(REVIEWED)

ACCOUNTS
FOR THE HALF YEAR ENDING
DECEMBER 31, 2008

ZEPHYR

TEXTILES LIMITED

Directors' Report to the Members

On behalf of the Board of directors, I am pleased to present before you the financial statements of the company for the half year ended December 31, 2008.

Operational review

During the period under review manufacturing facilities of the company were operational at their full capacity. In the corresponding period expansion project of towel manufacturing units was partially in commercial operations.

Operating financial results

The company has registered net sales of Rs. 1,338.532 million (2007: Rs. 1,312.163 million) showing increase of 2%. The gross profit of Rs. 199.900 million (2007: Rs. 113.977 million) has increased by 75%. The operating profit of Rs. 145.220 million (2007: Rs. 70.814 million) shows an increase of about 105%. The company has incurred loss before taxation of Rs. 67.669 million (2007: Rs. 55.491 million) due to heavy financial costs and exchange losses aggregating Rs. 212.890 million (2007: Rs. 126.306 million). The net loss for the period after providing taxation is Rs. 66.607 million (2007: Rs. 62.093 million).

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

- Heavy financial cost during the period owing to sharp increase in interest rates depicts an increase of 68% despite of reduction in borrowing of the company.

- Exchange losses on Cross Currency Swap and Foreign Currency loans aggregating Rs. 39.654 million due to substantial devaluation of Pak Rupee. About 60% of the loss for the period under review is on account of exchange losses.

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

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

- Heavy depreciation of Rs. 97.027 million (2007: Rs. 76.776 million).

The operating performance of the company during the 1st half of the current financial year exhibits improved gross and operating profit as against the corresponding period however, increased financial cost and exchange losses have eroded the net margin. Cross Currency Swap has now been completely unwounded by the company and at present company has no exposure in foreign currency other than exports.

International accounting standards as applicable in Pakistan have been followed in preparation of financial statements and there has been no departure therefrom except for classification of current maturity of certain long term loans as long term liabilities instead of current liabilities (refer note 6.1 to the interim accounts). This classification is qualified by the Auditors in their Report to the members since it is not in accordance with the International Accounting Standard 1, “Presentation of Financial Statements”. The company has classified these long term loans as long term liabilities in view of finalized restructuring/rescheduling agreement of these long term loans by the lender subsequent to the balance sheet date effectively January 2009 (refer note 4 to the interim account).

Future prospects

In addition to the fact of increased interest costs, at present the severe energy crisis is a considerable factor which is resulting in higher energy cost as well as production losses to the industry. In these extremely adverse circumstances the industry is striving hard to survive. In a broad preview it looks like that due to recessionary trend in the global markets textile will remain depressed for medium term and situation might improve by the end of 2nd quarter of financial year 2010-11. Consequent to recovery of global market from current recession the textile sector will benefit as well. The current operations of the company are under stress and will remain under pressure in coming period till such time the situation improves. It is further anticipated that EU will lift antidumping duty from bed linen exports by March 2009 which will help Pakistan’s textile industry to sell their product at competitive rates to EU.

Without qualifying their report to members the Auditors have drawn attention to note 1.1 to the interim accounts. These accounts have been prepared on going concern basis since the management is of the view that there are no significant doubts upon the company’s ability to continue as a going concern on the ground that the company will be able to achieve satisfactory level of profitability in the future based on the plans drawn up for this purpose and bringing its liability to serviceable levels. The company has already finalized restructuring/rescheduling of major portion of its long term loans to facilitate the cash flow of the company.

The directors extend their gratitude to the employees of the company for their team work, commitments, integrity and professionalism.

For and on behalf of the Board of Directors

MUSSAID HANIF
Chief Executive

Lahore
February 26, 2009

Independent Auditors' Report to Members on Review of Interim Financial Information

Introduction

We have reviewed the accompanying interim condensed balance sheet of Zephyr Textiles Limited as at 31 December 2008 and the related interim condensed profit and loss account, interim condensed cash flow statement and interim condensed statement of changes in equity together with the notes forming part thereof (herein after referred to as "interim financial information"), for the period then ended. Management is responsible for the preparation and presentation of this interim financial information in accordance with approved accounting standards as applicable in Pakistan. Our responsibility is to express a conclusion on this interim financial information based on our review. The figures of interim condensed profit and loss account for the quarters ended 31 December 2008 and 31 December 2007 have not been reviewed, as we are required to review only the cumulative figures for the half year ended 31 December 2008.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis of Qualified Conclusion

The Company has classified current maturity of certain long term loans as long term liability instead of current liability on the basis of rescheduling / refinancing of the loans after the balance sheet date as disclosed in note 6.1 to the interim financial information. This classification is not in accordance with the requirements of the International Accounting Standard 1, "Presentation of Financial Statements".

