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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

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MILLS

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CHIEF EXECUTIVE'S REVIEW REPORT

It gives me pleasure to present, on behalf of the Board of Directors, the report on the company's performance for the half-year ended 31 December, 2005.

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

OPERATING RESULTS

Financial highlights clearly depict an improved performance:

- The Company achieved a 50% growth in turnover.
- The Company improved Gross margin to 9.06% from a figure of 0.40% in the corresponding period last year.
- The Company improved Operating profit margin to 5.67% as against an operating loss during the corresponding period last year.
- Higher financial cost, on account of higher interest rates, resulted in a net loss for the period.

FUTURE OUTLOOK

The inexorable rise of interest rates is a phenomenon that has impacted and will continue to impact the profitability of the Company. The rise in the prices of Extra Long Staple cotton is also not a favorable development. Our prudent and sagacious procurement of raw material will however stand us in good stead in the days to come.

The management's efforts to improve the product mix and bring about enhanced efficiencies in Company operations continue.

The Board places on record its appreciation of the steadfast support of our valued customers and our bankers. I would like also to highlight and acknowledge the hard work put in by the members of our corporate family. We are sure they will continue to show the same dedication in the days ahead.

For and on behalf of the Board

Place : Islamabad
Date : 28 February, 2006

OSMAN SAIFULLAH KHAN
Chief Executive

AUDITORS' REVIEW REPORT TO THE MEMBERS

We have reviewed the annexed balance sheet of **KOHAT TEXTILE MILLS LIMITED** as at 31 December, 2005 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof (here-in-after referred to as the "financial statements") for the half-year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our review. The figures of the profit and loss account for the quarters ended 31 December, 2004 and 2005 and the corresponding figures of the profit and loss account, cash flow statement and statement of changes in equity have not been reviewed as we are required to review only the cumulative figures for the half-year ended 31 December, 2005.

We conducted our review in accordance with the International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of Company's personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, except for the contents of note 11.1 to the financial statements and the extent to which this may affect the annexed financial statements, nothing has come to our attention that causes us to believe that the annexed financial statements are not presented fairly, in all material respects, in accordance with approved accounting standards as applicable in Pakistan.

Place : Lahore
Date : 28 February, 2006

**HAMEED CHAUDHRI & CO.,
CHARTERED ACCOUNTANTS**

BALANCE SHEET
AS AT 31 DECEMBER, 2005

| | Note | (Un-audited) 31 December, 2005 | (Audited) 30 June, 2005 |
|--|------|--------------------------------------|-------------------------------|
| (Rupees in thousand) | | | |
| SHARE CAPITAL | | | |
| Authorised | | | |
| 17,000,000 (30 June, 2005: 9,000,000) ordinary shares of Rs.10 each | | 170,000 | 90,000 |
| Issued, subscribed and paid-up | 3 | 158,000 | 88,000 |
| ACCUMULATED LOSS | | | |
| | | (54,531) | (36,611) |
| | | 103,469 | 51,389 |
| DEPOSIT FOR SHARES | 4 | 0 | 70,000 |
| SURPLUS ON REVALUATION OF FIXED ASSETS | | 158,245 | 159,854 |
| NON-CURRENT LIABILITIES | | | |
| Demand finances | 5 | 208,000 | 220,000 |
| Long term deposits | | 798 | 561 |
| Liabilities against assets subject to finance lease | 6 | 103,658 | 101,711 |
| Staff retirement benefits - gratuity | | 15,445 | 15,520 |
| | | 327,901 | 337,792 |
| CURRENT LIABILITIES | | | |
| Current portion of: | | | |
| - Demand finances | | 52,000 | 40,000 |
| - Liabilities against assets subject to finance lease | | 28,170 | 20,541 |
| Short term finances | 7 | 421,082 | 388,075 |
| Trade and other payables | | 26,189 | 30,863 |
| Accrued mark-up and interest | | 23,462 | 24,939 |
| Taxation | 8 | 2,806 | 66 |
| | | 553,709 | 504,484 |
| CONTINGENCIES AND COMMITMENTS | | | |
| | | 1,143,324 | 1,123,519 |
| PROPERTY, PLANT AND EQUIPMENT | | | |
| Operating assets | 10 | 683,990 | 618,061 |
| Capital work-in-progress | | 0 | 36,566 |
| Stores held for capital expenditure | | 0 | 338 |
| | | 683,990 | 654,965 |
| LONG TERM DEPOSITS | | 1,137 | 318 |
| LONG TERM LOANS | | 1,752 | 1,584 |
| DEFERRED TAXATION | 11 | 11,164 | 9,075 |
| CURRENT ASSETS | | | |
| Stores, spares and loose tools | | 27,174 | 28,340 |
| Stock-in-trade | | 265,799 | 327,889 |
| Trade debtors | | 129,993 | 76,714 |
| Loans and advances | | 1,053 | 320 |
| Advance payments | | 3,758 | 6,011 |
| Trade deposits and short term prepayments | | 1,676 | 552 |
| Sales tax refundable | | 7,459 | 2,594 |
| Due from associates | | 2,246 | 0 |
| Other receivables | | 344 | 5,823 |
| Advance income tax and tax deducted at source | | 2,153 | 6,522 |
| Cash and bank balances | | 3,626 | 2,812 |
| | | 445,281 | 457,577 |
| | | 1,143,324 | 1,123,519 |

