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Company Information

BOARD OF DIRECTORS:

Mr. Mussaid Hanif
Chairman/Chief Executive Officer
Mr. Burhan Muhammad Khan
Mr. Arbab Muhammad Khan
Mr. Aftab Ahmad Khan
Mr. Gauhar Abdul Hai
Ms. Tahniyat Mussaid
Ms. Sabah Burhan

AUDIT COMMITTEE:

Mr. Aftab Ahmed Khan
Chairman/Member
Mr. Arbab Muhammad Khan
Member
Ms. Tahniyat Mussaid
Member

COMPANY SECRETARY:

Mr. Zeeshan Zahoor Khawaja

CHIEF FINANCIAL OFFICER:

Mr. Gauhar Abdul Hai

AUDITORS:

Anjum Asim Shahid Rahman
Chartered Accountants

BANKERS TO THE COMPANY:

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

SHARE REGISTRAR:

THK Associates (Pvt) Limited
Ground Floor, 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

REGISTERED AND HEAD OFFICE:

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

Notice of Annual General Meeting

Notice is hereby given that the 8th 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, 2006 (Tuesday) at 12:00 PM to transact the following business:

1. To confirm the minutes of the last Extraordinary General Meeting held on August 16, 2006.
2. To receive, consider and adopt the audited accounts of the company for the year ended June 30, 2006 together with the Directors' and Auditors' report thereon.
3. To appoint auditors for the year ending June 30, 2007 and to fix their remuneration. The present Auditors M/ s Anjum Asim Shahid Rehman, Chartered Accountants, retire and being eligible, offer themselves for reappointment.
4. Any other business with the permission of the Chair.

By order of the Board

Lahore:
October 09, 2006

ZEESHAN ZAHOOR KHAWAJA
Company Secretary

NOTES:

1. The Share Transfer Books of the Company will remain closed from October 30, 2006 to November 05, 2006 (both days inclusive). No transfer will be accepted for registration during this period.
2. A member entitled to attend and vote at this meeting may appoint another member as his/her proxy to attend and vote his/her behalf. Proxies in order to be effective must be received by the Company not less than 48 hours before the meeting.
3. The CDC Account Holders entitled to attend and vote at this meeting, must bring with them their original NIC/Passport along with participants' ID and their Account Numbers to prove his/her identity, and in case of Proxy, must enclose at attested copy of his/her NIC/Passport. Representatives of corporate members should bring the usual documents required for such purpose.
4. Shareholders are requested to promptly notify of any change in their address to the Company's Shares Registrar M/s THK Associates (Pvt.) Limited, Ground Floor, State Life Building # 3, Dr. Ziauddin Ahmed Road, Karachi.

Directors' Report

On behalf of the Board of directors, I am pleased to welcome you to the 8th Annual General Meeting of the company and place before you the audited financial statements and Auditors' report thereon for the year ended June 30, 2006.

Economic environment

The year under review Pakistan's economy posted a healthy growth however, the effect of increased interest rates continued to put pressure on the profitability of the company. The neighboring competitors like India and China continued to invest in the textile sector, in some cases under a very favorable incentives regime. This factor has implications on the future sales of our industry. The Pakistan textile industry will continue to meet these challenges through more efficient production controls and cost cuttings.

Operational review

During the year under review the company in line with the already approved future expansion plans has added and modernized following operational facilities:-

- Commencement of commercial operations of 96 Airjet weaving machines from October 01, 2006;
- Installation of additional brand new 48 Airjet weaving looms which commence commercial operations from May 01, 2006;
- Installation of 12 terry towel airjet weaving machines which presently are under trial run operations;
- Installation of complete towel dyeing & processing unit which presently are under trial run operations;
- Installation of 1152 spindles of Two-For-One Twisters which commenced commercial operations from April 01, 2006;
- Installation of self gas power generation unit of 3.4 MW capacity. Construction work is at final stages and generators have arrived at site. The said power unit will tentatively commence into operation by the end of December 2006.

These modernizations and replacement will provide the company with the capability to participate in the competitive global market in coming period upon commencement into operation at full capacity.

Operating financial results

The company has registered sales net of commission and sales tax of Rs. 1,556.113 million (2005:- Rs. 1,072.621 million) showing an increase of 45.08%. It is pertinent to mention here that the aggregate sales value during the year is Rs. 1,866.654 million inclusive of trial run period's sales of Rs. 310.541 million (2005:- Rs. 1,111.894 million inclusive of trial run period's sales of Rs. 39.273 million) showing an increase of 67.88%. The gross profit of Rs. 216.556 million i.e. 13.92% (2005:- Rs. 114.543 million i.e. 10.68%) depicts an increase of 30.33% as against corresponding year. The operating profit of the company stands at Rs. 167.133 million (2005:- Rs. 68.618 million). The profit after charging financial charges of Rs. 111.765 million (2005:- Rs. 38.493 million) is Rs. 55.367 million (2005:- Rs. 30.125 million). The net profit of the company during the year after providing tax provisions of Rs. 9.333 million (2005:- Rs. 5.743 million) is Rs. 46.034 million (2005:- Rs. 24.382 million).

The profit for the period is mainly due to increase in production efficiency, contribution from 1152 Spindles of Two-For-One Twisters, optimization of production resources and increased sales volume which consequently resulted in efficient recovery of fixed cost.

Earning Per Share

The Earning Per Share (EPS) of the company stands at Rs. 0.78 (2005:- Rs. 0.75). The EPS does not depict the effect of 30.14% increase in after tax profit for the year due to increase in weighted average number of shares of the company as against corresponding year consequent to Initial Public Offering (IPO) during the year.

Appropriation of Profit

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

	June 30, 2005 Rupees	June 30, 2004 Rupees
Profit for the year before taxation	55,367,146	30,125,351
Taxation	9,333,272	5,743,399
Profit for the year after taxation	46,033,874	24,381,952
Unappropriated profit brought forward	10,316,610	934,658
Profit available for appropriation	56,350,484	25,316,610
Appropriation of profit		
- Bonus shares issued – Prior to listing	-	15,000,000
Unappropriated profit carried forward	56,350,484	10,316,610

Marketing strategy

The expansion projects of air jet looms has successfully commenced commercial production and are running smoothly. These looms are capable of producing wide range of apparel and home furnishing fabrics. Subsequent to addition of air jet looms the management is making endeavor to capture new export market of apparel and home furnishing fabrics. In this context the management has explored the eastern markets of Sri Lanka and Bangladesh as well as new buyers in US and European markets. However, in recent period the domestic market has shown very robust growth and demand of high quality greige fabric is rising. This has created a great opportunity and market for the domestic weavers. However, with the massive investment in the textile sector by the neighboring competitors like India and China under a very favorable incentives regime, sales of our industry seems to be effected in future period. The Pakistan textile industry will continue to meet these challenges through more efficient production controls and cost cuttings.