Qualified Conclusion

Based on our review, with the exception of the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan.

Without qualifying our review report, we draw attention to note 1.1 to the interim financial information which indicates that during the period the Company incurred loss amounting to Rs. 66.607 million and has accumulated losses amounting to Rs. 193.209 million at the period end. In addition, the Company has negative working capital at the period end. This interim financial information, however, has been prepared on a going concern basis in the expectation of future profitability, restructuring of the Company's debts and undertaking of financial support by the sponsoring directors, if required.

ANJUM ASIM SHAHID RAHMAN
CHARTERED ACCOUNTANTS
Date: February 26, 2009
Asim Iftikhar
Lahore

ZEPHYR TEXTILES LIMITED

Condensed Interim Balance sheet (Un-Audited)

as at December 31, 2008

	Note	Reviewed December 31, 2008 Rupees	Audited June 30, 2008 Rupees
EQUITY AND LIABILITIES			
SHARE CAPITAL			
AUTHORIZED SHARE CAPITAL			
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 ordinary shares of Rs. 10 each		594,287,290	594,287,290
ACCUMULATED LOSSES		(193,208,961)	(139,168,390)
		401,078,329	455,118,900
SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT		330,852,324	343,418,641
LONG TERM FINANCES	6	686,824,609	681,950,746
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE		955,242	1,117,734
DEFERRED LIABILITIES		153,491,230	159,645,543
CURRENT LIABILITIES			
Short term borrowings - Secured		1,435,617,461	1,442,967,468
Current portion of long term liabilities		81,569,685	144,000,326
Trade and other payables		330,757,243	251,133,202
Mark up accrued on loans		120,330,885	67,217,714
		1,968,275,274	1,905,318,710
CONTIGENCIES AND COMMITMENTS	5	-	-
		3,541,477,008	3,546,570,274
ASSETS			
NON CURRENT ASSETS			
PROPERTY, PLANT & EQUIPMENT			
Operating Assets	7	2,208,635,980	2,264,208,465
Assets subject to finance lease		2,743,007	3,047,783
Capital work in progress	8	2,684,127	7,948,174
		2,214,063,114	2,275,204,422
LONG TERM DEPOSITS		3,335,122	5,009,422
CURRENT ASSETS			
Stores, spares and loose tools		53,455,813	45,347,358
Stock in trade		722,798,541	672,845,057
Trade debts		330,734,763	313,227,842
Loans and advances		94,236,459	126,740,293
Trade deposits, prepayments and other receivables		96,112,663	91,556,208
Investments		4,365,199	14,175,212
Cash and bank balances		22,375,334	2,464,460
		1,324,078,772	1,266,356,430
		3,541,477,008	3,546,570,274

The annexed notes 1 to 10 form an integral part of these condensed interim financial statements.

Chief Executive

Director

Condensed Interim Profit and Loss Account (Un-Audited)

for the half year ended December 31, 2008

	Half Year Ended		Quarter Ended	
	Reviewed	Reviewed	Unaudited	Unaudited
	Jul-Dec 2008 Rupees	Jul-Dec 2007 Rupees	Oct-Dec 2008 Rupees	Oct-Dec 2007 Rupees
SALES	1,338,531,977	1,312,163,022	604,066,449	647,790,292
COST OF SALES	1,138,631,509	1,198,186,024	519,359,634	584,928,772
GROSS PROFIT	199,900,468	113,976,998	84,706,815	62,861,520
OPERATING EXPENSES				
Distribution costs	40,443,260	36,680,164	20,165,925	19,662,367
Administrative	15,044,553	10,298,958	8,400,712	4,294,776
	55,487,812	46,979,122	28,566,636	23,957,143
	144,412,656	66,997,876	56,140,179	38,904,377
Other operating expenses	1,090,331	1,033,719	535,614	742,569
	143,322,325	65,964,157	55,604,565	38,161,808
OTHER OPERATING INCOME/(LOSS)	1,898,220	4,850,372	2,742,260	(4,817,969)
OPERATING PROFIT	145,220,545	70,814,529	58,346,825	33,343,839
FINANCE COSTS	212,889,645	126,305,615	83,629,080	72,079,394
(LOSS) / PROFIT BEFORE TAXATION	(67,669,100)	(55,491,086)	(25,282,255)	(38,735,555)
TAXATION	(1,062,212)	6,601,469	(4,027,895)	3,260,150
(LOSS) / PROFIT AFTER TAXATION	(66,606,888)	(62,092,555)	(21,254,360)	(41,995,705)
EARNING PER SHARE -BASIC and DILUTED	(1.12)	(1.04)	(0.36)	(0.71)

The annexed notes 1 to 10 form an integral part of these condensed interim financial statements.

