DIRECTOR'S REPORT.

IN THE NAME OF ALLAH THE MOST GRACIOUS THE MOST BENEVOLENT THE MOST MERCIFUL

The Directors have the pleasure to present 39th Annual report of the Company together with audited accounts and auditors' report thereon for year ended June 30, 2006. Comparative figures in the Balance Sheet and Profit & Loss a/c's for the previous year are for 9 months ended 30th June, 2005 while those of the current year are for twelve months.

Since accounts for the previous year were for 9 months, are not comparable with those of the current year, hence, have not been used in this report.

During the year, 10,884,903 Kgs. of yarn was spun. 10,938,717 Kgs. yarn was sold. Net sales value of yarn amounted to Rs. 1,348,316,306/=.

Distribution costs were Rs. 20,211,735/= and were 1.41% of sales. Administrative expenses at Rs. 45,377,915/= are 3.18% of sales and Workers Profit Participation Fund at Rs. 1,879,293/= are 0.13% of sales. Other income amounted to Rs. 17,351,519/= or 1.21% of sales.

Due to relentless increase in interest rates, Financial costs have escalated to Rs. 65,433,317/= and amount to 4.58% of sales. During 9 months of 2005 Financial costs were 2.36% of sales.

Gross profit amounts to 10.51% of sales due to the increase in costs specially the fibre prices. Profit before taxation amounts to Rs. 34,714,840/= or 2.43% of sales. After providing Rs. 7,200,000/= for current taxes and Rs. 7,000,000/= for deferred taxation, net after tax profit for the year, amounts to Rs. 20,514,840/=. Earning per ordinary share amounts to Re. 0.47 per ordinary share.

According to final figures issued by the Pakistan Cotton Ginners Association, for the Crop year 2005-2006, Kapas (seed cotton) arrivals at the Ginneries amounted to 12,394,789 bales equivalent (2004-2005: 14,347,032 bales) [1 bale = 167.72 Kgs.] Seed Cotton arrivals for 2005-06 crop are 13.61% lower from previous year.

Lower Cotton Crop for 2005-06 season resulted in 19% increase in weighted average price of Raw Cotton over the previous crop year.

The Directors have the pleasure to recommend payment of Cash Dividend @ 8.8% i. e. Re. 0/88 (Paisas eighty eight only) for each ordinary share of Rs. 10/00 for the year ended June 30, 2006.

In addition, 3,740,000 (three million seven hundred forty thousand) fully paid ordinary shares of the face value of Rs. 10/= each of M/s. Ellcot Spinning Mills Ltd., a listed company be distributed @ 20 (twenty) shares for every 100 (one hundred) shares held.

Shares with blank transfer deed be delivered to only those shareholders who are entitled to 100 (one hundred) shares or in multiple thereof. All entitlements below one hundred shares be consolidated and sold on the stock exchanges and the proceeds paid pro rata to those entitled. The shares will be subject to withholding tax. Transfer fee/fee for dematerialisation will be the responsibility of the recipient.

Dividend in cash and in specie will be paid / distributed to the shareholders whose names appear in the register of members on Tuesday, the 24th October, 2006.

Subsidiary of the Company, M/s. ELLCOT SPINNING MILLS LTD., have earned *after tax profit* of Rs. 16,649,169/= (9 months of 2005: Rs. 75,301,547/=). Ellcot Board have recommended payment of *Cash Dividend* @ 15% i. e. Re. 1/50 (Rupee one and paisas fifty only). Directors report, audited accounts and auditors report of the subsidiary are attached.

Encouraged with the results so far the Directors propose to add another 10,000 spindles.

According to press reports, Government of Pakistan have set target for 2006-07 Cotton crop at 13.80 million local weight bales. It is not known what effect rains in August and early September, 2006 has had on Cotton crop. However, Raw Cotton prices in Pakistan will depend on the policy of the Government of Pakistan.

One of the risk factors for Spinning Sector is the pattern of Raw Cotton business in Pakistan. Raw Cotton for full year's consumption has to be purchased, essentially in three months. If the prices fall, as happened in financial year 2003-04, large scale losses can occur.

The Company's business in the current year (2006-2007), so far, has been satisfactory and the Directors believe that 2006-07 will be another profitable year.

In the light of the company's overall objectives, the Board of Directors regularly reviews the company's strategic direction, annual plans and performance targets set for the business. The Board is committed to maintain the high standards of good corporate governance.

There has been no material departure from the best practices of corporate governance as detailed in the listing regulations of the stock exchanges.

The financial statements, prepared by the management of the company, present fairly its state of affairs, the results of its operations, cash flows and changes in equity. Company has maintained proper books of accounts.

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

International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and non-applicability, if any, has been adequately disclosed.

System of internal control is sound in design and has been effectively implemented and monitored.

There is no doubt about the company's ability to continue as a going concern. Operating and financial data and key ratios of last 10 years are annexed.

During 2005-2006, trades in the ordinary shares of the Company were not carried out by the CFO, Company Secretary, Directors, their spouses and minor children. However, one Director Mr. Shaikh Enam Ellahi purchased 14,000 (fourteen thousand) Redeemable Preference shares of the Company.

During the year four (4) meetings of the Board of Directors were held. Attendance by each Director is as follows:

S #	Name	Attended
1.	Mr. Shaikh Enam Ellahi	4 (four)
2.	Mr. Shahzada Ellahi Shaikh	4 (four)
3.	Mr. S. M. Yusuf	4 (four)
4.	Mr. Shaukat Ellahi Shaikh	4 (four)
5.	Mr. Shafqat Ellahi Shaikh	2 (two)
6.	Mr. Munawar Iqbal	Nil
7.	Mr. Khawaja Muhammad Ali	1 (one)

Leave of absence was granted to Directors who could not attend some of the Board meetings.

The statements of shareholdings, in Form 34 and the form prescribed in Listing Regulations, as at June 30, 2006 are annexed.

The retiring auditors, Messrs. M. Yousuf Adil Saleem & Co., Chartered Accountants, Karachi being eligible, have offered themselves for re-appointment. The Audit Committee has recommended their re-appointment as auditors for the year 2006-2007.

The continued good results have been possible due to continued diligence and devotion of the Staff and workers of the Company and the continued good human relations at all levels deserve acknowledgement. The Directors also wish to place on record their thanks to the Bankers for their continued support to the Company.

On behalf of the Board

Shaukat Ellahi Shaikh
Mg. Director (Chief Executive)

October 02, 2006

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the code of corporate governance contained in listing regulations of Karachi and Lahore Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the code in the following manner:

1. The company encourages the representation of independent non-executive directors and directors representing minority interests on its board of directors. At present there are five non executive directors on the Board, including two directors representing minority shareholders.

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 taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or a NBFI.

4. No casual vacancy occurred in the Board during the year.

5. The business of the Company is conducted in accordance with the 'Statement of Ethics and Business Practice' signed by all the directors and employees.

6. The business operations of the Company are carried out in accordance with the Company's vision/mission statement, overall corporate strategy and significant policies. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

7. All the 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 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 notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meeting. The minutes of the meetings were appropriately recorded and circulated.

9. No specific orientation course was held during the year. However, the management continue to apprise and familiarize with changes in law to discharge their duties and responsibilities.

10. The CFO, Company Secretary and Head of Internal Audit have executed their responsibilities pursuant to the approved appointment by the Board including their remuneration and terms and 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 audit committee as formed by the Board is fully functional. The committee comprises three members, all of whom are non-executive directors including the chairman of the committee.

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.