The towel manufacturing unit alongwith complete finishing process is under trial run operations and will commence into commercial operations by end November 2006. Currently our production line is for higher end products from imported cotton and is marketed internationally. Pakistan's towel exports are among top three exporting countries and keeping in view this fact, we foresee continuous international demand for quality towel products.

Future prospects and expansions

Subsequent to successful installation and operations of expansion projects of weaving and dyeing facilities the management plans to expand its towel manufacturing facilities via adding 12 terry towel weaving machines in the coming year. In this

regard, our plans include the establishment of production units for finished home textile products with the possibility of integrating backwards into spinning to ensure availability of consistent quality of the critical raw material for weaving. The concept is to build on the company's inherent marketing strength in the area of home textiles.

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. Aftab Ahmad Khan	Director
5.	Mr. Gauhar Abdul Hai	Director
6.	Ms. Tahniyat Mussaid	Director
7.	Ms. Sabah Burhan	Director

Compliance of Code of Corporate Governance

The Company complies with the requirements of best practices of Code of Corporate Governance. 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 reporting framework:

- a) The financial statements, prepared by the management of the company, presents 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 any departure therefrom has been adequately disclosed.
- 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) 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.
- h) Key operating and financial data of last six years is annexed herewith.

Board Meetings

During the year under review, in aggregate 5 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	5
Mr. Burhan Muhammad Khan	5
Mr. Arbab Muhammad Khan	5
Mr. Aftab Ahmad Khan	3
Mr. Gauhar Abdul Hai (Joined on February 27, 2006)	2
Mr. Sheikh Muhammad Iqbal (Resigned on February 27,2006)	2
Ms. Tahniyat Mussaid	1
Ms. Sabah Burhan	1

Pattern of Shareholding

The statement of shareholding of the company as on June 30, 2006 is annexed with this report. This statement is in compliance with the requirement of the Code of Corporate Governance and the Companies Ordinance, 1984.

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, 2007.

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
October 02, 2006

BURHAN MUHAMMAD KHAN
Director

Key Operating and Financial Data of Last Six Years

	June 30, 2006	June 30, 2005	June 30, 2004	June 30, 2003	June 30, 2002	June 30, 2001
PROFIT AND LOSS						
	Rupees in '000					
Sales	1,556,113	1,072,621	784,194	281,806	284,008	197,050
Gross Profit	216,556	114,543	98,426	44,506	43,305	24,107
Operating Profit plus other income	167,133	68,618	59,736	18,926	16,612	10,787
Financial & Other charges	111,766	38,493	24,904	3,820	7,184	5,672
Taxation	9,333	5,743	10,181	2,824	2,783	1,989
Net Profit after tax	46,034	24,382	24,650	12,281	6,645	3,126
BALANCE SHEET						
	Rupees in '000					
Capital	594,287	474,287	263,746	125,114	300	300
Share subscription money	-	10,660	-	-	-	-
Reserves	56,350	10,317	935	36,563	24,282	17,637
Net worth	650,637	495,264	264,680	161,677	24,582	17,937
Long Term Liabilities	460,945	471,431	111,368	98,763	3,250	2,523
Current Liabilities	1,153,049	766,758	415,271	172,048	81,488	64,352
Total Liabilities	1,913,995	1,238,189	526,639	270,811	84,737	66,875
Total Equity & Liabilities	2,564,632	1,733,453	791,319	432,488	109,319	84,812
Fixed Assets	1,651,002	1,026,638	379,630	257,612	6,952	5,518
Long Term Deposits	4,605	5,424	5,452	7,098	2,078	1,979
Current Assets	909,205	701,391	406,236	167,778	100,289	77,315
Total Assets	2,564,632	1,733,453	791,319	432,488	109,319	84,812
INVESTOR INFORMATION						
Break up value per share (Rs.)	10.95	10.44	10.04	12.92	819.39	597.90
Bonus/Cash dividend (Rs. In '000)	-	15,000	60,278	-	-	-
Earning Per Share (Rs.)	0.78	0.75	2.02	11.95	221.50	104.19
Return on Equity (%)	7.08	4.92	9.31	7.60	27.03	17.43
Return on Assets (%)	1.79	1.41	3.12	2.84	6.08	3.69
FINANCIAL RATIOS						
Gross Margin (%)	13.92	10.68	12.55	15.79	15.25	12.23
Net Margin (%)	2.96	2.27	3.14	4.36	2.34	1.59
Current Ratio	0.79	0.91	0.98	0.98	1.23	1.20
Leverage	2.94	2.50	1.99	1.68	3.45	3.73
Long Term Debt : Equity	49:51	49:51	30:70	38:62	12:88	12:88

Statement of Compliance with the Code of Corporate Governance FOR THE YEAR ENDED JUNE 30, 2006

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 3 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 NBFII 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.

BURHAN MUHAMMAD KHAN
Director

October 02, 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 Zephyr Textiles Limited to comply with the listing Regulations No. 37 (Chapter XI) of the Karachi Stock Exchange (Guarantee) Limited and (Chapter XIII) of the Listing Regulations of Lahore Stock Exchange (Guarantee) Limited, where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of compliance reflects the status of the company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the company's personnel and review of various documents prepared by the company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention, which causes us to believe that the statement of compliance does not appropriately reflect the Company's Compliance, in all material respects, with the best practices contained in the Code of Corporate Governance for the year ended June 30, 2006

Lahore
October 02, 2006

ANJUM ASIM SHAHID RAHMAN
Chartered Accountants

Auditors' Report to the Members

We have audited the annexed balance sheet of Zephyr Textiles Limited as at June 30, 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 requirement of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

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

- a) in our opinion, proper books of account have been kept by the company as required by the Companies Ordinance, 1984;
- b) in our opinion :
 - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
 - ii) the expenditure incurred during the year was for the purpose of the company's business; and
 - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at June 30, 2006 and of the profit, its cash flow and changes in equity for the year then ended; and
- d) in our opinion no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

Lahore
October 02, 2006

ANJUM ASIM SHAHID RAHMAN
Chartered Accountants

Balance Sheet

	Notes	2006 (Rupees)	2005 (Rupees)
EQUITY AND LIABILITIES			
SHARE CAPITAL			
Authorized share capital 62,500,000 (2005: 62,500,000) ordinary shares of Rs. 10 each		625,000,000	625,000,000
Issued, subscribed and paid-up share capital 59,428,729 (2005: 47,428,729) ordinary shares of Rs. 10 each	3	594,287,290	474,287,290
SHARE SUBSCRIPTION MONEY	4	-	10,660,000
UNAPPROPRIATED PROFIT		56,350,484	10,316,610
		650,637,774	495,263,900
LONG TERM LOANS	5	753,216,963	458,359,440
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE	6	2,716,312	10,404,779
DEFERRED LIABILITIES Staff retirement benefits	8	5,011,995	2,667,060
CURRENT LIABILITIES			
Creditors, accrued and other liabilities	9	198,847,889	87,985,719
Short term finances - Secured	10	845,931,599	642,805,640
Current portion of long term liabilities	7	108,269,931	35,966,479
Taxation	31	-	-
		1,153,049,419	766,757,838
CONTINGENCIES AND COMMITMENTS	11		
		2,564,632,463	1,733,453,017

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

Statement under Section 241(2) of the Companies Ordinance, 1984

These Financial Statements have been signed by two Directors instead of Chief Executive and one Director as the Chief Executive is not in Pakistan for the time being.

