNE 30, 2005

I. STATUS AND NATURE OF BUSINESS

Zephyr Textiles Limited (the “Company”) was incorporated in Pakistan on February 26, 1999 as a private limited company under the Companies Ordinance, 1984. Subsequently on October 04, 2004 it was converted into a public limited company. The principal activity of the company is manufacturing and sale of Greige fabric. The registered office of the company is situated in Lahore.

The shares of the Company are listed on the Karachi and Lahore Stock Exchanges in Pakistan subsequent to balance sheet date.

I.1 Statement of Compliance

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

I.2 Accounting convention

These accounts have been prepared under the historical cost convention except for revaluation of certain financial instruments at fair value, recognition of certain employee retirement benefits at present value of projected benefits, export debtors, waste and lease liability.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Staff retirement benefits

The company operates an unfunded gratuity scheme (defined benefit plan) covering all eligible employees, payable at the cessation of employment. Provision is made annually to cover the obligations under the scheme.

The latest actuarial valuation for gratuity scheme was carried out as at June 30, 2005, under Projected Unit Credit Method, using the following significant assumptions for valuation of the scheme:

- Discount rate	8% per annum
- Expected rate of salary increase in future	8% per annum

Actuarial gains and losses related to employees defined benefit plans, exceeding ten percent of the present value of defined benefit obligations as at start of the financial year are recognized in the profit and loss account over the expected average remaining working lives of the employees participating in the plan. Other wise the actuarial gains and losses are not recognized.

2.2 Tangible fixed assets and depreciation

- Owned assets

Fixed assets are stated at cost less accumulated depreciation except freehold land and capital work in progress which are stated at cost.

Cost of operating fixed assets consists of historical cost, borrowing cost pertaining to the erection / construction period and other directly attributable cost of bringing the assets to their working condition. Preproduction expenses and trial run operation results are also capitalized.

Depreciation is calculated by applying the reducing balance method so as to write off the cost of operating fixed assets over their expected useful lives.

Full annual rate of depreciation is applied to the cost of additions. However, depreciation for proportionate period of use is charged on major project cost capitalized resulting in increased production capacity. No depreciation is charged on assets deleted during the year.

Gain / loss on disposal of fixed assets is reflected in the income currently. Normal repairs and maintenance are charged to income as and when incurred. Major renewals and improvements are capitalized.

- Leased assets

Assets held under finance leases are stated at lower of present value of minimum lease payments under the lease agreement and the fair value of assets acquired on lease. Aggregate amount of related obligations under the lease less financial charges allocated to future payments are shown as liability. The financial charges are calculated at the interest rate implicit in the lease and are charged to income currently.

Assets acquired under finance lease are depreciated over the useful life of the assets applying reducing balance method. Depreciation of leased assets is charged to income currently.

2.3 Capital work in progress

Capital work in progress is stated at cost less any identified impairment losses.

2.4 Stores, spares and loose tools

These are stated at cost using moving average method except goods in transit which are stated at cost.

2.5 Stock in trade

Stock-in-trade is valued at lower of cost and net realizable value except waste which is valued at net realizable value.

Cost of major components of stock in trade is determined as follows:-

Raw materials	- At weighted average cost
Work in process and finished goods	- At prime cost plus appropriate production overheads determined on weighted average basis.

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

2.6 Financial instruments

All other financial assets and liabilities are recognized at cost which is fair value of the consideration given or received at the time when company becomes a party to the contractual provision of the instrument by following trade date accounting. Any gain or loss on subsequent measurement and derecognizing is charged to income.

2.7 Loans and advances

These are stated at cost which represents the fair value of the consideration.

2.8 Trade debts

Trade debts originated by the company are recognized and carried at original invoice amount less allowance for any uncollectible amounts. An estimate for doubtful debt is made when collection of the full amount is no longer probable. Known bad debts are written off as incurred.

2.9 Trade and other payables

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

2.10 Borrowings

Loans and borrowings are recorded at proceeds received. Financial charges are accounted for on accrual basis and are included in creditors accrued and other liabilities to the extent of the amount remaining unpaid.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset that are capitalized when incurred, whereas all other borrowing costs are expensed out in the period of incurrence.

2.11 Financial and other charges

Financial and other charges on long term loans are capitalized up to the date of commissioning of the respective plant and machinery, acquired out of the proceeds of such specific long-term loans. All other financial and other charges are taken to the profit and loss account.

2.12 Foreign currency translation

Transactions in foreign currency are recorded in Pak Rupee at the rate of exchange prevailing on the transaction date. All monetary assets and liabilities in foreign currencies are translated at exchange rates ruling on the balance sheet date. Exchange differences are accounted for in the income currently.