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

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

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

for & on behalf of the Board

SHAUKAT ELLAHI SHAIKH
Mg. Director (Chief Executive)
NIC NO. 35202-2529098-5

October 2, 2006

OPERATING, FINANCIAL & INVESTMENT RATIOS

		YEAR ENDED 30TH JUNE	PERIOD ENDED 30TH JUNE	YEAR ENDED 30TH SEPTEMBER								
		2006	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Cost of sales as % of sales	%	89.49	85.48	93.13	88.54	82.72	83.55	75.79	85.34	87.86	86.97	85.28
Gross profit as % of sales	%	10.51	14.52	6.87	11.46	17.28	16.45	24.21	14.66	12.14	13.03	14.72
Operating profit as % of sales	%	5.79	9.48	3.60	* 9.45	14.28	14.38	21.44	12.91	13.50	11.99	11.21
Net profit after tax as % of sales	%	1.44	7.05	2.18	4.58	6.48	6.76	11.01	3.78	3.04	0.49	3.13
Share holders' equity (millions)	Rs.	488.65	517.40	597.39	592.38	624.00	308.23	272.17	164.82	140.77	123.21	127.69
Pre-tax profit to equity	%	7.10	20.15	8.25	13.37	16.04	33.56	60.46	35.38	29.16	30.54	21.32
Sales to Capital employed ratio		1.74	1.53	2.21	1.64	1.32	2.27	2.26	2.92	2.17	2.71	3.26
Gross profit to Capital employed	%	18.26	22.15	15.25	18.86	22.80	37.31	54.80	42.77	26.40	35.27	48.09
Pre-tax profit to Capital employed	%	4.22	13.88	6.53	9.47	10.41	19.14	32.51	15.04	10.07	10.20	10.20
Earning per ordinary share Pre-tax	Rs.	1.22	4.94	0.95	2.55	5.35	5.53	8.80	3.12	4.39	4.02	2.91
Dividend to Capital:												
Cash	%	8.80	20.00	15.00	11.00	15.00	25.00	10.00	20.00	10.00	10.00	-
Bonus / Specie Dividend	%	20.00	-	-	40.00	-	-	100.00	-	-	-	-
Break up value per ordinary share	Rs.	19.66	21.20	19.00	18.74	20.44	16.48	14.56	17.63	15.06	13.18	13.66
Debt equity ratio		40.41	31.08	20.90	29.20	35.09	42.96	46.22	57.48	65.47	66.60	52.11
Current ratio		1.30	1.45	1.85	2.17	1.75	1.05	1.37	1.00	1.04	0.95	0.70
Acid ratio		0.75	0.66	1.00	1.60	1.27	0.73	0.89	0.42	0.85	0.74	0.52
Total Debts to total assets	%	64.53	56.20	13.98	21.63	55.73	66.96	63.90	78.00	83.00	82.00	81.00
Stocks as % of sales	%	19.33	24.38	12.12	8.30	12.28	8.33	7.92	17.39	9.05	6.24	7.83

Pattern of Shareholding

As at 30th June, 2006

S #		Name	Total Shares	%
1)		***ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES***		
	i)	M/S. MONELL (PVT) LIMITED	20,900	0.11
	ii)	M/S. ARH (PVT) LIMITED	3,009,642	16.09
2)		***NIT and ICP***		
	i)	NATIONAL BANK OF PAKISTAN, TRUSTEE DEPTT.	5,170	0.03
	ii)	INVESTMENT CORPORATION OF PAKISTAN	1,430	0.01
3)		***DIRECTORS, CEO AND THEIR SPOUSE AND MINOR CHILDREN.***		
	i)	MR. SH[illegible] ELLAHI	401,009	2.14
	ii)	MR. SHA[illegible] ELLAHI SHAIKH	4,481,680	23.97
	iii)	MR. SHAUKAT ELLAHI SHAIKH	4,500,400	24.07
	iv)	MR. SHAFQAT ELLAHI SHAIKH	4,481,400	23.96
	v)	MRS. HUMAIRA SHAHZADA	4,248	0.02
	vi)	MRS. MONA SHAUKAT	4,248	0.02
	vii)	MRS. SHAISTA SHAFQAT	4,248	0.02
	viii)	MR. MUNAWAR IQBAL	2	0.00
	ix)	MR. S.M. YUSUF	1,100	0.01
	x)	MR. KHAWAJA MUHAMMAD ALI	500	0.00
4)		***EXECUTIVES***	Nil	Nil
5)		***PUBLIC SECTOR COMPANIES & CORPORATIONS***		
	i)	NATIONAL DEVELOPMENT FINANCE CORPORATION	7,160	0.04
	ii)	PAKISTAN INDUSTRIAL CREDIT & INVESTMENT CORP.	290,600	1.55
	iii)	PAKISTAN KUWAIT INVESTMENT COMPANY (PVT) LTD.	66,000	0.35
	iv)	STATE LIFE INSURANCE CORP. OF PAKISTAN	318,658	1.70
6)		***BANKS, DEVELOPMENT FINANCE INSTITUTIONS, NON-BANKING FINANCE INSTITUTIONS, INSURANCE COMPANIES, MODARABAS AND MUTUAL FUNDS***		
	i)	CDC-TRUSTEE FAYSAL BALANCED GROWTH FUND	71,000	0.38
		GENERAL PUBLIC (986 Shareholders)	1,030,605	5.51
		Shareholders of the Company 1,005 Total:-	**18,700,000**	**100.00**
7)		***SHAREHOLDERS HOLDING 10% OR MORE***		
	i)	MR. SHAHZADA ELLAHI SHAIKH	4,481,680	23.97
	ii)	MR. SHAUKAT ELLAHI SHAIKH	4,500,400	24.07
	iii)	MR. SHAFQAT ELLAHI SHAIKH	4,481,400	23.96
	iv)	M/S. ARH (PVT) LIMITED	3,009,642	16.09

Deloitte.

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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 **NAGINA COTTON MILLS LIMITED** to comply with the Clause XIV of the Listing Regulation No. 37 of the Karachi Stock Exchange (Guarantee) Limited and Chapter XIII of the Lahore Stock Exchange 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 the 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 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 as applicable to the company for the year ended June 30, 2006.

Yousuf Adil Saleem &

Chartered Accountants

Karachi
Date: [illegible] 2006

Deloitte.

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AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **NAGINA COTTON 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 include 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 accounts 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 except for the changes as stated in note 2.13 with which we concur;

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

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

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 flows and changes in equity for the year then ended; and

d. in our opinion, zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

Yousuf Adil Saleem & Co

Chartered Accountants

Karachi.
Dated : 02 OCT 2006

BALANCE SHEET AS AT JUNE 30, 2006

	Note	*June 30, 2006 Rupees*	*June 30, 2005 Rupees*
SHARE CAPITAL AND RESERVES			
Authorised share capital	3	**500,000,000**	500,000,000
Issued, subscribed and paid up			
Ordinary shares	3	**187,000,000**	187,000,000
Preference shares	3	**120,930,000**	120,930,000
Reserves	4	**133,034,417**	133,034,417
Unappropriated profit		**47,689,070**	76,386,440
		488,653,487	517,350,857
NON-CURRENT LIABILITIES			
LONG TERM FINANCING	5	**269,703,349**	184,393,019
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE	6	**5,124,486**	-
DEFERRED LIABILITIES	7	**59,489,575**	53,786,884
CURRENT LIABILITIES			
Trade and other payables	8	**81,301,785**	99,712,500
Short term bank borrowings	9	**358,961,298**	226,734,683
Current portion of non-current liabilities	10	**56,595,739**	48,935,723
Profit / mark-up payable	11	**16,499,837**	10,529,352
Provision for taxation		**41,248,180**	39,827,338
		554,606,839	425,739,596
CONTINGENCIES AND COMMITMENTS	12	-	-
		1,377,577,736	1,181,270,356

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

October 2, 2006

Shahzada Ellahi Shaikh
Director

	Note	June 30, 2006 Rupees	June 30, 2005 Rupees
NON-CURRENT ASSETS			
PROPERTY, PLANT AND EQUIPMENT	13	**658,546,519**	564,367,971
INVESTMENT PROPERTIES	14	**7,756,813**	7,954,571
LONG TERM INVESTMENTS	15	**59,741,674**	59,741,674
LONG TERM DEPOSITS		**2,443,500**	969,540
CURRENT ASSETS			
Stores and spares	16	**22,140,671**	20,482,216
Stock in trade	17	**276,179,637**	279,143,995
Asset held for sale	18	-	1,950,000
Trade debts	19	**165,128,800**	90,507,353
Advances	20	**54,991,986**	60,423,103
Trade deposits and short term prepayments	21	**939,814**	1,153,078
Other receivables	22	**18,188,038**	21,456,502
Other financial assets	23	-	3,005,000
Cash and bank balances	24	**111,520,284**	70,115,353
		649,089,230	548,236,600
		1,377,577,736	1,181,270,356

