Contents

Company Information

BOARD OF DIRECTORS:
Mr. Mussaid Hanif
Chairman/Chief Executive Officer
Mr. Burhan Muhammad Khan
Mr. Arbab Muhammad Khan
Mr. Gauhar Abdul Hai
Mr. Manzar ul Islam
Ms. Tehniyat Mussaid
Ms. Sabah Burhan

AUDIT COMMITTEE:
Ms. Tehniyat Mussaid
Chairperson/Member
Mr. Arbab Muhammad Khan
Member
Ms. Sabah Burhan
Member

COMPANY SECRETARY:
Mr. Faisal Shahzad

CHIEF FINANCIAL OFFICER:
Mr. Gauhar Abdul Hai

AUDITORS:
Anjum Asim Shahid Rahman
Chartered Accountants

LEGAL ADVISOR:
Cornelius Lane & Mufti
Advocate and Solicitors
Nawa-e-Waqt House, 4 Shahrah-e-Fatima Jinnah Road,
Lahore - 54000, Pakistan

BANKERS TO THE COMPANY:
Habib Bank Limited
National Bank of Pakistan
The Bank of Punjab
United Bank Limited
Allied Bank Limited
Faysal Bank Limited
NIB Bank Limited
Citibank N.A.
RBS
Standard Chartered Bank

SHARE REGISTRAR:
THK Associates (Pvt) Limited
Ground Floor, State Life Building No. 3
Dr. Zia-ud-Din Ahmed Road, Karachi
UAN: 021-111-000-322
Fax: 021 - 5655595

MILLS:
1 Kilometer Balloki Bhai Pheru Road, Bhai Pheru
Tel: 0494 – 512007-9, 513103-5
Fax: 0494 - 512010

63 Km Gulshan Adda, Jumber Khurd
District, Kasur

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 the10th 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 October 31, 2008 Friday at 11:00 AM to transact the following business:-

1. To confirm the minutes of the last annual general meeting.

2. To receive, consider and adopt the audited accounts of the company for the year ended June 30, 2008 together with the Directors' and Auditors' report thereon.

3. To appoint auditors for the year ending June 30, 2009 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:
October 10, 2008

Faisal Shahzad
Company Secretary

NOTES:

1. Share transfer books of the company will remain closed from October 31, 2008 to November 08, 2008 (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 10th Annual General Meeting of the company and place before you the audited financial statements and Auditors' report for the year ended June 30, 2008.

Economic environment

Textile industry in Pakistan in last 2 years went through extremely difficult period. Shortage of cotton resulted in lower gross margins for the industry in general. This situation got worse with the sharp increase in input costs and interest rates. Increasing oil price has further put pressure on poly cotton blended yarn price, energy and transportation/distribution cost hence making Pakistani products noncompetitive against the neighboring countries of the region. The exports of textiles product began to decrease largely as a result of policy inaction in response to global recession and soaring world prices for oil. Tight credit conditions and elevated energy prices are likely to weigh on economic growth over the next few quarters. Over time, the substantial easing of monetary policy, combined with ongoing measures to foster market liquidity, should help to promote moderate economic growth. The country's worsening liquidity, fractious and unstable domestic political scene, and rising social tension also have a major impact on country's export targets.

Operational review

During the year under review the company has added following facilities:

- 14 dobby terry looms to balance the towel processing capacity;
- Addition of 5 jacquard terry looms to fill the inhouse dyeing capacity;
- Installation of Sectional Warper machines for towel manufacturing unit to improve the terry product quality; and
- 12 weaving machines for more efficient and cost effective utilization of back process.

These additions will provide the company with the capability to participate in the competitive global market in coming years.

These balancing of manufacturing facilities are the part of BMR of project for which approvals from shareholders were obtained in the last annual general meeting held on September 26, 2007. The management foresees that with the balancing of the project via these additions the company will be able to participate in the competitive global market, offer wider range of products and increased margins. Other existing manufacturing facilities are operational at their full capacity. In the corresponding period towel manufacturing and power generation units were partially in commercial operations.

Operating financial results

The operating financial results of the company for the year ended June 30, 2008 are as under:

	June 30, 2008 Rupees	June 30, 2007 Rupees
Gross Profit	**246,051,007**	277,058,660
Distribution cost and admin Expenses	**100,475,526**	84,810,066
Other income	**15,519,449**	20,614,655
Operating Profit for the year	**161,094,930**	212,863,249
Financial charges		
- Markup, lease finance charges and bank charges	**256,778,023**	196,659,876
- Exchange loss on CCS and FCY Loans	**89,314,625**	-
	346,092,648	196,659,876
(Loss)/Profit for the year before taxation	**(184,997,718)**	16,203,373
Taxation current	**13,161,233**	13,563,296
(Loss)/Profit for the year after taxation	**(198,158,951)**	2,640,077

During the year under review company has registered sales net of commission and sales tax of Rs. 2,621.107 Million (2007: Rs. 2,689.532 million) which is slightly decreased against corresponding year. The gross profit of Rs. 246.051 million i.e. 9.4% (2007: Rs. 277.059 million i.e. 10.3%) depicts decrease of 0.9% of sales as against corresponding year. The operating profit of the company stands at Rs. 161.095 million (2007: Rs. 212.863 million). The loss after financial charges of Rs. 346.093 million (2007: Rs. 196.660 million) is Rs. 184.998 million (2007: profit of Rs. 16.203 million). The net loss of the company during the year after providing tax provisions of Rs. 13.161 million (2007: Rs. 13.563 million) is Rs. 198.159 million (2007: Profit of Rs. 2.640 million).

The loss for the year is mainly due to following factors:

- Increase in raw material and other input costs could not be passed on to our customers due to global recessionary trend;

- Increased interest rates further eroded the net margin;

- Exchange losses on Cross Currency Swap and Foreign Currency loans aggregating Rs. 89.315 million due to substantial devaluation of Pak Rupee in 2nd half of the financial year under review. The major exchange loss was incurred during the last quarter of year under review wherein currency devalued by about 8%. Almost 50% of the loss for the year is on account of exchange losses;

- As the supply of gas to textile industry was reduced during the period from December 22, 2007 to February 25, 2008 we switched to WAPDA from our Captive gas power generation we lost Rs. 5 million per month due to higher cost. Besides higher cost we also faced a load shedding of about 5 to 6 hours daily due to WAPDA's shortfall of electric generation which consequently resulted in severe production losses of approximately Rs. 10 million on this account during that period;

- The outsourcing /toll manufacturing operation were drastically reduced as against corresponding year due to reduced market demand during the year and the management prefer to run own manufacturing facilities to meet the orders in hand first. Outsourcing /toll manufacturing operation had yielded high gross margins in corresponding year;

- The exports of textiles product began to decrease largely as a result of policy inaction in response to global recession and soaring world prices for oil;

- Heavy depreciation of Rs. 153.756 million (2007: Rs. 143.022 million);

In these extremely adverse circumstances the company is striving hard to survive and in a broad preview it looks like that due to recessionary trend in the global markets textile will remain depressed for medium term and situation might improve by the end of 2nd quarter of financial year 2010-11. Consequent to restoration of global market from current recession the textile sector will be benefited as well. However, it's anticipated that situation might improve earlier than projected in lieu of problems faced by neighboring countries in recent period owing to exchange rate variance and their internal consumption issues. Orders/inquiries of specialized fabrics of neighboring countries have now started to shifted to Pakistan. The only limitation to maximize the export market is policy inaction, law & order situation of the country and fractious and unstable domestic political scene and rising social tension.

Earning Per Share

The Loss Per Share of the company stands at Rs. 3.33 (2007: Earning Per Share Rs. 0.04).

Appropriation of Profit

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

	June 30, 2008 Rupees	June 30, 2007 Rupees
(Loss)/Profit for the year before taxation	**(184,997,718)**	16,203,373
Taxation	**13,161,233**	13,563,296
(Loss)/Profit for the year after taxation	**(198,158,951)**	2,640,077
Unappropriated profit brought forward	**58,990,561**	56,350,484
(Loss)/Profit available for appropriation	**(139,168,390)**	58,990,561
Unappropriated profit carried forward	**(139,168,390)**	58,990,561

Marketing strategy

Presently the manufacturing facilities of the company are comprised of 255 weaving machines along with towel processing unit. These facilities are running at about 95% efficiency and are capable of producing wide range of apparel, home furnishing fabrics and towels. The management is making efforts to capture new export market of apparel, home furnishing fabrics and towels. The recent devaluation of Pak rupees gives competitive edge to us against the neighboring countries and orders/inquiries of their specialized fabrics have now started to shift to Pakistan. This has created a great opportunity and market for the Pakistani weavers.

The towel manufacturing unit alongwith complete finishing process is operational at 95% efficiency and we are targeting our sales to prominent European and American retailers. Currently our production line is for mid to higher end products, competing with Turkey, Spain and Portugal. We see a rapidly growing demand for towels in near future.

Future prospects and Expansions

In a broad preview it looks like that due to recessionary trend in the global markets textile will remain depressed for medium term and situation might improve by the end of 2nd quarter of financial year 2010-11. Consequent to recovery of global market from current recession the textile sector will be benefited as well. It is further anticipated that EC will lift antidumping duty by March next year which will help Pakistan's textile industry to sell their product at competitive rates to EC.

At present there is no major expansion plan is under consideration by the management. Some old machinery may be sold and replaced with new equipments for efficient operational management.

Restructuring of long term loans

Due to heavy losses sustained the current operations of the company are under stress and will remain under pressure in coming period till such time the current situation improves and customers absorbs the increasing cost of production. In lieu of these facts the company is unable to generate sufficient funds from its operations to meet the long term obligations. Therefore the company has applied to its lenders for restructuring of certain future installments of long term debts with a grace period of two years. Long term loans have partially been restructured and balance are in process at advance stages. The management is of the view that in case the situation improves earlier than projected they will accordingly repay the restructured debts earlier than schedule.

