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**COMPANY INFORMATION****BOARD OF DIRECTORS**

Javed Saifullah Khan - **Chairman**  
Osman Saifullah Khan - **Chief Executive**  
Kulsum Saifullah Khan  
Omar Saifullah Khan  
Jehangir Saifullah Khan  
Ch. Maqbool Ahmad  
Zafar Qureshi

**AUDIT COMMITTEE**

Ch. Maqbool Ahmad - **Chairman**  
Jehangir Saifullah Khan - **Member**  
Zafar Qureshi - **Member**

**CHIEF FINANCIAL OFFICER**

Zaheen-ud-Din Qureshi

**COMPANY SECRETARY**

Mumtaz H. Chaudhry

**AUDITORS**

Hameed Chaudhri & Co.,  
Chartered Accountants

**LEGAL ADVISORS**

Dr. Pervez Hassan  
Hassan & Hassan, Advocates

Abdul Latif Yousafzai, Advocate

**BANKERS**

National Bank of Pakistan  
United Bank Limited  
Albaraka Islamic Bank  
The Bank of Punjab  
First National Bank Modaraba  
Faysal Bank Limited

**HEAD OFFICE**

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e-mail : peshawar@saifgroup.com

**MILLS**

Saifabad, Kohat  
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**WEB SITE**

[www.kohattextile.com](http://www.kohattextile.com)

## **DIRECTOR'S REVIEW REPORT TO THE MEMBERS**

It gives me tremendous pleasure to present, on behalf of the Board of Directors, this report on the Company's performance for the first quarter ended 30 September 2006.

The highlights of your Company's performance are presented below:

### **Operating Results**

The financial highlights clearly show that your Company demonstrated a comprehensively improved performance during this period:

- An enormous **60% growth** in turnover.
- **Gross profit** margin climbed to **10.88%** as compared to 8.70% in the comparative corresponding period.
- **Operating profit** margin improved to **7.71%** as compared to 4.69% in the comparative corresponding period.
- The Company returned to profitability and earned a **pre-tax profit of Rs. 5.29 Million** as compared to the loss of Rs. 9.83 Million in the comparative corresponding period.

### **Future Outlook**

The textile sector in the country looks likely to head towards a downturn, unless the Government creates some relief for spinners and weavers. Tariffs on domestic natural gas have been unilaterally increased despite a reduction in international energy prices, elevating the cost of self-generated electricity and raising the cost of production. Simultaneously, the minimum wage has also been raised. Furthermore, the seemingly un-ending rise in financial charges and mark up rates is a factor that will severely impact the profitability of the entire textile sector.

### **Acknowledgment**

The Directors wish to record their appreciation for the steadfast support of our valued customers and bankers. We also highlight and acknowledge the hard work put in by the members of our corporate family. The turnaround in the Company's performance is a testament to the contribution made by them. We are confident that the Executives, Officers and Staff will maintain the same dedication and performance for the smooth operation and continued future success of your Company.

**For and on behalf of the Board**

Place : Peshawar  
Dated: 27 October, 2006

**OSMAN SAIFULLAH KHAN**  
Chief Executive Officer

**BALANCE SHEET**  
**AS AT 30 SEPTEMBER, 2006**

	Note	(Un-audited) 30 September, 2006	(Audited) 30 June, 2006
(Rupees in thousand)			
<b>SHARE CAPITAL</b>			
Authorised			
22,000,000 ordinary shares of Rs.10 each		220,000	220,000
(30 June, 2006: 22,000,000 ordinary shares of Rs.10 each)			
Issued, subscribed and paid-up		208,000	208,000
<b>ACCUMULATED LOSS</b>		<b>(32,923)</b>	<b>(34,783)</b>
		175,077	173,217
<b>SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT</b>		<b>155,703</b>	<b>156,476</b>
<b>NON-CURRENT LIABILITIES</b>			
Demand finances	4	168,000	182,000
Long term deposits		1,247	1,147
Liabilities against assets subject to finance lease	5	80,288	91,125
Staff retirement benefits - gratuity		15,845	15,340
		<b>265,380</b>	<b>289,612</b>
<b>CURRENT LIABILITIES</b>			
Current portion of:			
- Demand finances	4	52,000	52,000
- Liabilities against assets subject to finance lease		28,729	28,529
Short term finances	6	420,325	395,141
Trade and other payables		31,918	60,369
Accrued interest / mark-up		15,429	23,535
Taxation	7	8,008	5,956
		<b>556,409</b>	<b>565,530</b>
<b>CONTINGENCIES AND COMMITMENTS</b>	8	<b>1,152,569</b>	<b>1,184,835</b>
<b>NON - CURRENT ASSETS</b>			
<b>PROPERTY, PLANT AND EQUIPMENT</b>			
Operating assets	9	663,571	676,148
Capital work-in-progress		615	5,382
Stores held for capital expenditure		10,813	4,604
		<b>674,999</b>	<b>686,134</b>
<b>LONG TERM DEPOSITS</b>		<b>1,137</b>	<b>1,137</b>
<b>LONG TERM LOANS</b>		<b>2,290</b>	<b>1,841</b>
<b>DEFERRED TAXATION</b>		<b>13,626</b>	<b>16,026</b>
<b>CURRENT ASSETS</b>			
Stores, spares and loose tools		22,885	22,489
Stock-in-trade		248,772	306,950
Trade debtors		155,598	131,915
Loans and advances		1,118	376
Advance payments		5,540	870
Deposits and prepayments		4,287	603
Sales tax refundable		11,990	8,998
Due from associates		287	0
Other receivables		988	908
Advance income tax, and tax deducted at source		7,795	6,146
Cash and bank balances		1,257	442
		<b>460,517</b>	<b>479,697</b>
		<b>1,152,569</b>	<b>1,184,835</b>