Shaukat Ellahi Shaikh
Mg. Director (Chief Executive)

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2006

	Note	June 30, 2006 Rupees	For nine months ended June 30, 2005 Rupees
Sales - net	25	1,429,084,237	1,144,864,570
Cost of goods sold	26	1,278,818,656	978,592,550
Gross profit		150,265,581	166,272,020
Other income	27	17,351,519	17,942,352
		167,617,100	184,214,372
Distribution cost	28	(20,211,735)	(16,168,695)
Administrative expenses	29	(45,377,915)	(31,258,925)
Workers' profit participation fund		(1,879,293)	(5,512,450)
Finance cost	30	(65,433,317)	(27,045,662)
Profit before taxation		34,714,840	104,228,640
Provision for taxation	31		
Current		7,200,000	20,000,000
Deferred		7,000,000	3,500,000
		(14,200,000)	(23,500,000)
Profit for the year / period		20,514,840	80,728,640
Earnings per share - Basic and diluted	32	0.47	3.69

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

October 2, 2006

Shahzada Ellahi Shaikh
Director

Shaukat Ellahi Shaikh
Mg. Director (Chief Executive)

CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2006

	June 30, 2006 Rupees	*For nine months ended June 30, 2005 Rupees*
A. CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	**34,714,840**	104,228,640
Adjustments for :		
Depreciation	**61,813,728**	38,188,570
Provision for gratuity	**5,201,047**	4,300,825
Loss on disposal of fixed assets	**327,539**	33,829
Dividend income	**(13,193,990)**	(14,574,403)
Unrealized loss on revaluation of investment	**-**	721,200
Write down of assets held for sale to recoverable amount	**-**	2,788,039
Provision for doubtful debts	**-**	912,992
Finance cost	**65,433,317**	21,540,399
	154,296,481	158,140,091
Changes in working capital		
(Increase) / decrease in current assets		
Stores and spares	**(1,658,455)**	(864,933)
Stock in trade	**2,964,358**	(76,140,085)
Assets held for sale	**1,950,000**	-
Trade debts	**(74,621,447)**	7,100,138
Advances	**10,594,172**	(1,006,664)
Trade deposits and short term prepayments	**213,264**	546,304
Other receivables	**3,268,464**	(244,862)
Increase / (decrease) in current liabilities		
Trade and other payables	**(18,410,714)**	(1,047,266)
	(75,700,358)	(71,657,368)
Cash generated from operations	**78,596,123**	86,482,723
Financial charges paid	**(59,462,833)**	(15,405,289)
Payment of gratuity	**(6,498,356)**	(2,980,114)
Taxation - net	**(10,942,213)**	(8,384,762)
Net cash from operating activities	**1,692,721**	59,712,558
B. CASH FLOWS FROM INVESTING ACTIVITIES		
Sale proceeds from disposal of property, plant and equipment	**2,020,000**	2,975,000
Fixed capital expenditure	**(149,642,057)**	(98,477,358)
Long term deposit	**(1,473,960)**	34,000
Sale proceeds from sale of investment held for trading	**3,005,000**	10,240,500
Dividend received	**13,193,990**	14,574,400
Net cash used in investing activities	**(132,897,027)**	(70,653,458)

	June 30, 2006 Rupees	For nine months ended June 30, 2005 Rupees (Restated)
C. CASH FLOWS FROM FINANCING ACTIVITIES		
Redemption of preference shares	-	(120,930,000)
Redemption of redeemable capital	(4,639,228)	(41,668,134)
Long term loan obtained	136,774,667	138,225,333
Repayment of long term loans	(41,464,340)	(20,732,170)
Repayment of liabilities against assets subject to finance lease	(1,076,267)	(306,828)
Short term finance obtained	145,746,129	127,411,906
Payment of dividend	(49,212,210)	(59,030,378)
Net cash from / (used in) financing activities	186,128,751	22,969,729
Net decrease in cash and cash equivalent (A+B+C)	54,924,445	12,028,829
Cash and cash equivalent at the beginning of the year / period	23,931,632	11,902,803
Cash and cash equivalent at the end of the year / period	78,856,077	23,931,632
Cash and cash equivalent (Refer Note 2.13)		
Cash and bank balances	111,520,284	70,115,353
Short term running finances and book overdraft	(32,664,207)	(46,183,721)
	78,856,077	23,931,632

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

October 2, 2006

Shahzada Ellahi Shaikh
Director

Shaukat Ellahi Shaikh
Mg. Director (Chief Executive)

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2006

	Issued, subscribed and paidup capital	*Preference shares*	*Capital reserve*	*Capital redemption reserve fund*	*Unappropriated profit*	*Total*
	Rupees					
Balance at September 30, 2004	187,000,000	241,860,000	12,104,417	120,930,000	35,498,475	597,392,892
Redemption of preference shares	-	(120,930,000)	-	-	-	(120,930,000)
Final Dividend @ Rs.1.50 per share for the year ended June 30, 2004	-	-	-	-	(28,050,000)	(28,050,000)
Dividend @ 13% on preference shares for the period ended June 30, 2005	-	-	-	-	(11,790,675)	(11,790,675)
Profit for the period	-	-	-	-	80,728,640	80,728,640
Balance at June 30, 2005	187,000,000	120,930,000	12,104,417	120,930,000	76,386,440	517,350,857
Final Dividend @ Rs.1.50 per share for the period ended June 30, 2005	-	-	-	-	(37,400,000)	(37,400,000)
Dividend @ 13% on preference shares for the year ended June 30, 2006	-	-	-	-	(11,812,210)	(11,812,210)
Profit for the year	-	-	-	-	20,514,840	20,514,840
Balance at June 30, 2006	187,000,000	120,930,000	12,104,417	120,930,000	47,689,070	488,653,487

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

October 2, 2006

Shahzada Ellahi Shaikh
Director

Shaukat Ellahi Shaikh
Mg. Director (Chief Executive)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

1. GENERAL INFORMATION

The Company is limited by shares incorporated in Pakistan on May 16, 1967, and is quoted on Karachi and Lahore Stock Exchanges of Pakistan with registered office in Karachi, Sindh. The principal business of the Company is manufacture and sale of cotton and blended yarn. The Mills are located in Kotri Industrial Trading Estate in the Province of Sindh.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance

These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance) and directives issued by the Securities and Exchange Commission of Pakistan (SECP), and approved accounting standards as applicable in Pakistan. 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 SECP differ with the requirements of these standards, the requirements of the Ordinance, or the requirements of the said directives take precedence.

2.2 Basis of preparation

These financial statements have been prepared under 'historical cost convention', modified by financial instruments at fair value and staff retirement benefits at present value.

2.3 Accounting for 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.

2.4 Employee benefit cost - defined benefit plan

The Company operates an unfunded gratuity scheme for its confirmed employees who have completed the minimum qualifying period of service as defined under the respective scheme. Contributions are made to cover the obligations under the scheme on the basis of actuarial valuation and are charged to profit and loss account.

The amount recognised in the balance sheet represents the present value of defined benefit obligations as adjusted for unrecognized actuarial gains and losses and as reduced by the fair value of plan assets.

Cumulative net unrecognized actuarial gains and losses at the end of previous year which exceeds 10% of the greater of the present value of the Companys gratuity is amortised over the average expected remaining working lives of the employees.

Details of the scheme are given in note 7.1 to these financial statements.

2.5 *Trade and other payable*

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 or not billed to the Company.

2.6 *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.