Board of directors

Following are the directors of the company elected in the elections held on August 16, 2006 for the period of three years 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. Gauhar Abdul Hai	Director
5.	Mr. Manzar Ul Islam (Appointed against casual vacancy)	Director
6.	Ms. Tehniyat Mussaid	Director
7.	Ms. Sabah Burhan	Director

Compliance of Corporate and Financial Reporting Framework

The Company complies with the requirements of best practices of Corporate and Financial Reporting Framework. In order to protect and enhance the long term value of shareholders, the Board is responsible for overall Corporate Governance of the company including approving strategic policies and decision, capital expenditures, appointing, removing and creating succession policies. In compliance with Code of Corporate Governance following statements are given for corporate and financial reporting framework:

a) The financial statements, prepared by the management of the company, present fairly and accurately its state of affairs, the results of its operations, cash flows and changes in equity.

b) Proper books of accounts of the company have been maintained.

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

d) International accounting standards as applicable in Pakistan have been followed in preparation of financial statements and there has been no departure therefrom except for classification of current maturity of certain long term loans as long term liabilities instead of current liabilities (refer note 8.3 to the accounts). This classification is qualified by the

Auditors in para (a) of their Report to the members since it is not in accordance with the International Accounting Standard 1, “Presentation of Financial Statements”. The company has classified these long term loans as long term liabilities in view of restructuring of these long term loans by the lenders subsequent to the balance sheet date.

e) The system of internal control is sound in design and has been effectively implemented and monitored. Ongoing review will continue in future for further improvement in controls.

f) Without qualifying their report to members the Auditors have drawn attention to note 1.2 to the accounts which indicates that during the year company incurred loss amounting to Rs. 198.159 million and has accumulated loss of Rs. 139.168 million at the year end and its working capital is also negative at the year end. These accounts have been prepared on going concern basis since the management is of the view that there are no significant doubts upon the company’s ability to continue as a going concern on the ground that the company will be able to achieve satisfactory level of profitability in the future based on the plans drawn up for this purpose and bringing its liability to serviceable levels. The company has applied to its lenders for restructuring of its long term loans to facilitate the cash flow of the company. Long term loans have partially been restructured and balance are in process at advance stages.

g) There has been no material departure from the best practices of corporate governance.

h) Key operating and financial data of last six years is annexed herewith.

Board Meetings

During the year under review, in aggregate 4 meetings of the Board of Directors were held and the attendance of the directors was as under:-

Name of Directors	Meetings Attended
Mr. Mussaid Hanif	4
Mr. Burhan Muhammad Khan	4
Mr. Arbab Muhammad Khan	4
Mr. Gauhar Abdul Hai	4
Mr. Aftab Ahmad Khan (Resigned on May 24, 2008)	1
Mr. Manzar Ul Islam (Joined on May 24, 2008)	1
Ms. Tehniyat Mussaid	2
Ms. Sabah Burhan	2

Pattern of Shareholding

The statement of shareholding of the company as on June 30, 2008 is annexed with this report. This statement is in compliance with the requirement of the Code of Corporate Governance and the Companies Ordinance, 1984.

Dividend

Considering the financial results of the company for the year ended June 30, 2008 the management has not recommended any dividend for the year ended June 30, 2008.

Audit Committee

The committee comprises of 3 members of whom 2 are non-executive directors. The names of its members are given in Company Information. The committee meets at least every quarter for review of audit report, interim and annual financial results prior to the approval of the Board.

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, 2009.

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
September 30, 2008

MUSSAID HANIF
Chief Executive

Key Operating and Financial Data of Last Six Years

	June 30, 2008	June 30, 2007	June 30, 2006	June 30, 2005	June 30, 2004	June 30, 2003
PROFIT AND LOSS						
Sales	2,621,107	2,689,532	1,556,113	1,072,621	784,194	281,806
Gross Profit	246,051	277,058	215,912	114,543	98,426	44,506
Operating Profit plus othe income	161,095	212,863	167,133	68,618	59,736	18,926
Financial & Other charges	346,093	196,660	111,766	38,493	24,904	3,820
Taxation	13,161	13,563	9,333	5,743	10,181	2,824
Net Profit after tax	**(198,159)**	**2,640**	**46,034**	**24,382**	**24,650**	**12,281**
BALANCE SHEET						
Capital	594,287	594,287	594,287	474,287	263,746	125,114
Share subscription money	-	-	-	10,660	-	-
Reserves	(139,168)	58,991	56,350	10,317	935	36,563
Surplus on revaluation of fixed assets	343,419	-	-	-	-	-
Net worth	**798,537**	**653,278**	**650,637**	**495,264**	**264,680**	**161,677**
Long Term Liabilities	683,069	721,330	755,933	468,764	109,853	97,694
Deferred liabilities	159,646	9,380	5,012	2,667	1,514	1,069
Current Liabilities	1,905,319	1,676,626	1,153,050	766,758	415,271	172,048
Total Liabilities	**2,748,033**	**2,407,336**	**1,913,995**	**1,238,189**	**526,639**	**270,811**
Total Equity & Liabilities	**3,546,570**	**3,060,614**	**2,564,632**	**1,733,453**	**791,319**	**432,488**
Fixed Assets	2,275,204	1,752,408	1,622,115	1,026,638	379,630	257,612
Long Term Deposits	5,009	3,053	4,605	5,424	5,452	7,098
Current Assets	1,266,356	1,305,153	937,912	701,391	406,236	167,778
Total Assets	**3,546,570**	**3,060,614**	**2,564,632**	**1,733,453**	**791,319**	**432,488**
INVESTOR INFORMATION						
Break up value per share (Rs.)	13.44	10.99	10.95	10.44	10.04	12.92
Bonus/Cash dividend (Rs. In '000)	-	-	-	15,000	60,278	-
Earning Per Share (Rs.)	(3.33)	0.04	0.78	0.75	2.02	11.95
Return on Equity (%)	(24.82)	0.40	7.08	4.92	9.31	7.60
Return on Assets (%)	(5.59)	0.09	1.79	1.41	3.12	2.84
FINANCIAL RATIOS						
Gross Margin (%)	9.39	10.30	13.88	10.68	12.55	15.79
Net Margin (%)	(7.56)	0.10	2.96	2.27	3.14	4.36
Current Ratio	0.66	0.78	0.81	0.91	0.98	0.98
Long Term Debt : Equity	51:49	59:41	54:46	49:51	30:70	38:62

Statement of Compliance with the Code of Corporate Governance

FOR THE YEAR ENDED JUNE 30, 2008

This statement is being presented to comply with the Code of Corporate Governance contained in the relevant Listing Regulations of the Karachi and Lahore Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best 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 2 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 NBFI or, being a member of stock exchange, has been declared as a defaulter by the stock exchange.

4. Casual vacancy occurred in the Board during the year was filled within the stipulated period.

5. Statement of Ethics and Business Practice has been circulated to 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. The Board arranged orientation course for its directors during the period to apprise them of their duties and responsibilities.

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

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

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

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

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

15. The Board has formed an Audit Committee. It comprises three members, of whom two are non-executive directors.

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

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

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

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

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

For and on behalf of the Board of Directors

Lahore
September 30, 2008

MUSSAID HANIF
Chief Executive

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 Regulation No. 37 (Chapter XI) of the Karachi Stock Exchange (Guarantee) Limited and Chapter XIII of the 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 period ended June 30, 2008.

Lahore
September 30, 2008

ANJUM ASIM SHAHID RAHMAN
Chartered Accountants

Auditors' Report to the Members

We have audited the annexed balance sheet of Zephyr Textiles Limited ("the Company") as at 30 June 2008 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

a) The Company has classified current maturity of certain long term loans as long term liability instead of current liability on the basis of rescheduling / refinancing of the loans after the balance sheet date as disclosed in note 8.3 to the financial statements. This classification is not in accordance with the requirements of International Accounting Standard 1, "Presentation of Financial Statements".

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

c) in our opinion:

   (i) the balance sheet and profit and loss account together with the notes thereon, except for the matter referred to in paragraph "(a)", have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the change as reported in note 3.2 to the accompanying financial statements with which we concur;

   ii) the expenditure incurred during the year was for the purpose of the Company's business; and

   iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

d) Except for the effects on the above statements of matters stated in paragraph "(a)" above, 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 30 June 2008 and of the loss, its cash flows and changes in equity for the year then ended; and

e) in our opinion no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

f) Without qualifying our opinion, we draw your attention to note 1.2 to the financial statements which indicates that during the year the Company incurred loss amounting to Rs.198.159 million and has accumulated loss amounting to Rs. 139.168 million at the year end. In addition, the Company has negative working capital at the year end. These financial statements however have been prepared on the going concern basis in the expectation of future profitability, restructuring of the Company's debts and undertaking of the financial support by the sponsoring directors, if required.

Lahore — **ANJUM ASIM SHAHID RAHMAN**

September 30, 2008 — **Chartered Accountants**

Balance Sheet

EQUITY AND LIABILITIES	Notes	**2008 (Rupees)**	2007 (Rupees)
SHARE CAPITAL			
Authorized			
62,500,000 ordinary shares of Rs. 10/- each		**625,000,000**	625,000,000
Issued, subscribed and paid-up			
59,428,729 ordinary shares of Rs. 10/- each	6	**594,287,290**	594,287,290
ACCUMULATED (LOSS) / PROFIT		**(139,168,390)**	58,990,561
		455,118,900	653,277,851
SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT	7	**343,418,641**	-
NON-CURRENT LIABILITIES			
Long term financing	8	**681,950,746**	721,330,062
Liabilities against assets subject to finance lease	9	**1,117,734**	-
Deferred liabilities	11	**159,645,543**	9,380,479
CURRENT LIABILITIES			
Trade and other payables	12	**251,133,202**	216,242,103
Mark up accrued on loans	13	**67,217,714**	37,068,151
Short term borrowings	14	**1,442,967,468**	1,211,698,641
Current portion of long term liabilities	10	**144,000,326**	211,616,820
		1,905,318,710	1,676,625,715
CONTINGENCIES AND COMMITMENTS	15		
		3,546,570,274	3,060,614,107

- The annexed notes from 1 to 40 form an integral part of these financial statements.