Condensed Interim Statement of Changes in Equity

for the half year ended December 31, 2008 (Un-Audited)

Description	Paid up capital Rupees	Unappropria-ted profit Rupees	Total Rupees
Balance as at June 30, 2007	594,287,290	58,990,561	653,277,851
Net loss for the period	-	(62,092,555)	(62,092,555)
Balance as at December 31, 2007	594,287,290	(3,101,994)	591,185,296
Balance as at June 30, 2008	594,287,290	(139,168,390)	455,118,900
Loss for the half year ended December 31, 2008	-	(66,606,888)	(66,606,888)
Current period incremental depreciation - net of tax reversed from surplus on revaluation of property, plant and equipment	-	12,566,317	-
Balance as at December 31, 2008	594,287,290	(193,208,961)	401,078,329

The annexed notes 1 to 10 form an integral part of these condensed interim financial statements.

Chief Executive

Director

ZEPHYR TEXTILES LIMITED

Condensed Interim Cash Flow Statement (Un-Audited)

for the half year ended December 31, 2008

	Reviewed July - Dec 2008 Rupees	Reviewed July - Dec 2007 Rupees
CASH FLOW FROM OPERATING ACTIVITIES		
Loss for the period before taxation	(67,669,100)	(55,491,086)
Adjustments for:		
Depreciation	96,723,333	76,583,708
Depreciation of leased assets	304,776	192,000
Gain on sale of property, plant and aquipment	(8,481)	-
Loss on re-measurement of short term investments	4,804,863	-
Dividends, capital gains & other Income	907,762	-
Provision for staff gratuity	3,804,066	4,572,003
Finance cost	212,889,645	126,305,615
	319,425,964	207,653,326
	251,756,864	152,162,240
(Increase)/Decrease in current assets		
Stores, spares and loose tools	(8,108,455)	(2,533,206)
Stock in trade	(49,953,484)	(16,696,520)
Trade debts	(17,506,921)	(111,079,857)
Loans and advances	32,503,834	(25,936,249)
Trade deposits, prepayments & other receivables	(3,579,643)	20,067,368
	(46,644,669)	(136,178,464)
Increase in current liabilities		
Trade and other payables	109,253,108	7,994,740
Cash flow from operations	314,365,303	23,978,516
Financial charges paid	(189,480,093)	(121,707,298)
Taxes paid	(6,681,078)	(4,639,154)
Gratuity paid	(3,191,900)	(1,894,100)
	(199,353,071)	(128,240,552)
Net cash flow from/(used in) operating activities (A)	115,012,232	(104,262,036)
CASH FLOW FROM INVESTING ACTIVITIES		
Long term advances, deposits and deferred costs	1,334,000	-
Sale proceeds of property, plant and equipment	630,000	-
Dividends received	24,244	-
Sale proceeds of short term investments	4,073,758	(3,122,979)
Fixed capital expenditure	(36,508,045)	(65,573,437)
Net cash flow usd in investing activities (B)	(30,446,043)	(68,696,416)
CASH FLOW FROM FINANCING ACTIVITIES		
Short term borrowings- secured	(7,350,007)	185,114,153
Repayment of lease liabilities	(139,298)	(352,944)
Long term finances	(57,166,010)	(51,153,860)
Net cash flow from/(used in) financing activities (C)	(64,655,315)	133,607,349
NET INCREASE IN CASH AND CASH EQUIVALENTS (A+B+C)	19,910,874	(39,351,103)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	2,464,460	59,827,144
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	22,375,334	20,476,041

The annexed notes 1 to 10 form an integral part of these condensed interim financial statements.

Chief Executive

Director

Notes to the Condensed Interim Financial Information (Un-audited)

for the half year ended December 31, 2008

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.