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

Osman Saifullah Khan
Chief Executive

Zafar Qureshi
Director

**PROFIT AND LOSS ACCOUNT
FOR THE HALF YEAR ENDED 31 DECEMBER, 2005 (UN-AUDITED)**

| | For the 2nd Quarter | | Cumulative | |
|--------------------------|----------------------|---------------------|---------------------|---------------------|
| | Oct. - Dec. 2005 | Oct. - Dec. 2004 | Jul. - Dec. 2005 | Jul. - Dec. 2004 |
| | (Rupees in thousand) | | | |
| Sales - local | 329,138 | 209,354 | 551,574 | 424,433 |
| Less: | | | | |
| Sales tax | 0 | 27,307 | 0 | 57,668 |
| Commission | 592 | 174 | 1,383 | 182 |
| | 592 | 27,481 | 1,383 | 57,850 |
| Sales - net | 328,546 | 181,873 | 550,191 | 366,583 |
| Cost of sales | 297,868 | 174,417 | 500,209 | 365,100 |
| Gross profit | 30,678 | 7,456 | 49,982 | 1,483 |
| Administrative expenses | 8,380 | 6,536 | 16,120 | 14,811 |
| Distribution cost | 1,167 | 499 | 2,239 | 1,433 |
| Other operating expenses | 483 | 511 | 653 | 299 |
| | 10,030 | 7,546 | 19,012 | 16,543 |
| | 20,648 | (90) | 30,970 | (15,060) |
| Other operating income | 90 | 0 | 181 | 0 |
| | 20,738 | (90) | 31,151 | (15,060) |
| Finance cost | 22,641 | 8,915 | 42,882 | 14,856 |
| Loss before taxation | (1,903) | (9,005) | (11,731) | (29,916) |
| Taxation | | | | |
| - Current - note 8 | 1,696 | 0 | 2,806 | (2,229) |
| - Prior periods - note 8 | (31) | 0 | 7,081 | 0 |
| - Deferred | (2,089) | (2,580) | (2,089) | (8,453) |
| | (424) | (2,580) | 7,798 | (10,682) |
| Loss after taxation | (1,479) | (6,425) | (19,529) | (19,234) |
| | Rupees | | | |
| Loss per share | (0.10) | (0.73) | (1.29) | (2.19) |