2.7 *Property, plant and equipment*

Operating assets

Property, plant and equipment except freehold land, are stated at cost less accumulated depreciation and impairment loss, if any. Freehold land is stated at cost.

Assets' residual values, if significant and their useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

Depreciation is charged to income applying the reducing balance method at the rates specified in Property, plant and equipment note.

Depreciation on additions during the period is charged on the basis of whole period while no depreciation is charged on deletions during the year. However, major capitalisation of project cost are depreciated on proportionate basis for the period of use.

Assets subject to finance lease are depreciated over their expected useful lives on the same basis as owned assets.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and improvements are capitalised.

Gains and losses on disposal of assets are included in current income as and when incurred.

Capital work in progress

All cost / expenditure connected with specific assets incurred during the implementation period are carried under this head. These are transferred to specific assets as and when assets are available for use.

2.8 *Investment properties*

Property not held for own use or for sale in the ordinary course of business is classified as investment property. The investment property of the company comprises land and buildings which are valued using the cost method i.e. at cost less accumulated depreciation and any identified impairment loss.

Depreciation on buildings is charged to profit on reducing balance method so as to write off the depreciable amount of building over its estimated useful life at the rate of 5% per annum. Depreciation on additions to investment property is charged on the basis of whole year while no depreciation is charged on deletions during the year.

2.9 *Investments*

Regular way purchase or sale of investments

All purchases and sales of investments are recognised using trade date accounting. Trade date is the date that the Company commits to purchase or sell the investment.

Investments in equity instruments of subsidiary and associated companies

These investments are measured at cost.

Available for sale investments

Investment securities held by the Company which may be sold in response to needs for liquidity or changes in interest rates or equity prices are classified as available for sale. These investments are initially recognised at fair value plus transaction cost and subsequently re-measured at fair value. The investments for which quoted market price is not available, are measured at costs as it is not possible to apply any other valuation methodology. Gains and losses arising from re-measurement at fair value is recognised directly in the equity under fair value reserve until sold, collected, or otherwise disposed off at which time, the cumulative gain or loss previously recognised in equity is included in profit and loss account.

Financial assets at fair value through profit or loss

There are investments designated at fair value through profit or loss at inception. There are initially measured at fair value and changes on re-measurement are taken to profit and loss account.

Held to maturity

Held to maturity investments are financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity. Held to maturity investments are initially recognised at cost inclusive of transaction cost and are subsequently carried at amortised cost using effective interest rate method.

Derecognition

All investments are de-recognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

2.10 *Stores and spares*

These are valued at lower of moving average cost or net realizable value, except furnace oil, diesel and lubricants which are valued at lower of first in first out basis or net realizable value. Items in transit are valued at cost accumulated upto the balance sheet date.

2.11 *Stock in trade*

These are valued at lower of average cost and net realisable value applying the following basis:

Raw material	Weighted average cost
Work in process	Average manufacturing cost
Finished goods	Average manufacturing cost
Waste	Net realisable value

Average manufacturing cost in relation to work in process and finished goods signifies cost including a portion of related direct overheads. Net realizable value signifies estimated selling price in the ordinary course of business less estimated cost of completion and estimated costs necessary to make the sale.

2.12 *Trade debts and other receivables*

Trade debts and other receivables are carried at original invoice amount less an estimate made for doubtful receivable 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. Until previous year, for the purpose of cash flow statement, cash and cash equivalents were consist of cash in hand, balances with banks and all short term borrowings. However, during the year the Company has changed its policy and now the cash and cash equivalents comprise of cash in hand, balances with banks, short term running finances and book overdraft.The change in accounting policy has been applied retrospectively. Had there been no change in accounting policy, for the purpose of cash flow statement, cash and cash equivalents at the begining and end of the year would have been lower by Rs. 180,550,962/- and Rs.326,297,091/- respectively.

2.14 *Impairment*

The company assesses at each balance sheet date whether there is any indication that assets except deferred tax assets may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognised in profit and loss account. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Where impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised recoverable amount but limited to the extent of initial cost of the asset. Reversal of impairment loss is recognised as income.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognised as an income or expense.

2.15 *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.

2.16 *Revenue recognition*

Sales are recorded on dispatch of goods.

Dividend is recognized when right to receive is establish. Profit on PLS saving account is recognized on accrual basis.

Rental income is recognized on accrual basis.

2.17 *Borrowing costs*

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.18 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 one-half 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 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.

2.19 Foreign currency translations

Assets and liabilities in foreign currencies are translated into Pak Rupees at the rates of exchange prevailing at the balance sheet date except for those covered by forward contracts, which are stated at contracted rates. Foreign currency transactions are translated into Pak Rupees at the rates prevailing at the date of transaction except for those covered by forward contracts, which are translated at contracted rates. Exchange differences are included in income currently.

3. SHARE CAPITAL

			2006 Rupees	2005 Rupees
3.1 Authorized share capital				
50,000,000 Ordinary and preference shares of Rs.10/- each			500,000,000	500,000,000
3.2 Issued, subscribed and paidup capital				
Fully paid ordinary shares of Rs.10/- each				
2006	**2005**			
No. of Shares				
3,133,000	3,133,000	For cash	31,330,000	31,330,000
15,567,000	15,567,000	Issued as bonus shares	155,670,000	155,670,000
18,700,000	18,700,000		187,000,000	187,000,000
13% cumulative preference shares of Rs.5/- each				
24,186,000	24,186,000		120,930,000	120,930,000

3.3 At June 30, 2006, ARH (Private) Limited and Monell (Private) Limited, associated companies held 3,009,642 and 20,900 (2005 : 3,009,642 and 20,900) ordinary shares of Rs.10/- each.

3.4 Redeemable preference shares are entitled to fixed dividend of 13% per annum from the date of allotment i.e. January 21, 2003. Preference shares shall be redeemed within five years of date of allotment.

4. RESERVES

	2006 Rupees	2005 Rupees
Capital Reserve		
Book difference of capital under Scheme of arrangement for amalgamation	**12,104,417**	12,104,417
Preference shares capital redemption reserve	**120,930,000**	120,930,000
	133,034,417	133,034,417

5. LONG TERM FINANCING

	Note	2006 Rupees	2005 Rupees
Secured			
Customs debentures	5.1	-	-
Long term loans	5.2	**269,703,349**	184,393,019
		269,703,349	184,393,019

5.1 Custom debentures

	Note	2006 Rupees	2005 Rupees
	5.1.1		
Opening balance		**2,832,155**	2,832,155
Amount due shown under current liabilities		**(2,832,155)**	(2,832,155)
		-	-

5.1.1 The debentures have been issued in favour of collector of customs to cover deferred payment of custom duty on imported machinery. The debentures are subject to surcharge at rate 11% per annum. The repayment is secured against bank guarantee.

5.2 Long term loans - Secured

	<---------- Banking Companies ---------->				June 30, 2006 Rupees	June 30, 2005 Rupees
	Term Loan	Term Loan	Term Loan	Term Loan		
Opening balance	76,657,545	10,974,481	138,225,333	-	**225,857,359**	108,364,196
Obtained during the year / period	-	-	61,774,667	75,000,000	**136,774,667**	138,225,333
	76,657,545	10,974,481	200,000,000	75,000,000	**362,632,026**	246,589,529
Repaid during the year / period	(38,328,774)	(3,135,566)	-	-	**(41,464,340)**	(20,732,170)
	38,328,771	7,838,915	200,000,000	75,000,000	**321,167,686**	225,857,359
Payable within one year shown under current liabilities	(38,328,771)	(3,135,566)	(10,000,000)	-	**(51,464,337)**	(41,464,340)
	-	4,703,349	190,000,000	75,000,000	**269,703,349**	184,393,019
Principal amount	150,000,000	15,677,830	200,000,000	75,000,000		
Commencing from	September 2003	March 2004	April 2007	August 2008		
Markup rate	6 months T.Bill+3%	6 months T.Bill+225 bps	3 months KIBOR+1%	3 months KIBOR+140bps		
Installment interval	half yearly	half yearly	quarterly	quarterly		
No, of installment	8	10	20	16		
Sub note	5.2.1	5.2.2	5.2.3	5.2.4		

5.2.1 The loan is secured against mortgage on present and future properties of the Company ranking pari passu with the charge created in respect of long term loans (Refer Note 5.2.2, 5.2.3 and 5.2.4), demand promissory note and personal guarantee of all the sponsor directors.