DIRECTOR

As at June 30, 2006

	Notes	2006 (Rupees)	2005 (Rupees)
ASSETS			
NON CURRENT ASSETS			
Property plant & equipment	12	1,306,516,139	282,759,773
Assets subject to finance lease	13	15,144,279	27,531,400
Capital work in progress	14	329,341,784	716,346,590
		<u>1,651,002,202</u>	<u>1,026,637,763</u>
Long term advances and deposits	15	4,605,147	5,424,065
CURRENT ASSETS			
Stores, spares and loose tools	16	43,755,714	33,106,786
Stock in trade	17	391,529,153	174,590,713
Trade debts	18	215,701,120	166,529,463
Loans and advances	19	81,424,747	106,194,237
Trade deposits and prepayments	20	63,028,156	83,078,392
Other receivables	21	46,238,340	34,447,773
Short term Investments	22	31,895,094	-
Cash and bank balances	23	35,452,790	103,443,825
		<u>909,025,114</u>	<u>701,391,189</u>
		<u><u>2,564,632,463</u></u>	<u><u>1,733,453,017</u></u>

DIRECTOR

Profit and Loss Account

FOR THE YEAR ENDED JUNE 30, 2006

	Notes	2006 (Rupees)	2005 (Rupees)
SALES	24	1,556,112,736	1,072,620,831
COST OF SALES	25	1,340,201,025	958,078,127
GROSS PROFIT		215,911,711	114,542,704
OPERATING EXPENSES			
DISTRIBUTION COSTS	26	20,570,359	24,439,076
ADMINISTRATIVE	27	29,893,745	20,347,540
		50,464,104	44,786,616
		165,447,607	69,756,088
OTHER OPERATING EXPENSES	28	573,210	1,997,778
		164,874,397	67,758,310
OTHER OPERATING INCOME	29	2,258,328	859,693
OPERATING PROFIT		167,132,725	68,618,003
FINANCIAL AND OTHER CHARGES	30	111,765,579	38,492,652
PROFIT FOR THE YEAR BEFORE TAXATION		55,367,146	30,125,351
TAXATION	31	9,333,272	5,743,399
PROFIT FOR THE YEAR AFTER TAXATION		46,033,874	24,381,952
EARNING PER SHARE - BASIC	32	0.78	0.75

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

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

Statement under Section 241(2) of the Companies Ordinance, 1984

These Financial Statements have been signed by two Directors instead of Chief Executive and one Director as the Chief Executive is not in Pakistan for the time being.

DIRECTOR

DIRECTOR

Cash Flow Statement

FOR THE YEAR ENDED JUNE 30, 2006

	2006 (Rupees)	2005 (Rupees)
CASH FLOW FROM OPERATING ACTIVITIES		
Profit for the year before taxation	55,367,146	30,125,351
Adjustments for:		
Depreciation	71,255,405	23,862,080
Depreciation of leased assets	2,837,465	3,974,639
(Gain) / Loss on sale of fixed assets	8,774,219	(394,970)
Amortization of deferred costs	-	1,310,778
Provision for staff gratuity	3,625,998	1,960,073
Financial charges	111,765,579	38,492,652
	<u>198,258,666</u>	<u>69,205,252</u>
	253,625,812	99,330,603
(Increase) in current assets		
Stores, spares and loose tools	(10,648,928)	(19,025,977)
Stock in trade	(216,938,440)	(49,548,120)
Trade debts	(49,171,657)	(64,306,215)
Loans and advances	24,769,490	(30,759,335)
Trade deposits and prepayments	22,494,190	(21,420,419)
Other receivables	(11,790,567)	(22,911,339)
	<u>(241,285,912)</u>	<u>(207,971,405)</u>
Increase in current liabilities		
Creditors, accrued and other liabilities	81,884,492	41,313,157
Cash flow from operations	<u>94,224,392</u>	<u>(67,327,645)</u>
Financial charges paid	(82,787,901)	(23,985,106)
Taxes paid	(11,777,226)	(8,893,472)
Gratuity paid	(1,281,063)	(807,313)
	<u>(95,846,190)</u>	<u>(33,685,891)</u>
Net cash flow from operating activities	(A)	(101,013,536)
CASH FLOW FROM INVESTING ACTIVITIES		
Long term advances, deposits and deferred costs	(604,082)	(1,282,435)
Sale proceeds of fixed assets	66,442,381	70,466,000
Short term Investments	(31,895,094)	-
Fixed capital expenditure	(773,673,909)	(744,915,038)
Net cash flow from investing activities	(B)	(675,731,473)
CASH FLOW FROM FINANCING ACTIVITIES		
Short term finances - secured	203,125,959	285,582,334
Liabilities against assets subject to finance lease	-	4,340,058
Repayment of lease liabilities	(8,771,652)	(3,554,693)
Long term loans	369,667,160	371,359,440
Share subscription money	-	10,660,000
Paid up Capital	109,340,000	195,541,564
Net cash flow from financing activities	(C)	863,928,703
NET INCREASE / (DCREASE) IN CASH AND CASH EQUIVALENTS	(A+B+C)	87,183,694
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	103,443,825	16,260,131
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>35,452,790</u>	<u>103,443,825</u>

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

Statement under Section 241(2) of the Companies Ordinance, 1984

These Financial Statements have been signed by two Directors instead of Chief Executive and one Director as the Chief Executive is not in Pakistan for the time being.

DIRECTOR

DIRECTOR

Statement of Changes in Equity

FOR THE YEAR ENDED JUNE 30, 2006

Description	Paid-up Capital	Share Deposit Money	Share Subscription Money	Reserve for Issuance of Bonus Shares	Unappropriated Profit	Total
	(R u p e e s)					
Balance as at June 30, 2004	251,392,290	2,353,436	-	10,000,000	934,658	264,680,384
Net profit for the year	-	-	-	-	24,381,952	24,381,952
Share deposit money	2,353,436	(2,353,436)	-	-	-	-
Share Subscription Money	-	-	10,660,000	-	-	10,660,000
Shares issued during the period	195,541,564	-	-	-	-	195,541,564
Issue of bonus shares	15,000,000	-	-	-	(15,000,000)	-
Reserve for issuance of bonus shares	10,000,000	-	-	(10,000,000)	-	-
Balance as at June 30, 2005	474,287,290	-	10,660,000	-	10,316,610	495,263,900
Net profit for the year	-	-	-	-	46,033,874	46,033,874
Share Subscription Money	10,660,000	-	(10,660,000)	-	-	-
Shares issued during the period	109,340,000	-	-	-	-	109,340,000
Balance as at June 30, 2006	594,287,290	-	-	-	56,350,484	650,637,774

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

Statement under Section 241(2) of the Companies Ordinance, 1984

These Financial Statements have been signed by two Directors instead of Chief Executive and one Director as the Chief Executive is not in Pakistan for the time being.

