

C O N T E N T S



QUALITY TEXTILE MILLS LIMITED

18TH ANNUAL REPORT

2006

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Company Information

Board of Directors	Mr. Noor Muhammad Hashim Mr. Ahmed Mussa Mr. Tayyab Noor Muhammad Mr. Muhammad Younus Hashim Mr. Imran M. Younus Miss Fiza Chaudhri Mr. Muhammad Idris Khokhar	Chairman / Chief Executive Executive Director Director Director Director Director Director
Audit Committee	Mr. Tayyab Noor Muhammad Mr. Muhammad Younus Hashim Mr. Imran M. Younus	Chairman Member Secretary
Chief Financial Officer (CFO) & Company Secretary	Mr. Atif Khalil	
Bankers	Habib Bank Limited Muslim Commercial Bank Limited Habib Bank AG Zurich Metropolitan Bank Limited Bank Al-Habib Limited	
Auditors	M. Yousuf Adil Saleem & Co. Chartered Accountants	
Legal Advisor	M. Hassan Akbar	
Registered Office	24, 2 nd Floor, Ali Bhai Centre, 233-A, P.E.C.H.S, Block-2, Karachi. PABX: 0092-21-4538655-4538788-4529325 Fax: 0092-21-4538799 Website: www.qualitytextile.com E-mail: qualitytextilemills@yahoo.com E-mail: yarn@qualitytextile.com	
Business Office	15, 1 st Floor, Ali Bhai Centre, 233-A, P.E.C.H.S, Block-2, Karachi.	
Mills	26KM, Sheikhpura Faisalabad Road, Ferozwattowan, Distt. Sheikhpura. Tel: 0496-731-751- & 0496-731-341 Fax: 0496-731-307. E-mail: qualitytextilemillsskp@yahoo.com	

Notice of Annual General Meeting

Notice is hereby given that the 18th Annual General Meeting of the shareholders of Quality Textile Mills Limited will be held on Saturday October 21, 2006 at 08:30 A.M. at its Registered Office 24, Ali Bhai Centre, 2nd Floor, 233-A, Block-2, P.E.C.H.S., Shahrah-e-Quaideen, Karachi to transact the following business:

1. To confirm the minutes of last Annual General Meeting held on October 24, 2005.
2. To receive and adopt the Audited Accounts of the Company together with the Auditors and Directors Reports thereon, for the year ended June 30, 2006.
3. To approve the appointment of auditors and to fix their remuneration for the ensuing year 2006-2007.
4. To approve 10% final cash dividend as recommended by the Board of Directors.
5. Any other business with the permission of the Chair.

**By the order of the Board
ATIF KHALIL**

Karachi:
Date 28-09-2006

Company Secretary

NOTES:

1. The Share Transfer Books of the Company will remain closed from October 14 to October 23, 2006 (Both days inclusive), to determine the names of members entitled to attend the meeting. Transfer received in order, at the Business Office of the Company at the close of business on October 13, 2006 will be treated in time.
2. The member entitled to attend and vote at the above meeting may appoint a member as proxy to attend and vote in place of the member at the meeting. Proxies in order to be effective must be received at the Company's Registered Office not later than 08:30 A.M. on October 19, 2006.
3. Members are requested to notify the Company of any change in their addresses.

Directors' Report

On behalf of The Board of Directors I take the pleasure in presenting 18th Annual Report, (13th Year of Operation) of your Company together with the Audited Financial Statements for the year ended on June 30, 2006.

Operating Results

During the year ended on June 30, 2006 the total Sales of Cotton Yarn amounted to Rs.881,750,229 as compared of total Sales of Rs. 680,142,685 during the preceding nine months period. The Export Sales was Rs. 140,275,660 for the year as compared to 137,595,218 during the preceding nine months. The local Sales were Rs. 748,172,810 for the year as compared to sales of Rs. 515,849,422 (net of sales tax) during the preceding nine months. By the grace of God your Company has earned a pretax profit of Rs. 32,454,481 as compared to profit of Rs. 51,067,490 of the previous nine months period after providing depreciation of Rs. 35,436,730 and financial charges of Rs. 45,816,857. This profit is mainly because of opening stock of previous year cotton which was purchased at price lower than this year. The trend of yarn prices continued to be stable in local market as well in international yarn market during the whole year ended on June 30, 2006.

Your company has been able to repay long-term loan installments and markup to Habib Bank Limited including short-term debt servicing of other banks.

Significant Financial Plans:

Fresh Demand Finance & Lease Finance

During the year under review the company has obtained a lease finance of Rs. 50 millions to finance the import of three sets of Jenbacher gas generators. This addition in plant and machinery improves the continuous supply of electricity without electrical surges.

Future Outlook

As you are aware that heavy rains in our Country has caused some serious damages to the cotton crop in Sindh as well as in Punjab. Therefore we are expecting that the price and the quality of the cotton may not be upto mark as compared with previous years but we will put our efforts and strive our best to remain competitive and profitable in accordance with the history of your Company.

Auditors

The retiring Auditors M/s. Yousuf Adil Saleem & Co., Chartered Accountants have offered themselves for re-appointment for the ensuing year 2006-2007. The audit committee in its meeting held on, September 16, 2006 has recommended appointment of the retiring auditors.

Change of Accounting Year

As per SRO 684(1) 2004 dated August 10, 2005 issued by the Central Board of Revenue, the Company have changed its accounting year from September 30, to June 30. These accounts have been prepared for 9 months periods from October 2004 to June 30 2005, with the current years' figures for 12 months for the year ended June 30, 2006.

Dividend

The Board of Directors has recommended final cash dividend @ 10% for the year ended on 30-06-2006 subject to approval of Habib Bank Limited.

Pattern of Share Holding

The pattern of share holding of the company as at June 30, 2006 is annexed.

Directors' Report

Statement On Corporate And Financial Reporting Frame Work

- a) The financial statements, prepared by the management of the Company, present fairly its state of affairs, the result 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 judgement.
- d) International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
- e) The system of internal control is sound in design and has been effectively implemented and monitored.
- f) There are no significant doubts upon the Company's ability to continue as a going concern.
- g) There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- h) Key operating and financial data for the last six year have been summarized on page No. 6.
- i) There are no overdue taxes and levies as on 30 June, 2006.
- j) During the year five meetings of the Board of Directors were held. Attendance by each Director is given on page No. 7.
- k) No Trades in shares of the Company carried out by its Directors.

Acknowledgement

The directors wish to express their gratitude for the support given to the Company by Bankers M/s. Habib Bank Limited, Bank Al-Falah Limited, Habib Bank AG Zurich, Metropolitan Bank Limited and MCB Bank Limited.

The directors wish to place on record their appreciation for the sincerity and hard work of the staff and workers at Mills and at Head office and also extend their thanks to valued share-holders for their confidence and moral support to the company.

On Behalf of Board of Directors

NOOR MUHAMMAD HASHIM
Chairman / Chief Executive.