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

**Osman Saifullah Khan**  
Chief Executive

**Jehangir Saifullah Khan**  
Director

**PROFIT AND LOSS ACCOUNT**  
**FOR THE QUARTER ENDED 30 SEPTEMBER, (UN-AUDITED)**

	2006	2005
	(Rupees in thousand)	
<b>SALES - Net</b>	<b>355,388</b>	221,645
<b>COST OF SALES</b>	<b>316,712</b>	202,341
<b>GROSS PROFIT</b>	<b>38,676</b>	19,304
<b>ADMINISTRATIVE EXPENSES</b>	<b>8,004</b>	7,740
<b>DISTRIBUTION COST</b>	<b>1,665</b>	1,072
<b>OTHER OPERATING CHARGES</b>	<b>1,588</b>	170
	<b>11,257</b>	8,982
<b>OTHER OPERATING INCOME</b>	<b>27,419</b>	10,322
	<b>0</b>	91
<b>OPERATING PROFIT</b>	<b>27,419</b>	10,413
<b>FINANCE COST</b>	<b>22,122</b>	20,241
<b>PROFIT / (LOSS) BEFORE TAXATION</b>	<b>5,297</b>	(9,828)
<b>TAXATION</b>		
- Current	<b>1,810</b>	1,110
- Prior years'	<b>0</b>	7,112
- Deferred	<b>2,400</b>	0
	<b>4,210</b>	8,222
<b>PROFIT / (LOSS) AFTER TAXATION</b>	<b>1,087</b>	(18,050)
<b>EARNINGS / (LOSS) PER SHARE (Rupees)</b>	<b>0.05</b>	(1.30)

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

-Appropriations have been reflected in the statement of changes in equity.

**Osman Saifullah Khan**  
Chief Executive

**Jehangir Saifullah Khan**  
Director

**CASH FLOW STATEMENT**  
**FOR THE QUARTER ENDED 30 SEPTEMBER, (UN-AUDITED)**

	2006	2005
	(Rupees in thousand)	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit / (Loss) for the period	5,297	(9,828)
Adjustments for:		
Depreciation and amortisation	13,845	13,522
Staff retirement benefits (gratuity) - net	505	(402)
Finance cost	22,122	20,241
<b>CASH INFLOW FROM OPERATING ACTIVITIES</b>		
<b>-Before working capital changes</b>	41,769	23,533
(Increase) / decrease in current assets:		
Stores, spares and loose tools	(396)	(15,002)
Stock-in-trade	58,178	(33,115)
Trade debtors	(23,683)	(12,957)
Loans and advances	(742)	(588)
Advance payments	(4,670)	(10,882)
Trade deposits and short term prepayments	(3,684)	(1,112)
Sales tax refundable	(2,992)	(6,485)
Due from associates	(287)	(51)
Other receivables	(80)	(4,696)
Increase / (Decrease) in trade and other payables	(28,451)	(1,053)
	(6,807)	(85,941)
<b>CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>		
<b>-After working capital changes</b>	34,962	(62,408)
Taxes paid	(1,407)	(1,260)
<b>CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES - After taxation</b>	33,555	(63,668)
Long term deposits	0	(819)
Long term loans - net	(449)	(197)
<b>NET CASH INFLOW / (OUTFLOW) FROM OPERATING ACTIVITIES</b>	33,106	(64,684)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Fixed capital expenditure	(2,710)	(14,117)
<b>NET CASH OUTFLOW FROM INVESTING ACTIVITIES</b>	(2,710)	(14,117)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Proceeds from Issue of right shares	0	70,000
Deposit for shares	0	(70,000)
Demand finances	(14,000)	0
Long term deposits	100	119
Lease finance-net	(10,637)	961
Short term finances - net	25,184	103,534
Finance cost paid	(30,228)	(22,218)
<b>NET CASH (OUTFLOW) / INFLOW FROM FINANCING ACTIVITIES</b>	(29,581)	82,396
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	815	3,595
<b>CASH AND CASH EQUIVALENTS</b>		
<b>- At the beginning of the period</b>	442	2,812
<b>CASH AND CASH EQUIVALENTS</b>		
<b>- At the end of the period</b>	1,257	6,407