DIRECTOR

DIRECTOR

Notes to the Accounts

FOR THE YEAR ENDED JUNE 30, 2006

1 STATUS AND NATURE OF BUSINESS

Zephyr Textiles Limited (the "Company") was incorporated in Pakistan on February 26, 1999 as a private limited company under the Companies Ordinance, 1984. Subsequently on October 04, 2004 it was converted into a public limited company. The company is principally engaged in the manufacturing, dying and trading of woven cloth which also includes towels. The registered office of the company is 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance

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

2.2 Accounting convention

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

2.3 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, 2006, under Projected Unit Credit Method, using the following significant assumptions for valuation of the scheme:

- Discount rate	9% per annum
- Expected rate of salary increase in future	8% per annum
- 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 recognize in the Balance sheet represents the present value of defined benefits obligation adjusted for un recognized actuarial gain/ losses and unrecognized past service cost.

2.4 Property, plant and equipment

Owned assets

Property, plant and equipment are stated at cost less accumulated depreciation except freehold land and capital work in progress which are stated at cost.

Cost of Property, plant and equipment consists of historical cost, borrowing cost pertaining to the erection /

construction period and other directly attributable cost of bringing the assets to their working condition or commencement of commercial production. Preproduction expenses and trial run operation results are also capitalized.

Depreciation is calculated by applying the reducing balance method so as to write off the cost of Property, plant and equipment over their expected useful lives.

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

The above revisions have been accounted for as changes in accounting estimates in accordance with the requirements of International Accounting Standards (IAS) - 8, "Accounting Policies, Changes in Accounting Estimates and Errors". Accordingly, the effect of these changes in accounting estimates has been recognized respectively prospectively in the profit and loss account of the current year.

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.

2.5 Capital work in progress

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

2.6 Stores, spares and loose tools

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

2.7 Stock in trade

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

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

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

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

2.8 Financial instruments

Financial assets and liabilities are recognized when the Company becomes the party to the contractual provisions of the instruments and de recognized when the Company, in case of financial assets loses control of the contractual right through either realization, surrender or aspiration and in case of financial liability on extinguishment, discharge, cancellation or expiration of obligation specified in the contract.

2.9 Loans and advances

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

2.10 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.

2.11 Trade and other payables

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

2.12 Borrowings cost

Financial charges are accounted for on accrual basis and are included in creditors accrued and other liabilities to the extent of the amount remaining unpaid.

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

2.13 Financial and other charges

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

2.14 Foreign currency translation

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

2.15 Revenue recognition

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

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

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.

2.16 Taxation

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

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

2.17 Impairment of fixed assets

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

2.18 Provisions

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

2.19 Cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprises cash in hand, demand deposits, other short term highly liquid instruments that are readily convertible to known amount of cash and which are subject to an insignificant risk of change in value and finances under mark-up arrangements. In the balance sheet, finance under mark-up arrangements are included in current liabilities.

2.20 Investments

Initial Measurements

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 Measurements

Held for trading

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.

2.21 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.

	2006 (Rupees)	2005 (Rupees)
3 ISSUED, SUBSCRIBED AND PAID UP SHARE CAPITAL		
51,900,883 (2005: 39,900,883) Ordinary shares of Rs. 10 each fully paid in cash	519,008,830	399,008,830
7,527,846 (2005 : 7,527,846) Ordinary shares of Rs. 10 each issued as fully paid bonus shares	75,278,460	75,278,460
	594,287,290	474,287,290
4 SHARE SUBSCRIPTION MONEY		

It represents the subscription money received against the Initial Public Offering (IPO) of Rs.120 million (12 million ordinary shares of Rs.10 each). The subscription date of IPO was June 29 and June 30, 2005. Shares against the received subscription money have been Issued by the company during the year.

5. LONG TERM LOANS

	Repayment Commenced	Interest rate (6 Month KIBOR +)	Sanctioned Limit Rupees(M)	Number of installments	2006 Rupees	2005 Rupees
Fixed Assets Finance-FAF (HBL)	Jul-04	3.00%	80	8 semiannually	-	60,000,000
Fixed Assets Finance-FAF (HBL)	Aug-06	2.50%	100	10 semiannually	100,000,000	100,000,000
Morabaha Finance-FBL	June-06	3.00%	50	12 Quarterly	50,000,000	50,000,000
Morabaha Finance-FBL	June-06	3.00%	0.7	36 monthly	692,797	-
Term Finance - BOP	May-06	3.00%	100	12 semiannually	94,600,000	100,000,000
Term Finance - BOP	Apr-05	2.50%	30	8 semiannually	-	26,250,000
Term Finance - BOP	Dec-07	2.50%	70	8 semiannually	515,898	-
Term Finance (SAPICO)	June-06	3.75%	50	12 semiannually	-	50,000,000
Demand Finance - NBP	Jul-06	3.00%	100	24 Quarterly	99,609,440	99,609,440
Demand Finance - HBL	May-07	2.50%	150	10 semiannually	150,000,000	-
Demand Finance II- NBP	Apr-07	2.00%	200	10 semiannually	164,218,861	-
Demand Finance - UBL	Jun-07	2.50%	100	10 semiannually	95,889,604	-
Demand Finance - ABL	Sep-07	2.00%	100	10 semiannually	100,000,000	-
					855,526,600	485,859,440
Current portion			(Note 7)		(102,309,637)	(27,500,000)
					<u>753,216,963</u>	<u>458,359,440</u>

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

6. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	June 30, 2006			June 30, 2005		
	Minimum lease Payment (MLP)	Finance charge not yet due	Present value of minimum lease payments (MLP)	Minimum lease Payment (MLP)	Finance charge not yet due	Present value of minimum lease payments (MLP)
Total Liabilities	9,055,321	378,715	8,676,606	20,872,332	2,001,074	18,871,258
Not later than one year	6,319,956	359,662	5,960,294	9,869,124	1,402,645	8,466,479
Later than one year but not later than five year	2,735,365	19,053	2,716,312	11,003,208	598,429	10,404,779

The value of minimum lease rental payments has been discounted at implicit interest rates ranges from 9.75% to 13% to arrive at their present value. Taxes, repairs & insurance costs are to be borne by the lessee. The lease agreements are renewable at the option of the lesser & on such terms as may be agreed upon. These liabilities are partly secured by deposit of Rs. 2,288,900 included in long term deposits in Note 15 to the accounts.