DIRECTOR

As at June 30, 2008

ASSETS	Notes	**2008 (Rupees)**	2007 (Rupees)
PROPERTY, PLANT AND EQUIPMENT			
Operating assets	16	**2,267,256,248**	1,714,014,399
Capital work in progress	17	**7,948,174**	38,393,740
		2,275,204,422	1,752,408,139
LONG TERM DEPOSITS	18	**5,009,422**	3,052,622
CURRENT ASSETS			
Stores, spares and loose tools		**45,347,358**	42,238,171
Stock in trade	19	**672,845,057**	587,888,152
Trade debts	20	**313,227,842**	378,084,796
Loans and advances	21	**126,740,293**	111,192,377
Trade deposits, prepayments and other receivables	22	**91,556,208**	109,197,450
Investments	23	**14,175,212**	16,725,256
Cash and bank balances	24	**2,464,460**	59,827,144
		1,266,356,430	1,305,153,346
		3,546,570,274	3,060,614,107

CHIEF EXECUTIVE

Profit and Loss Account

FOR THE YEAR ENDED JUNE 30, 2008

	Notes	**2008 (Rupees)**	2007 (Rupees)
SALES	25	**2,621,107,450**	2,689,532,420
COST OF SALES	26	**2,375,056,443**	2,412,473,760
GROSS PROFIT		**246,051,007**	277,058,660
OPERATING EXPENSES			
DISTRIBUTION AND SELLING	27	**67,893,488**	62,192,329
ADMINISTRATION	28	**23,991,471**	21,397,935
OTHERS	29	**8,590,567**	1,219,801
		100,475,526	84,810,066
		145,575,481	192,248,594
OTHER OPERATING INCOME	30	**15,519,449**	20,614,655
OPERATING PROFIT BEFORE FINANCE COST		**161,094,930**	212,863,249
FINANCE COSTS	31	**346,092,648**	196,659,876
(LOSS) / PROFIT BEFORE TAXATION		**(184,997,718)**	16,203,373
TAXATION	32	**13,161,233**	13,563,296
(LOSS) / PROFIT FOR THE YEAR		**(198,158,951)**	2,640,077
EARNINGS PER SHARE - BASIC AND DILUTED	33	**(3.33)**	0.04

- The annexed notes from 1 to 40 form an integral part of these financial statements.

DIRECTOR **CHIEF EXECUTIVE**

Cash Flow Statement

FOR THE YEAR ENDED JUNE 30, 2008

	Notes	2008 (Rupees)	2007 (Rupees)
CASH FLOW FROM OPERATING ACTIVITIES			
(Loss) / profit for the year before taxation		**(184,997,718)**	16,203,373
Adjustments for:			
Depreciation		**153,755,782**	143,022,723
Gain on disposal of property, plant and equipment		**(551,869)**	(95,742)
Workers' profit participation fund		-	909,523
Workers' welfare fund		-	310,279
Loss / (gain) on re-measurement of short term investments		**5,570,373**	(828,428)
Dividends, capital gains and income from investments		**1,574,792**	(2,731,990)
Staff retirement benefits - gratuity		**7,274,005**	6,267,162
Loss on fair value adjustment of interest rate swap		**8,841,248**	-
Finance cost		**256,778,023**	196,659,876
		433,242,354	343,513,403
Profit before working capital changes		**248,244,636**	359,716,776
(Increase) in current assets			
Stores, spares and loose tools		**(3,109,187)**	1,517,543
Stock in trade		**(84,956,905)**	(196,358,999)
Trade debts		**64,856,954**	(162,383,676)
Loans and advances		**(15,547,916)**	(880,251)
Trade deposits, prepayments and other receivables		**21,449,835**	6,331,920
		(17,307,219)	(351,773,462)
Increase in current liabilities			
Trade and other payables		**5,262,032**	66,033,827
Cash generated from operations		**236,199,449**	73,977,141
Finance cost paid		**(205,840,642)**	(209,451,140)
Taxes paid		**(16,969,826)**	(19,826,242)
Staff retirement benefits - gratuity paid		**(3,495,850)**	(1,898,678)
		(226,306,317)	(231,176,060)
	(A)	**9,893,132**	(157,198,919)
CASH FLOW FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		**2,120,000**	1,170,000
Purchase of property, plant and equipment		**(188,214,716)**	(274,390,297)
Long term deposits		**(1,334,000)**	(396,075)
Dividends, capital gains and income from investments		**(2,239,346)**	1,813,294
Purchase of short term investments		**(45,791,027)**	(68,359,652)
Sale proceeds from short term investments		**43,435,252**	85,276,615
Net cash flow from investing activities	**(B)**	**(192,023,838)**	(254,886,116)
CASH FLOW FROM FINANCING ACTIVITIES			
Short term borrowings - secured		**231,268,827**	365,767,042
Liabilities against assets subject to finance lease		**431,611**	(5,960,835)
Long term financing		**(106,932,417)**	76,653,181
Net cash from financing activities	**(C)**	**124,768,021**	436,459,389
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	**(A+B+C)**	**(57,362,685)**	24,374,354
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**59,827,144**	35,452,790
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**2,464,460**	59,827,144

- The annexed notes from 1 to 40 form an integral part of these financial statements.

DIRECTOR **CHIEF EXECUTIVE**

Statement of Changes in Equity

FOR THE YEAR ENDED JUNE 30, 2008

Description	Share Capital	Accumulated Profit/ (Loss)	Total
	(Rupees)		
Balance as at July 01, 2006	594,287,290	56,350,484	650,637,774
Profit for the year	-	2,640,077	2,640,077
Balance as at June 30, 2007	594,287,290	58,990,561	653,277,851
Loss for the year	-	(198,158,951)	**(198,158,951)**
Balance as at June 30, 2008	**594,287,290**	**(139,168,390)**	**455,118,900**

- The annexed notes from 1 to 40 form an integral part of these financial statements.

DIRECTOR **CHIEF EXECUTIVE**

Notes to the Accounts

FOR THE YEAR ENDED JUNE 30, 2008

1 STATUS AND NATURE OF BUSINESS

1.1 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 public limited Company. The Company is principally engaged in the manufacturing, dying and trading of woven cloth which also includes towels. The registered office of the Company is situated at 3rd Floor IEP Building, 97 B/D-1, Gulberg III, Lahore. The shares of the Company are listed on the Karachi and Lahore Stock Exchanges in Pakistan.

1.2 During the year the Company has incurred loss amounting to Rs. 198.159 million as compared to profit of Rs. 2.64 million for the previous year thereby resulting in accumulated loss of Rs. 139.168 million. As at the year end, the Company's current liabilities exceeded its current assets by Rs. 638.962 million (2007: 371.472 million). Continuation of the Company as a going concern is dependent on its ability to attain satisfactory levels of profitability in the future and continuous support of financial institutions by bringing its liabilities to serviceable levels and availability of adequate working capital through continued support from:

a) the principal lenders of the Company,
b) the sponsors of the Company.

These financial statements have been prepared on a going concern basis on the grounds that the Company will be able to achieve satisfactory levels of profitability in the future based on the plans drawn up by the management for this purpose and bringing its liabilities to serviceable levels and availability of the adequate working capital from its lenders and sponsors.

The financial statements consequently do not include any adjustment relating to the realization of the assets and liquidation of its liabilities that might be necessary would the Company be unable to continue as a going concern.

2 STATEMENT OF COMPLIANCE

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

3 BASIS OF PREPARATION

3.1 Accounting convention

These financial statements have been prepared under the historical cost convention as modified by:
- revaluation of certain items of property, plant and equipment
- recognition of certain employee benefits at present value
- recognition of derivative financial instruments at fair value

3.2 Change in accounting policy

During the year, the Company has adopted revaluation model for valuing free - hold land, buildings on free - hold land and plant and machinery. Previously, these were carried at cost less accumulated depreciation and impairment, if any. The increase in carrying amount of these assets as a result of revaluation has been credited to "Surplus on revaluation of property, plant and equipment". There is no effect on the profit and loss account for the current year and previous years.

3.3 Initial application of a standard or an interpretation

During the year, amendments to International Accounting Standards (IAS) 1, Presentation of Financial Statements relating to capital disclosures became effective and have resulted in an additional disclosure. International

Financial Reporting Standard (IFRS) 2 - Share Based Payment, IFRS 3 - Business Combinations, IFRS 5 - Non-current Assets held For Sale and Discontinued Operations, IFRS 6 - Exploration for and Extraction of Mineral Resources, IFRIC 8 - Scope of IFRS 2- Share Based Payment and IFRIC 10 - Interim Financial Reporting and Impairment became effective during the year. The application of these standards and interpretations did not have any material effect on the Company's financial statements.

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

Following standards, interpretations and amendments to existing standards have been published that are mandatory and relevant for the accounting periods beginning on the dates mentioned below:

		Effective from annual periods beginning on or after :
(i)	IAS 1- Presentation of Financial Statements (Revised September 2007)	1-Jan-09
(ii)	IAS 23-(Amendment) - Borrowing Costs	1-Jan-09
(iii)	IFRS 8-Operating Segments	1-Jan-09
(iv)	IFRIC 14-IAS 19 - The limits on a Defined Benefit Asset, Minimum Funding Requirement and their interaction	1-Jan-08
(v)	IFRIC 12- Service Concession Arrangements	1-Jan-08
(vi)	IFRIC 13- Service Concession Arrangements	1-Jul-08

Adaptation of IAS 1 - "Presentation of Financial Statements" (Revised September 2007) would impact on the extent/nature of disclosures presented in the future financial statements.

IAS 23 (Amendment)- "Borrowing Costs" would require the entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for intended use or sale) as part of the cost of asset.

The impact of IFRS 8 - "Operating Segments" and IFRIC 14 - IAS 19 - "The limit on Defined Benefit Asset, Minimum Funding Requirements and their interaction" has not been presently assessed.

3.5 Functional and presentation currency

These financial statements are presented in Pakistani Rupees which is the Company's functional currency. All financial information presented in Pak Rupees have been rounded to nearest Rupee.