2.13 Revenue recognition

Export sales are accounted for on shipment basis. Exchange differences, if any, are adjusted in the period of realization except for modification made in note 2.12 (Foreign currency translation) to the financial statements. Local sales are recorded on dispatch of goods to customers.

Export rebates are accounted for on accrual basis. Investment and interest income is recognized on time proportion basis.

2.14 Taxation

Provision for current taxation is based on taxable income at current tax rates after considering the rebates and tax credits available, if any.

Deferred taxation is accounted for on all material temporary differences by using the liability method. However, deferred taxation is not provided if it can be established with reasonable probability that these differences will not reverse in the foreseeable future.

2.15 Impairment of fixed assets

An assessment is made at the balance sheet date to determine whether there is an evidence that a particular fixed asset or class of fixed assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss recognized for the difference between recoverable amount and the carrying amount.

2.16 Provisions

A provision is recognized in the financial statements when company has legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made to the amount of obligation.

2.17 Cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprises cash in hand, demand deposits, other short term highly liquid instruments

that are readily convertible to known amount of cash and which are subject to an insignificant risk of change in value and finances under mark-up arrangements. In the balance sheet, finance under mark-up arrangements are included in current liabilities.

2.18 Off-setting

Financial assets and liabilities are offset and the net amount is reported in the financial statements only when there is legally enforceable right to set off the recognized amount and the company intends either to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

	2005 Rupees	2004 Rupees
3. ISSUED, SUBSCRIBED AND PAID UP SHARE CAPITAL		
39,900,883 (2004 : 20,111,383) Ordinary shares of Rs. 10 each fully paid in cash	399,008,830	201,113,830
7,527,846 (2004 : 5,027,846) Ordinary shares of Rs. 10 each issued as fully paid bonus shares	75,278,460	50,278,460
	474,287,290	251,392,290

4. SHARE SUBSCRIPTION MONEY

It represents the subscription money received against the Initial Public Offering (IPO) Rs. 120 million (12 million ordinary shares of Rs. 10 each). The subscription date of IPO was June 29 and June 30, 2005. The share capital of the company has been increased subsequent to balance sheet date by Rs. 120 million (12 million ordinary shares of Rs. 10 each)

5. LONG TERM LOANS

	Repayment Commenced	Interest rate (6 Month KIBOR+)	Sanctioned Limit Rupees(M)	Number of installments	2005 Rupees	2004 Rupees
Demand Finance-FBL	Jul-04	5.00%	14.5	36 monthly	-	14,500,000
Demand Finance-BOP	May-06	4.00%	100	12 semiannually	100,000,000	-
Fixed Assets Finance -FAF(HBL)	Jul-04	3.00%	80	8 semiannually	60,000,000	70,000,000
Fixed Assets Finance -FAF(HBL)	Aug-06	2.50%	100	10 semiannually	100,000,000	-
Morabaha Finance -FBL	June-06	3.50%	50	12 Quarterly	50,000,000	-
Term Finance-BOP	Apr-05	4.00%	30	8 semiannually	26,250,000	30,000,000
Term Finance-NBP	Jul-06	3.00%	100	24 Quarterly	99,609,440	-
Term Finance (SAPICO)	June-06	3.75%	50	12 semiannually	50,000,000	-
					485,859,440	114,500,000
Current portion			(Note 7)		(27,500,000)	(13,750,000)
					458,359,440	100,750,000

5.1 It represents long term loan from commercial banks / financial institutions (stated above) to finance the manufacturing facilities comprised of existing project and newly installed airjet looms expansion project. Markup is payable along with installment as per schedule stated above. The loan is secured against equitable mortgage charge on land, first pari passu charge on fixed assets of the company and personal guarantees of the directors of the company.

6. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	June 30, 2005			June 30, 2004		
	Minimum lease Payment (MLP)	Finance charge not yet due	Present value of minimum lease payments (MLP)	Minimum lease Payment (MLP)	Finance charge not yet due	Present value of minimum lease payments (MLP)
Total Liabilities	20,872,332	2,001,074	18,871,258	19,723,093	1,637,200	18,085,893
Not later than one year	9,869,124	1,402,645	8,466,479	10,242,983	1,260,495	8,982,488
Later than one year but not later than five years	11,003,208	598,429	10,404,779	9,480,110	376,705	9,103,405

The value of minimum lease rental payments has been discounted at implicit interest rates ranges from 9.75% to 13% to arrive at their present value. Taxes, repairs & insurance costs are to be borne by the lessee. The lease agreements are renewable at the option of the lesser & on such terms as may be agreed upon. These liabilities are partly secured by deposit of Rs. 3,711,900 included in long term deposits and deferred costs under Note 15 to the accounts.