7 CURRENT PORTION OF LONG TERM LIABILITIES

		2006 Rupees	2005 Rupees
Long term loans	(Note 5)	102,309,637	27,500,000
Liabilities against assets subject to finance lease	(Note 6)	5,960,294	8,466,479
		<u>108,269,931</u>	<u>35,966,479</u>

	2006 Rupees	2005 Rupees
8. STAFF RETIREMENT BENEFITS (DEFINED BENEFIT PLAN)		
Staff Retirements Benefits	<u>5,011,995</u>	<u>2,667,060</u>
8.1 Movement in net liability recognized in balance sheet		
Balance sheet liability at the beginning of the year	2,667,060	1,514,300
Amount recognized during the year	3,625,998	1,960,073
Amount paid during the year	(1,281,063)	(807,313)
	<u>5,011,995</u>	<u>2,667,060</u>
8.2 Reconciliation of Liability recognized in balance sheet		
Present value of defined benefits obligation at the end of the year	7,152,281	5,215,878
Unrecognized actuarial gain	(191,083)	-
Unrecognized transitional liability	(1,949,203)	(2,548,818)
(Note 8.1)	<u>5,011,995</u>	<u>2,667,060</u>
8.3 Amount charged to profit and loss account		
Current service cost for the year	2,794,206	1,783,960
Interest cost for the year	344,491	176,113
Transitional liability arising out of actuarial valuation amortised	487,301	-
	<u>3,625,998</u>	<u>1,960,073</u>
The principal actuarial assumptions used in the actuarial valuation, using projected unit credit method, of the gratuity scheme as on June 30, 2006 are:		
- Discount rate	9% per annum	
- Expected rate of salary increase in future	8% per annum	
- Average expected remaining working life of employee	4 years	
8.4 Current cost of staff retirement has been charged to:		
Cost of sales (Note 25)	2,036,616	1,360,583
Administrative (Note 27)	1,589,382	599,490
	<u>3,625,998</u>	<u>1,960,073</u>
9. CREDITORS, ACCRUED AND OTHER LIABILITIES		
Creditors	122,800,434	54,389,837
Accrued liabilities	15,911,092	8,096,290
Accrued mark-up / interest on long term loans	29,741,399	12,828,922
Accrued mark-up / interest on short term finances	18,898,214	6,833,013
Tax deducted at source	1,951,421	-
Temporary overdraft	1,900	2,079,232
Retention money payable	2,799,369	100,000
Workers' Profit Participation Fund (Note 9.1)	6,744,060	3,658,425
	<u>198,847,889</u>	<u>87,985,719</u>

		2006 Rupees	2005 Rupees
9.1 Workers' Profit Participation Fund			
At the beginning of the year		3,658,425	1,833,219
Allocation for the year	(Note 30)	2,893,729	1,599,220
		6,552,154	3,432,439
Interest during the year	(Note 30.1)	191,906	225,986
		6,744,060	3,658,425
Amount paid during the year		-	-
		6,744,060	3,658,425

10. SHORT TERM FINANCES - SECURED

	Note	Sanctioned limit Rupees (m)	Interest rate (Matching/ KIBOR/ LIBOR +)	Mark-up/ repayment terms	2006 Rupees	2005 Rupees
Bridge finance-BOP	10.1	30	2.50%		-	30,000,000
Pre-shipment	10.2 & 10.3	120	1.to 1.75%	Quarterly	646,500,000	108,422,000
Pre-shipment Foreign currency Financing	10.2 & 10.3	460	.75% to 1.75%	Quarterly	53,613,303	384,025,010
Post-shipment	10.2	190	1.to 3%	Quarterly	28,800,000	1,610,000
Morabaha finance	10.2	50	3%	Quarterly	5,500,000	49,890,000
Running finance	10.2	110	1. to 2.25%	Quarterly	111,518,296	68,858,630
					845,931,599	642,805,640

10.1 The facility was obtained from Bank Of Punjab which was repayable from the proceed of initial public offer.

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

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

11 CONTINGENCIES AND COMMITMENTS

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

11.2 Commitments against irrevocable letters of credit for import of machinery and raw material as at June 30, 2006 amounting to Rs.74. 752 million (2005: Rs. 353.104 million) and Rs. 30.408 million (2005: Rs. 13.29 million) respectively.

12 PROPERTY PLANT & EQUIPMENT

DESCRIPTION	COST			R A T E %	DEPRECIATION				Written Down Value as on June 30, 2006
	As on July 01, 2005	Additions/ (Deletion)	As on June 30, 2006		As on July 01, 2005	Adjustment	For the Year	As on June 30, 2006	
Land - freehold	24,754,026	10,386,950	35,140,976	-	-	-	-	-	35,140,976
Building - on freehold land	92,194,593	87,701,560	179,896,153	5	7,048,012	-	7,207,424	14,255,436	165,640,717
Non factory building	12,142,328	13,656,473	25,798,801	10	1,396,368	-	1,205,878	2,602,246	23,196,555
Plant & machinery	185,781,816	1,021,995,216 (90,982,105)	1,116,794,926	10	32,697,795	2,553,918 (15,761,505)	58,087,970	77,578,178	1,039,216,748
Furniture & fixtures	2,058,262	949,294	3,007,556	10	479,478	-	218,967	698,445	2,309,111
Vehicles	1,881,574	9,918,118 (480,000)	11,319,692	20	628,004	963,276 (96,000)	1,603,891	3,099,171	8,220,521
Electrical installations	1,962,893	25,655,664	27,618,557	10	428,983	-	2,077,954	2,506,937	25,111,620
Office equipment	6,653,416	3,870,293	10,523,709	10	1,990,495	-	853,321	2,843,816	7,679,893
2006 Rupees	327,428,908	1,174,133,568 (91,462,105)	1,410,100,370	-	44,669,135	3,517,194 (15,857,505)	71,255,405	103,584,229	1,306,516,139
2005 Rupees	379,391,012	40,067,856 (92,029,960)	327,428,908	-	26,692,888	(5,885,833)	23,862,080	44,669,135	282,759,773

12.1 Depreciation for the year has been allocated as under :

Cost of sales	(Note 25)	68,803,478	22,855,165
Administrative expenses	(Note 27)	2,451,927	1,006,915
		71,255,405	23,862,080

12.2 Disposal of operating fixed assets

The following is the detail of disposals during the year:

PARTICULARS	Quantity	Cost	Book Value	Sale Proceeds	Profit/ (Loss)	Mode of Disposal	Name and Address
Plant & machinery							
Sulzer Looms 110"	24	38,515,336	31,689,277	29,400,000	(2,289,277.0)	Negotiation	Nauman & Co. Multan Road, Lahore
Sulzer Looms 143"	18	31,169,101	25,731,684	22,492,381	(3,239,303.0)	Negotiation	Ideal Spinning Mills Limited Jail Road, Faisalabad
Sulzer Looms 153"	12	21,297,668	17,799,639	14,550,000	(3,249,639.0)	Negotiation	F.M. Textiles Mills Jaranwala Road, Faisalabad
Vehicle							
Kia Spectra LRM-2537	1	480,000	384,000	388,000	4,000	Negotiation	Muaaz Motors
2006 Rupees		91,462,105	26,115,684	66,830,381	(8,774,219)		
2005 Rupees		92,029,960	84,327,988	84,722,958	394,970		

13. ASSETS SUBJECT TO FINANCE LEASE

DESCRIPTION	COST			R A T E %	DEPRECIATION				Written Down Value as on June 30, 2006
	As on July 01, 2005	Additions (Deletions)	As on June 30, 2006		As on July 01, 2005	Adjustment	For the Year	As on June 30, 2006	
Plant & machinery	25,280,000	(10,780,000)	14,500,000	10	4,516,511	(2,553,918)	1,643,397	3,605,990	10,894,010
Generators	-	-	-	10	-	-	-	-	-
Vehicles	9,242,078	-	6,955,228	20	2,474,167	(963,276)	1,194,068	2,704,959	4,250,269
		(2,286,850)							
2006 Rupees	34,522,078	(10,780,000)	21,455,228	-	6,990,678	(3,517,194)	2,837,465	6,310,949	15,144,279
2005 Rupees	29,359,413	8,840,058 (3,677,393)	34,522,078	-	4,441,393	(1,425,354)	3,974,639	6,990,678	27,531,400

	2006 Rupees	2005 Rupees
13.1 Depreciation for the year has been allocated as under:		
Cost of sales (Note 25)	1,777,798	2,494,570
Administrative expenses (Note 27)	1,059,667	1,480,069
	2,837,465	3,974,639

14 CAPITAL WORK IN PROGRESS

Building	123,053,800	113,591,283
Plant and machinery	173,854,761	554,900,012
Preproduction expenses	941,465	6,522,576
Borrowing costs capitalized	14,535,951	22,064,877
Trial run losses (Note 14.3)	16,955,807	19,267,842
	329,341,784	716,346,590

14.1 This represents the cost incurred for weaving expansion project of additional Towel manufacturing and dying unit.

14.2 Assets amounting to Rs. 101.358 million has been transferred to Buildings and Rs. 962.393 million to Plant and machinery during the year from CWIP.

14.3 Trial run losses

Trial run sales	27,358,003	39,273,036
Raw Materials Consumed (Note 25.2)	29,352,441	59,600,061
Salaries and benefits	1,586,652	3,231,333
Stores Consumed	1,098,808	2,102,744
Sizing Materials	2,763,386	4,180,711
Fuel and Power	3,435,233	3,540,791
Other factory overheads	2,255,926	1,496,614
	40,492,446	74,152,254
Adjustment of closing stocks	(578,206)	(15,611,376)
Cost of goods sold	39,914,240	58,540,878
Administrative expenses	957,257	-
Selling expenses	818,623	-
Financial Charges	2,623,690	-
Trial run loss	(16,955,807)	(19,267,842)

	2006 Rupees	2005 Rupees
15. LONG TERM ADVANCES AND DEPOSITS		
Lease key money	2,288,900	3,711,900
Security deposits	2,316,247	1,712,165
Deferred costs (Note 15.1)	-	-
	4,605,147	5,424,065
15.1 Deferred costs		
Preliminary expenses	-	46,800
Deferred expenses	-	1,263,978
	-	1,310,778
Less:- Amortization for the year	-	1,310,778
	-	-
15.2 Amortization for the year has been allocated as under:-		
Other operating expenses (Note 28)	-	1,310,778
	-	1,310,778
16. STORES, SPARES AND LOOSE TOOLS		
Stores	24,394,567	9,500,160
Spares	19,361,147	23,606,626
	43,755,714	33,106,786
17. STOCK IN TRADE		
Raw materials	176,061,189	66,924,719
Work in process	35,598,075	21,359,893
Finished goods & waste (Note 17.1)	179,869,889	86,306,101
	391,529,153	174,590,713
17.1 This includes goods in transit amounting to Rs. 4,134,099 (2005: Nil).		
18. TRADE DEBTS - CONSIDERED GOOD		
Export - Secured against letters of credit	67,706,863	43,690,113
Local - Unsecured	147,994,257	122,839,350
	215,701,120	166,529,463
19. LOANS AND ADVANCES		
Advances - unsecured but considered good:		
to suppliers	53,068,852	10,820,394
to employees	4,668,754	4,541,809
to others	7,430,426	4,788,445
	65,168,032	20,150,648
Letters of credit	6,131,617	2,425,255
Advance against consumable machinery parts and land	10,125,098	83,618,334
	81,424,747	106,194,237

	2006 Rupees	2005 Rupees
20. TRADE DEPOSITS AND PREPAYMENTS		
Prepayments	1,315,820	199,205
Advance income tax	8,737,327	6,293,373
Margin deposits	2,033,889	1,631,030
Sales tax refundable	49,408,002	64,066,528
Export rebate receivable	1,533,118	10,888,256
	63,028,156	83,078,392
21. OTHER RECEIVABLES		
Receivable from associated undertakings (Note 21.1)	25,213,483	17,307,803
Other receivables	21,024,857	17,139,970
	46,238,340	34,447,773
21.1 DUE FROM ASSOCIATED UNDERTAKINGS		
Agentex	25,213,483	17,307,803
	25,213,483	17,307,803
Maximum aggregate balance of advances to associated undertakings at the end of any month during the year was Rs. 25,213,483 (2005. Rs. 20,559,352). Agentex is an associated undertaking due to common directorship.		
22. SHORT TERM INVESTMENTS		
Pak Elektron Limited (PEL) 10,500 (2005: Nil) Ordinary shares @ Rs. 10 each.	919,112	-
Oil & Gas development corporation (OGDC) 44,000 (2005: Nil) Ordinary shares @ Rs. 10 each.	5,513,304	-
National Bank of Pakistan (NBP) 60, 000 (2005: Nil) Ordinary shares @ Rs. 10 each.	11,787,330	-
Pakistan Telecommunication Co. Ltd. (PTCL) 20, 000 (2005: Nil) Ordinary shares @ Rs. 10 each.	845,084	-
Lucky Cement 10, 000 (2005: Nil) Ordinary shares @ Rs. 10 each.	840,585	-
Fauji fertilizer bin Qasim 10, 000 (2005: Nil) Ordinary shares @ Rs. 10 each.	328,033	-
Pakistan Petroleum Limited 20, 000 (2005: Nil) Ordinary shares @ Rs. 10 each.	4,490,979	-
New Jubili life 20, 000 (2005: Nil) Ordinary shares @ Rs. 5 each.	442,869	-
DG Khan Cement CO. LTD 20, 000 (2005: Nil) Ordinary shares @ Rs. 10 each.	1,688,673	-
Pakistan Cement 200, 000 (2005: Nil) Ordinary shares @ Rs. 10 each.	1,696,000	-
UPT Growth Fund (Investment A/C) 37,132 (2005: Nil) Ordinary shares @ Rs. 10 each.	730,997	-
	29,282,966	-
Add: Fair value adjustments	2,612,128	-
	31,895,094	-

	2006 Rupees	2005 Rupees
23. CASH AND BANK BALANCES		
Cash in hand	328,573	176,452
Cash at banks - current accounts (Note 23.1)	35,124,217	103,267,373
	35,452,790	103,443,825

23.1 It includes an amount of NIL (2005: Rs. 10,660,000) which was deposited in company's bank account as subscription money. However company's right to use this cash was restricted upto completion of share issuance process.