4 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. These estimates and underlying assumptions are recognized in the period in which the estimate is revised and in any future periods affected. Following are the significant estimates and judgments made by the management:

Property, plant and equipment-owned

The Company reviews the useful lives of property, plant and equipment on a regular basis. Any change in the estimates in the future years might affect the carrying amount of the respective items of property, plant and equipment with a corresponding effect on the depreciation charge and impairment. Revaluation is carried with sufficient regularity to ensure that the carrying amount of assets does not differ materially from the fair value.

Staff retirement benefits

Certain actuarial assumptions have been adopted as disclosed in note 5.1 to the financial statements for the valuation of present value of defined benefit obligation. Any changes in these assumptions in future years might affect unrecognized gains and losses in those years.

Income taxes

The Company takes into account the current income tax law and decisions taken by appellate authorities. Instances where the Company's view differs from the view taken by the income tax department at the assessment stage and where the Company considers that its view on items of material nature is in accordance with law, the amounts areshown as contingent liabilities.

Fair value of derivative financial instruments
The Company reviews the changes in fair value of cross currency interest rate swap at each reporting date based on the estimated fluctuations in the relevant currencies and interest rate over the reporting period.

5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

5.1 Staff retirement benefits

Defined Benefit Plan
The Company operates an unfunded gratuity scheme (defined benefit plan) covering all eligible employees, payable at the cessation of employment. Provisions are made to cover the obligation under the scheme on the basis of actuarial valuations and are charged to income.

The latest actuarial valuation has been carried out as at June 30, 2008, under Projected Unit Credit Method, using the following significant assumptions for valuation of the scheme:

-	Discount rate	12%
-	Expected rate of salary increase in future	11%
-	Average expected remaining working life time of employees	4 years

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, otherwise the actuarial gains and losses are not recognized.

The amount recognized in the balance sheet represents the present value of defined benefits obligation adjusted for un-recognized actuarial gains / losses and un-recognized past service cost.

5.2 PROPERTY, PLANT AND EQUIPMENT

- Owned assets
Property, plant and equipment except, buildings on free - hold land and plant and machinery are stated at cost less accumulated depreciation and impairment, if any. Free - hold land, buildings on free - hold land and plant and machinery are stated at revalued amounts. Capital work in progress is stated at cost less impairment, if any.

Cost of property, plant and equipment consists of historical cost, borrowing costs pertaining to the erection / construction period and other directly attributable costs of bringing the assets to their working condition or for commencement of commercial production.

Depreciation on all the items of property, plant and equipment except for free - hold land is charged to income applying the reducing balance method at the rates specified in note 16.

Depreciation on additions to property, plant and equipment is charged from the month in which asset become available for use, while on disposals depreciation is charged up to the month of disposal.

Any surplus arising on revaluation of property, plant and equipment is credited to the surplus on revaluation of property, plant and equipment account. Revaluation is carried with sufficient regularity to ensure that the carrying amount of assets does not differ materially from the fair value. To the extent of incremental depreciation charged on the revalued assets, the related surplus on revaluation of property, plant and equipment (net of deferred tax) is transferred directly to accumulated (loss) / profit.

Gain / loss on disposal of property, plant and equipment are credited or charged to income in the year of disposal. 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.

Depreciation on additions to leased assets is now charged from the month in which the leased assets is acquired, capitalized or commencement of commercial production while no depreciation is charged for the month in which leased assets is disposed off.

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.

5.3 Stores, spares and loose tools

These are stated at cost using moving average method except goods in transit which are stated at cost comprising invoice value plus other charges paid thereon.

5.4 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. Materials in transit are stated at cost comprising invoice value plus other charges paid thereon.

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

Raw material
- 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.

5.5 Financial instruments

Financial assets and liabilities are recognized when the Company becomes the party to the contractual provisions of the instruments. Any gain or loss on de -recognition of the financial assets and financial liabilities is taken to profit and loss account currently.

5.6 Loans and advances

These are stated at cost which represents the fair value of the consideration less impairment, if any.

5.7 Trade debtors

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.

5.8 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.

5.10 Borrowing costs

Financial charges are accounted for on accrual basis to the extent of the amount remaining unpaid.

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

5.11 Foreign currency translation

Transactions in foreign currency are recorded in Pak Rupee at the rate of exchange prevailing on the transaction date. All the assets and liabilities in foreign currencies are translated at exchange rates ruling on the balance sheet date. Exchange differences are dealt with through profit and loss account.

5.12 Revenue recognition

Export sales are accounted for on shipment basis. Exchange differences, if any, are adjusted in the period of realization except for adjustments made in accordance with note 5.11 (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.

Dividend income on ordinary share is recognized when the right to receive dividend has been established.

Capital gains or losses arising on sale of investments are taken to income in the period in which they arise.

5.13 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 using the balance sheet liability method in respect of all temporary differences arising from differences between carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable (loss) / profit. Deferred tax liabilities are recognized for all major taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses and tax credits can be utilized.

5.14 Impairment

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

5.15 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.

5.16 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents 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 insignificants 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.

5.17 Derivative financial instruments

The Company uses derivative financial instruments such as interest rate swap and cross currency swaps to cover risk associated with interest and exchange rate fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and subsequently measured at fair value. Derivatives are recognized as asset when fair value is positive and as liability when fair value is negative. Any gain or loss arising from change in fair value of derivatives that do not qualify for hedge accounting are taken directly to profit and loss account.

5.18 Investments

Initial measurement
Investments in securities are recognized on a trade - date basis and are initially measured at cost which is the fair value of the consideration given.

Subsequent measurement
Investments at fair value through profit or loss
These are securities, which are either acquired for generating a profit from short term fluctuation in prices or dealer's margin, or are securities included in a portfolio in which a pattern of short term profit taking exists. These investments are measured at subsequent reporting dates at fair value and resulting gains and losses are included in the net profit or loss for the period.

5.19 Related party transactions

Transactions with related parties are priced on arm's length basis. Prices for these transactions are determined on commercial terms and conditions.

5.20 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.

	2008 (Rupees)	2007 (Rupees)
6 ISSUED, SUBSCRIBED AND PAID UP SHARE CAPITAL		
51,900,883 ordinary shares of Rs. 10/- each Issued for cash	**519,008,830**	519,008,830
7,527,846 ordinary shares of Rs. 10/- each Issued as bonus shares	**75,278,460**	75,278,460
	594,287,290	594,287,290

6.1 The shareholders are entitled to receive all distributions to them including dividend and other entitlements in the form of bonus and right shares as and when declared by the Company. All shares carry "one vote" per share without restriction.

7 SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT

Surplus arising on revaluation	**489,905,549**	-
Less: Deferred tax arising on surplus on revaluation	**146,486,908**	-
	343,418,641	-

7.1 The revaluation of free - hold land, buildings on free - hold land and plant and machinery was carried out by Unicorn International Surveyors (Consulting Architects, Engineers, Surveyors and Advisors) as at June 30, 2008. The revaluation resulted in the followings;

Increase in carrying value of free - hold land	**71,371,524**	-
Increase in carrying value of buildings on free - hold land	**63,756,255**	-
Increase in carrying value of plant and machinery	**354,777,770**	-
	489,905,549	-

7.2 Incremental depreciation is not charged to accumulated (loss) / profit as the revaluation was done on June 30, 2008.

8. LONG TERM FINANCING-SECURED

	Note	Repayment Commence -ment	Mark up	Sanctioned Limit Rupees(M)	Number of installments	**2008 Rupees**	2007 Rupees
Fixed Assets Finance -FAF (HBL)	8.1 and 8.2	Aug-06	SBP REF + 2%	80	8 semiannually	**50,000,000**	70,000,000
Morabaha Finance-FBL	8.1 and 8.2	June-06	SBP REF + 1%	50	12 Quarterly	**12,119,416**	31,822,949
Term Morabaha-FBL	8.2	Sep-09	Kibor + 3%	27.93	12 Quarterly	**27,933,584**	-
Term Morabaha-FBL	8.2	Feb-08	Kibor + 3%	21.445	16 Quarterly	**18,764,382**	-
Term Finance - FBL	8.1 and 8.2	Oct-07	SBP REF + 2%	11.783	12 Quarterly	**10,309,524**	-
Term Finance - BOP	8.1 and 8.2	May-06	SBP REF + 2%	100	12 semiannually	**60,199,500**	77,405,000
Term Finance - BOP	8.1 and 8.2	Dec-07	SBP REF + 2%	70	8 semiannually	**57,638,298**	65,872,341
Demand Finance - NBP	8.1 and 8.2	Jul-06	SBP REF + 2%	100	24 Quarterly	**70,761,850**	83,262,217
Demand Finance - HBL	8.1 and 8.2	May-07	SBP REF + 2%	150	10 semiannually	**105,000,000**	135,000,000
Demand Finance II- NBP	8.2 and 8.4	Apr-07	SBP Ref + 2% & Kibor + 2%	200	10 semiannually	**159,353,606**	179,177,670
Demand Finance- UBL	8.1, 8.2 and 8.3	Jan-10	SBP Ref + 2% & Kibor + 1.5%	100	5 semiannually	**71,917,204**	95,889,604
Demand Finance - ABL	8.2, 8.3 and 8.4	Sep-10	Kibor + 1%	100	6 semiannually	**81,250,000**	93,750,000
Term Finance - BOP	8.2 and 8.4	Dec-08	Kibor + 2.5%	100	8 semiannually	**100,000,000**	100,000,000
						825,247,364	932,179,781
Current portion				(Note 10)		**(143,296,618)**	(210,849,719)
						681,950,746	721,330,062

8.1 Long term finances have been converted into State Bank of Pakistan's Long Term Finance (Export Oriented Project) Scheme during the last financial year.

8.2 It represents long term finances from commercial banks / financial institutions (stated above) to finance the manufacturing facilities of the Company comprised of weaving machines, towel, power generation unit and allied machineries. Markup is payable along with installment as per schedule stated above. The loans are 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.