Karachi:
September 19, 2006

Financial Highlights

	2001 Rupees	2002 Rupees	2003 Rupees	2004 Rupees	2005 Rupees	2006 Rupees
A Profit & Loss						
Net Sales	716,307,328	723,002,969	805,274,322	962,338,108	680,142,685	881,750,229
Gross Profit	91,003,183	78,427,767	71,173,465	36,346,229	96,495,610	99,477,085
Profit / Loss Before Tax	12,928,755	28,882,878	15,872,672	(14,504,340)	51,067,490	32,454,481
Profit / Loss After Tax	10,167,791	16,877,740	15,035,423	(17,105,330)	46,534,940	33,698,223
B Cash Out Flows						
Taxes paid	3,780,766	4,433,708	8,935,936	6,251,024	2,199,836	2,518,309
Financial charges paid	57,085,374	55,204,653	36,348,221	24,499,558	24,717,933	45,651,507
Fixed capital expenditure	176,993,885	1,605,002	477,835	15,382,900	9,074,212	35,432,799
C Balance Sheet						
Current Assets	168,145,176	102,101,846	92,237,940	201,288,301	264,622,083	343,834,203
Current Liabilities	213,060,527	133,052,637	94,193,146	198,530,560	232,766,704	371,844,556
Operating fixed assets	453,156,823	414,297,868	381,499,556	364,585,139	456,562,522	583,252,682
Total assets	623,547,000	522,144,715	476,072,497	568,038,541	725,349,706	936,251,986
Long term loans	190,807,621	127,448,778	129,448,778	112,148,778	80,648,778	38,048,778
Shareholders' Equity	176,507,002	193,384,742	209,636,863	186,027,871	240,578,831	254,457,519
D Ratio						
Current ratio (As per SBP regulations)	1:0.86	1:1.07	1:1.40	1:1.13	1:1.36	1:1.08
Gross Profit %	12.70	10.85	8.84	3.78	14.19	11.28
Net profit / Loss % (before tax)	1.80	3.99	1.97	(1.51)	7.51	3.68
Earning per share	0.81	1.22	0.94	(1.07)	2.91	2.11
Proposed dividend %	10%	10%	10%	0%	15%	10%
	Bonus Shares	Bonus Shares	Bonus Shares	-	Cash dividend	Cash dividend
E Production Data						
1 No. of Spindles Worked	24,240	24,240	24,240	24,240	24,240	24,240
2 Installed capacity after conversion into 20/s count-kgs.	6,386,600	7,087,253	7,087,253	7,087,253	5,300,877	7,087,253
3 Actual Production of Yarn after	6,433,056	7,427,874	7,863,994	7,901,648	6,059,884	7,372,789

Attendance of Board Meeting

DURING THE YEAR 2005-2006
(July 2005 to June 2006)

Name of Director	Total No. Of Board Meeting	No. of Meeting Attended
1. Mr. Noor Mohammad Hashim	5	5
2. Mr. Ahmed Mussa	5	5
3. Mr. Tayyab Noor Muhammad	5	5
4. Mr. Muhammad Younus Hashim	5	5
5. Mr. Imran M. Younus	5	5
6. Miss Fiza Chaudhri	3	3
7. Mr. Muhammad Idris Khokhar	5	5

Detail of Pattern of Share Holding

AS PER REQUIREMENTS OF CODE OF CORPORATE GOVERNANCE

	SHARES HELD	
Associated companies, Undertakings and related parties		NIL
NIT and ICP Investment Corporation of Pakistan		212
Directors, CEO and their Spouse and Minor Children		
Noor Muhammad Hashim		4,343,147
Tayyab Noor Muhammad		1,684,937
Muhammad Younus Hashim		31,763
Imran M. Younus		603,488
Fiza Chaudhri		609,821
M. Idris Khokhar		635
Ahmed Musa		228,055
Rukhsana Ahmed		336,949
Executive		NIL
Public Sector Companies and Corporation Banks, Development Finance Institutions, Non - Banking Finance Institutions, Insurance Companies, Modarabas and Mutual Funds		NIL
Private Limited Companies		2,797,356
Individual		5,341,446
Total Share Capital		15,977,808
Summary of Share Capital		
Associated companies	NIL	NIL
Directors, CEO and their Spouse and Minor Childrens	8	7,838,794
Public Sector Companies and Corporation	NIL	NIL
Banks, Development Finance Institutions	1	212
Private Limited Companies	7	2,797,356
Individuals	524	5,341,446
Total Share Capital	540	15,977,808

TRADING OF COMPANY'S SHARES BY THE DIRECTORS

AS PER REQUIREMENTS OF CODE OF CORPORATE GOVERNANCE

Shareholders Holding 10% or More

Noor Muhammad Hashim	4,343,147
Tayyab Noor Muhammad	1,684,937
Automotive Products (Pvt) Ltd.	2,794,846

Statement of Compliance with the Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 37 of listing regulations of Karachi Stock Exchange Guarantee Limited for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Board of Directors of Company has adopted and applied the principles contained in the Code of Corporate Governance in the following manner:

1. The Company encourages representation of non-executive directors and directors on its Board of Directors. At present the Board includes five non-executive directors and two 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 directors of the Company are registered as taxpayers and to the best of our knowledge none of them have defaulted in payment of any loan to a banking company, DFI or an NBFIs. None of the directors of the company are members of any stock exchange.
4. There was one casual vacancy of director during the year which was duly filled by the Board of Directors..
5. The Company has adopted a “Statement of Ethics and Business Practices”, which has been signed by all the directors and employees of the Company.
6. The Board has developed vision and mission statements and significant policies and overall corporate strategy.
7. All powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO and other executive directors, have been taken by the Board.
8. The meetings of Board were presided over by the Chairman. The Board held five (05) meetings during the year. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meeting were appropriately recorded and circulated to all concerned.
9. The company held orientation courses 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 and conditions of employment, as determined by the CEO.



Statement of Compliance with the Code of Corporate Governance

11. The directors' report for this period 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 corporate and financial reporting requirements of the Code.
15. The Board has formed an audit committee. It comprises of three members. All members of the committee including the chairman 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 as required by the code. The terms of reference of the committee have been framed and approved by the board and has been advised to the committee for compliance.
17. The Board has set-up an internal audit function.
18. The statutory auditors of the Company have confirmed that i) they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan; ii) they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and; iii) the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
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.

Signature (s)

NOORMUHAMMADHASHIM

Chairman / CEO

Karachi

September 19, 2006

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 QUALITY TEXTILE MILLS LIMITED to comply with the Listing Regulation No. 37 of the Karachi 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 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.