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

**Osman Saifullah Khan**  
Chief Executive

**Jehangir Saifullah Khan**  
Director

**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE QUARTER ENDED 30 SEPTEMBER, 2006 (UN-AUDITED)**

	Share capital	Unappropriated Profit/ (Accumulated Loss)	Total
( Rupees in thousand )			
Balance as at 30 June, 2005	88,000	(36,611)	51,389
Nominal value of shares issued	70,000	0	70,000
Loss after taxation for the quarter ended 30 September, 2005	0	(18,050)	(18,050)
Transferred from surplus on revaluation of fixed assets on account of incremental depreciation for the quarter ended 30 September, 2005 - net of deferred taxation	0	804	804
Balance as at 30 September, 2005	158,000	(53,857)	104,143
Nominal value of shares issued	50,000	0	50,000
Profit for the period of nine months from 01 Oct, 2005 to 30 June, 2006	0	16,500	16,500
Transferred from surplus on revaluation of fixed assets on account of incremental depreciation for the period of nine months from 01 Oct, 2005 to 30 June, 2006 - net of deferred taxation	0	2,574	2,574
Balance as at 30 June, 2006	208,000	(34,783)	173,217
Profit after taxation for the quarter ended 30 September, 2006	0	1,087	1,087
Transferred from surplus on revaluation of fixed assets on account of incremental depreciation for the quarter ended 30 September, 2006 - net of deferred taxation	0	773	773
Balance as at 30 September, 2006	<b>208,000</b>	<b>(32,923)</b>	<b>175,077</b>

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

**Osman Saifullah Khan**  
Chief Executive

**Jehangir Saifullah Khan**  
Director

**SELECTED EXPLANATORY NOTES TO THE  
FINANCIAL STATEMENTS  
FOR THE QUARTER ENDED 30 SEPTEMBER, 2006 (UN-AUDITED)**

**I. THE COMPANY AND ITS OPERATIONS**

The Company was incorporated in Pakistan during the year 1967 as a Public Company and its shares are quoted on Karachi and Islamabad Stock Exchanges. It is principally engaged in manufacture and sale of yarn. The Company's Mills are located in Saifabad, Kohat and Registered Office at APTMA House, Tehkal Payan, Jamrud Road, Peshawar.

**2. STATEMENT OF COMPLIANCE**

These financial statements are being presented in condensed form to comply with the requirements of International Accounting Standard 34 (Interim Financial Reporting).

These financial statements are being circulated to shareholders as required by section 245 of the Companies Ordinance, 1984 and the Listing Regulations of Karachi and Islamabad Stock Exchanges.

**3. BASIS OF PREPARATION**

The accounting policies and methods of computation adopted in the preparation of these quarterly financial statements are the same as those applied in the preparation of the preceding published financial statements of the Company for the year ended 30 June, 2006 except for:

**3.1 Amendments to published approved accounting standards that are not yet effective**

**a) IAS 1 (Presentation of Financial Statements)**

Amendments in IAS 1 relate to capital disclosures, which are effective for annual periods beginning on or after 01 January, 2007

**b) IAS 19 (Employee Benefits)**

Amendments in IAS 19 concern reporting actuarial gains or losses, which are effective for annual periods beginning on or after 01 January, 2006; these amendments will not have any effect on the Company's financial statements.

**c) IAS 39 (Financial Instruments: Recognition and Measurement)**

Amendments in IAS 39 relate to treatment and disclosure requirements regarding cash flow hedges of forecast intragroup transactions, fair value option and financial guarantee contracts, which are effective for annual periods beginning on or after 01 January, 2006; these amendments will also have no effect on the Company's financial statements.

**4. DEMAND FINANCES - Secured**

National Bank of Pakistan  
Demand Finance (DF) - I  
Demand Finance (DF) - II

Less: Current portion grouped under current liabilities

(Un-audited) 30 September, 2006	(Audited) 30 June, 2006
(Rupees in thousand)	

	112,000	126,000
	108,000	108,000
	220,000	234,000
	52,000	52,000
	168,000	182,000

These demand finances have been obtained against a finance facility of Rs.260 million and are secured against first pari passu charge on fixed assets of the Company for Rs.370 million. These finance facilities, during the period, carried mark-up at the rates ranging from 11.23% to 12.62% per annum. Balance DF I is repayable in 08 half-yearly instalments of Rs. 14 million each by July-2010 whereas DF II is repayable in 9 half-yearly instalments of Rs. 12 million each by October-2010.