1.1 During the half year ended December 31, 2008, the Company has incurred loss amounting to Rs. 66.607 million and as at the period end the accumulated loss stood at Rs. 193.209 million for the previous year ended June 30, 2008 thereby resulting in accumulated loss of Rs. 193.186 million. In adition as the period end, the Company's current liabilities exceeded its current assets by 644.197 million. Continuation of the Company as a going concern is dependent on its ability to attain satisfactory levels of profitability in the future and continuous support of financial institutions by bringing its liabilities to serviceable levels and availability of adequate working capital through continued support from:

a) the principal lenders of the Company,

b) the sponsors of the Company.

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

2. BASIS OF PREPARATION

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

This interim financial information has been prepared in compliance with the International Accounting Standard (IAS) 34 " Interim Financial Reporting " and in compliance with the requirements of Section 245 of the Companies Ordinance, 1984.

The disclosures made in this interim financial information have, however, been limited based on the requirements of Accounting Standard (IAS) 34 " Interim Financial Reporting ". This condensed interim financial information is unaudited but a limited scope review has been performed by the external auditors of the Company in accordance with the requirements of Code of Corporate Governance and they have issued their report thereon.

This interim financial information consequently do not include any adjustment relating to the realisation of the assets and liquidation of its liabilities that might be necessary would the Compony be unable to continue as a going concern.

3. ACCOUNTING POLICIES

The accounting policies adopted for the preparation of this interim financial information are the same as those applied in the preparation of the preceding annual published financial statements of the company for the year ended June 30, 2008.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Judgements and estimates made by the management in the preparation of this interim financial information are the same as those applied to the annual financial statements for the year ended June 30, 2008.

5. During the period under review the Company has finalised rescheduling/restructuring agreements of its long term loans with the following banks and consequently these loans are now not repayable withein the next twelve months:

i) National Bank of Pakistan

ii) United Bank Limited

iii) Allied Bank Limited

In addition, subsequent to the balance sheet date, the long term facilities from Habib Bank Limited have been rescheduled / restructured with effect from January 29, 2009.

	Notes	Reviewed Dec 31, 2008 Rupees	Audited June 30, 2008 Rupees
5. CONTINGENCIES AND COMMITMENTS			
5.1 Contingencies			
Bills discounted with resource		111,394,642	122,785,684
Bank guarantees issued in the ordinary course of business		32,555,900	32,555,900
5.2 Commitments			
Letter of credit for raw material		8,923,000	32,515,088
6. LONG TERM FINANCES			
Opening balance		825,247,364	932,179,781
Add: Obtained during the period		-	61,160,984
Less: Repaid during the period		57,166,010	168,093,401
Closing balance		768,081,354	825,247,364
Less: Current portion shown under current liabilities		81,256,745	143,296,618
Non-Current portion		686,824,609	681,950,746

6.1 The Compny has classified current maturity of two long term loans from Habib Bank Limited as long term liability instead of current liability on the basis of rescheduling/restructuring of the loans subsequnt to the balance sheet date. It has resulted in increase in long term loans by Rs. 50,000,000 and decrease in current liabilities by the same amount.

	Notes	Reviewed Dec 31, 2008 Rupees	Audited June 30, 2008 Rupees
7. PROPERTY, PLANT AND EQUIPMENT			
Opening book value		2,264,208,465	1,712,094,363
Additions during the period	7.1	41,757,367	217,014,785
Revaluation during the period		-	489,905,558
Book value of deletions during the period	7.2	(633,515)	(1,568,401)
Depreciation charged during the period		(96,696,337)	(153,237,840)
Closing Book Value		2,208,635,980	2,264,208,465
7.1 Cost of Additions in Property, Plant and Equipment:			
Land - Freehold		-	37,987,500
Building on freehold land		3,381,507	25,658,737
Link Road		-	3,087,255
Non factory building		252,949	15,945,228
Plant and machinery		35,571,614	127,211,995
Furniture and fixtures		-	66,384
Vehicles		2,292,890	211,060
Electric installations		8,036	4,040,693
Office equipments		265,371	2,805,933
		41,772,367	217,014,785
7.2 Cost of Deletions in Property, Plant & Equipment			
Vehicles		1,127,103	3,707,985
Office equipments		78,500	-
		1,205,603	3,707,985
8. CAPITAL WORK IN PROGRESS			
Building		1,436,845	3,361,186
Plant and machinery		1,247,282	4,586,988
		2,684,127	7,948,174

9. DATE OF AUTHORISATION

This interam financial information has been approved by the Board of Directors of the Company on February 26, 2009.

10. General

Figures have been rounded off to the nearset rupee.

Chief Executive

Director

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