-The annexed 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

Zafar Qureshi
Director

CASH FLOW STATEMENT
FOR THE HALF YEAR ENDED 31 DECEMBER, 2005 (UN-AUDITED)

| | Half-year ended | |
|---|----------------------|----------------------|
| | 31 December, 2005 | 31 December, 2004 |
| | (Rupees in thousand) | |
| Cash flow from operating activities | | |
| Loss for the period - before taxation | (11,731) | (29,916) |
| Adjustments for: | | |
| Depreciation and amortisation | 29,324 | 22,003 |
| Staff retirement benefits - gratuity (net) | (75) | 1,081 |
| Unclaimed balances written back | 0 | (36) |
| (Gain) / loss on sale of property, plant and equipment | (1) | 131 |
| Finance cost | 42,586 | 14,856 |
| Cash flow from operating activities | | |
| - before working capital changes | 60,103 | 8,119 |
| (Increase) / decrease in current assets: | | |
| Stores, spares and loose tools | 1,166 | (3,514) |
| Stock-in-trade | 62,090 | (57,033) |
| Trade debtors | (53,279) | 1,031 |
| Loans and advances | (733) | (144) |
| Advance payments | 2,253 | 1,034 |
| Trade deposits and short term prepayments | (1,124) | (1,779) |
| Sales tax refundable | (4,865) | 12,634 |
| Due from associates | (2,246) | (925) |
| Other receivables | 5,479 | (202) |
| (Increase) / decrease in trade and other payables | (4,674) | 37,841 |
| | 4,067 | (11,057) |
| Cash flow from operating activities - before taxation | 64,170 | (2,938) |
| Taxes paid | (2,778) | (1,242) |
| Cash flow from operating activities - after taxation | 61,392 | (4,180) |
| Long term loans - net | (168) | (1,100) |
| Long term deposits | (819) | 0 |
| Net cash inflow / (outflow) from operating activities | 60,405 | (5,280) |
| Cash flow from investing activities | | |
| Property, plant and equipment | (58,349) | (114,515) |
| Sale proceeds of plant and equipment | 1 | 812 |
| Net cash outflow from investing activities | (58,348) | (113,703) |
| Cash flow from financing activities | | |
| Issue of right shares | 70,000 | 0 |
| Deposit for shares | (70,000) | 0 |
| Demand finances | 0 | 965 |
| Long term deposits | 237 | 401 |
| Lease finances - net | 9,576 | 85,398 |
| Short term finances - net | 33,007 | 42,452 |
| Finance cost paid | (44,063) | (13,142) |
| Net cash (outflow) / inflow from financing activities | (1,243) | 116,074 |
| Net increase / (decrease) in cash and cash equivalents | 814 | (2,909) |
| Cash and cash equivalents - at the beginning of the period | 2,812 | 8,546 |
| Cash and cash equivalents - at the end of the period | 3,626 | 5,637 |

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

Osman Saifullah Khan
Chief Executive

Zafar Qureshi
Director

**STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER, 2005 (UN-AUDITED)**

| | Share capital | (Accumulated Loss)/ Unappropriated Profit | Total |
|---|------------------|--|----------------|
| (R u p e e s i n t h o u s a n d) | | | |
| Balance as at 30 June, 2004 | 88,000 | 328 | 88,328 |
| Loss for the half-year ended 31 December, 2004 | 0 | (19,234) | (19,234) |
| Transfer from surplus on revaluation of fixed assets on account of incremental depreciation for the period - net of deferred taxation | 0 | 90 | 90 |
| Balance as at 31 December, 2004 | 88,000 | (18,816) | 69,184 |
| Loss for the half-year ended 30 June, 2005 | 0 | (17,881) | (17,881) |
| Transfer from surplus on revaluation of fixed assets on account of incremental depreciation for the period - net of deferred taxation | 0 | 86 | 86 |
| Balance as at 30 June, 2005 | 88,000 | (36,611) | 51,389 |
| Loss for the half-year ended 31 December, 2005 | 0 | (19,529) | (19,529) |
| Issue of right shares | 70,000 | 0 | 70,000 |
| Transfer from surplus on revaluation of fixed assets on account of incremental depreciation for the period - net of deferred taxation | 0 | 1,609 | 1,609 |
| Balance as at 31 December, 2005 | 158,000 | (54,531) | 103,469 |

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

Osman Saifullah Khan
Chief Executive

Zafar Qureshi
Director

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 31 DECEMBER, 2005 (UN-AUDITED)**

1. CORPORATE INFORMATION

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. BASIS OF PREPARATION

These financial statements have been prepared in accordance with the requirements of International Accounting Standard 34 (Interim Financial Reporting) and are being submitted to the shareholders as required by section 245 of the Companies Ordinance, 1984 and the Listing Regulations of Karachi and Islamabad Stock Exchanges. These financial statements are un-audited and have been reviewed by the external Auditors as required by the Code of Corporate Governance.