#### 5. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE - Secured

The Company has entered into lease agreements with First National Bank Modaraba, AlBaraka Islamic Bank and Faysal Bank Limited (FBL) to acquire plant & machinery and a vehicle. The liabilities under the lease agreements are payable in monthly and bi-annually instalments by April, 2011. These facilities, during the period, carried finance charges at the rates ranging from 10.72% to 12.92% per annum. The Company intends to exercise its option to purchase the leased assets upon completion of the respective lease terms. These lease finance facilities are secured against charge over leased assets, demand promissory note and title of the leased vehicle in the name of FBL.

#### 6. SHORT TERM FINANCES - Secured

Short term cash, trust receipt, running and murabaha finance facilities available from National Bank of Pakistan, The Bank of Punjab, United Bank Limited, AlBaraka Islamic Bank and First National Bank Modaraba aggregate Rs.725 million (30 June, 2006: Rs.725 million). These facilities, during the period, carried mark-up at the rates ranging from 6.71% to 13.15% per annum; payable on quarterly and bi-annually basis. Facilities available for opening letters of credit / guarantee from the aforementioned banks aggregate Rs. 301 million (30 June 2006: Rs.301 million) of which the amount aggregating Rs. 250.55 million (30 June, 2006: Rs. 235.086 million) remained unutilised at the balance sheet date. The aggregate facilities are secured against pledge of stock-in-trade, charge on current assets of the Company and lien on documents of title to imported goods. These facilities are expiring on various dates by 30 June, 2007.

#### 7. TAXATION

	(Un-audited) 30 September, 2006	(Audited) 30 June, 2006
	(Rupees in thousand)	
Opening balance	5,956	66
Add: Provision made during the period/year		
- Current	1,810	5,890
- Prior years'	0	7,081
	1,810	12,971
	7,766	13,037
Less: Adjustments made during the period/year	(242)	7,081
	<u>8,008</u>	<u>5,956</u>

7.1 In view of available tax losses, provision made during the period represents the minimum tax on turnover due under section 113 of the Income Tax Ordinance, 2001.

7.2 There has been no significant change in the Company's taxation status since the date of preceding published financial statements for the year ended 30 June, 2006.

#### 8. CONTINGENCIES AND COMMITMENTS

8.1 Commitments for irrevocable letters of credit outstanding as at period /year end were as follows:

- Capital expenditure	0	0
- Others	51,141	54,914
	<u>51,141</u>	<u>54,914</u>

8.2 There has been no change in contingencies since the date of preceding published annual financial statements of the Company for the year ended 30 June, 2006.

	(Un-audited) 30 September, 2006	(Audited) 30 June, 2006
(Rupees in thousand)		
<b>9. OPERATING ASSETS</b>		
Opening book value	676,148	618,061
Additions made during the period/year		
<b>Owned:</b>		
<b>Tangible</b>		
Factory buildings on freehold land	0	8,168
Non-factory buildings on freehold land	0	383
Plant & machinery	955	39,903
Gas power plant	0	6,462
Electric installations	0	355
Equipment & appliances	226	1,104
Fire extinguishing equipment	0	25
Furniture & fixtures	48	422
Vehicle	0	640
<b>Intangible - computer software</b>	<b>39</b>	<b>488</b>
	<b>1,268</b>	<b>57,950</b>
<b>Leased - Plant &amp; machinery &amp; Gas power plant</b>	<b>0</b>	<b>56,717</b>
	<b>1,268</b>	<b>114,667</b>
Book value of assets disposed-off during the period/year	0	(1)
Depreciation / amortisation charge for the period/year	(13,845)	(56,579)
Closing book value	<b>663,571</b>	<b>676,148</b>

#### 10. TRANSACTIONS WITH RELATED PARTIES

The Company has related party relationship with its Associates, employee benefit plans, its directors and key management personnel. Transactions with related parties are carried-out on arm's length basis. There were no transactions with key management personnel other than under the terms of employment. Aggregate transactions with Associates during the period/year were as follows:

Sales of goods and services	122,974	483,151
Purchases of goods and services	121,935	315,811

#### 11. DATE OF AUTHORISATION OF FINANCIAL STATEMENTS

These financial statements were authorised for issue on 27 October, 2006 by the Board of Directors of the Company.

#### 12. FIGURES

- in the financial statements have been rounded-off to the nearest thousand Rupees except stated otherwise;
- of the corresponding period, where necessary, have been rearranged for the purpose of comparison, however no material re-arrangement of the corresponding figures have been made in these financial statements.

Osman Saifullah Khan  
Chief Executive

Jehangir Saifullah Khan  
Director