Karachi
September 19, 2006

M. Yousuf Adil Saleem & Co.
Chartered Accountants

Auditors' Report To The Members

We have audited the annexed balance sheet of QUALITY TEXTILE MILLS LIMITED as at June 30, 2006 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.* in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- b.* in our opinion :
 - i.* the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - ii.* the expenditure incurred during the year was for the purpose of the company's business; and
 - iii.* the business conducted, investments made and the expenditure incurred during the period were in accordance with the objects of the company;

Auditors' Report To The Members

- c.* in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof confirm with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984 in the manner so required, and respectively give a true and fair view of the state of the company's affairs as at June 30, 2006 and of the profit, its cash flows and changes in equity for the period then ended; and
- d.* in our opinion, no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

M. YOUSUF ADIL SALEEM & CO.
CHARTERED ACCOUNTANTS

Karachi:
September 19, 2006



Balance Sheet

As At June 30, 2006

	Note	June 30, 2006 Rupees	June 30, 2005 Rupees
SHARE CAPITAL AND RESERVES			
Authorised			
26,000,000 Ordinary shares of Rs.10 each		<u>260,000,000</u>	<u>260,000,000</u>
Issued, subscribed and paid-up	3	159,778,080	159,778,080
Unappropriated profit		94,679,439	80,800,751
		254,457,519	240,578,831
SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT			
	4	145,405,828	91,112,107
NON CURRENT LIABILITIES			
Long term financing	5	38,048,778	80,648,778
Liabilities against assets subject to finance lease	6	21,744,164	10,974,760
Deferred liabilities	7	34,745,464	25,451,800
CURRENT LIABILITIES			
Trade and other payables	8	46,454,571	41,836,595
Interest/mark-up accrued on loans	9	5,433,610	5,268,260
Short-term financing	10	301,510,686	172,957,393
Current portion of			
long term financing	5	42,600,000	38,000,000
liabilities against assets subject to finance lease	6	27,405,676	5,816,726
Provision for taxation		18,445,690	12,704,456
		441,850,232	276,583,430
CONTINGENCIES AND COMMITMENTS			
	11		
		<u>936,251,986</u>	<u>725,349,706</u>

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

CHIEF EXECUTIVE OFFICER

DIRECTOR



	Note	June 30, 2006 Rupees	June 30, 2005 Rupees
NON CURRENT ASSETS			
Property, plant and equipment	12	583,252,682	456,562,522
Long term deposits		9,165,101	4,165,101
		592,417,783	460,727,623
CURRENT ASSETS			
Stores, spares and loose tools	13	12,836,123	15,052,511
Stock-in-trade	14	224,700,342	169,279,898
Trade debts	15	77,629,720	60,386,621
Loans and advance	16	3,893,497	2,041,139
Trade deposits and prepayments	17	1,037,313	961,998
Advance income tax		12,171,289	9,652,979
Other receivables	18	9,920,712	5,448,976
Cash and bank balances	19	1,645,207	1,797,961
		343,834,203	264,622,083
		<u>936,251,986</u>	<u>725,349,706</u>

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

CHIEF EXECUTIVE OFFICER

DIRECTOR



Profit and Loss Account

For The Year Ended June 30, 2006

		June 30, 2006 Rupees	Nine months ended June 30, 2005 Rupees
	Note		
Sales	20	881,750,229	680,142,685
Cost of goods sold	21	<u>(782,273,144)</u>	<u>(583,647,075)</u>
Gross profit		99,477,085	96,495,610
Other operating income	22	<u>1,242,143</u>	<u>1,270,190</u>
		100,719,228	97,765,800
Distribution cost	23	(11,601,102)	(11,182,962)
Administrative expenses	24	(8,650,948)	(5,355,205)
Other operating expenses	25	(2,195,840)	(2,964,451)
Finance cost	26	<u>(45,816,857)</u>	<u>(27,195,692)</u>
Profit before taxation		32,454,481	51,067,490
Provision for taxation	27	<u>1,243,742</u>	<u>(4,532,550)</u>
Provision for the year		<u>33,698,223</u>	<u>46,534,940</u>
Earning per share (Basic & diluted)	28	<u>2.11</u>	<u>2.91</u>

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

CHIEF EXECUTIVE OFFICER

DIRECTOR

Cash Flow Statement

For The Year Ended June 30, 2006

	June 30, 2006 Rupees	Nine months ended June 30, 2005 Rupees
A. CASH FLOW FROM OPERATING ACTIVITIES		
Profit before taxation	32,454,481	51,067,490
Adjustments for :		
Depreciation	35,436,730	26,332,004
Provision for gratuity	1,022,500	1,374,307
Finance cost	45,816,857	27,195,692
Operating cash flows before changes in working capital	114,730,568	105,969,493
Changes in working capital		
(Increase)/decrease in current assets		
Stores, spares and loose tools	2,216,388	(3,797,878)
Stock-in-trade	(55,420,444)	(62,447,491)
Trade debtors	(17,243,099)	(2,047,730)
Loans and advances	(1,852,358)	792,844
Trade deposits and prepayments	(75,315)	452,002
Other receivables	(4,471,736)	(2,415,128)
Increase/ (Decrease) in current liabilities		
Trade and other payables	4,513,799	(1,286,788)
	(72,332,765)	(70,750,169)
Cash generated from operations	42,397,802	35,219,324
Finance cost paid	(45,651,507)	(24,717,933)
Taxes paid	(2,518,309)	(2,199,836)
Gratuity paid	(2,997,054)	(1,823,050)
Net cash (used in) / from operating activities	(8,769,067)	6,478,505
B. CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(35,432,799)	(9,074,212)
Long-term deposits	(5,000,000)	(2,000,000)
Net cash used in investing activities	(40,432,799)	(11,074,212)
C. CASH FLOW FROM FINANCING ACTIVITIES		
Long term financing acquired	-	50,000,000
Repayment of long-term financing	(38,000,000)	(78,800,000)
Repayment of principal portion of finance lease	(17,641,646)	(3,208,515)
Short term financing acquired - net	128,553,293	36,445,705
Dividend paid	(23,862,535)	-
Net cash from financing activities	49,049,112	4,437,190
Net decrease in cash and cash equivalents (A+B+C)	(152,754)	(158,517)
Cash and cash equivalents at the beginning of the year	1,797,961	1,956,478
Cash and cash equivalents at the end of the year	1,645,207	1,797,961

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

CHIEF EXECUTIVE OFFICER

DIRECTOR

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QUALITY TEXTILE MILLS LIMITED

Statement of Changes in Equity

For The Year Ended June 30, 2006

	Share capital	Unappropriated profit	Total
Rupees.....		
Balance as at October 1, 2004	159,778,080	26,249,791	186,027,871
Transfer from surplus on revaluation of fixed assets on account of incremental depreciation for prior year - net off deferred tax for the period - net off deferred tax	-	5,849,956 2,166,064	5,849,956 2,166,064
Net income recognised directly to equity	-	8,016,020	8,016,020
Profit for the period ended June 30, 2005	-	46,534,940	46,534,940
Total recognised income and expense for the nine months period	-	54,550,960	54,550,960
Balance as at June 30, 2005	159,778,080	80,800,751	240,578,831
Changes in equity for the year 2006			
Transfer from surplus on revaluation of property plant and equipment on account of incremental depreciation for the year - net off deferred tax	-	4,147,177	4,147,177
Net income recognised directly to equity	-	4,147,177	4,147,177
Profit for the year ended June 30, 2006	-	33,698,223	33,698,223
Total recognised income and expense for the year	-	37,845,400	37,845,400
Final cash dividend for the nine months period ended June 30, 2005 @ Re. 1.5 per share	-	(23,966,712)	(23,966,712)
Balance as at June 30, 2006	159,778,080	94,679,439	254,457,519