5.2.2 The loan is secured by charge on fixed assets ranking pari passu with the charge created in respect of long term loans (Refer Note 5.2.1, 5.2.3 and 5.2.4) and personal guarantee of sponsor directors.

5.2.3 The loan is secured by charge on fixed assets of the company amounting to Rs. 267 million ranking parri passu with the charge created in respect of long term loans (Refer Note 5.2.1, 5.2.2 and 5.2.4), personal guarantee of the sponsor directors of the company and lien on the import documents of title to goods.

5.2.4 The loan is secured by first pari passu hypothication charge on present and future fixed assets (excluding land and building) and mortgage charge over all present and future land and building of the company. Unavailed facility as at June 30, 2006 is amounting to Rs.50 million.

6. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

This represents vehicle acquired under sale and lease back arrangement from a modaraba. The effective financing rate used as discounting factor is 8.85 % per annum.

Taxes, repairs, replacement and insurance costs are borne by the company.

The company intends to exercise its option to purchase the above assets upon completion of the lease period.

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
	<------------- Rupees	------------>		
Within one year	2,881,736	2,299,247	-	-
After one year but not more than five years	5,597,604	5,124,486	-	-
Total minimum lease payments	8,479,340	7,423,733	-	-
Less: Amount representing finance charges	(1,055,607)	-	-	-
Present value of minimum lease payments	7,423,733	7,423,733	-	-
Less: Current portion	(2,299,247)	(2,299,247)	-	-
	5,124,486	5,124,486	-	-

7. DEFERRED LIABILITIES

	Note	2006 Rupees	2005 Rupees
Staff gratuity	7.1	15,489,575	16,786,884
Taxation	7.2	44,000,000	37,000,000
		59,489,575	53,786,884

7.1 *Staff gratuity*

	2006	2005
Staff gratuity	15,489,575	16,786,884
Current service cost	3,702,189	2,702,261
Interest cost	1,498,858	1,159,963
Actuarial loss charged to income	-	438,601
	5,201,047	4,300,825

Movements in the net liability is as follows:

	2006	2005
Opening balance	16,786,884	15,466,173
Charge for the year / period	5,201,047	4,300,825
Payment made during the year / period	(6,498,356)	(2,980,114)
Closing balance	15,489,575	16,786,884

The amounts recognized in the balance sheet are as follows:

	2006	2005
Present value of defined benefit obligation	15,489,575	16,653,980
Unpaid balances	-	132,904
	15,489,575	16,786,884

The principal assumption used in the valuation of gratuity are as follows:

	2006	2005
Discount rate	9%	9%
Expected rate of salary increase	8%	8%
Average expected remaining working life of the employees	10 years	10 years

Latest actuarial valuation was carried out as on August 06, 2005.

7.2 *Deferred Taxation*

Credit & (Debit) balance arising due to :

	2006	2005
Accelerated tax deprecation allowance	47,665,777	39,937,705
Finance leases	(141,899)	-
Staff gratuity	(3,523,878)	(2,937,705)
	44,000,000	37,000,000
Opening balance	(37,000,000)	(33,500,000)
Balance provided during the year / period	7,000,000	3,500,000

Deferred tax liability worked out after taking effect of income covered under presumptive tax regime.

8. TRADE AND OTHER PAYABLES

	Note	2006	2005
Creditors		9,937,486	7,878,187
Accrued expenses		39,650,900	36,655,472
Unearned rent		797,332	316,432
Deposit from customers		10,466,856	15,499,841
Unclaimed dividend		2,721,475	3,046,866
Workers' profit participation fund	8.1	1,879,293	5,512,450
Central excise duty on bank borrowings		7,500,065	16,795,722
Preference shares dividend		7,881,985	11,790,675
Others		466,393	2,216,855
		81,301,785	99,712,500

		Note	2006 Rupees	2005 Rupees
8.1	***Workers' profit participation fund***			
	Opening balance		5,512,450	2,628,794
	Interest on fund utilized in Company's business		611,655	223,631
			6,124,105	2,852,425
	Allocation for the year		1,879,293	5,512,450
			8,003,398	8,364,875
	Paid to workers		6,124,105	2,852,425
			1,879,293	5,512,450

9. SHORT TERM BORROWINGS - SECURED

Banking Companies

	2006 Rupees	2005 Rupees
Borrowings		
Cash finances	-	42,515,737
Packing finance	1,320,958	48,035,225
Foreign currency finance	324,976,133	-
Term finance	-	90,000,000
	326,297,091	180,550,962
Running finance	27,523,797	41,621,497
Book overdraft	5,140,410	4,562,224
	358,961,298	226,734,683

The Company can avail cash, packing, term and foreign currency finance facilities from various banks aggregating to Rs. 1,115 million (2005 : Rs. 905 million). These borrowings are secured against hypothecation of stock and floating and pari passu charge on present and future current Assets, demand promissory notes, personal guarantee of the Directors and lein on export orders / contracts. These are subject to markup ranging from one, three and six months KIBOR + 0.5% to 1.5% (2005 : 3 months KIBOR+0.5% to 1.5%) payable on quarterly basis.

10. CURRENT PORTION OF NON CURRENT LIABILITIES

	Note	2006 Rupees	2005 Rupees
Redeemable capital		-	4,639,228
Custom debentures	5	2,832,155	2,832,155
Long term loans	5	51,464,337	41,464,340
Liabilities against assets subject to finance lease	6	2,299,247	-
		56,595,739	48,935,723

11. PROFIT / MARKUP PAYABLE

	2006 Rupees	2005 Rupees
Redeemable capital	-	2,229
Debentures and long term loans	10,846,789	7,540,310
Liabilities against assets subject to finance lease	7,146	-
Short term borrowings	5,645,902	2,986,813
	16,499,837	10,529,352

12. CONTINGENCIES AND COMMITMENTS

12.1 Contingencies

(a) Guarantee of Rs.Nil (2005 : Rs.16,362,000/-) issued by bank to Sui Southern Gas Company Limited and Rs. 8,000,000/- (2005 : Rs.4,500,000/-) to Excise Department for infrastructure fee on behalf of the company.

(b) Irrevocable revolving letter of credit in place of Guarantee issued to Sui Southern Gas Company Limited amounting to Rs. 19,862,500/- (2005: Nil).

	Note	2006 Rupees	2005 Rupees

12.2 Commitments

(a) Capital commitment

Machinery under documentary credit		6,786,600	53,838,000

(b) Other commitments

Stores and spares		519,915	519,452
Raw material		-	34,204,634

13. PROPERTY, PLANT AND EQUIPMENT

	Note	2006 Rupees	2005 Rupees
Operating assets	13.1	652,991,085	558,219,285
Capital work in progress	13.2	5,555,434	6,148,686
		658,546,519	564,367,971