24. SALES		
Cloth - Export - invoiced value	601,359,523	550,002,819
Made-up & Accessories - Export - invoiced value	-	250,007
Exchange gain / (loss)	3,239,367	5,030,840
	604,598,890	555,283,666
Cloth - Local (Note 24.1)	958,623,161	498,806,212
	1,563,222,051	1,054,089,878
Export rebate	861,837	15,085,045
Processing income	-	6,038,939
	1,564,083,888	1,075,213,862
Commission and claim	(7,971,152)	(2,593,031)
	1,556,112,736	1,072,620,831

24.1 All Local sales are exclusive of sales tax NIL (2005:Rs.67,889,082)

25. COST OF SALES		
Raw materials consumed (Note 25.2)	1,069,795,510	709,976,695
Stores consumed	8,169,303	9,688,032
Packing, Sizing and lubricants consumed.	52,117,639	32,945,890
Fuel and power	58,556,801	20,320,684
Salaries, wages and other benefits (Note 25.1)	43,704,162	26,203,153
Processing charges	156,611,068	139,967,660
Insurance	696,946	957,608
Repair and maintenance	612,261	952,174
Depreciation (Note 12.1)	68,803,478	22,855,165
Depreciation of assets subject to finance lease (Note 13.1)	1,777,798	2,494,570
Other production overheads	2,191,199	1,191,990
	1,463,036,165	967,553,621
Adjustment of work-in-process		
Opening stock	21,359,893	19,221,382
Closing stock	(35,598,075)	(21,359,893)
	(14,238,182)	(2,138,511)
Adjustment of finished goods and waste		
Opening stock	70,694,725	63,357,742
Closing stock	(179,291,683)	(70,694,725)
	(108,596,958)	(7,336,983)
	1,340,201,025	958,078,127

25.1 This includes Rs.2,036,616 (2005: Rs.1,360,583) in respect of staff retirements benefits.

	2006 Rupees	2005 Rupees
25.2 Raw materials consumed		
Opening stock	66,924,719	42,463,469
Purchases	1,422,572,647	791,601,152
Stock transfer from air jet looms trial run	45,759,220	-
Freight	7,123,515	2,436,854
	1,475,455,382	794,038,006
Closing stock	(176,061,189)	(66,924,719)
Trial production	(296,523,402)	(59,600,061)
	1,069,795,510	709,976,695
26. DISTRIBUTION COSTS		
Freight	16,673,952	20,841,871
Clearing & Forwarding	1,278,772	1,473,795
Other expenses	2,617,635	2,123,410
	20,570,359	24,439,076
27. ADMINISTRATIVE EXPENSES		
Director's remuneration	2,537,920	680,000
Salaries and other benefits (Note 27.1)	7,731,666	5,431,766
Traveling and conveyance	3,552,802	4,278,526
Rent, rates and taxes	1,026,747	1,003,835
Printing and stationery	835,090	689,198
Communication	2,453,584	2,722,231
Vehicles running and maintenance	2,031,507	885,045
Repair and maintenance	3,764,396	60,915
Legal and professional	618,000	475,315
Electricity, gas and water	459,816	607,931
Insurance	301,655	314,027
Advertisement	253,237	83,342
Depreciation (Note 12.1)	2,451,927	1,006,915
Depreciation of assets subject to finance lease (Note 13.1)	1,059,667	1,480,069
Others	815,731	628,425
	29,893,745	20,347,540
27.1 This includes Rs.1,589,382 (2005: Rs.599,490) in respect of staff retirements benefits.		
28. OTHER OPERATING EXPENSES		
Auditors' remuneration (Note 28.1)	235,000	200,000
Amortization of deferred costs (Note 15.2)	-	1,310,778
Fee & subscription	338,210	487,000
	573,210	1,997,778

		2006 Rupees	2005 Rupees
28.1 Auditors' remuneration			
Audit fee		100,000	100,000
Half yearly review		50,000	-
Code of corporate governance review fee		25,000	-
Tax representation and consultancy fee		60,000	100,000
		235,000	200,000
29. OTHER OPERATING INCOME			
Gain / (Loss) on sale of fixed assets	(Note 12.2)	(8,774,219)	394,970
Fair value adjustment of foreign debtors/foreign Loans		491,535	-
Fair value adjustments of the short term investments		2,612,128	-
Others		7,928,884	464,723
		2,258,328	859,693
30. FINANCIAL AND OTHER CHARGES			
Financial charges	(Note 30.1)	108,871,850	36,893,432
Workers' Profit Participation Fund		2,893,729	1,599,220
		111,765,579	38,492,652
30.1 FINANCIAL CHARGES			
Lease finance charges		772,373	1,881,382
Mark-up / interest on long term loans		40,301,144	6,255,629
Mark-up / Interest on short term finances		51,370,215	24,424,478
Interest on Workers' Profit Participation Fund		191,906	225,986
Bank charges and others		16,236,212	4,105,957
		108,871,850	36,893,432
31. TAXATION			
Prior year		-	240,871
Current year		9,333,272	5,502,528
Tax expense for the year	(Note 31.2)	9,333,272	5,743,399
Less: Deducted/Paid		9,333,272	5,743,399
		-	-
Closing provision		-	-

31.1 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 turn over of the company under section 113 of the Income Tax Ordinance, 2001. Provision for income tax is made in the accounts accordingly. Income tax assessments of the company have been finalized up to tax year 2005.