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

Notes to the Financial Statements

For The Year Ended June 30, 2006

1. GENERAL INFORMATION

- 1.1** Quality Textile Mills Limited (the company) was incorporated in Pakistan on May 03, 1988 as a public limited company under the Companies Ordinance, 1984. The registered office of the company is situated at 24, 2nd Floor, Ali Bhai Centre, P.E.C.H.S., Block-2, Karachi. The company is currently listed on Karachi Stock Exchange. The principal activity of the company is manufacturing and sale of yarn. The company's manufacturing facilities are located at Ferozwattowan in the Province of Punjab.
- 1.2** The financial statements are presented in Pak Rupees, which is the company's functional and presentation currency.
- 1.3** Comparative amounts for the income statement, statement of changes in equity, cash flow statement and related notes are not entirely comparable because as per SRO 684(1) dated August 10, 2004 issued by Central Board of Revenue, the Company prepared its last year financial statements for nine months period ended on June 30, 2005 to comply with the above SRO.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

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

2.2 New and revised International Accounting Standards and Interpretations issued but not yet effective

At the date of authorization of these financial statements, the following Interpretations were in issue but not yet effective:

- i) IFRIC 4 - Determining whether an Arrangement contains a Lease
- ii) IFRIC 5 - Right to Interest Arising from Decommission, Restoration and Environmental Rehabilitation
- iii) IFRIC 6 - Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
- iv) IFRIC 9 - Reassessment of Embedded Derivatives

2.3 Basis of preparation

The financial statements have been prepared under the historical cost convention modified by:-

- revaluation of certain property, plant and equipment
- certain financial instruments at fair value
- recognition of certain employees retirement benefits at present value

Notes to the Financial Statements

For The Year Ended June 30, 2006

The principal accounting policies adopted are set out below:

2.4 Leases

Leases are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as liabilities against assets subject to finance lease. The liabilities are classified as current and long-term depending upon the timing of payment. Lease payments are apportioned between finance charges and reduction of the liabilities against assets subject to finance lease so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit and loss account, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the company's general policy on borrowing costs.

2.5 Employees Benefit Costs

Defined benefit plans

The Company operates an unfunded gratuity scheme covering all its employees who have completed the minimum qualifying period of service as defined under the respective scheme. Provision is made to cover the obligations under the scheme on the basis of actuarial valuation and are charged to income. The company carried out actuarial valuation as at June 30, 2006 using the projected unit credit method. The amount recognised in the balance sheet represents the present value of defined benefit obligations.

Actuarial gains and losses are recognised immediately in accordance with IAS-19.

Detail of the scheme is given in note 7.1 to financial statements.

2.6 Trade and other payables

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

2.7 Provisions

Provisions are recognised when the Company has a present, legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

2.8 Property, plant and equipment

Property, plant and equipment except land and building are stated at cost less accumulated depreciation and impairment in value, if any. Land and building are stated at revalued amount.

Depreciation is charged to income applying the reducing balance method except depreciation on plant and machinery which is charged on the basis of production of units whereby the rate of depreciation has been computed with reference to the proportion which the actual production during the year bears to production

Notes to the Financial Statements

For The Year Ended June 30, 2006

units estimated to be produced during the economic serviceable life of such assets, subject to a minimum annual charge based on 60% of the installed capacity, to cover the wear and tear and obsolescence.

In respect of additions and disposals during the year, depreciation is charged from the month of acquisition and upto the month preceding the disposal respectively.

Maintenance and repairs are charged to income as and when incurred. Major renewals and improvements are capitalized and the assets so replaced, if any are retired.

Gains or losses on disposal of assets, if any, are recognised as and when incurred.

The carrying values of fixed assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets are written down to the recoverable amount and impairment losses are recognised in the profit and loss account.

Surplus arising on revaluation is credited to surplus on revaluation of fixed assets. The surplus on revaluation of land and building to the extent of incremental depreciation charged on related assets is transferred by the company to its unappropriated profit net of deferred tax.

All expenditure connected with specific assets incurred during installation and construction period are carried under capital work-in-progress. These are transferred to specific assets as and when these assets are available for use.

2.9 Assets subject to finance lease

Assets subject to finance lease are depreciated on the same basis as owned assets.

2.10 Stores, spares and loose tools

These are valued at moving average cost less allowance for obsolescence and slow moving items. Items in transit are valued at cost accumulated upto balance sheet date.

2.11 Stock in trade

Stock-in-trade are valued at the lower of cost and net realizable value.

Cost for raw material is determined using weighted average cost basis except for those in transit which are stated at invoice price plus other charges paid thereon upto the balance sheet date.

Finished goods and work-in-process consist of cost of direct materials, labour and a proportion of manufacturing overheads based on normal capacity. Cost is determined on average manufacturing cost.

Waste stock value is determined by net realizable value.

Net realizable value signifies the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Notes to the Financial Statements

For The Year Ended June 30, 2006

2.12 Trade debts and other receivables

Trade debts and other receivables are carried at original invoice amount less an estimate made for doubtful receivables based on review of outstanding amounts at the year end. Balances considered bad and irrecoverable are written off when identified.

2.13 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cashflow statement, cash and cash equivalents consist of cash in hand, balances with banks and highly liquid short-term investments.

2.14 Financial instruments

Financial assets and liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument and de-recognised when the Company loses control of the contractual rights that comprise the financial asset and in case of financial liability when the obligation specified in the contract is discharged, cancelled or expired. A financial asset and a financial liability is offset and the net amount reported in the balance sheet, if the Company has a legal enforceable right to set off the transaction and also intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

2.15 Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business.

Sales of goods are recognised when goods are delivered and title has passed.

Income on deposits is recorded on accrual basis.

2.16 Taxation

Current

The charge for current taxation is based on taxable income at the current rate of taxation after taking into account applicable tax credit, rebates and exemption available, if any, or minimum taxation at the rate of 0.5 percent of the turnover whichever is higher. However, for income covered under final tax regime, taxation is based on applicable tax rates under such regime.

Deferred

Deferred income tax is provided using the liability method for all temporary differences at the balance sheet date between tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In this regard, the effects on deferred taxation of the portion of income subject to final tax regime is also considered in accordance with the requirement of Technical Release - 27 of Institute of Chartered Accountants of Pakistan.

Deferred income tax asset is recognized for all deductible temporary differences and carry forward of unused tax losses, if any, to the extent that it is probable that taxable profit will be available against which such temporary differences and tax losses can be utilized.

Deferred income tax assets and liabilities are measured at the tax rate that are expected to apply to the period

Notes to the Financial Statements

For The Year Ended June 30, 2006

when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

2.17 Foreign Currencies

Transactions in currencies other than Pakistani Rupees are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Gains and losses arising on retranslation are included in net profit or loss for the period.