	2005 Rupees	2004 Rupees
7. CURRENT PORTION OF LONG TERM LIABILITIES		
Long term loans (Note 5)	27,500,000	13,750,000
Liabilities against assets subject to finance lease (Note 6)	8,466,479	8,982,488
	35,966,479	22,732,488
8. STAFF RETIREMENT BENEFITS (Defined benefit plan)		
Balance sheet liability at the beginning of the year	1,514,300	1,068,738
Amount recognized during the year	1,960,073	786,092
Amount paid during the year	(807,313)	(340,530)
	2,667,060	1,514,300
Present value of defined benefit obligation (Note 8.1)	2,667,060	1,514,300
8.1 Present value of defined benefit obligation		
Present value of defined benefit obligation at the beginning of the period	1,514,300	1,068,738
Interest cost for the year	176,113	-
Current service cost for the year	1,783,960	786,092
Benefits paid	(807,313)	(340,530)
	2,667,060	1,514,300

The principal actuarial assumptions used in the actuarial valuation, using projected unit credit method, of the gratuity scheme as on June 30, 2005 are:

- Discount rate	8% per annum
- Expected rate of salary increase in future	8%
- Average expected remaining working life of employee	31 years

		2005 Rupees	2004 Rupees
8.2 Current cost of staff retirement has been charged to:			
Cost of sales	(Note 24)	1,360,583	513,880
Administrative	(Note 26)	599,490	272,212
		1,960,073	786,092

9. SHORT TERM FINANCES - SECURED

	Note	Sanctioned limit Rupees (m)	Interest rate (Matching/ KIBOR/ LIBOR +)	Mark-up/ repayment terms	2005 Rupees	2004 Rupees
Bridge finance-BOP	9.1	30	2.50%		30,000,000	-
Pre-shipment	9.2 & 9.3	120	1.25% to 2.5%	Quarterly	108,422,000	125,080,342
Pre-shipment Foreign currency Financing	9.2 & 9.3	460	.75% to 1.75%	Quarterly	384,025,010	148,963,980
Post-shipment	9.2	190	1.25% to 2.25%	Quarterly	1,610,000	20,680,000
Morabaha finance	9.2	50	3%	Quarterly	49,890,000	-
Running finance	9.2	110	1.5% to 2.25%	Quarterly	68,858,630	62,498,984
					642,805,640	357,223,306

9.1 The facility has been obtained from Bank Of Punjab which is repayable from the proceed of initial public offer or latest by August 31, 2005. The facility is secured against first pari passu charge over fixed assets of company.

The facility has been repaid by the company subsequent to balance sheet date through IPO proceeds.

9.2 The facilities are secured against hypothecation of stocks, lien on confirmed export orders, pari passu charge on current assets and personal guarantees of the directors.

9.3 It includes a composite limit of foreign currency finance facility and export refinance to the extent of Rs. 580 million (equivalent foreign currency).

		2005 Rupees	2004 Rupees
10. CREDITORS, ACCRUED AND OTHER LIABILITIES			
Creditors		54,389,837	17,104,337
Accrued liabilities		8,096,290	4,314,851
Accrued mark-up / interest on long term loans		12,828,922	3,328,956
Accrued mark-up / interest on short term finances		6,833,013	1,825,433
Tax deducted at source		-	47,846
Temporary overdraft		2,079,232	3,710,374
Retention money payable		100,000	-
Workers' Profit Participation Fund	(Note 10.1)	3,658,425	1,833,219
		87,985,719	32,165,016

		2005 Rupees	2004 Rupees
10.1 Workers' Profit Participation Fund			
At the beginning of the year		1,833,219	-
Allocation for the year	(Note 29)	1,599,220	1,833,219
		3,432,439	1,833,219
Interest during the year	(Note 29.1)	225,986	-
		3,658,425	1,833,219
Amount paid during the year		-	-
		3,658,425	1,833,219

11. CONTINGENCIES AND COMMITMENTS

11.1 The company had earlier filed a recovery suit of Rs. 3.288 million against WAPDA which was deposited by the company under interim order passed by the Honorable Lahore High Court on account of arrear bill claimed by WAPDA on account of ex-premises' defaulter namely Pearl Fabrics Limited. The petition was decided in the favour of the company by the learned bench of Honorable Lahore High Court and WAPDA failed to file the appeal against the order of the Honorable Lahore High Court before Honorable Supreme Court of Pakistan within stipulated time. However, it has filed an appeal before Honorable Supreme Court of Pakistan for grant of relaxation for filing of appeal against the order passed by the Honorable Lahore High Court. The request for grant of relaxation filed by the WAPDA is pending for decision before the Honorable Supreme Court of Pakistan. The management is very confident that the outcome of the matter will be in the favour of the company.