8.3 Subsequently loans from United Bank Limited and Allied Bank Limited have been rescheduled in September 2008. While National Bank of Pakistan has agreed to the moratorium of the principal repayment for 18 months. As a result current maturity of these loans amounting to Rs.23.9 million, Rs.37.5 million and Rs.80.643 million respectively has not been shown under the head of "current maturity of long term liabilities". Three installments of Rs.11.986 million each, amonting to Rs.35.96 million due to United Bank Limited have been rescheduled by the bank and will be repaid in five semiannual installments starting from Januray 2011 while repayment of the remaining three installments will start from January 2010 in accordance with the terms and conditions of the original agreement. Interest rate applicable on the rescheduled amount of loan from United Bank Limited will be 6 months Kibor plus 1.5 % payable semiannually. The whole loan amount of Allied Bank Limited has been rescheduled and will be repaid in six semiannual installments starting from September 2010. Interest rate applicable on the rescheduled loan from Allied Bank Limited will be 6 months Kibor plus 1% payable semiannually.

8.4 The Company has entered into cross currency interest rate swap arrangement with Citi bank N.A. against long term finances for the notional amount of Rs.100 million maturing on June 30, 2012, Rs.100 million on reducing balance basis maturing on March 25, 2011and Rs.50 million on reducing balance basis maturing on March 25, 2011. Under the swap agreement the principal payable amount of Rs.100 million is swapped with US$ at Rs.60.71 per US$ making the loan amount to US$ 1.65 million, Rs.100 million is swapped with US$ at Rs.60.73 per US$ making the loan amount to US$ 1.65 million and Rs. 50 million is swapped with US$ at Rs.60.81 per US$ making the loan amount to US$ 0.82 million respectively. Besides the swap of the principal amount to US$, the Company would receive 3 months KIBOR minus spread at 90 bps in local currency and pay 3 months LIBOR at floating rate in US$ settled quarterly, 6 months KIBOR minus spread at 120 bps in local currency and pay 6 months LIBOR at floating rate in US$ settled semiannually and 6 months KIBOR minus spread at 120 bps in local currency and pay 6 months LIBOR at floating rate in US$ settled semiannually respectively.

As at the balance sheet date, the net fair value of these interest rate and cross currency swaps was Rs. 8.8

million unfavorable. This change in fair value has been recognized in profit and loss account. These swap arrangements have exposed the Company to foreign currency exchange rate fluctuation risk on the US$ value converted at the agreement date while interest rate variability risk due to change in KIBOR rates has been covered. (Refer to note 12.3)

9. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2008			2007		
	Minimum lease Payment	Finance charge not yet due	Present value of minimum leaes payments	Minimum lease Payment	Finance charge not yet due	Present value of minimum lease payments
Total liabilities	**2,047,701**	**226,259**	**1,821,442**	785,684	18,583	767,101
Not later than one year	**854,830**	**151,122**	**703,708**	785,684	18,583	767,101
Later than one year but not later than five years	**1,192,871**	**75,137**	**1,117,734**	-	-	-

This represents lease arrangements for vehicles. The value of minimum lease payments has been discounted at 20% to arrive at their present values. Taxes, repairs and insurance costs are to be borne by the lessee. The lessee can exercise purchase option at the end of the lease term by adjusting security deposits for lease.

		2008 Rupees	2007 Rupees
10 CURRENT PORTION OF LONG TERM LIABILITIES			
Long term finances	(Note 8)	**143,296,618**	210,849,719
Liabilities against assets subject to finance lease	(Note 9)	**703,708**	767,101
		144,000,326	211,616,820
11 DEFERRED LIABILITIES			
Deferred tax relating to surplus on revaluation of property, plant and equipment	(Note 7)	**146,486,909**	-
Employee retirement benefits- gratuity	(Note 11.2)	**13,158,634**	9,380,479
		159,645,543	9,380,479

The scheme provides for gratuity benefits for all of its permanent employees who attain the minimum qualifying period. Provision has been made on the basis of latest Actuarial valuation made as on June 30, 2008 using Projected Unit Credit Method.

11.1 **Current cost of staff retirement has been charged to:**

Cost of sales	(Note 26)	**5,422,982**	3,377,943
Administration expenses	(Note 28)	**1,851,023**	2,889,219
		7,274,005	6,267,162

11.2 Movement in liability

Balance at beginning of year	**9,380,479**	5,011,995
Charge for the year	**7,274,005**	6,267,162
Benefits paid during the year	**(3,495,850)**	(1,898,678)
Balance at end of year	**13,158,634**	9,380,479

	2008 Rupees	2007 Rupees
11.3 Charge for the year		
Current service cost	**5,675,889**	5,136,156
Interest cost	**1,110,815**	643,705
Transitional liability arising out of actuarial valuation being amortized	**487,301**	487,301
	7,274,005	6,267,162
11.4 The movement in the present value of defined benefit obligation		
Present value of defined benefit obligation	**11,108,152**	7,152,281
Current service cost	**5,675,889**	5,136,156
Interest cost	**1,110,815**	643,705
Actuarial (gain) / loss	**(2,446,037)**	74,688
Benefits paid	**(3,495,850)**	(1,898,678)
	11,952,969	11,108,152
11.6 Reconciliation		
Present value of defined benefit obligation	**11,952,969**	11,108,152
Unrecognized actuarial gains / (loss)	**2,180,266**	(265,771)
Unrecognized transitional liability	**(974,601)**	(1,461,902)
	13,158,634	9,380,479

11.5 Historical Information

	2008	2007	2006	2005	2004
Present value of defined benefit obligation	11,952,969	11,108,152	5,011,995	2,667,060	1,514,300

12 TRADE AND OTHER PAYABLES

		2008 Rupees	2007 Rupees
Creditors		**182,917,146**	163,433,404
Payable to associated undertaking	(Note 12.1)	**7,895,727**	-
Accrued liabilities		**17,583,863**	43,357,496
Payable to Deutsche bank against swap arrangements	(Note 12.2)	**20,787,819**	-
Fair value of derivative	(Note 12.3)	**8,841,248**	-
Income tax withheld		**2,807,632**	491,424
Retention money payable		**405,146**	205,146
Workers' funds	(Note 12.4)	**9,894,621**	8,754,633
		251,133,202	216,242,103

12.1 The maximum aggregate amount payable to associated undertaking at the end of any month during the year was Rs.7,895,727. (2007: Rs. Nil).

12.2 Payable to Deutsche bank against swap transaction which was terminated during the year on June 13, 2008. (Refer to note 14.3)

12.3 This is the amount payable to Citi bank against interest rate swap transaction as a derivative financial liability to be settled in future. (Refer to note 8.4).

		2008 Rupees	2007 Rupees
12.4 Workers' funds			
Workers' profit participation fund			
Opening balance		**8,444,354**	6,744,060
Charge for the year		**-**	909,523
Interest accrued	(Note 31)	**1,139,988**	790,771
		9,584,342	8,444,354
Workers' welfare fund		**310,279**	310,279
		9,894,621	8,754,633

13 MARK UP ACCRUED ON LOANS- SECURED

	2008 Rupees	2007 Rupees
Long term financing	**21,291,231**	12,523,051
Short term borrowings	**45,926,483**	24,545,100
	67,217,714	37,068,151

14 SHORT TERM BORROWINGS- SECURED

	Note	Sanctioned limit Rupees (m)	Mark up (Matching KIBOR/ LIBOR +)	Mark-up/ repayment terms	2008 Rupees	2007 Rupees
Pre - shipment	14.1, 14.2	1,290	1.25% to2.5%	Quarterly	**747,538,000**	587,870,000
Pre - shipment - Foreign currency financing	14.1, 14.2	855	1% to 1.75%	Quarterly	**326,007,963**	435,426,739
Post-shipment	14.2	185	1.5% to 2%	Quarterly	**-**	30,796,000
Morabaha finance	14.2	50	2.5%	Quarterly	**54,212,611**	49,848,000
Running finance	14.2	320	1% to 2%	Quarterly	**315,208,894**	107,757,902
					1,442,967,468	1,211,698,641

14.1 The Company has aggregate sanctioned limit of export refinance facilities of Rs.1,290 million out of which Rs.855 million is a sub limit of foreign currency financing facility. The aggregate outstanding balance at any given time of this account will remain with in sanction limit of Rs.1,290 million.

14.2 These loans are secured against hypothecation of stocks, lien on confirmed export orders, pari passu charge on current assets and personal guarantees of the directors. Morabaha finance is for the purpose of raw material on short term basis.

14.3 The Company has entered into cross currency interest rate swap arrangement with Deutsche Bank against working capital loan for the notional amount of Rs.250 million maturing on June 12, 2009 and Rs.250 million maturing on June 12, 2010. Under the swap agreement the principal payable amount of Rs.250 million is swapped with US$ at Rs.60.68 per US$ making the loan amount to US$ 4.1 million and Rs. 250 million is swapped with US$ at Rs. 60.68 per US$ making the loan amount to US$ 4.1 million respectively. Besides the swap of the principal amount to US$, the Company would receive 3 months KIBOR in local currency and pay 3 month LIBOR at floating rate in US$ settled quarterly and 3 months KIBOR in local currency and pay 3 month LIBOR at floating rate in US$ settled quarterly. This arrangement was terminated on June 13, 2008 and the loss arising of Rs. 25.8 million was recognized in profit and loss account during the period. (Refer note 12.2)

15 CONTINGENCIES AND COMMITMENTS

15.1 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 arrears bill claimed by WAPDA on account of ex-premises defaulter namely Pearl Fabrics Limited. The petition was decided in the favor 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 favor of the Company.

15.2 Company has filed a recovery suit against the Punjab Cotton Mills Limited for Rs. 5,106,639 along with interest. The suit is pending before the Honorable Judge Mr. Javaid Iqbal Sheikh, Civil Judge Lahore.

15.3 The Company has filed appeal before the Customs, Excise and Sales Tax Appellate Tribunal, Lahore under section 46(1) of the Sales Tax Act, 1990 for refund of sales tax aggregating Rs. 15,500,885 disallowed by the sales tax department on account of supply of zero rated goods in lieu of Sales Tax General Order NO. 2 2007 (STGO), dated February 6, 2007 and SRO NO. 992(I)/2005 dated September 21, 2005 read with SRO No. 487(I)/2006 dated May 26, 2006. The management is of strong view that the interpretation of referred STGO/SROs are repugnant to the parent statute and the SROs suffer from ambiguity, unreasonableness and are virtually extending unfettered and unregulated which is not permissible in law. The department has placed reliance on the provisions of SROs in a retrospective manner whereas without prejudice to the legal grounds and objections relied on by the Company, it is a well established principle of the law upheld by the Honorable Supreme Court of Pakistan, that notifications cannot be given retrospective effect to the disadvantage of the petitioner and benefits and advantages if already accrued in favor of a party shall be available to it.
In view of stated manner, the management is confident that the appeal will be decided in favor of the Company.