13.1 Operating assets

Particulars	Cost at July 01, 2005	Additions/ (Deletions)	Transfer	Cost at June 30, 2006	Accumulated Depreciation: depreciation at July 01, 2005	Accumulated Depreciation: for the year	Transfer	Accumulated depreciation at June 30, 2006	Written down value at June 30, 2006	Dep. Rate %
Owned										
Land - free hold	12,452,876	-	-	**12,452,876**	-	-	-	-	12,452,876	-
Commercial building on free hold land	24,593,167	-	-	**24,593,167**	10,420,510	708,633	-	**11,129,143**	13,464,024	5
Land - freehold	127,383	-	-	**127,383**	-	-	-	-	127,383	-
Factory building on freehold land	93,798,428	18,135,601	-	**111,934,029**	48,897,549	5,087,009	-	**53,984,558**	57,949,471	10
Non factory building on freehold land	25,075,632	-	-	**25,075,632**	7,199,635	893,800	-	**8,093,435**	16,982,197	5
Machinery and equipment	902,187,258	*121,251,507 (3,467,331)	-	**1,019,971,434**	473,295,562	47,668,978 (2,343,953)	-	**518,620,587**	501,350,847	10
Electric installation and equipment	41,837,574	6,970,919	-	**48,808,493**	20,869,864	2,370,942	-	**23,240,806**	25,567,687	10
Gas installation	3,284,566	-	-	**3,264,556**	1,062,166	220,239	-	**1,282,405**	1,982,151	10
Office equipment	8,973,579	192,590	-	**9,166,169**	5,158,792	400,238	-	**5,559,030**	3,607,139	10
Furniture and fixtures	8,446,628	792,403	-	**9,239,031**	4,353,461	488,557	-	**4,842,018**	4,397,013	10
Vehicles	20,558,671	11,392,290 (2,689,761)	** (8,500,000)	**20,761,200**	11,838,928	2,077,575 (1,465,600)	-	**12,450,903**	8,310,297	20
	1,141,315,752	158,735,310 (8,157,092)	(8,500,000)	**1,285,393,970**	583,096,467	59,915,971 (3,809,553)	-	**639,202,885**	646,191,085	
Assets held under finance lease										
Vehicles	-	-	**8,500,000	**8,500,000**	-	1,700,000	-	**1,700,000**	6,800,000	20
	-	-	8,500,000	**8,500,000**	-	1,700,000	-	**1,700,000**	6,800,000	
2006 Rupees	1,141,315,752	158,735,310 (6,157,092)	-	**1,293,893,970**	583,096,467	61,615,971 (3,809,553)	-	**640,902,885**	652,991,085	
2005 Rupees	1,072,207,022	101,411,067 (7,497,788)	3,491,603 (28,296,152)	**1,141,315,752**	569,617,463	38,034,473 (4,488,959)	1,608,558 (21,675,068)	**583,096,467**	558,219,285	

* This includes the borrowing cost of long term loan capitalized amounting to Rs.1,641,069/- (2005 : Nil).

** This represents transfer of vehicle from owned to leased asset under sales and lease back arrangement.

	For year ended June 30, 2006 Rupees	For nine months ended June 30, 2005 Rupees

13.1.1 Depreciation for the year / period has been allocated as under:

Cost of goods manufactured	**56,151,050**	35,216,241
Administration	**5,464,920**	2,818,232
	61,615,970	38,034,473

13.1.2 Detail of disposal of assets - by negotiation

Description of Assets	Cost	Written Down Value	Sale Proceed	Particulars of Buyer
Machinery & equipment	1,260,662	501,973	275,000	Ali Asghar Textile Mills Limited, Room No.306-308, Uni Tower, I. I. Chundrigar Road, Karachi.
Machinery & equipment	1,260,662	501,973	275,000	Ali Asghar Textile Mills Limited, Room No.306-308, Uni Tower, I. I. Chundrigar Road, Karachi.
Machinery & equipment	894,007	111,710	75,000	Qazi Shahab-Ud-Din Godwon No.15, Akbar Road, Shershah, Karachi.
Machinery & equipment	52,000	7,722	5,000	Amjad Naseem Spinning Mills (Private) Limited, 2nd Floor, S-6 Ejaz Centre, Main Boulevard, Gulberg-III, Lahore.
Vehicle	293,000	65,287	75,000	Mohammad Sajid House No. A-63, Block 13-D, Gulshan-e-Iqbal, Karachi.
Vehicle	471,760	131,398	142,000	Mohammad Sajid House No. A-63, Block 13-D, Gulshan-e-Iqbal, Karachi.
Vehicle	847,500	720,375	850,000	New Hampshir Insurance Company, Finlay House, 2nd Floor, I. I. Chundrigar Road, Karachi.
Vehicle	361,445	110,387	115,000	Zeeshan Kaleem Ali Khan House No.10-2, Area 11-D, Nazimabad, Karachi.
Vehicle	361,445	110,386	115,000	Zeeshan Kaleem Ali Khan House No.10-2, Area 11-D, Nazimabad, Karachi.
Vehicle	293,111	77,558	82,000	Waseem Hassan Flat No.A-315, Prince Avenue, Plot No.270, Alfred Street, Garden West, Karachi.
Motor bicycle	61,500	8,770	11,000	Waseem Zamir House # A - 568, Street Quresh Malir Colony, Karachi.
Rupees	6,157,092	2,347,539	2,020,000	
2005 Rupees	7,497,788	3,008,829	2,975,000	

	2006 Rupees	2005 Rupees

13.2 CAPITAL WORK IN PROGRESS

	2006 Rupees	2005 Rupees
Civil work	3,971,630	4,856,981
Machinery / electrical installation and equipment	1,583,804	1,291,705
	5,555,434	6,148,686

14. INVESTMENT PROPERTIES

	Cost at June 30,2006	Accumulated depreciation at July 01,2005	Depreciation for the year	Accumulated depreciation at June 30,2006	Written down value at June 30,2006
	Rupees				
Land at Sheikhupura - freehold	751,338	-	-	-	751,338
Land - free hold	3,248,073	-	-	-	3,248,073
Building on free hold land	6,863,209	2,908,049	197,758	3,105,807	3,757,402
2006	10,862,620	2,908,049	197,758	3,105,807	7,756,813
2005	10,862,620	2,753,952	154,097	2,908,049	7,954,571

Rate of depreciation on building is 5 % p.a on reducing balance method.

Fair value of land at Sheikhupura - freehold is Rs.5,500,000/- and building with land - free hold is Rs.116,000,000/-.

15. LONG TERM INVESTMENTS
- Shares in quoted companies stated at cost

	2006 Rupees	2005 Rupees
(a) Ellcot Spinning Mills Limited (Subsidiary Company) Equity held 60.25% (2005 : 60.25%) 6,596,995 fully paid Ordinary shares of Rs.10/- each including 1,319,399 bonus shares Market value Rs. 177 million (2005 : Rs.242 million)	54,480,960	54,480,960
(b) Prosperity Weaving Mills Limited (Associated undertaking) Equity held 5.47% (2005 : 5.47%) 920,275 fully paid Ordinary shares of Rs.10/- each Market value Rs.11 million (2005 : Rs.19.095 million)	5,260,714	5,260,714
	59,741,674	59,741,674

16. STORES AND SPARES

	2006 Rupees	2005 Rupees
Stores	5,726,179	7,677,721
Spares	16,414,492	12,804,495
	22,140,671	20,482,216

17. STOCK IN TRADE

	2006 Rupees	2005 Rupees
Raw material	233,809,416	239,298,751
Work in process	27,265,531	19,287,649
Finished goods	14,435,945	19,073,041
Waste	668,745	1,484,554
	276,179,637	279,143,995

18. ASSET HELD FOR SALE	2006 Rupees	2005 Rupees
Cost	-	24,804,549
Accumulated depreciation	-	(20,066,510)
Carrying value	-	4,738,039
Write down value of asset held for sale to recoverable amount	-	(2,788,039)
Recoverable amount	-	1,950,000

19. TRADE DEBTS

Foreign - secured	**21,647,907**	6,065,254
Local - unsecured	**148,480,893**	89,442,099
	170,128,800	95,507,353
Provision for doubtful debts	**(5,000,000)**	(5,000,000)
Considered good	**165,128,800**	90,507,353

20. ADVANCES

Considered good

Employees	**33,764**	137,489
Income tax	**41,341,211**	36,178,156
Suppliers	**12,820,540**	23,740,875
Expenses	**264,924**	156,060
Letters of credit	**531,547**	210,523
	54,991,986	60,423,103

21. TRADE DEPOSITS AND SHORT TERM PREPAYMENTS

Guarantee margin deposit	-	22,100
Security deposits	-	48,550
Short term prepayments	**939,814**	1,082,428
	939,814	1,153,078