11.2 Commitments against irrevocable letters of credit for import of machinery and raw material as at June 30, 2005 amounting to Rs. 353.104 million (2004: Rs. 387 million) and Rs. 13.29 million (2004: Rs. Nil) respectively.

12. PROPERTY, PLANT AND EQUIPMENT

DESCRIPTION	COST			R A T E %	DEPRECIATION				Written Down Value as on June 30, 2005
	As on July 01, 2004	Additions/ (Deletion)	As on June 30, 2005		As on July 01, 2004	Adjustment	For the Year	As on June 30, 2005	
Land - freehold	8,000,000	16,754,026	24,754,026	-	-	-	-	-	24,754,026
Building - on freehold land	91,570,158	624,435	92,194,593	5	2,566,613	-	4,481,399	7,048,012	85,146,581
Non factory building	12,142,328	-	12,142,328	10	202,372	-	1,193,996	1,396,368	10,745,960
Plant & machinery	255,822,514	18,032,162 (88,072,860)	185,781,816	10	20,907,980	(5,219,521)	17,009,336	32,697,795	153,084,021
Furniture & fixtures	1,450,462	607,800	2,058,262	10	304,058	-	175,420	479,478	1,578,784
Vehicles	3,341,654	2,497,020 (3,957,100)	1,881,574	20	980,923	(666,312)	313,393	628,004	1,253,570
Electrical installations	1,687,385	275,508	1,962,893	10	258,549	-	170,434	428,983	1,533,910
Office equipment	5,376,511	1,276,905	6,653,416	10	1,472,393	-	518,102	1,990,495	4,662,921
2005 Rupees	379,391,012	40,067,856 (92,029,960)	327,428,908		26,692,888	(5,885,833)	23,862,080	44,669,135	282,759,773
2004 Rupees	225,990,063	159,423,538 (6,022,589)	379,391,012		3,218,092	84,577	23,390,219	26,692,888	352,698,124

		2005 Rupees	2004 Rupees
12.1 Depreciation for the year has been allocated as under:			
Cost of sales	(Note 24)	22,855,165	22,529,188
Administrative expenses	(Note 26)	1,006,915	861,031
		23,862,080	23,390,219

12.2 Disposal of operating fixed assets

The following is the detail of disposals during the year:

PARTICULARS	Quantity	Cost	Book Value	Sale Proceeds	Profit/(Loss)	Mode of Disposal	Name and Address
		Rupees	Rupees	Rupees	Rupees		
Plant & machinery							
Sizing Machine	1	7,957,653	7,102,205	7,102,205	-	Negotiation	Faisal Bank Ltd. Mirpur Branch, Azad Kashmir
Knotting Machine	1	2,292,347	2,115,128	2,115,128	-	Negotiation	-As Above-
Sulzer Looms 153"	26	46,144,956	42,589,638	43,888,000	1,298,362	Negotiation	Rana Textile Mills Ltd. Rafhan Mills Road, Faisalabad
Sulzer Looms 143"	16	27,427,904	25,437,104	24,800,000	(637,104)	Negotiation	Union Fabrics (Pvt) Ltd. F 526/A-II, SITE Karachi
Boiler	1	4,250,000	3,793,125	3,793,125	-	Negotiation	Faisal Bank Ltd. Mirpur Branch, Azad Kashmir
Vehicles							
Honda Civic - (LHZ 1378)	1	1,246,500	1,246,500	1,246,500	-	Negotiation	-As Above-
Suzuki Cultus - (LRF 7716)	1	591,300	441,504	348,000	(93,504)	Negotiation	Texlynx 26 B Sarwar Raod, Lahore Cantt
Suzuki Cultus - (LRF 7718)	1	591,300	441,504	500,000	58,496	Negotiation	Faisal Bank Ltd. Mirpur Br. AJK
Kia Spectra - (LRH 2536)	1	764,000	580,640	450,000	(130,640)	Negotiation	-As Above-
Kia Spectra - (LRH 2537)	1	764,000	580,640	480,000	(100,640)	Negotiation	-As Above-
2005 Rupees		92,029,960	84,327,988	84,722,958	394,970		
2004 Rupees		133,625	106,900	250,000	143,100		