2.18 Related party transactions

Transactions with related parties are priced on arm's length basis. Prices for these transactions are determined on the basis of comparable uncontrolled price method, which sets the price by reference to comparable goods and services sold in an economically comparable market to a buyer unrelated to the seller.

2.19 Critical judgments and accounting estimates in applying the accounting policies

In the process of applying the company's accounting policies, the management has not identified any area where critical judgments have been exercised which have significant impact on the financial statements. Further, there are no key assumptions concerning the future and other key sources of estimating uncertainty at the balance sheet date that have significant risks of causing a material adjustment within the next financial year.

3. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2006	2005		June 30, 2006	June 30, 2005
No. of shares			Rupees	Rupees
12,576,000	12,576,000	Ordinary shares of Rs. 10 each fully paid in cash	125,760,000	125,760,000
3,401,808	3,401,808	As bonus shares	34,018,080	3,401,808
<u>15,977,808</u>	<u>15,977,808</u>		<u>159,778,080</u>	<u>159,778,080</u>

3.1 There were no movements during the reporting periods.

Notes to the Financial Statements

For The Year Ended June 30, 2006

4. SURPLUS ON REVALUATION OF PROPERTY PLANT AND EQUIPMENT - net of tax

This represents surplus over book value resulting from the revaluation of land and building carried out in 1996, 1998, 2000, 2002, 2005 and 2006 by M/s. Iqbal A. Nanjee & Co. on the basis of market value or depreciated replacement values as applicable adjusted only by surplus realized on disposal of revalued assets, incremental depreciation arising out of revaluation during the year and deferred taxation.

	June 30, 2006	June 30, 2005
Balance as at July 01/September 01	91,112,107	20,452,986
Effect of valuation of fixed assets carried out at the end of the year	76,694,092	89,235,176
Related deferred tax liability	<u>(18,253,194)</u>	<u>(10,353,565)</u>
	149,553,005	99,334,597
Less: Incremental depreciation arising due to surplus on revaluation of fixed assets transferred to unappropriated profit - net of deferred tax		
- Prior period	-	(5,849,956)
- Current year	(4,147,177)	(2,166,064)
Other	-	(206,470)
Balance as at June 30	<u>145,405,828</u>	<u>91,112,107</u>

5. LONG - TERM FINANCING

	<i>Long Term finance</i>	<i>Demand Finance</i>	<i>June 30, 2006</i>	<i>June 30, 2005</i>
	-----Rupees-----			
Banking companies				
Opening balance	32,000,000	86,648,778	118,648,778	147,448,778
Obtained during the year	-	-	-	50,000,000
	32,000,000	86,648,778	118,648,778	197,448,778
Paid during the year	(10,000,000)	(28,000,000)	(38,000,000)	(78,800,000)
	22,000,000	58,648,778	80,648,778	118,648,778
Payable within one year shown under current liabilities	(10,000,000)	(32,600,000)	(42,600,000)	(38,000,000)
	<u>12,000,000</u>	<u>26,048,778</u>	<u>38,048,778</u>	<u>80,648,778</u>

Terms:

No. of installments	10	30
Installment period	Half yearly	Quarterly
Instalment amount	As per schedule	As per schedule
Comencement of first installment	December, 2003 and April, 2005	January, 2000
Interest rate/mark-up	6 months treasury bills + 3%, Floor of 5.50%	6 months treasury bills + 3%, Floor of 5.50%
Sub note		5.1

Notes to the Financial Statements

For The Year Ended June 30, 2006

Securities :

These loans are secured against equitable mortgage of the company's immovable factory properties and floating charge over current assets of the company. This is also secured by lien over sponsors securities and personal guarantee of all the directors.

5.1 This is payable to HBL and includes 10 overdue installments of World Bank loan and accrued interest thereon upto December 31, 1998. The loan has been rescheduled vide letter No.SRD/SHS/98/1726 dated October 22, 1998. As per this rescheduling arrangement, the installments due upto November 2000 were transferred to Demand Finance.

6. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

Future minimum lease payments under finance lease together with the present value of the net minimum lease payments are as follows:

	2006		2005	
	Minimum lease payments	Present value	Minimum lease payments	Present value
Within one year	30,817,620	27,405,676	6,817,620	5,816,726
After one year but not more than five years	23,032,675	21,744,164	11,658,295	10,974,760
Total minimum lease payments	53,850,295	49,149,840	18,475,915	16,791,486
Less: Amount representing finance charges	(4,700,455)	–	(1,684,429)	–
Present value of minimum lease payments	49,149,840	49,149,840	16,791,486	16,791,486
Less: Current portion	(27,405,676)	(27,405,676)	(5,816,726)	(5,816,726)
	21,744,164	21,744,164	10,974,760	10,974,760

6.1 These represents finance lease entered into with leasing company for machinery. The financing rate used as discounting factor is 7.07% - 9.9% (2005: 7.07%) The lease term is of 3 years.

The Company intends to exercise the option to purchase the leased assets upon completion of the lease periods.

Liabilities are secured against demand promissory notes and security deposits.

	June 30, 2006 Rupees	June 30, 2005 Rupees
7. DEFERRED LIABILITIES		
Staff gratuity (7.1.1)	2,946,572	4,921,126
Taxation (7.2)	31,798,892	20,530,674
	34,745,464	25,451,800

7.1 Staff gratuity

Number of employees covered by the scheme as on June 30, 2006 was 225 (2005: 232). The scheme's assets, liabilities, costs and actuarial gains/(losses) as determined by the actuary and significant assumptions used in this valuation are as follows:

	June 30, 2006	June 30, 2005
- Discount rate	10%	8%
- Expected long-term rate of increase in salary level per annum	8%	8%
- Average expected remaining working life of employees	6 years	6 years

Notes to the Financial Statements

For The Year Ended June 30, 2006

	June 30, 2006 Rupees	June 30, 2005 Rupees
7.1.1 Liability recognised in the balance sheet		
Actuarial net liability	2,946,572	4,921,126
Present value of defined benefit obligation	<u>2,946,572</u>	<u>4,921,126</u>
7.1.2 Charge for defined benefit plan		
Current service cost	1,159,496	847,153
Interest cost	492,113	322,192
Actuarial Loss	(629,109)	204,962
	<u>1,022,500</u>	<u>1,374,307</u>
7.1.3 Movement in liability during the year		
Opening balance	4,921,126	5,369,869
Charge for the year	1,022,500	1,374,307
Payment made during the year	(2,997,054)	(1,823,050)
Closing balance	<u>2,946,572</u>	<u>4,921,126</u>
7.2 Taxation		
Deferred tax liabilities arising in respect of		
Own assets	58,596,827	38,394,752
Leased Assets	7,091,751	765,889
Surplus on revaluation of fixed assets	11,855,506	12,399,773
	77,544,084	51,560,414
Deferred tax assets arising in respect of		
Gratuity	(701,284)	(1,119,556)
Tax losses	(45,043,907)	(29,910,184)
	(45,745,191)	(31,029,740)
Net deferred tax liability	<u>31,798,892</u>	<u>20,530,674</u>
8. TRADE AND OTHER PAYABLES		
Creditors	5,971,122	1,682,263
Accrued expenses	28,081,057	26,080,189
Advance from customers (8.1)	10,246,992	11,080,130
Workers profit participation fund (8.2)	1,718,913	2,687,763
Unclaimed dividend	377,839	273,662
With-holding income tax	58,648	32,588
	<u>46,454,571</u>	<u>41,836,595</u>
8.1 Advance from customers		
Local	5,638,423	11,080,130
Foreign	4,608,569	-
	<u>10,246,992</u>	<u>11,080,130</u>