22. OTHER RECEIVABLES

Profit / markup accrued	**552,631**	25,656
Sales tax refundable	**8,486,111**	262,344
Export rebate	**55,562**	55,562
Income tax refundable	**8,603,078**	8,603,078
Central excise duty	-	9,295,657
Custom duty	-	2,556,767
Other receivables	**490,656**	657,438
	18,188,038	21,456,502

23. OTHER FINANCIAL ASSETS	2006 No. of Shares	2005 No. of Shares	2006 Rupees	2005 Rupees
Investments held for trading in listed securities				
World Call Telecom (formerly World Call Communication Limited)	-	300,500	-	3,005,000

24. CASH AND BANK BALANCES

	2006 Rupees	2005 Rupees
Cash in hand	**35,348**	43,358
Cash with banks		
In current accounts	**25,222,551**	562,015
In deposit accounts	**86,262,385**	69,509,980
	111,520,284	70,115,353

25. SALES - NET

	Note	Local	Export	June 30, 2006	For nine months ended June 30, 2005
		<------------- Rupees			------------->
Yarn	25.1	959,275,294	401,848,564	**1,361,123,858**	1,191,296,267
Waste		80,846,337	-	**80,846,337**	71,537,144
		1,040,121,631	401,848,564	**1,441,970,195**	1,262,833,411
Add: Export rebate		-	1,068,659	**1,068,659**	189,932
		1,040,121,631	402,917,223	**1,443,038,854**	1,263,023,343
Less: Commission		(6,512,199)	(7,442,418)	**(13,954,617)**	(12,038,661)
Sales return		-	-	-	(2,280,436)
Sales tax		-	-	-	(103,839,676)
		(6,512,199)	(7,442,418)	**(13,954,617)**	(118,158,773)
		1,033,609,432	395,474,805	**1,429,084,237**	1,144,864,570

25.1 It includes exchange loss of Rs.93,095/- (2005 : exchange gain Rs.395,473/-).

26. COST OF GOODS SOLD

	Notes	2006	2005
Opening stock - finished goods		**20,557,595**	38,783,078
Cost of goods manufactured	26.1	**1,269,708,252**	957,223,417
Purchase of finished goods		**3,657,500**	3,143,650
		1,293,923,347	999,150,145
Closing stock - finished goods		**(15,104,691)**	(20,557,595)
		1,278,818,656	978,592,550

26.1 Cost of goods manufactured

	Notes	2006	2005
Raw material	26.1.1	**913,429,901**	706,611,238
Packing material		**20,185,493**	15,676,761
Stores and spares		**36,507,512**	25,091,647
Salaries, wages and other benefits	26.1.2	**111,442,366**	84,095,079
Power		**125,529,919**	78,428,567
Rent, rates and taxes		**206,963**	221,527
Insurance		**6,051,842**	4,422,427
Repairs and maintenance		**2,584,295**	1,699,224
Depreciation	13.1.1	**56,151,050**	35,216,241
Doubling charges		**4,257,939**	-
Other manufacturing overheads		**1,338,854**	1,103,799
		1,277,686,134	952,566,510
Work in process			
Opening stock		**19,287,649**	23,944,556
Closing stock		**(27,265,531)**	(19,287,649)
		(7,977,882)	4,656,907
		1,269,708,252	957,223,417

	Notes	June 30, 2006 Rupees	For nine months ended June 30, 2005 Rupees

26.1.1 Raw material consumed

Opening stock		239,298,751	140,276,276
Purchases		907,940,566	805,633,713
		1,147,239,317	945,909,989
Closing stock		(233,809,416)	(239,298,751)
		913,429,901	706,611,238

26.1.2 It includes Rs.3,429,051/- (2005 : Rs.3,004,479/-) in respect of staff retirement benefits.

27. OTHER INCOME

Rental income from investment property		2,166,700	2,051,556
Dividend income		13,193,990	14,574,403
Gain on sale of investments - held for trading - net of commission		2,290,837	4,325,052
Scrap sales		1,151,358	799,554
Loss on disposal of property, plant and equipment		(327,539)	(33,829)
Regulatory duty	27.1	(2,736,563)	-
Profit on bank deposits		1,612,736	661,750
Unrealised loss on revaluation of investments - held for trading		-	(721,200)
Write down of assets held for sale to recoverable amount		-	(2,788,039)
Provision for doubtful debts		-	(926,895)
		17,351,519	17,942,352

27.1 Writ Petition filed by Ellahi Electric Co. Ltd. (since merged with the Company in 1995), against imposition of Sales Tax, Custom & Regulatory duties aggregating Rs.24.972 million on imported plant and machinery was decided in favour of the Company on July 31, 2000 by the honorable Lahore High Court (Rawalpindi Bench). The Customs authorities filed appeal against the said judgment before the honorable Supreme Court, which was dismissed on November 16, 2000 and leave to appeal was declined. The Customs authorities filed review petition, which was also dismissed by the Honorable Supreme Court. Central Board of Revenue has now finally decided to charge regulatory duty only. Accordingly, the Company has paid the said duty and the matter is finally settled.

28. DISTRIBUTION COST

Freight	12,137,769	9,510,635
Stamp duty	2,132,655	1,426,435
Traveling	1,373,467	393,538
Export development surcharge	982,176	920,866
Distribution cost	328,750	320,751
Other	3,256,918	3,596,470
	20,211,735	16,168,695

29. ADMINISTRATIVE EXPENSES	Notes	June 30, 2006 Rupees	For nine months ended June 30, 2005 Rupees
Directors' remuneration and benefits		**1,437,900**	1,078,175
Staff salaries and benefits	29.1	**18,527,958**	12,528,577
Traveling and conveyance		**636,576**	544,129
Printing and stationery		**1,413,076**	1,218,360
Postage and telephone		**2,642,914**	2,441,825
Fees, subscription and periodicals		**776,867**	384,107
Legal and professional		**352,500**	762,500
Advertisement		**26,731**	51,954
Utilities - net of recoveries		**1,436,361**	1,587,199
Rent, rates and taxes		**1,919,427**	1,458,085
Insurance		**1,313,398**	629,424
Auditors' remuneration	29.2	**860,200**	535,000
Repairs and maintenance		**1,447,865**	422,093
Vehicles running and maintenance		**4,712,276**	3,019,498
Entertainment		**451,628**	301,635
Charity and donation	29.3	**1,374,280**	1,080,000
Depreciation	29.4	**5,662,678**	2,972,329
Other		**385,280**	244,035
		45,377,915	31,258,925

29.1 It includes Rs.1,771,996/- (2005 : Rs.1,300,346/-) in respect of staff retirement benefits.

29.2 Auditors' remuneration

Statutory audit fee	**300,000**	300,000
Certification, other statutory reporting and tax advisory services	**560,200**	235,000
	860,200	535,000

29.3 No director or his spouse had any interest in the donees' fund.

29.4 It includes depreciation on investment properties amounting to Rs.197,758/- (2005 : Rs.154,097/-).

30. FINANCE COST

Markup / interest on		
Redeemable capital	**117,862**	1,432,817
Debentures	**380,075**	284,275
Long term loans	**23,022,803**	6,732,531
Liabilities against assets subject to finance lease	**375,248**	1,208
Short term borrowings	**30,146,528**	9,988,553
Workers' profit participation fund	**611,655**	223,631
Bank charges and commission	**10,779,146**	8,382,647
	65,433,317	27,045,662

31. TAXATION - CURRENT

The relationship between tax expense and accounting profit has not been presented in these financial statements for the current year as the total income of the company attracts minimum tax under section 113 of the Income Tax Ordinance, 2001.