13. LEASED ASSETS

DESCRIPTION	COST			R A T E %	DEPRECIATION			Written Down Value as on June 30, 2005	
	As on July 01, 2004	Additions	As on June 30, 2005		As on July 01, 2004	Adjustment	For the Year		As on June 30, 2005
Plant & machinery	20,780,000	4,500,000	25,280,000	10	2,233,850	-	2,282,661	4,516,511	20,763,489
Generators	395,000	--	-	10	107,045	(107,045)	-	-	-
Vehicles	8,184,413	4,340,058 (3,282,393)	9,242,078	20	2,100,497	(1,318,309)	1,691,978	2,474,166	6,767,912
2005 Rupees	29,359,413	8,840,058 (3,677,393)	34,522,078		4,441,392	(1,425,354)	3,974,639	6,990,677	27,531,401
2004 Rupees	31,618,873	5,454,476 (7,713,936)	29,359,413		2,148,218	(1,320,483)	3,613,657	4,441,392	24,918,021

		2005 Rupees	2004 Rupees
13.1 Depreciation for the year has been allocated as under:			
Cost of sales	(Note 24)	2,494,570	2,302,678
Administrative expenses	(Note 26)	1,480,069	1,310,979
		3,974,639	3,613,657

		2005	2004
		Rupees	Rupees
14. CAPITAL WORK IN PROGRESS			
Building		113,591,282	-
Plant and machinery		554,900,012	2,014,329
Preproduction expenses		6,522,576	-
Borrowing costs capitalized		22,064,877	-
Trial run losses	(Note 14.3)	19,267,842	-
		716,346,589	2,014,329
14.1 This represents the cost incurred for weaving expansion project of additional 96 high speed extra wide width air-jet shuttle less looms along with complete new back process and Towel Manufacturing Unit.			
14.2 The commercial production of expansion project of 96 Air Jet Shuttle less Looms has commenced from 01 October, 2005.			
14.3 Trial run losses			
Trial run sales		39,273,036	-
Raw Materials Consumed	(Note 24.1)	59,600,061	-
Salaries and benefits		3,231,333	-
Stores Consumed		2,102,744	-
Sizing Materials		4,180,711	-
Fuel and Power		3,540,791	-
Other factory overheads		1,496,614	-
		74,152,254	-
Adjustment of closing stocks		(15,611,376)	-
		58,540,878	-
Cost of goods sold		58,540,878	-
		(19,267,842)	-
15. LONG TERM ADVANCES AND DEPOSITS			
Lease key money		3,711,900	3,255,500
Security deposits		1,712,165	1,192,690
Deferred costs	(Note 15.1)	-	1,004,218
		5,424,065	5,452,408
15.1 Deferred costs			
Preliminary expenses		46,800	15,750
Deferred expenses		1,263,978	2,175,139
		1,310,778	2,190,889
Less: Amortization for the year		1,310,778	1,186,671
		-	1,004,218
15.2 Amortization for the year has been allocated as under:-			
Other operating expenses	(Note 27)	1,310,778	1,186,671

	2005	2004
	Rupees	Rupees
16. STORES, SPARES AND LOOSE TOOLS		
Stores	9,500,160	9,880,809
Spares	23,606,626	4,200,000
	33,106,786	14,080,809
17. STOCK IN TRADE		
Raw materials	66,924,719	42,463,469
Work in process	21,359,893	19,221,382
Finished goods & waste	86,306,101	63,357,742
	174,590,713	125,042,593
18. TRADE DEBTS - Considered good		
Export - secured against letters of credit	43,690,113	59,041,417
Local - Unsecured	122,839,350	43,181,831
	166,529,463	102,223,248
19. LOANS AND ADVANCES		
Advances - unsecured but considered good:		
to suppliers	10,820,394	5,209,258
to employees	4,541,809	821,359
to others	4,788,445	-
	20,150,648	6,030,617
Letters of credit	2,425,255	4,044,575
Advance against consumable machinery parts and land	83,618,334	65,359,710
	106,194,237	75,434,902
20. TRADE DEPOSITS AND PREPAYMENTS		
Security deposit	-	450,500
Prepayments	199,205	570,364
Advance income tax	6,293,373	-
Margin deposits	1,631,030	1,815,800
Sales tax refundable	64,066,528	52,961,715
Export rebate receivable	10,888,256	5,859,594
	83,078,392	61,657,973
21. OTHER RECEIVABLES		
Receivable from associated undertakings (Note 21.1)	17,307,803	5,849,882
Other receivables	17,139,970	5,686,552
	34,447,773	11,536,434

	2005	2004
	Rupees	Rupees
21.1 Due from associated undertakings		
Texlynx	-	3,294,470
Agentex	17,307,803	2,555,412
	17,307,803	5,849,882

M/S Texlynx is no more associated undertaking of the company effective July 01, 2004.