	2008 Rupees	2007 Rupees
15.4 Contingencies		
Bills discounted with recourse	**122,785,684**	275,160,659
Bank guarantees issued in the ordinary course of business	**32,555,900**	25,816,900
15.5 Commitments		
Letters of credit for capital expenditure	**-**	74,752,000
Letters of credit for raw material	**32,515,088**	30,408,000

16. OPERATING ASSETS

DESCRIPTION	COST/REVALUATION				RATE %	DEPRECIATION				Written Down Value as at June 30, 2008
	As at July 01, 2007	Additions/ (Deletions)/ (Adjust-ments)	Revaluation (Adjust-ments)	As at June 30, 2008		As at July 01, 2007	For the Year/ adjust-ments on disposals	Revaluation Adjust-ments	As at June 30, 2008	
Free - hold land	35,140,976	37,987,500	71,371,524	144,500,000	-	-	-	-	-	144,500,000
Buildings on free - hold land	310,373,082	25,658,737	23,509,481	359,541,300	5	25,704,406	14,542,368	(40,246,774)	-	359,541,300
Link road	26,615,223	3,087,255	-	29,702,478	10	665,381	1,323,216	-	1,988,597	27,713,881
Non factory building	41,927,555	15,945,228	-	57,872,783	10	5,302,719	3,950,176	-	9,252,895	48,619,888
Plant and machinery	1,469,316,334	127,211,995	26,356,187	1,622,884,516	10	202,367,601	126,053,991	(328,421,592)	-	1,622,884,516
Furniture and fixtures	3,324,949	66,384	-	3,391,333	10	946,519	240,064	-	1,186,583	2,204,750
Vehicles	16,441,856	211,060 (3,707,985)	-	12,944,931	20	6,722,227	1,834,767 (2,139,584)	-	6,417,410	6,527,521
Electrical installation	48,312,680	4,040,693	-	52,353,373	10	6,061,666	4,351,194	-	10,412,860	41,940,513
Office equipment	11,914,444	2,805,933	-	14,720,377	10	3,502,217	942,064	-	4,444,281	10,276,096
	1,963,367,099	217,014,785 (3,707,985)	121,237,192	2,297,911,091		251,272,736	153,237,840 (2,139,584)	(368,668,366)	33,702,626	2,264,208,465
Leased										
Vehicles	3,516,458	1,645,690	-	5,162,148	20	1,596,423	517,942	-	2,114,365	3,047,783
	3,516,458	1,645,690	-	5,162,148		1,596,423	517,942	-	2,114,365	3,047,783
	1,966,883,557	218,660,475 (3,707,985)	121,237,192	2,303,073,239		252,869,159	153,755,782 (2,139,584)	(368,668,366)	35,816,991	2,267,256,248

DESCRIPTION	COST				RATE %	DEPRECIATION				Written Down Value as at June 30, 2007
	As at July 01, 2006	Additions/ (Deletions)	(Adjust- ments)	As at June 30, 2007		As at July 01, 2006	For the Year	Adjust- ments	As at June 30, 2007	
Owned										
Free - hold land	35,140,976	-	-	35,140,976	-	-	-	-	-	35,140,976
Buildings on free - hold land	179,896,153	130,476,929	-	310,373,082	5	14,255,436	11,448,970	-	25,704,406	284,668,676
Link road	-	26,615,223	-	26,615,223	10	-	665,381	-	665,381	25,949,842
Non factory building	25,798,801	16,128,754	-	41,927,555	10	2,602,246	2,700,473	-	5,302,719	36,624,836
Plant and machinery	1,116,794,926	352,521,408	-	1,469,316,334	10	77,578,178	120,162,210	4,627,213	202,367,601	1,266,948,733
Furniture and fixtures	3,007,556	317,393	-	3,324,949	10	698,445	248,074	-	946,519	2,378,430
Vehicles	11,319,692	5,797,164 (675,000)	-	16,441,856	20	3,099,171	1,846,170	1,810,261 (33,375)	6,722,227	9,719,629
Electrical installation	27,618,557	20,694,123	-	48,312,680	10	2,506,937	3,554,729	-	6,061,666	42,251,014
Office equipment	10,523,709	2,972,630 (1,581,895)	-	11,914,444	10	2,843,816	787,157	(128,756)	3,502,217	8,412,227
	1,410,100,370	555,523,624 (2,256,895)	-	1,963,367,099		103,584,229	141,413,164 (162,131)	6,308,718	251,272,736	1,712,094,363
Leased										
Vehicles	21,455,228	(17,938,770)	-	3,516,458	20	6,310,949	1,609,559	(6,324,085)	1,596,423	1,920,035
	21,455,228	(17,938,770)	-	3,516,458		6,310,949	1,609,559	(6,324,085)	1,596,423	1,920,035
	1,431,555,598	555,523,624 (20,195,665)	-	1,966,883,557		109,895,178	143,022,723 (6,486,216)	6,308,718	252,869,158	1,714,014,399

16.1 Depreciation for the year has been allocated as under :

		2008 Rupees	2007 Rupees
Cost of sales	(Note 26)	**150,220,946**	139,439,593
Distribution and selling expenses	(Note 27)	**1,987,133**	1,791,566
Administration expenses	(Note 28)	**1,547,703**	1,787,287
		153,755,782	143,022,723

16.2 The revaluation of free - hold land, buildings on free - hold land and plant and machinery was carried out by Unicorn International Surveyors (Consulting Architects, Engineers, Surveyors and Advisors) as on June 30, 2008 and incorporated in the current year financial statements. Previously, no revaluation was carried out. The basis used for revaluation of property, plant and equipment are as follows:

Free - hold land	The value of free - hold land ascertained according to the local market value.
Buildings on free - hold land	Present day construction rates for different types of building structure depreciated to account for the age and condition of the building.
Plant and machinery	The value has been determined with reference to prevailing prices of similar plants and machinery depreciated to account for the age, usage and physical condition.

16.3 Had there been no revaluation, the cost, accumulated depreciation, and book value of the revalued property, plant and equipment as on June 30, 2008 would have been as follows:

	Cost as at June 30, 2008	Accumulated depreciation as at June 30, 2008	Book value as at June 30, 2008
Free - hold land	73,128,476	-	73,128,476
Buildings on free - hold land	336,031,819	40,246,774	295,785,045
Plant and machinery	1,560,171,087	328,421,583	1,231,749,504
	1,969,331,382	**368,668,357**	**1,600,663,025**

16.4 Disposal of property, plant and equipment

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
Vehicles							
Honda VTI	1	1,221,350	408,333	691,500	283,167	Negotiation	Mr. Afzal Khan 76-X, Johar Town, Lahore
Suzuki Baleno	1	881,225	519,337	435,000	(84,337)	Negotiation	Mr. Naseer Ahmed 19- Nadeem Park, Kot Lakhpat, Lahore
Honda CIVIC	1	810,310	287,642	537,000	249,358	Negotiation	Mr. Amir Paracha 16-A Toheed Park, Multan Road, Lahore
Suzuki Baleno	1	795,100	352,819	456,500	103,681	Negotiation	Mr. Lamhat Ahmed H# P-41, Ali Bhatta, Bhalwal, District Sargodha
2008 Rupees		**3,707,985**	**1,568,131**	**2,120,000**	**551,869**		
2007 Rupees		1,123,000	1,074,258	1,170,000	95,742		

17 CAPITAL WORK IN PROGRESS

DESCRIPTION	2008				2007			
	As at July 01, 2007	Additions	Transfers / adjustments	As at July 01, 2007	As at July 01, 2007	Additions	Transfers / adjustments	As at June 30, 2007
Building	**4,331,997**	**20,362,095**	**(21,332,906)**	**3,361,186**	94,166,421	123,125,224	(212,959,648)	4,331,997
Plant and machinery	**32,607,709**	**45,097,487**	**(73,118,209)**	**4,586,988**	173,854,761	100,321,535	(241,568,588)	32,607,709
Preproduction expenses	**1,454,034**	**220,701**	**(1,674,735)**	**-**	941,465	517,414	(4,845)	1,454,034
Borrowing costs capitalized	-	-	-	-	14,535,951	17,889,754	(32,425,705)	-
Trial run losses	-	-	-	-	16,955,807	27,513,505	(44,469,312)	-
	38,393,740	**65,680,283**	**(96,125,850)**	**7,948,174**	300,454,405	269,367,432	(531,428,097)	38,393,740

		2008 Rupees	2007 Rupees
18 LONG TERM DEPOSITS			
Lease key money		**963,100**	340,300
Security deposits		**4,046,322**	2,712,322
		5,009,422	3,052,622
19 STOCK IN TRADE			
Raw material		**237,136,566**	175,420,921
Work in process		**55,888,473**	63,639,016
Finished goods and waste	(Note 19.1)	**379,820,018**	348,828,215
		672,845,057	587,888,152

19.1 This includes goods in transit amounting to Rs. 4,961,071 (2007: 4,134,099)

20 TRADE DEBTS - CONSIDERED GOOD

	2008 Rupees	2007 Rupees
Export - Secured against letters of credit	**98,879,166**	88,162,692
Local - Unsecured	**214,348,676**	289,922,104
	313,227,842	378,084,796

	2008 Rupees	2007 Rupees

21 LOANS AND ADVANCES

	2008 Rupees	2007 Rupees
Considered good		
Loan due from employees	**6,690,663**	6,981,011
Advances to:		
Suppliers against expenses	**82,528,511**	76,126,024
Suppliers against letter of credit	**32,515,088**	21,208,647
Others	**5,006,031**	6,876,695
	126,740,293	111,192,377

22 TRADE DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2008 Rupees	2007 Rupees
Prepayments	**2,356,129**	2,124,643
Advance income tax	**18,808,794**	15,000,201
Margin deposits	**2,324,670**	2,347,089
Sales tax refundable	**30,847,876**	31,931,764
Export rebate receivable	**698,471**	1,255,375
Receivable from associated undertaking	-	28,995,505
Receivable from WAPDA	**3,638,650**	3,638,650
Other receivables	**32,881,618**	23,904,223
	91,556,208	109,197,450

22.1 The maximum aggregate amount receivable from associated undertaking at the end of any month during the year was Rs.30,091,773 (2007: Rs. 28,995,505).