Notes to the Financial Statements

For The Year Ended June 30, 2006

	<i>June 30, 2006 Rupees</i>	<i>June 30, 2005 Rupees</i>
8.2 Workers' profit participation fund		
Opening balance	2,687,763	–
Interest on fund utilized in Company's business(note 25)	204,860	–
	2,892,623	–
Paid during the year	(2,892,623)	–
	–	–
Allocation for the year	1,718,913	2,687,763
	1,718,913	2,687,763
9. INTEREST / MARK-UP ACCRUED ON LOANS		
Long term finances	1,335,254	1,735,320
Short term finances	4,098,356	3,532,940
	5,433,610	5,268,260
10. SHORT-TERM FINANCING		
<i>From banking companies - Secured</i>		
Running finance (10.1)	255,024,381	172,957,393
Export finance (10.2)	46,486,305	–
	301,510,686	172,957,393
10.1 The aggregate unavailed running finance facilities available amounted to Rs. 759 million (2005: 691 million). These are subject to markup ranging from 8.2% to 11.3% (2005: 4% to 8.75%) per annum payable quarterly. These are secured against pledge of stock of cotton bales under bank's lock and keys and equitable mortgage of the company's immovable factory properties and floating charge over current assets of the company and personal guarantees of all directors.		
10.2 The aggregate unavailed export refinance facilities available amounted to Rs. 60 (2005: Nil). These were subject to markup ranging from 5.7% to 6.27% per annum. These were secured against export letter of credits held under lien and personal guarantees of directors.		
11. CONTINGENCIES AND COMMITMENTS		
<i>Contingencies</i>		
Bank guarantee issued to Collector of Customs against import licence fee on machinery	2,160,000	1,700,000
Bank guarantee in favour of Sui Northern Gas Company Limited	11,011,000	–
Export bills discounted	7,220,251	22,212,335
Local bills discounted	59,005,000	150,941,355
<i>Commitments</i>		
Outstanding letters of credit for import of stores items	2,131,200	517,842
Capital work in progress- building mills	–	1,560,371
12. PROPERTY, PLANT AND EQUIPMENT		
Operating assets	12.1 576,654,921	455,622,893
Capital work in progress	12.2 6,597,761	939,629
	583,252,682	456,562,522

Notes to the Financial Statements

For The Year Ended June 30, 2006

12.1 Operating assets

Particulars	Cost/revaluation at July 01, 2005	Additions/ (deletion)	Revaluation	Cost/revaluation at June 30, 2006	Accumulated depreciation at July 01, 2005	Depreciation for the year	Accumulated depreciation June 30, 2006	Written down value at June 30, 2006	Rate %
Owned :									
Land - free hold	57,000,000	-	57,000,000	114,000,000	-	-	-	114,000,000	-
Buildings on free hold land									
Mills	80,497,483	3,603,830	18,337,406	102,438,719	4,024,874	7,737,357	11,762,231	90,676,488	10
Other	30,439,826	-	1,356,686	31,796,512	760,995	1,483,942	2,244,937	29,551,575	5
Office premises	2,200,000	-	-	2,200,000	696,303	75,185	771,488	1,428,512	5
Plant and machinery	460,712,323	9,257,672	-	469,969,995	204,555,218	21,682,220	226,237,439	243,732,556	UPM
Electric installations	24,872,333	-	-	24,872,333	17,491,349	738,098	18,229,448	6,642,885	10
Mills equipment	10,757,996	-	-	10,757,996	7,413,196	334,480	7,747,676	3,010,320	10
Office equipment	1,606,574	679,475	-	2,286,049	716,847	156,920	873,767	1,412,282	10
Furniture and fixtures	639,100	-	-	639,100	460,347	17,875	478,222	160,878	10
Vehicles	7,528,650	39,000	-	6,773,650	4,354,723	597,965	4,381,791	2,391,859	20
		(794,000)				(570,897)			
	676,254,285	13,579,977	76,694,092	766,528,354	240,473,854	32,824,043	272,726,999	493,007,355	
		(794,000)				(570,897)			
Leased									
Generator	-	66,417,791	-	66,417,791	-	1,660,445	1,660,445	64,757,346	10
Plant and machinery	20,640,187	-	-	20,640,187	797,725	952,242	1,749,967	18,890,220	UPM
	20,640,187	66,417,791	-	87,057,978	797,725	2,612,687	3,410,412	83,647,566	
2006	696,894,472	79,997,768	76,694,092	853,586,332	241,271,579	35,436,730	276,137,411	576,654,921	
		(794,000)				(570,897)			
2005	600,750,965	28,134,583	-	696,894,472	236,165,827	26,332,004	241,271,579	455,622,893	
Revaluation Adjustment		89,235,176	(21,226,252)			(21,226,252)			
UPM - Units of Production Method									

Notes to the Financial Statements

For The Year Ended June 30, 2006

June 30,
2006
Rupees

June 30,
2005
Rupees

12.1.2 Depreciation for the year has been allocated as under:

Cost of goods sold	21	34,848,438	25,864,280
Administration expenses	24	588,292	467,724
		35,436,730	26,332,094

12.1.3 Had there been no revaluation, the related figures of land and buildings as at June 30, 2006 would have been as follows:

	2006			2005		
	Cost	Accumulated Depreciation	Written down value	Cost	Accumulated Depreciation	Written down value
.....Rupees.....						
Land	7,992,616	-	7,992,616	7,992,616	-	7,992,616
Building mills	76,354,321	(44,542,665)	31,811,656	72,750,491	(41,008,037)	31,742,454
Building others	33,504,124	(14,594,861)	18,909,263	33,504,124	(13,599,637)	19,904,487
	117,851,061	(59,137,526)	58,713,535	114,247,231	(54,607,673)	59,639,558

12.1.4 The following assets were disposed off during the year:-

Description	Cost	Accumulated Depreciation	Written down value	Sale proceed	Mode of disposal	Particulars of Buyer
	-----Rupees-----					
Vehicle	350,000	291,000	59,000	125,000	Negotiation	Mr. Syed Nusrat Ali Zaidi, E-25, Rukya Square, Block-4, F. B. Area, Karachi.
Vehicle	404,000	271,897	132,103	350,000	Insurance claim	EFU General Insurance Ltd.
Motor cycle	40,000	8,000	32,000	40,000	Insurance claim	EFU General Insurance Ltd.
2006	794,000	570,897	223,103	515,000		
2005	-	-	-	-		