Maximum aggregate balance of advances to associated undertakings at the end of any month during the year was Rs.20,559,352 (2004. Rs.5,849,882). The amount has subsequently been received by the company.

22. CASH AND BANK BALANCES

Cash in hand		176,452	12,055
Cash at banks - current accounts	(Note 22.1)	103,267,373	16,248,076
		103,443,825	16,260,131

22.1 It includes an amount of Rs. 10,660,000 (2004: Nil) which is deposited in company's bank account as subscription money. However company's right to use this cash is restricted upto completion of share issuance process.

23. SALES

Cloth - Export - invoiced value		550,002,819	548,564,107
Made-up & Accessories - Export - invoiced value		250,007	442,584
Exchange gain / (loss)		5,030,840	3,281,155
		555,283,666	552,287,846
Cloth - Local	(Note 23.1)	498,806,212	223,612,589
		1,054,089,878	775,900,435
Export rebate		15,085,045	9,557,211
Processing income		6,038,939	-
		1,075,213,862	785,457,646
Commission and claim		(2,593,031)	(1,263,210)
		1,072,620,831	784,194,436

23.1 Domestic sales are exclusive of sales tax of Rs.67,889,082 (2004. Rs.35,447,754).

		2005	2004
		Rupees	Rupees
24. COST OF SALES			
Raw materials consumed	(Note 24.1)	709,976,695	527,554,516
Stores consumed		9,688,032	4,617,831
Packing, Sizing and lubricants consumed		32,945,890	24,518,295
Fuel and power		20,320,684	18,577,575
Salaries, wages and other benefits		26,203,153	25,610,740
Processing charges		139,967,660	121,034,309
Insurance		957,608	806,870
Repair and maintenance		952,174	639,775
Depreciation	(Note 12.1)	22,855,165	22,529,188
Depreciation of assets subject to finance lease	(Note 13.1)	2,494,570	2,302,679
Other production overheads		1,191,990	1,794,252
		967,553,621	749,986,030
Adjustment of work-in-process			
Opening stock		19,221,382	1,657,892
Closing stock		(21,359,893)	(19,221,382)
		(2,138,511)	(17,563,490)
Adjustment of finished goods and waste			
Opening stock		63,357,742	16,703,517
Closing stock		(70,694,725)	(63,357,742)
		(7,336,983)	(46,654,225)
		958,078,127	685,768,315
24.1 Raw materials consumed			
Opening stock		42,463,469	27,634,622
Purchases		791,601,152	542,383,363
Freight		2,436,854	-
		794,038,006	542,383,363
Closing stock		(66,924,719)	(42,463,469)
Trial production	(Note 14.3)	(59,600,061)	-
		709,976,695	527,554,516
25. DISTRIBUTION COSTS			
Freight		20,841,871	21,499,088
Clearing & Forwarding		1,473,795	1,205,441
Other expenses		2,123,410	3,179,471
		24,439,076	25,884,000

		2005	2004
		Rupees	Rupees
26. ADMINISTRATIVE EXPENSES			
Directors' remuneration		680,000	-
Salaries and other benefits		5,431,766	4,179,759
Traveling and conveyance		4,278,526	1,063,884
Rent, rates and taxes		1,003,835	265,472
Printing and stationery		689,198	266,318
Communication		2,722,231	1,445,966
Vehicles running and maintenance		885,045	552,326
Repair and maintenance		60,915	101,537
Legal and professional charges		475,315	538,513
Electricity, gas and water		607,931	307,594
Insurance		314,027	422,271
Advertisement		83,342	-
Depreciation	(Note 12.1)	1,006,915	861,031
Depreciation of assets subject to finance lease	(Note 13.1)	1,480,069	1,310,979
Others		628,425	352,225
		20,347,540	11,667,875
27. OTHER OPERATING EXPENSES			
Auditors' remuneration	(Note 27.1)	200,000	75,000
Amortization of deferred costs	(Note 15.2)	1,310,778	1,186,671
Fee & subscription		487,000	345,300
		1,997,778	1,606,971
27.1 Auditors' remuneration			
Audit fee		100,000	75,000
Tax representation and consultancy fee		100,000	-
		200,000	75,000
28. OTHER OPERATING INCOME			
Gain / (Loss) on sale of fixed assets	(Note 12.2)	394,970	(118,718)
Others		464,723	587,253
		859,693	468,535
29. FINANCIAL AND OTHER CHARGES			
Financial charges	(Note 29.1)	36,893,432	23,071,167
Workers' Profit Participation Fund		1,599,220	1,833,219
		38,492,652	24,904,386
29.1 Financail Charges			
Lease finance charges		1,881,382	2,900,618
Mark-up / interest on long term loans		6,255,629	6,434,990
Mark-up / Interest on short term finances		24,424,478	10,052,466
Interest on Workers' Profit Participation Fund		225,986	-
Bank charges		4,105,957	3,683,093
		36,893,432	23,071,167