23 SHORT TERM INVESTMENTS

	Number of shares		2008 Rupees	2007 Rupees
	2008	2007		
Investments at fair value through profit and loss - listed securities				
Pak Electron Limited	**781**	625	**43,736**	53,750
National Bank of Pakistan	**22,000**	**-**	**3,245,000**	**-**
Fauji Fertilizer Bin Qasim Limited	**10,000**	10,000	**359,700**	390,000
New Jubilee Life Insurance Company Limited	**55,000**	45,000	**3,158,100**	2,261,250
Pakistan Cement Company limited	**75,000**	50,000	**510,000**	722,500
UPT Growth Fund Limited	**37,132**	37,132	**475,290**	519,848
Attock Refinery Limited	**93**	5,357	**23,239**	626,458
Crescent Commercial Bank Limited	**49,500**	20,000	**1,037,025**	449,000
Callmate Telips Telecom Limited	-	200,100	-	9,904,950
Crescent Standard Bank Limited	-	50,000	-	250,000
Standard Chartered Bank Limited	-	25,000	-	1,323,750
Dewan Farooq Spinning Mills Limited	**24,500**	25,000	**169,295**	223,750
Arif Habib Bank Limited	**1,000**	**-**	**19,180**	**-**
The Bank of Punjab	**10,000**	**-**	**311,300**	**-**
Engro Chemical Pakistan Limited	**5,000**	**-**	**1,404,000**	**-**
Fauji Fertilizer Company Limited	**5,000**	**-**	**661,600**	**-**
Dost Steel Limited	**10,000**	**-**	**218,400**	**-**
Karachi Electric Supply Company Limited	**25,000**	**-**	**136,750**	**-**
NIB Bank Limited	**15,000**	**-**	**170,550**	**-**
TRG Pakistan Limited	**100,000**	**-**	**625,000**	**-**
Sitara Peroxide Limited	**10,000**	**-**	**543,200**	**-**
Askari Commercial Bank Limited	**20,250**	**-**	**813,848**	**-**
Innovative Investment Bank Limited	**250**	**-**	**250,000**	**-**
	475,506	468,214	**14,175,212**	16,725,256

			2008 Rupees	2007 Rupees
24	**CASH AND BANK BALANCES**			
	Cash in hand		**398,222**	889,143
	Cash at banks - current accounts		**2,066,238**	58,938,001
			2,464,460	59,827,144
25	**SALES**			
	Export		**806,956,806**	1,260,749,926
	Exchange gain / (loss)		**4,740,594**	(11,130,750)
			811,697,400	1,249,619,176
	Local		**1,825,289,697**	1,451,909,312
			2,636,987,097	2,701,528,488
	Export rebate		**2,392,286**	1,484,805
			2,639,379,383	2,703,013,293
	Less: Commission and claim		**18,093,868**	13,480,873
	Trade discount		**178,065**	-
			2,621,107,450	2,689,532,420
26	**COST OF SALES**			
	Raw material consumed	(Note 26.1)	**1,824,950,705**	1,864,856,775
	Stores consumed		**20,495,988**	13,668,153
	Packing, sizing and lubricants consumed		**96,387,917**	76,929,636
	Fuel and power		**97,508,295**	97,006,014
	Salaries, wages and other benefits		**100,354,246**	83,590,725
	Processing charges		**93,963,559**	299,925,855
	Insurance		**2,059,914**	2,627,404
	Repairs and maintenance		**2,819,143**	2,555,043
	Rent, rate and taxes		**2,249,504**	1,368,840
	Traveling and conveyance		**2,066,203**	303,646
	Depreciation	(Note 16.1)	**150,220,946**	139,439,593
	Other production overheads		**5,221,283**	3,111,388
			2,398,297,703	2,585,383,072
	Adjustment of work-in-process			
	Opening stock		**63,639,016**	35,598,075
	Closing stock		**(55,888,473)**	(63,639,016)
	Closing stock transferred from trial run production		-	4,126,353
			7,750,543	(23,914,588)
	Cost of goods manufactured		**2,406,048,246**	2,561,468,484
	Adjustment of finished goods and waste			
	Opening stock		**348,828,215**	179,291,683
	Closing stock		**(379,820,018)**	(348,828,215)
	Closing stock transferred from trial run		-	20,541,808
			(30,991,803)	(148,994,724)
	Cost of sales		**2,375,056,443**	2,412,473,760

			2008 Rupees	2007 Rupees
26.1	**Raw material consumed**			
	Opening stock		**175,420,921**	176,061,189
	Purchases		**1,914,458,873**	1,916,818,471
	Discount on purchases		**(33,476,316)**	(4,370,697)
	Net purchases		**1,880,982,557**	1,912,447,774
	Freight		**5,683,793**	15,667,128
			2,062,087,271	2,104,176,091
	Closing stock		**(237,136,566)**	(175,420,921)
	Trial run production		**-**	(63,898,395)
			1,824,950,705	1,864,856,775

27 DISTRIBUTION AND SELLING EXPENSES

		2008 Rupees	2007 Rupees
Salaries, wages and other benefits		**4,274,791**	3,958,500
Traveling and conveyance		**4,735,626**	4,060,125
Sales promotion		**3,609,442**	129,951
Communication		**3,377,056**	2,930,980
Vehicles running and maintenance		**1,326,513**	1,313,704
Freight		**41,402,879**	37,944,709
Clearing and forwarding		**2,603,830**	3,614,048
Depreciation	(Note 16.1)	**1,987,133**	1,791,566
Others		**4,576,218**	6,448,747
		67,893,488	62,192,329

28 ADMINISTRATION EXPENSES

		2008 Rupees	2007 Rupees
Directors' remuneration		**3,670,000**	3,350,000
Salaries and other benefits		**8,102,209**	7,583,341
Traveling and conveyance		**3,143,254**	1,018,426
Rent, rates and taxes		**519,040**	663,285
Printing and stationery		**287,843**	392,224
Communication		**993,089**	1,075,368
Vehicle running and maintenance		**1,156,960**	1,475,014
Repairs and maintenance		**866,621**	509,560
Auditors' remuneration	(Note 28.1)	**300,000**	360,000
Fee and subscription		**1,285,281**	521,328
Legal and professional		**521,496**	555,195
Electricity, gas and water		**578,121**	645,136
Insurance		**119,252**	361,825
Advertisement		**60,385**	144,513
Depreciation	(Note 16.1)	**1,547,703**	1,787,287
Others		**840,217**	955,434
		23,991,471	21,397,935

28.1 Auditors' remuneration

	2008 Rupees	2007 Rupees
Audit fee	**200,000**	200,000
Half yearly review	**50,000**	50,000
Code of corporate governance review	**50,000**	50,000
Tax representation and consultancy fee	**-**	60,000
	300,000	360,000

		2008 Rupees	2007 Rupees
29	**OTHER OPERATING EXPENSES**		
	Loss on sale of marketable securities	**3,020,194**	-
	Unrealized loss on investments at fair value through profit or loss	**5,570,373**	-
	Workers' profit participation fund	-	909,523
	Workers' welfare fund	-	310,279
		8,590,567	1,219,801
30	**OTHER OPERATING INCOME**		
	Gain on sale of operating assets (Note 16.4)	**551,869**	95,742
	Dividend income	**1,445,402**	243,750
	Capital gain on sale of listed securities	-	2,488,240
	Exchange gain	**8,445,327**	8,614,712
	Unrealized gain on investments at fair value through profit or loss	-	828,428
	Others	**5,076,851**	8,343,783
		15,519,449	20,614,655
31	**FINANCE COSTS**		
	Lease finance charges	**124,164**	393,245
	Mark-up on long term financing	**78,378,292**	63,831,539
	Mark-up on short term borrowings	**144,342,351**	110,106,272
	Interest on workers' profit participation fund (Note 12.4)	**1,139,988**	790,771
	Bank charges and others	**32,793,228**	21,538,048
	Loss on fair value adjustment of interest rate swap	**8,841,248**	
	Loss on swap arrangements	**39,922,191**	-
	Exchange loss	**40,551,186**	-
		346,092,648	196,659,876
32	**TAXATION**		
	Provision for taxation- current	**13,161,233**	13,563,296

32.1 The Company has not accounted for any deferred taxation as it falls under the ambit of final tax regime under section 154 and minimum tax payment on turnover of the Company under section 113 of the Income Tax Ordinance, 2001.