The accounting policies and methods of computation adopted in the preparation of these half-yearly financial statements are the same as those applied in the preparation of the preceding published financial statements of the Company for the period of nine months ended on 30 June, 2005.

| | (Un-audited) 31 December, 2005 | (Audited) 30 June, 2005 |
|---|---|-------------------------------|
| 3. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL | | |
| 2,525,400 ordinary shares of Rs. 10 each fully paid in cash | 25,254 | 25,254 |
| 6,274,600 ordinary shares of Rs. 10 each issued as fully paid-up by conversion of loans and debentures | 62,746 | 62,746 |
| 7,000,000 ordinary right shares of Rs. 10 each fully paid in cash issued and allotted during the period | 70,000 | 0 |
| <u>15,800,000</u> | <u>158,000</u> | <u>88,000</u> |

(Rupees in thousand)

3.1 7,350,010 (30 June, 2005: 4,410,575) ordinary shares are held by the following Associates at the period-end:

| | (Un-audited) 31 December, 2005 | (Audited) 30 June, 2005 |
|-------------------------------|---|-------------------------------|
| Number of Shares | | |
| - Saif Telecom Ltd. | 7,219,435 | 4,280,000 |
| - KSK Investments (Pvt.) Ltd. | 130,575 | 130,575 |
| | <u>7,350,010</u> | <u>4,410,575</u> |

4. DEPOSIT FOR SHARES

This represents amount deposited by Saif Telecom Ltd. (an associate) towards its underwriting commitment. The Company, during the current period, has issued and allotted 2,939,435 shares to Saif Telecom Ltd. and refunded it the balance amount of Rs.40.606 million.

| Note | (Un-audited) 31 December, 2005 | (Audited) 30 June, 2005 |
|------|--------------------------------------|-------------------------------|
| | (Rupees in thousand) | |

5. DEMAND FINANCES - Secured

| | | |
|---|----------------|----------------|
| National Bank of Pakistan | | |
| Demand Finance (DF) - I | 140,000 | 140,000 |
| Demand Finance (DF) - II | 120,000 | 120,000 |
| | <u>260,000</u> | <u>260,000</u> |
| Less: current portion grouped under current liabilities | 52,000 | 40,000 |
| | <u>208,000</u> | <u>220,000</u> |

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 8.39% to 11.12% per annum. DF I is repayable in 10 half-yearly instalments of Rs.14 million each commencing January, 2006 whereas DF II is repayable in 10 half-yearly instalments of Rs.12 million each commencing April, 2006.

6. 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 November, 2010. These facilities, during the period, carried finance charges at the rates ranging from 10.36% to 11.64% 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.

7. 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 and AlBaraka Islamic Bank aggregate Rs.715 million (30 June, 2005: Rs.400 million). These facilities, during the period, carried mark-up at the rates ranging from 5.26% to 11.61% per annum; payable on quarterly and bi-annually basis. Facilities available for opening letters of credit / guarantee from the aforementioned banks aggregate Rs. 283 million (30 June 2005: Rs.183 million) of which the amount aggregating Rs.258.844 million (30 June, 2005: Rs. 133.428 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 December, 2006.