June 30,
2006
Rupees

June 30,
2005
Rupees

12.2 Capital work in progress

Plant and machinery		6,449,449	939,629
Civil work		148,312	-
		6,597,761	939,629

Notes to the Financial Statements

For The Year Ended June 30, 2006

	June 30, 2006 Rupees	June 30, 2005 Rupees
13. STORES, SPARES AND LOOSE TOOLS		
Stores	5,002,471	4,772,295
Spares	7,750,456	7,020,567
Loose tools	13,174	13,552
Stores in transit	70,022	3,246,098
	<u>12,836,123</u>	<u>15,052,511</u>
14. STOCK IN TRADE		
Raw material	14.1 188,580,736	150,628,282
Work in process	8,834,640	7,374,995
Finished goods	18,826,417	7,598,661
Waste	8,458,549	3,677,960
	<u>224,700,342</u>	<u>169,279,898</u>
14.1 Raw material costing Rs. 161.109 million are pledged with the bank.		
15. TRADE DEBTS		
Local - unsecured - considered good	64,846,373	58,667,300
Export - secured (15.1)	12,783,347	1,719,321
	<u>77,629,720</u>	<u>60,386,621</u>
15.1 These are secured against export documents.		
16. LOANS AND ADVANCES		
<i>Related parties - considered good</i>		
Due from employees	107,200	1,600,300
Others-considered good		
Advances to suppliers	156,253	311,638
Letters of credit margin and expenses	3,630,044	129,201
	<u>3,893,497</u>	<u>2,041,139</u>
17. TRADE DEPOSITS AND PREPAYMENTS		
Deposits		
Margin against bank guarantee	884,000	884,000
Others	30,450	30,450
Prepayments	122,863	47,548
	<u>1,037,313</u>	<u>961,998</u>
18. OTHER RECEIVABLES		
<i>Considered good</i>		
Income tax refundable	3,020,248	3,020,248
Insurance claim	6,900	6,900
Sales tax	6,893,564	2,421,828
	<u>9,920,712</u>	<u>5,448,976</u>

Notes to the Financial Statements

For The Year Ended June 30, 2006



	June 30, 2006 Rupees	June 30, 2005 Rupees
19. CASH AND BANK BALANCES		
Cash at banks		
On current accounts	940,333	448,944
On PLS accounts	79,704	972,386
	1,020,037	1,421,330
Cash in hand	625,170	376,631
	1,645,207	1,797,961
	June 30, 2006	Nine months ended June 30, 2005
20. SALES - NET		
Yarn		
Local	714,444,578	590,549,994
Export	140,275,660	137,595,218
Waste		
Local	33,728,232	33,450,764
	888,448,470	761,595,976
Less : Commission	(6,698,241)	(6,752,719)
Sales tax	-	(74,700,572)
	881,750,229	680,142,685

Notes to the Financial Statements

For The Year Ended June 30, 2006

	June 30, 2006 Rupees	Nine months ended June 30, 2005 Rupees
21. COST OF GOODS SOLD		
Raw material consumed (21.1.1)	616,016,792	431,571,072
Packing material consumed	9,673,618	8,938,113
Stores and spares consumed	19,020,425	14,056,898
Salaries, wages and benefits (21.1.2)	42,421,330	28,940,518
Power and fuel	71,693,994	57,057,975
Insurance	4,529,806	4,317,741
Repairs and maintenance	812,324	297,783
Other manufacturing overheads	724,407	665,999
Depreciation (12.1.2)	34,848,438	25,864,280
	<u>799,741,134</u>	<u>571,710,379</u>
Work-in-process		
Opening stock	7,374,995	6,715,845
Closing stock	(8,834,640)	(7,374,995)
Cost of goods manufactured	<u>798,281,489</u>	<u>571,051,229</u>
Finished goods		
Opening stock	11,276,621	23,872,467
Closing stock	(27,284,966)	(11,276,621)
	<u>782,273,144</u>	<u>583,647,075</u>
21.1.1 Raw material consumed		
Opening stock	150,628,282	76,244,095
Purchases and purchase expenses - net of insurance claim	653,969,246	505,955,259
	<u>804,597,528</u>	<u>582,199,354</u>
Closing stock	(188,580,736)	(150,628,282)
	<u>616,016,792</u>	<u>431,571,571,072</u>
21.1.2 Salaries, wages and benefits include Rs 2,072,129 (2005: Rs.1,236,864) in respect of the staff retirement benefits.		
22. OTHER OPERATING INCOME		
Other Income		
Scrap sales	950,245	1,270,190
Other	291,898	-
	<u>1,242,143</u>	<u>1,270,190</u>
23. DISTRIBUTION EXPENSES		
Cartage and transportation	8,508,003	6,386,709
Ocean freight	1,238,135	2,719,711
Export development surcharge	90,919	465,228
Clearing and forwarding	446,158	456,143
Other	1,317,887	1,155,171
	<u>11,601,102</u>	<u>11,182,962</u>

Notes to the Financial Statements

For The Year Ended June 30, 2006

	June 30, 2006 Rupees	Nine months ended June 30, 2005 Rupees
24. ADMINISTRATIVE EXPENSES		
Staff salaries and benefits (24.1)	4,780,838	2,590,634
Postage and telephone	574,622	807,376
Printing and stationery	642,981	159,019
Travelling and conveyance	129,645	175,811
Legal and professional	186,219	122,750
Fees and subscription	421,901	41,230
Utilities	223,350	153,500
Advertisement	29,750	17,500
Vehicles running	458,999	408,298
Auditors' remuneration (24.2)	281,500	313,200
Depreciation (12.1.2)	588,292	467,724
Other	332,851	98,163
	8,650,948	5,355,205
24.1 Staff salaries and benefits include Rs.139,431 (2005: Rs.142,787/-) in respect of the staff retirement benefits.		
24.2 Auditors' remuneration		
Audit fee	125,000	125,000
Out of pocket expenses	11,500	11,500
Other remuneration as auditor		
- Half yearly review	50,000	40,000
Tax and other services		
- Tax services	85,000	60,000
- Other services	10,000	76,700
	281,500	313,200
25. OTHER OPERATING EXPENSES		
Contribution to President Earth Quake Relief Fund	280,000	-
Exchange loss	196,927	276,688
Workers' profit participation fund	1,718,913	2,687,763
	2,195,840	2,964,451
26. FINANCE COST		
Interest / mark-up on:		
Long-term loans	11,164,272	9,612,397
Short-term bank financing	24,169,115	10,897,613
Finance lease	1,864,242	768,569
Bank charges and commission	8,414,368	5,917,113
Interest on worker's profit participation fund (note 8.2)	204,860	-
	45,816,857	27,195,692

Notes to the Financial Statements

For The Year Ended June 30, 2006

	June 30, 2006 Rupees	Nine months ended June 30, 2005 Rupees
27. PROVISION FOR TAXATION		
Current		
for the period (26.1)	5,741,233	4,472,792
for prior years	-	297,596
Deferred	<u>(6,984,975)</u>	<u>(237,838)</u>
	<u>(1,243,742)</u>	<u>4,532,550</u>

27.1 The tax liability of the company represents the minimum tax at the rate of 0.5% of turnover under section 113 of Income Tax Ordinance 2001 (ITO) on local sales and 1.5% on export sales under section 154 of Income Tax Ordinance 2001. Assessment upto tax year 2004 have been finalised and return for tax year 2005 has been filed.