		2008 Rupees	2007 Rupees
33	**EARNINGS PER SHARE - BASIC AND DILUTED**		
	Profit attributable to ordinary shareholders	**(198,158,951)**	2,640,077
	Weighted average number of ordinary shares	**59,428,729**	59,428,729
	Earning per share - basic and diluted	**(3.33)**	0.04

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

34 FINANCIAL ASSETS AND LIABILITIES

	Mark-up bearing		Non mark-up bearing			
	Maturity upto one year	Maturity after one year	Maturity upto one year	Maturity after one year	Total 2008	Total 2007
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Financial Assets						
Long term deposits	-	-	-	**4,046,322**	**4,046,322**	2,712,322
Trade debts	-	**-**	**313,227,842**	**-**	**313,227,842**	378,084,796
Loans and advances	-	-	**6,690,663**	**-**	**6,690,663**	6,981,011
Trade deposits and other receivables	-	**-**	**35,904,759**	**-**	**35,904,759**	37,996,843
Investments	-	**-**	**14,175,212**	**-**	**14,175,212**	16,725,256
Cash and bank balances	-	-	**2,464,460**	**-**	**2,464,460**	59,827,144
	-	**-**	**372,462,936**	**4,046,322**	**376,509,258**	502,327,372
Financial Liabilities						
Long term financing	**143,296,618**	**681,950,746**	**-**	**-**	**825,247,364**	932,179,782
Liabilities against assets subject to finance lease	**703,708**	**1,117,734**	**-**	**-**	**1,821,442**	767,101
Trade and other payables	**9,894,621**	**-**	**238,430,949**	**-**	**248,325,570**	216,242,103
Mark up accrued on loans	-	**-**	**67,217,714**	**-**	**67,217,714**	37,068,151
Short term borrowings	**1,442,967,468**	**-**	**-**	**-**	**1,442,967,468**	1,211,698,642
	1,596,862,415	**683,068,480**	**305,648,663**	**-**	**2,585,579,558**	2,397,955,778
On balance sheet gap	**(1,596,862,415)**	**(683,068,480)**	**66,814,273**	**4,046,322**	**(2,209,070,300)**	(1,895,628,406)

	2008 Rupees	2007 Rupees
Off balance sheet items		
Bills discounted with recourse	**122,785,684**	275,160,659
Bank guarantees issued in the ordinary course of business	**32,555,900**	25,816,900
Letters of credit for capital expenditure	**-**	74,752,000
Letters of credit for raw material	**32,515,088**	30,408,000

The effective rate of mark up for the monetary financial assets and liabilities are mentioned in respective notes to the financial statements.

34.1 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.

34.2 Foreign exchange risk management

Foreign exchange risk is the risk of loss through changes in foreign currency rates. The Company is exposed to foreign exchange risk against short term borrowings (FE-25) for US$ 4,753,800. Receivables in foreign currency amount to US$ 1,275,021 and net exposure to foreign exchange is US$ 3,478,779. The Company is also exposed to foreign exchange risk due to cross currency swap (note 8.4) of long term finances amounting to US$ 3,276,102. Due to substantial exchange losses, the swap arrangement was terminated subsequent to the balance sheet date and FE-25 US$ liability is also in the process of being converted to Pak Rupees.

34.3 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.

34.4 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rate. The Company is not exposed to major interest rate risk against long term financing due to the factor that State Bank of Pakistan has fixed the interest rate on long term demand finances under long term financing for export oriented projects' scheme (LTF - EOP) and financial institutions have adopted this rate accordingly. However, interest rates on short term finances are comparable with the market interest rates which are significantly volatile. The Company manages the interest rate risk through risk management strategy, as a result the interest rate of short term and long term financing was hedged during the year against cross currency interest rate swaps as explained in note 8.4 and 14.3. However the swap arrangement has been terminated subsequent to the balance sheet date as explained in note 34.2.

34.5 Capital risk management

The Company's prime object when managing capital is to safeguard its ability to continue as going concern in order to provide adequate return for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. The ratio is calculated as net dividend by total capital. Net debt is calculated as total borrowing less cash and bank balances. Total capital is calculated as equity as shown in the balance sheet plus net debt.

	2008	2007
	Rupees	Rupees
Total borrowings	**2,268,918,540**	2,144,645,523
Less: cash and bank balances	**2,464,460**	59,827,144
Net debt	**2,266,454,080**	2,084,818,379
Total equity	**455,118,900**	653,277,851
Total capital	**2,721,572,980**	2,738,096,230
Gearing ratio %	**83.28**	76.14

35 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

Description	2008			2007		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
Managerial remuneration	**800,004**	**1,567,738**	**2,354,839**	800,004	1,434,000	3,440,000
House rent allowance	**360,000**	**705,484**	**1,059,677**	360,000	430,000	1,032,000
Utilities	**39,996**	**196,778**	**235,484**	39,996	286,000	688,000
Rupees	**1,200,000**	**2,470,000**	**3,650,000**	1,200,000	2,150,000	5,160,000
No. of persons	**1**	**4**	**6**	1	3	7

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

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

35.3 Gratuity expense related to directors is classified under note 28.

36 PLANT CAPACITY AND PRODUCTION

		2008	2007
Greige fabric unit			
No. of looms installed		**224**	**212**
No. of looms worked		**224**	**212**
Shifts per day		**3**	**3**
No. of days actually worked		**364**	**364**
Rated capacity	(Square Meters in millions)	**74**	**71**
Actual production	(Square Meters in millions)	**73**	**70**

		2008	2007
Towel unit			
No. of looms installed	(Note 36.1)	**31**	**12**
No. of looms worked		**26**	**12**
Shifts per day		**3**	**3**
No. of days actually worked		**364**	**181**
Rated capacity	(Tons)	**2700**	**630**
Actual production	(Tons)	**1660**	**432**
Towel dyeing and processing unit			
Rated capacity	(Tons)	**1,356**	**1,356**
Actual production	(Tons)	**1293**	**541**

36.1 Five looms in the towel unit were installed and not operational during the current period.

36.2 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.

37 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 35, are as follows:

	2008 Rupees	2007 Rupees
Associated undertaking		
Agentex	**37,987,500**	28,995,505

37.1 The Company purchased land from its associated undertaking amounting to Rs. 37,987,500 during the period against the temporary advance of Rs. 30,091,773.

	2008	2007
38 NUMBER OF EMPLOYEES		
Number of employees at the year end	**1155**	1193

39 AUTHORIZATION OF FINANCIAL STATEMENTS

- These accounts were approved by the board of directors on 30 September 2008.

40 CORRESPONDING FIGURES

Comparative information has been rearranged and reclassified, wherever necessary, for the purpose of better presentation and comparison. Significant reclassifications include the followings:

Reclassification		Nature	(Rupees)
From	To		
Trade and other payables (note # 12)	Accrued mark up (note # 13)	For better presentation	37,068,151
Other receivables (note # 22)	Trade deposits, prepayments and other receivables (note # 22)	For better presentation	56,538,378
Other operating expenses	Administration expenses	For better presentation	881,328
Finance costs	Other operating expenses	For better presentation	1,219,802

DIRECTOR **CHIEF EXECUTIVE**

Form 34

Pattern of Share Holding as on June 30, 2008

Number of shareholders	Shareholding From	To	Total Shares held
1	1	100	50
153	101	500	79,500
111	501	1000	110,600
214	1001	5000	662,798
66	5001	10000	575,100
25	10001	15000	316,500
20	15001	20000	373,000
14	20001	25000	333,500
10	25001	30000	290,500
3	30001	35000	103,000
1	40001	45000	42,000
5	45001	50000	250,000
1	50001	55000	54,500
2	55001	60000	118,000
2	60001	65000	121,500
3	65001	70000	200,500
2	70001	75000	142,167
3	75001	80000	236,000
1	85001	90000	90,000
5	95001	100000	500,000
2	100001	105000	205,000
2	105001	110000	219,500
1	110001	115000	115,000
1	115001	120000	115,448
2	135001	140000	277,000
1	150001	155000	152,000
1	155001	160000	159,000
1	165001	170000	169,500
2	195001	200000	400,000
1	245001	250000	250,000
1	340001	345000	343,802
1	565001	570000	567,500
1	605001	610000	605,302
1	720001	725000	723,552
1	950001	955000	950,083
1	995001	1000000	1,000,000
1	2165001	2170000	2,166,800
1	2465001	2470000	2,465,300
1	2855001	2860000	2,857,300
1	3820001	3825000	3,822,698
1	5330001	5335000	5,332,000
1	15105001	15110000	15,109,364
1	16820001	16825000	16,823,365
669			59,428,729

Categories of Shareholders as on June 30, 2008

	Shareholder's category	No. of shareholders	Share held	Percentage
1	**Directors, Chief Executive Officer and their spouses and minor children**			
	Mr. Mussaid Hanif	1	16,823,365	28.31
	Mr. Burhan Muhammad Khan	1	15,109,364	25.42
	Mr. Arbab Muhammad Khan	1	2,857,300	4.81
	Mr. Gauhar Abdul Hai	1	20,000	0.03
	Mr. Syed Manzar ul Islam	1	3,000	0.01
	Ms. Tehniyat Mussaid	1	2,465,300	4.15
	Ms. Sabah Burhan	1	2,166,800	3.65
	Total	**7**	**39,445,129**	**66.37**
2	**Banks, Development Financial Institutions, Non-Banking Financial Institutions**	6	6,654,354	11.20
3	**Modaraba and Mutual Funds**	4	739,000	1.24
4	**General public -** Local	632	6,584,631	11.08
5	**General public -** Foreign	3	12,000	0.02
6	**Others**	17	5,993,615	10.09
	Total	**662**	**19,983,600**	**33.63**
	GRAND TOTAL	**669**	**59,428,729**	**100**

ZEPHYR TEXTILES LIMITED

3rd Floor IEP Building, 97-B/D-1, Gulberg III, Lahore

PROXY FORM

I/We, ______________________________

Of ______________________________

being a member of **ZEPHYR TEXTILES LTD.** hereby appoint

____

(NAME)

of ______________________________ another member of the Company

or failing him / her ______________________________

(NAME)

of ______________________________ another member of the Company

(being member of the Company) as my/our proxy to attend and vote for and on my/our behalf at the 10th Annual General Meeting of the Company to be held at its Registered Office, 3rd Floor IEP Building 97-B/D-I Gulberg III, Lahore on October 31,2008 at 11:00 AM and at every adjournment thereof.

As witnessed given under my/our hand(s) this ______________ day of ________ 2008.

Affix Revenue stamps of Rs. 5/-

1. Witness:
   Signature: ______________
   Name: ______________
   Address: ______________

____
Signature of Member

2. Witness:
   Signature: ______________
   Name: ______________
   Address: ______________

Shares held ______________
Shareholders' Folio No. ______________
CDC A/c # ______________

NIC No. | | | | | | | | | | | | | | |

NOTES:

1. Proxies, in order to effective, must be reached at the Company's Registered Office, not less than 48 hours before the time for holding the meeting and must be duly stamped, signed and witnessed.

2. CDC Shareholders, entitled to attend and vote at this meeting, must bring with them their national identity Cards/ Passports in original to prove his/her identity, and in case of Proxy, must enclose an attested copy of his/her NIC or Passport. Representatives of Corporate members should bring the usual documents required for such purpose.