8. TAXATION - Net

| | | |
|--|-----|--------------|
| Opening balance | | 66 |
| Add: Provision made during the period: | | |
| - Current | 8.1 | 0 |
| - Prior years' | 8.1 | 0 |
| | | <u>0</u> |
| | | 66 |
| Less: Advance tax payments made in prior periods | | 0 |
| | | <u>2,806</u> |

- 8.1 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.
- 8.2 There has been no significant change in the Company's taxation status since the date of preceding published financial statements for the period of nine months ended on 30 June, 2005.

| | |
|---|-------------------------------|
| (Un-audited) 31 December, 2005 | (Audited) 30 June, 2005 |
| (Rupees in thousand) | |

9. CONTINGENCIES AND COMMITMENTS

- 9.1 Commitments for irrevocable letters of credit outstanding at the period-end were as follows:

| | | |
|-----------------------|---------------|---------------|
| - Capital expenditure | 0 | 23,711 |
| - Others | 16,156 | 17,861 |
| | <u>16,156</u> | <u>41,572</u> |

- 9.2 There has been no significant change in the status of contingencies since the date of preceding published financial statements for the period of nine months ended on 30 June, 2005.

| | |
|---|---|
| (Un-audited) Half year ended 31 Dec., 2005 | (Audited) Nine months ended 30 June, 2005 |
| (Rupees in thousand) | |

10. OPERATING ASSETS

| | | |
|---|----------------|----------------|
| Opening book value | 618,061 | 450,662 |
| Additions during the period: | | |
| Owned: | | |
| Tangible | | |
| - Factory buildings on freehold land | 4,468 | 5,693 |
| - Non-factory buildings on freehold land | 744 | 0 |
| - Plant & machinery | 11,488 | 24,851 |
| - Electric installations | 40 | 902 |
| - Equipment & appliances | 422 | 2,348 |
| - Fire extinguishing equipment | 0 | 126 |
| - Furniture & fixtures | 327 | 3,594 |
| Intangible - computer software | 360 | 438 |
| | 17,849 | 37,952 |
| Leased: | | |
| Plant & machinery | 77,404 | 103,604 |
| | 95,253 | 141,556 |
| Surplus arisen on revaluation of: | | |
| Freehold land | 0 | 7,205 |
| Buildings on freehold land | 0 | 64,721 |
| | 0 | 71,926 |
| Book value of assets disposed-off during the period | 0 | (10,020) |
| Depreciation / amortisation charge for the period | (29,324) | (36,063) |
| Closing book value | <u>683,990</u> | <u>618,061</u> |

| | Note | (Un-audited) 31 December, 2005 | (Audited) 30 June, 2005 |
|---|------|--------------------------------------|-------------------------------|
| 11. DEFERRED TAXATION | | | |
| The deferred tax asset comprises of temporary differences arising due to: | | | |
| Debit balances arising in respect of: | | | |
| - Unused tax losses | 11.1 | 99,126 | 92,721 |
| - Minimum tax available for carry forward | | 9,887 | 0 |
| | | 109,013 | 92,721 |
| Credit balances arising in respect of: | | | |
| - Accelerated tax depreciation allowances | | (86,247) | (81,359) |
| - Lease finances | | (11,602) | (2,287) |
| | | (97,849) | (83,646) |
| | | 11,164 | 9,075 |

11.1 Deferred tax asset has been recognised based on the projections prepared by the management indicating reasonable probability that taxable profits will be available in the foreseeable future against which the unused tax losses will be utilised. The Auditors have relied upon management's representation for the basis and assumptions applied in the preparation of these projections.

12. TRANSACTIONS WITH ASSOCIATES

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 were as follows:

| | (Un-audited) Half year ended 31 Dec., 2005 | (Audited) Nine months ended 30 June, 2005 |
|--------------------------------|--|---|
| (Rupees in thousand) | | |
| Sale of: | | |
| - Goods and services | 76,062 | 313,949 |
| - Fixed assets | 0 | 7,410 |
| Purchase of goods and services | 40,310 | 41,078 |

13. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on 28 February, 2006 by the board of directors of the Company.

14. FIGURES

- Figures in the financial statements have been rounded-off to the nearest thousand Rupees except stated otherwise.
- Corresponding figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison.
- As reviewed financial statements for the corresponding half-year ended 31 December, 2004 are not available, figures for this period have been derived by comparing audited financial statements for the year ended 30 September, 2004 with the un-audited financial statements for the period of nine months ended 30 June, 2004 and adding thereto the results for the first quarter ended 31 December, 2004.

Osman Saifullah Khan
Chief Executive

Zafar Qureshi
Director