27.2 Relationship between tax expense and accounting profit

The numerical reconciliation between the average tax rate and the applicable tax rate has not been presented in these financial statements as the total income of the company attracts minimum tax under section 113 of the Income Tax Ordinance, 2001 or falls under final tax regime and hence tax has been provided under sections 154 and 169 of the Income Tax Ordinance, 2001.

28. EARNING PER SHARE

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

	2006	2005
Profit / (loss) after taxation	33,698,223	46,534,940
Weighted average number of ordinary shares outstanding during the year	<u>15,977,808</u>	<u>15,977,808</u>
Earning per share	<u>2.11</u>	<u>2.91</u>

Notes to the Financial Statements

For The Year Ended June 30, 2006

29. REMUNERATION TO DIRECTORS AND EXECUTIVES

	<i>June 30, 2006</i>		<i>Nine months ended June 30, 2005</i>	
	<i>Chief Executive</i>	<i>Director</i>	<i>Chief Executive</i>	<i>Director</i>
Rupees.....			
Remuneration	320,000	280,000	240,000	210,000
House rent allowances	144,000	126,000	108,000	94,500
Other allowances	16,000	14,000	12,000	10,500
	480,000	420,000	360,000	315,000
No. of person	1	1	1	1

30. TRANSACTION WITH RELATED PARTIES

The associated undertakings and related parties comprise directors and key management personnel. There are no transactions with related parties, other than remuneration and benefits to directors and key management personnel under the term of their employment as disclosed in Note 28.

	June 30, 2006 Rupees	Nine months ended June 30, 2005 Rupees
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31. PLANT CAPACITY AND ACTUAL PRODUCTION

Number of spindles installed	24,240	24,240
Number of spindles worked	24,240	24,240
Number of shifts per day	3	3
Installed capacity after conversion into 20/s count-kgs	7,087,253	5,300,877
Actual production of yarn after conversion into 20/s count-kgs	7,372,789	6,059,884

Notes to the Financial Statements

For The Year Ended June 30, 2006

32. FINANCIAL INSTRUMENTS

32.1 Interest rate risk/mark-up

Interest rate/mark-up risk arises from the possibility that changes in interest rates / mark-up will effect value of financial instruments.

32.2. The analysis of interest rate / mark-up rate risk is as under :

	Effective interest rate	Maturity upto one year	Interest bearing Maturity after one year	Sub Total	Non-interest Bearing	Total 2006 Rupees	Total 2005 Rupees
FINANCIAL ASSETS							
Long term deposits	-	-	-	-	9,165,101	9,165,101	4,165,101
Trade debtors	-	-	-	-	77,629,720	77,629,720	60,386,621
Loans and advances	-	-	-	-	107,200	107,200	1,600,300
Trade deposits	-	-	-	-	914,450	914,450	914,450
Other receivables	-	-	-	-	6,900	6,900	6,900
Cash and bank balances	-	-	-	-	1,645,207	1,645,207	1,797,961
					89,468,578	89,468,578	68,871,333
FINANCIAL LIABILITIES							
Long term financing	8.2% - 11.3%	42,600,000	38,048,778	80,648,778	-	80,648,778	118,648,778
Liabilities against assets subject to finance lease	7.07%-9.9%	27,405,676	21,744,164	49,149,840	-	49,149,840	16,791,486
Short term financing	8.2% - 11.3%	301,510,686	-	301,510,686	-	301,510,686	172,957,393
Creditors, accrued and other liabilities	-	-	-	-	34,430,018	34,430,018	29,326,345
Interest / Mark-up on loans	-	-	-	-	5,433,610	5,433,610	5,268,260
					371,516,362	59,792,942	431,309,304
OFF BALANCE SHEET ITEMS							
Letter of credit						-	517,842
Civil works						-	1,560,371

32.3 Credit risk and concentration of credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties fail to perform as contracted. Out of the total financial assets of Rs. 89,468,578/- (2005: Rs. 68,871,333/-), the financial assets which are subject to credit risk amounted to Rs. 87,823,371/- (2005: Rs. 69,495,200/-). The company manages credit risk in trade receivables by limiting significant exposure to any individual customers by obtaining advance against sales.

32.4 Fair values of financials instruments

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

Notes to the Financial Statements

For The Year Ended June 30, 2006

The carrying value of all the financial instruments reported in the financial statements approximate their fair value.

32.5 Liquidity risk

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. The Company's management closely monitors the company's liquidity and cash flow position.

32.6 Foreign exchange risk

Foreign exchange risk arises mainly due to conversion of foreign currency assets and liabilities into local currency. The Company is not materially exposed to foreign currency risk on assets and liabilities.

33. DIVIDEND

In respect of current year, the director propose to pay cash dividend of Rs. 15,977,808/- @ Rs. 1/- per ordinary share of Rs. 10/- each. The dividend is subject to approval by the shareholders at the forthcoming Annual General Meeting and has not been included as a liability in these financial statements. This will be accounted for subsequently in the year of payment.

34. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on 19 September, 2006 by the Board of Directors of the Company.

35. GENERAL

Figures have been rounded off to the nearest Rupee.

CHIEF EXECUTIVE OFFICER

EXECUTIVE DIRECTOR

Pattern of Shareholding

Number of Share Holders	From	Share Holding	To	Total Shares Held
320	001	-	550	38,729
176	551	-	1,100	113,655
11	1,101	-	5,000	22,111
3	5,001	-	10,000	20,327
6	10,001	-	50,000	114,336
4	50,001	-	100,000	258,165
12	100,001	-	500,000	2,401,384
3	500,001	-	1,000,000	1,823,113
2	1,000,001	-	1,500,000	2,363,060
1	1,500,001	-	2,500,000	1,684,937
2	2,500,001	-	5,000,000	7,137,991
540			Total	15,977,808

Categories of Shareholders

S.No.	Description	Number of Shareholders	Shares Held	Percentage
1.	Individual	532	13,180,240	82.4909
2.	Private Limited Companies	7	2,797,356	17.5078
3.	Non Banking Finance Institutions	1	212	0.0013
		540	15,997,808	100

FORM OF PROXY
18TH ANNUAL GENERAL MEETING

I/We.....of.....
in the district of.....being a Member(s) of
Quality Textile Mills Limited hereby appoint Mr.
of.....
as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be
held on October 21, 2006 at the Company's Registered Office 24, Alibhai Centre, 2nd Floor, 233 A, Block 2,
P.E.C.H.S., Karachi, and at any adjournment thereof.

As witness my/our hand this.....day of
.....

Signed by the said.....
in the presence.....

Please
affix Rupees
five revenue
stamp

Please quote folio number

Important: This instrument appointing a proxy duly completed, must be received at the Business Office of the
Company not later than 08:30 a.m. on 19th October, 2006.