Relationship between tax expense and accounting profit as at June 30, 2005:

Profit before taxation	104,228,640
Tax at the applicable rate of 35%	36,480,024
Tax effect of the following :	
Income exempt from tax	(1,513,768)
Income chargeable to tax at special rates	
Dividend income	(5,101,041)
Export sales	(5,364,918)
Tax liability under final tax regime	5,487,961
Others	(6,488,258)
Tax charge for the period ended June 30, 2005	23,500,000

32. EARNINGS PER SHARE - BASIC AND DILUTED

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

		June 30, 2006 Rupees	For nine months ended June 30, 2005 Rupees
Profit after taxation	Rs.	**20,514,840**	80,728,640
Less: Dividend on preference shares	Rs.	**(11,812,210)**	(11,790,675)
Profit after dividend on preference shares	Rs.	**8,702,630**	68,937,965
Weighted average number of ordinary shares		**18,700,000**	18,700,000
Earnings per share	Rs.	**0.47**	3.69

33. REMUNERATION OF DIRECTORS AND EXECUTIVES

Chief Executive and a director are provided with free use of Company maintained car. Chief Executive is also reimbursed residential telephone and utilities bills the monetary value of which is Rs.34,462/- (2005 : Rs.43,660/-) and Rs.554,820/- (2005 : Rs.386,962/-) respectively.

	Chief Executive		Director	
	June 30, 2006	For nine months ended June 30, 2005	June 30, 2006	For nine months ended June 30, 2005
	<------------- Rupees			------------->
Meeting fee	-	-	**3,000**	2,000
Remuneration	642,000	481,500	**336,000**	252,000
House rent allowance	288,900	216,675	**151,200**	113,400
Other allowances	-	-	**16,800**	12,600
	930,900	698,175	**507,000**	380,000
Number of persons	1	1	1	1

34. TRANSACTIONS WITH RELATED PARTIES

Related parties comprise subsidiary and associated undertakings and directors of the company. The company in the normal course of business carries out transactions with various related parties. Amounts due from and to related parties are shown under receivables and payables, amounts due from directors are shown under receivables and remuneration of directors is disclosed in note 33. Other significant transactions with related parties are as follows:

Relationship with the Company	Nature of Transactions	June 30, 2006 Rupees	For nine months ended June 30, 2005 Rupees
Subsidiary	Purchase of goods and services	91,316	3,050,469
	Sale of goods and services	119,167,010	34,951,323
	Rental income	480,000	360,000
	Dividend income	13,193,990	13,193,990
Associated undertaking	Purchase of goods and services	-	1,620,850
	Sale of goods and services	12,209,450	80,939,742
	Rental income	755,000	635,000
	Dividend income	-	1,380,412

35. PLANT CAPACITY AND ACTUAL PRODUCTION

It is difficult to describe precisely the production capacity in textile industry since it fluctuates widely depending on various factors such as count of yarn spun, raw material used, spindle speed and twist. It would also vary according to the pattern of production adopted in a particular year.

	June 30, 2006 production capacity Kgs.	June 30, 2006 actual production Kgs.	For nine months ended June 30, 2005 production capacity Kgs.	For nine months ended June 30, 2005 actual production Kgs.
Coarse	3,755,315	4,269,146	2,816,486	3,953,227
Medium	2,133,701	6,145,361	1,600,275	4,858,783
Fine	256,043	430,396	192,032	72,101
	6,145,059	10,844,903	4,608,793	8,884,111

	2006	2005
Total number of spindles installed	46,428	46,428
Total number of spindles worked	46,428	46,428
Number of shifts per day	3	3
Actual no. of shifts in a year	1,090	815

36. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates . It also requires the management to exercise its judgement in the process of applying the Company's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the Company's financial statements or where judgement was exercised in application of accounting policies are as follows :

i) Provision against doubtful receivables (note 2.12)
ii) Taxation (note 2.18)
iii) Depreciation (note 2.7)
iv) Retirement benefits (note 2.4)

37. FAIR VALUES OF FINANCIAL INSTRUMENTS

The Company's income and operating cash flows are substantially independent of changes in market interest rates. The effective interest rates on its financial assets and liabilities have been disclosed in the respective notes to the financial statements. The Company's exposure to interest rate risk on its financial assets and liabilities as at year end are summarized as follows:

	Interest bearing				
	Maturity upto one year	*Maturity after one year*	*Sub Total*	*Non-interest Bearing*	*Total Rupees*
FINANCIAL ASSETS					
Long term deposits	-	-	-	**2,443,500**	2,443,500
Trade debts	-	-	-	**165,128,800**	165,128,800
Advances	-	-	-	**13,650,775**	13,650,775
Other receivables	-	-	-	**1,098,849**	1,098,849
Cash and bank balances	86,262,385	-	86,262,385	**25,257,899**	111,520,284
2006	86,262,385	-	86,262,385	**207,579,623**	293,842,208
2005	69,509,980	-	69,509,980	**128,744,597**	198,254,577
FINANCIAL LIABILITIES					
Long term loans	51,464,337	269,703,349	321,167,686	-	321,167,686
Liabilities against assets subject to finance lease	2,299,247	5,124,486	7,423,733	-	7,423,733
Custom debentures	2,832,155	-	2,832,155	-	2,832,155
Trade and other payables	-	-	-	**81,301,785**	81,301,785
Short term borrowings	358,961,298	-	358,961,298	-	358,961,298
Profit / markup payable	-	-	-	**10,529,352**	10,529,352
2006	415,557,037	274,827,835	690,384,872	**91,831,137**	782,216,009
2005	203,814,824	69,732,011	273,546,835	**85,065,369**	358,612,204
On balance sheet gap - 2006	(329,294,652)	(274,827,835)	(604,122,487)	**115,748,686**	(488,373,801)
On balance sheet gap - 2005	(134,304,844)	(69,732,011)	(204,036,855)	**43,679,228**	(160,357,627)

37.1 *Credit risk and concentration 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. Out of the total financial assets, the financial asset which are subject to credit risk amounted to Rs.162,731,903/-. The Company believes that it is exposed to major concentration of credit risk in the textile sector. The management monitors and limits the Company's exposure of credit risk by limiting transactions with specific counter parties and continually assessing their credit worthiness.

37.2 *Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Company is however exposed to interest rate risk in case of long term loan and short term borrowings. The rate of interest / markup and their maturities are given in the respective notes.

37.3 *Fair values of financial instruments*

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

37.4 *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.

37.5. *Foreign exchange risk management*

Foreign currency risk arises mainly where receivables and payables exist due to transactions with foreign undertakings. However, the company is not exposed to any significant foreign currency risk. As at June 30, 2006, the total foreign currency risk exposure was Rs. 21,647,907/- (2005: Rs. 6,065,254/-) in respect of trade debts

Foreign exchange is the risk of loss through changes in foreign currency exchange rates. The Company is exposed to foreign exchange risk due to transactions denominated in foreign currencies.

38. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

In respect of current year, the directors proposed to pay cash dividend of Re. 0.88 i.e. 8.8% per ordinary share of Rs. 10/- each, in addition to distribution of 3,740,000 (three million seven hundred forty thousand) fully paid ordinary share the face value of Rs. 10/= each of M/s. Ellcot Spinning Mills Ltd @ 20 (twenty) shares for every 100 (one hundred) shares held. This 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.

39. NON-CASH TRANSACTION

Additions to vehicles during the year amounting to Rs.8,500,000 million were financed by new finance lease.

40. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on October 2, 2006 by the Board of Directors of the Company.

41. RECLASSIFICATION

Corresponding figures have been rearranged and reclassified to reflect more appropriate presentation of events and transactions for the purposes of comparison. Significant reclassifications made are as follows:

41.1 Profit on bank deposits amounting to Rs.661,750/- has been reclassified from markup on short term borrowings to other income.

41.2 Bills discounting charges amounting to Rs.4,843,513/- has been reclassified from others in distribution cost to bank charges and commission in finance cost.

42. GENERAL

42.1 Figures have been rounded off nearest to Rupee.

42.2 The financial statements are presented in Pak Rupees, which is the company's functional and presentation currency.

42.3 The comparative figures of profit and loss account and cash flow statement have been presented for nine months period hence are not comparable with the current year figures.

	Shahzada Ellahi Shaikh	**Shaukat Ellahi Shaikh**
October 2, 2006	Director	Mg. Director (Chief Executive)