	2005	2004
	Rupees	Rupees
30. TAXATION		
Prior year	240,871	-
Current year	5,502,528	10,181,261
Tax expense for the year	5,743,399	10,181,261
Less: Deducted/Paid	5,743,399	7,031,188
Closing provision	-	3,150,073

30.1 The company has not accounted for any deferred taxation because it is not probable that taxable profits will be available against which the deductible temporary differences, unused tax losses, if any, and tax credits can be utilized. Provision for income tax is made in the accounts accordingly. Income tax assessments of the company have been finalized up to tax year 2004.

30.2 Reconciliation of applicable and effective tax rate

Accounting profit before tax	30,125,351	34,831,424
Tax rate	39%	41%
Tax on accounting profit	11,748,887	14,280,884
Difference due to final tax regime	(6,246,359)	(4,099,623)
Adjustment in respect of income tax of prior years	240,871	-
Tax expense for the current year	5,743,399	10,181,261

Tax rates used are actually applicable in relevant periods due to legal status of the company on closing dates.

31. EARNING PER SHARE - BASIC

Profit attributable to ordinary shareholders	24,381,952	24,650,163
Weighted average number of ordinary shares	32,458,202	12,214,955
Earning per share - Basic	0.75	2.02

31.1 There is no dilutive effect on the basic earning per share.

32. FINANCIAL ASSETS AND LIABILITIES

	Mark-up bearing		Non mark-up bearing		Total 2005 Rupees	Total 2004 Rupees
	Maturity upto one year	Maturity after one year	Maturity upto one year	Maturity after one year		
	Rupees	Rupees	Rupees	Rupees		
Financial Assets						
Long term advances and security deposits	-	-	-	1,712,165	1,712,165	3,255,766
Trade debts	-	-	166,529,463	-	166,529,463	102,223,248
Advances, deposits & other receivables	-	-	(139,002,024)	-	(139,002,024)	18,218,168
Cash and bank balances	-	-	103,443,825	-	103,443,825	16,260,131
	-	-	130,971,264	1,712,165	132,683,429	139,957,313
Financial Liabilities						
Loans from commercial banks	2.5% to 5%	27,500,000	458,359,440	-	485,859,440	114,500,142
Short term finances	0.75% to 2.5%	642,805,640	-	-	642,805,640	357,223,306
Creditors, accrued and other liabilities	-	-	87,985,719	-	87,985,719	32,117,170
		670,305,640	458,359,440	87,985,719	1,216,650,799	503,840,618
Sensitivity gap		(670,305,640)	(458,359,440)	42,985,545	1,712,165	(1,083,967,370)

32.1 Concentration and management of credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed completely to perform as contracted. The company's credit risk exposure is not significantly different from that reflected in the financial statements. The company believes that it is not exposed to major concentration of credit risk. To manage credit risk, company applies credit limits to its customers.

32.2 Foreign exchange risk management

Foreign currency risk arises mainly where receivables and payables exist due to sales and purchases transactions with foreign undertakings. The company does not view hedging as being financially feasible owing to the excessive costs involved in relation to the amount at risk. However, where substantial amount of risk is involved the management manages the risk through forward cover.

32.3 Liquidity risk management

Liquidity risk reflects company's inability in raising funds to meet commitments. The management closely monitors company's liquidity and cash flow position to ensure adequate liquidity and manage the assets keeping in view the liquidity position.

32.4 Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to change in the market interest rates. The company is not exposed to major interest rate risk. The rate of interest and maturity periods are disclosed in respective notes.

32.5 Fair values of financial assets and financial liabilities

The management is of the view that carrying values of all financial assets and financial liabilities approximate to their fair values except long-term assets whose fair value is not reasonably determinable due to non-availability of active market of such instruments and characteristics of these instruments which make them non-tradeable.

Method used for fair value estimation

Assets

(i) Short term

Fair value of all short term financial assets approximates to the carrying value because of their short term maturity.

Liabilities

(i) Short term

Carrying value of current maturity of long term loans, interest accrued and short term loans equals to their fair value because of their short term maturity.

(ii) Long term

Carrying value of long term financial liabilities approximates its fair value due to its fixed maturity amount and floating interest rates on these debts.

33. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

Description	2005			2004		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
Managerial remuneration	200,000	480,000	-	-	-	1,038,667
House rent allowance	-	-	-	-	-	467,400
Utilities	-	-	-	-	-	51,933
Rupees	200,000	480,000	-	-	-	1,558,000
No. of persons	1	2		1	2	4

33.1 Some of the directors and the executives are provided with free use of company cars as per rules.

33.2 No meeting fee was paid to the directors for attending the meetings of the board.

33.3 The number of executives has been reduced due to revision in the definition of executive in the Fourth schedule to the Companies Ordinance, 1984.

	2005	2004
34. PLANT CAPACITY & PRODUCTION		
No. of looms installed	174	120
No. of looms worked	174	120
Shifts per day	3	3
No. of days actually worked	364	364
Rated capacity (Square Meters in millions)	29.435	16.638
Actual production (Square Meters in millions)	17.249	13.569

It is difficult to determine precisely the production capacity in textile weaving mills since it fluctuates widely depending on various factors such as speed, width and construction of cloth woven etc.

The company has installed additional looms during the period which increased the rated capacity of the plant. These looms partially commenced trial production from 1st April 2005.

35. RELATED PARTIES DISCLOSURE

The related parties comprise associated undertaking, companies where directors also held directorship, directors and key management personnel. Transactions with associated undertakings and other related parties other than remuneration and benefits to key management personnel under the terms of their employment as disclosed in Note 33 are as follows:

Relationship	Nature of transactions	2005 Rupees	2004 Rupees
Associated undertakings	Temporary advanced / expense	17,455,303	2,555,412

36. NUMBER OF EMPLOYEES

Number of employees at the year end	563	293
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37. DATE OF AUTHORIZATION

These accounts have been approved by the Board of Directors on December 05, 2005.

38. FIGURES

- have been rounded off to the nearest rupee.
- of previous year have been re-arranged and re classified due to revision of the fourth schedule wherever necessary, For the purpose of comparison. Consequently , following significant corresponding figures have been changed:
- Advances, deposits, prepayments and other receivables has been reclassified and divided into loans and advances,trade deposits and prepayments and other receivables.
- Administrative expenses of Rs. 1,606,971 have been classified as other operating expenses.

CHIEF EXECUTIVE

DIRECTOR

Form 34

Pattern of Share Holding
as on July 31, 2005

Number of shareholders	From	Shareholding	To	Total Shares held
1,231	101	-	500	615,500
44	501	-	1000	44,000
25	1001	-	5000	69,100
8	5001	-	10000	76,000
1	10001	-	15000	15,000
6	15001	-	20000	120,000
1	20001	-	25000	25,000
1	25001	-	30000	30,000
9	45001	-	50000	450,000
9	95001	-	100000	900,000
1	100001	-	105000	103,000
1	115001	-	120000	120,000
1	120001	-	125000	125,000
1	135001	-	140000	140,000
1	145001	-	150000	150,000
4	195001	-	200000	800,000
2	245001	-	250000	500,000
1	285001	-	290000	290,000
2	455001	-	460000	911,896
1	910001	-	915000	910,802
1	1410001	-	1415000	1,410,802
1	1820001	-	1825000	1,822,698
1	1865001	-	1870000	1,866,750
1	1910001	-	1915000	1,910,802
1	2165001	-	2170000	2,166,800
1	2465001	-	2470000	2,465,300
1	2775001	-	2780000	2,777,552
1	2855001	-	2860000	2,857,300
1	3820001	-	3825000	3,822,698
1	15105001	-	15110000	15,109,364
1	16820001	-	16825000	16,823,365
1,361				59,428,729

Detail of Shareholding as on June 30, 2005

Shareholder's category	No. of shareholders	Share held	Percentage
I. Directors, Chief Executive Officer and their spouses and minor children			
Mr. Mussaid Hanif		16,823,365	28.31
Mr. Burhan Muhammad Khan		15,109,364	25.42
Mr. Arbab Muhammad Khan		2,857,300	4.81
Mr. Aftab Ahmad Khan		3,300	0.005
Mr. Sheikh Muhammad Iqbal		3,300	0.005
Ms. Tahniyat Mussaid		2,465,300	4.15
Ms. Sabah Burhan		2,166,800	3.65
Mr. Awais Ahmad Khan s/o Aftab Ahmad Khan		290,000	0.49
Ms. Sajida Aftab w/o Aftab Ahmad Khan		50,000	0.08
Ms. Maryam Aftab d/o Aftab Ahmad Khan		50,000	0.08
Total	10	39,818,729	67.00
2. Banks, Development Financial Institutions, Non-Banking Financial Institutions	6	12,655,354	21.30
3. General public – Local	1,336	3,251,000	5.47
4. Others	9	3,703,646	6.23
Total	1,351	19,610,000	33.00
Grand Total	1,361	59,428,729	100.00