	2006 Rupees	2005 Rupees
31.2 Reconciliation of applicable and effective tax rate.		
Accounting profit before tax.	-	30,125,351
Revenue	1,866,654,312	-
Tax rate	0.5%	39%
Tax on accounting profit	9,333,272	11,748,887
Difference due to final tax regime	-	(6,246,359)
Adjustment in respect of income tax of prior years	-	240,871
Tax expense for the current year.	9,333,272	5,743,399

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

32 EARNING PER SHARE - BASIC

Profit attributable to ordinary shareholders	46,033,874	24,381,952
Weighted average number of ordinary shares	58,705,441	32,458,202
Earning per share - Basic	0.78	0.75

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

33 FINANCIAL ASSETS AND LIABILITIES

	Effective Interest/Mark-up rate (Matching KIBOR/LIBOR+)	Mark-up bearing		Non mark-up bearing		Total 2006 Rupees	Total 2005 Rupees
		Maturity upto one year	Maturity after one year	Maturity upto one year	Maturity after one year		
		Rupees	Rupees	Rupees	Rupees		
Financial Assets							
Long term advances and security deposits	-	-	-	2,316,247	2,316,247	1,712,165	
Trade debts	-	-	215,701,120	-	215,701,120	166,529,463	
Advances, deposits & other receivables	25,213,483	-	42,822,661	-	68,036,144	(139,002,024)	
Cash and bank balances	-	-	35,452,790	-	35,452,790	103,443,825	
	25,213,483	-	293,976,571	2,316,247	321,506,301	132,683,429	
Financial Liabilities							
Loans from commercial banks	2.5% to 3%	102,309,637	753,216,963	-	-	855,526,600	485,859,440
Short term finances	0.75% to 3%	845,931,599	-	-	-	845,931,599	642,805,640
Creditors, accrued and other liabilities	-	-	198,847,889	-	198,847,889	87,985,719	
	948,241,236	753,216,963	198,847,889	-	1,900,306,088	1,216,650,799	
Sensitivity gap	(923,027,753)	(753,216,963)	95,128,682	2,316,247	(1,578,799,787)	(1,083,967,370)	

33.1 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.

33.2 Foreign exchange risk management

Foreign currency risk arises mainly where receivables and payables exist due to sales and purchases transactions with foreign undertakings. The company does not view hedging as being financially feasible owing to the excessive costs involved in relation to the amount at risk.

33.3 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.

33.4 Interest Rate Risk

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

33.5 Fair values of financial assets and financial liabilities

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

Method used for fair value estimation

Assets

(i) Short term

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

Liabilities

(i) Short term

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

(ii) Long term

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

34. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

Description	2006			2005		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
Managerial remuneration	800,000	1,280,000	1,120,000	200,000	480,000	-
House rent allowance	360,000	576,000	504,000	-	-	-
Utilities	40,000	64,000	56,000	-	-	-
Rupees	1,200,000	1,920,000	1,680,000	200,000	480,000	-
No. of persons	1	3	2	1	2	-

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

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

	2006	2005
35. PLANT CAPACITY & PRODUCTION		
No. of looms installed	178	174
No. of looms worked	178	174
Shifts per day	3	3
No. of days actually worked	364	364
Rated capacity (Square Meters in millions)	67.842	29.435
Actual production (Square Meters in millions)	<u>66.427</u>	<u>17.249</u>

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

The company has installed additional looms during the period which increased the rated capacity of the plant.

36. RELATED PARTIES DISCLOSURE

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

Relationship	Nature of transactions	2006 Rupees	2005 Rupees
Associated undertaking	Temporary advance / Expense (Note 21)	<u>25,213,483</u>	<u>17,455,303</u>

37. NUMBER OF EMPLOYEES

Number of employees at the year end	<u>881</u>	<u>563</u>
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38. AUTHORIZATION OF FINANCIAL STATEMENTS

These accounts have been approved by the Board of Directors on October 02, 2006.

39. FIGURES

Have been rounded off to the nearest rupee.

Statement under Section 241(2) of the Companies Ordinance, 1984

These Financial Statements have been signed by two Directors instead of Chief Executive and one Director as the Chief Executive is not in Pakistan for the time being.

DIRECTOR

DIRECTOR

Pattern of Share Holding as on June 30, 2006

Number of shareholders	From	Total To	Shares held	Percent age
1	1	100	50	
398	101	500	198948	0.3347
201	501	1000	200900	0.3380
368	1001	5000	1157798	1.9482
112	5001	10000	957800	1.6116
24	10001	15000	312000	0.5249
29	15001	20000	548000	0.9221
17	20001	25000	411752	0.6928
7	25001	30000	196000	0.3298
7	30001	35000	231500	0.3895
6	35001	40000	234000	0.3937
4	40001	45000	175500	0.2953
7	45001	50000	350000	0.5889
1	50001	55000	55000	0.0925
3	55001	60000	180000	0.3028
2	60001	65000	128500	0.2162
2	65001	70000	135500	0.2280
2	75001	80000	157000	0.2641
3	80001	85000	248000	0.4173
1	90001	95000	95000	0.1598
13	95001	100000	1296000	2.1807
3	110001	115000	338167	0.5690
2	150001	120000	235448	0.3961
1	125001	130000	128500	0.2162
3	135001	140000	416000	0.6999
1	145001	150000	148000	0.2490
1	150001	155000	154800	0.2604
2	165001	170000	339500	0.5712
1	170001	175000	171500	0.2885
1	175001	180000	180000	0.3028
4	195001	200000	800000	1.3461
1	200001	205000	203000	0.3415
1	215001	220000	216000	0.3634
1	245001	250000	250000	0.4206
1	340001	345000	343802	0.5785
1	370001	375000	374000	0.6293
1	455001	460000	457300	0.7694
1	485001	490000	488083	0.8212
2	500001	505000	1004302	1.6899
1	715001	720000	720000	1.2115
1	720001	725000	723552	1.2175
1	980001	985000	984000	1.6557
1	995001	1000000	1000000	1.6826
1	2095001	2100000	2096000	3.5269
1	2165001	2170000	2166800	3.6460
1	2465001	2470000	2465300	4.1483
1	3820001	3825000	3822698	6.4324
1	15105001	15110000	15109364	25.4243
1	16820001	16825000	16823365	28.3084
1246			59428729	100.0000

Categories of Shareholders as on June 30, 2006

Shareholder's category	No. of shareholders	Share held	Percentage
1. Directors, Chief Executive Officer and their spouses and minor children	6	36,571,429	61,5382
2. Banks, Development Financial Institutions, Non-Banking Financial Institutions	7	7,238,854	12,1807
3. Insurance Companies	1	504,000	.8480
4. Modarabas & Mutual Funds	4	3,855,00	.6486
5. General public – Local	1,203	10,423,883	17,5401
6. Gneral public (Foreign)	3	13,000	.0218
4. Others	22	42,920,63	7,2222
Company Total	<u>1,246</u>	<u>59,428,729</u>	<u>100.0000</u>

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 8th 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, 2006 at 12:00 PM and at every adjournment thereof.

As witnessed given under my/our hand(s) this _____ day of _____ 2006.

- 1. Witness:
Signature: _____
Name: _____
Address: _____

Affix
Revenue
stamps of
Rs. 5/-

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.