



## **C O N T E N T S**

COMPANY INFORMATION	2
DIRECTOR'S REVIEW REPORT TO THE MEMBERS	3
AUDITORS' REVIEW REPORT TO THE MEMBERS	4
CONDENSED INTERIM BALANCE SHEET	5
CONDENSED INTERIM PROFIT AND LOSS ACCOUNT	6
CONDENSED INTERIM CASH FLOW STATEMENT	7
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY	8
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS	9

**COMPANY INFORMATION**

<b>BOARD OF DIRECTORS</b>	Javed Saifullah Khan Osman Saifullah Khan Kulsum Saifullah Khan Omar Saifullah Khan Jehangir Saifullah Khan Ch. Maqbool Ahmad Zafar Qureshi	- Chairman - Chief Executive
<b>AUDIT COMMITTEE</b>	Ch. Maqbool Ahmad Jehangir Saifullah Khan Zafar Qureshi	- Chairman - Member - Member
<b>CHIEF FINANCIAL OFFICER</b>	Zaheen-ud-Din Qureshi	
<b>COMPANY SECRETARY</b>	Mumtaz H. Chaudhry	
<b>AUDITORS</b>	Hameed Chaudhri & Co., Chartered Accountants	
<b>LEGAL ADVISORS</b>	Dr. Pervez Hassan Hassan & Hassan, Advocates Abdul Latif Yousafzai, Advocate	
<b>BANKERS</b>	National Bank of Pakistan United Bank Limited Albaraka Islamic Bank The Bank of Punjab First National Bank Modaraba Faysal Bank Limited	
<b>HEAD OFFICE</b>	Kulsum Plaza, 4th Floor, 2020 - Blue Area, Islamabad-44000 Phone : (051) 2823924, 2829415 Fax : (051) 2822564, 2278537 e-mail : ktm@saifgroup.com	
<b>REGISTERED OFFICE</b>	APTMA House, Tehkal Payan, Jamrud Road, Peshawar Phone : (091) 5843870, 5702941 Fax : (091) 5840273 e-mail : peshawar@saifgroup.com	
<b>MILLS</b>	Saifabad, Kohat Phone : (0922) 518615, 518712 Fax : (0922) 512295 E-mail : ktmkht@saifgroup.com	
<b>WEB SITE</b>	www.kohattextile.com	

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

It is my pleasure to present, on behalf of the Board of Directors, this report of your Company's performance for the half year ended 31 December 2006.

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

### **Operating Results**

Despite the aforementioned factors your Company has performed well during the period under review. The significant performance highlights of your Company are:

- A tremendous **18%** growth in turnover.
- The Gross Profit Margin has improved from 9.08 % in the corresponding period of the preceding year to **10.67 %** due to the productivity efficiencies accruing from the implementation of the BMR plan.
- The Operating Profit Margin has risen from 5.66 % in the corresponding period of the preceding year to **7.49 %**.
- The Company earned a Pre-tax profit of **Rs. 3.865 Million** as compared to a loss of Rs. 11.731 Million in the corresponding period of the preceding year.

### **Future Outlook**

Pakistan's textile sector is heading towards a downturn, primarily due to prevailing impediments in the national economy. The sharp rises in the cost of domestic borrowing, accompanied by similar unilateral escalations in the cost of energy are creating an extremely challenging environment for all manufacturers. Despite significant price reductions in the international energy markets, tariffs on domestic natural gas continue their upward spiral, further elevating the cost of self-generated electricity and raising the cost of production. The seemingly infinite rise in financial charges and mark up rates is a critical factor that will inclemently affect the profitability of the entire textile sector. Moreover, the minimum wage has also been raised.

Given this operating environment, the challenge that lies before your Company's management is indeed a Herculean one. The mission before us is to minimize the adverse impacts of the depressed market and economic conditions, through our dedication and efficiency. In the absence of any positive government economic policy developments during the next two quarters, our operating results are unlikely to improve beyond their current level.

### **Acknowledgment**

The Board places on record its appreciation of the support of our valued customers and bankers. I would also like to highlight the hard work put in by the members of our corporate family.

We look forward to the same dedication and cooperation in the difficult days ahead.

**For and on behalf of the Board**

Place : Peshawar  
Dated : 26 February, 2007

**OSMAN SAIFULLAH KHAN**  
Chief Executive Officer

**AUDITORS' REVIEW REPORT TO THE MEMBERS**

We have reviewed the annexed balance sheet of **KOHAT TEXTILE MILLS LIMITED** as at 31 December, 2006 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, 2005 and 2006 have not been reviewed as we are required to review only the cumulative figures for the half-year ended 31 December, 2006.

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 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 12.1 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 : 26 February, 2007

**HAMEED CHAUDHRI & CO.  
CHARTERED ACCOUNTANTS**

**CONDENSED INTERIM BALANCE SHEET  
AS AT 31 DECEMBER, 2006**

	Note	(Un-audited) 31 December, 2006	(Audited) 30 June, 2006
(Rupees in thousand)			
<b>EQUITY AND LIABILITIES</b>			
SHARE CAPITAL			
Authorised 22,000,000 ordinary shares of Rs.10 each		220,000	220,000
Issued, subscribed and paid-up		<u>208,000</u>	<u>208,000</u>
<b>ACCUMULATED LOSS</b>		<u>(44,087)</u>	<u>(34,783)</u>
		163,913	173,217
<b>SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT</b>		154,929	156,476
<b>NON-CURRENT LIABILITIES</b>			
Demand finances	6	156,000	182,000
Long term deposits		1,348	1,147
Liabilities against assets subject to finance lease	7	76,646	91,125
Staff retirement benefits - gratuity		<u>16,292</u>	<u>15,340</u>
		250,286	289,612
<b>CURRENT LIABILITIES</b>			
Current portion of:			
- demand finances	6	52,000	52,000
- liabilities against assets subject to finance lease	7	28,855	28,529
Short term finances	8	450,410	395,141
Trade and other payables		53,555	60,369
Accrued interest / mark-up		26,457	23,535
Taxation	9	<u>2,994</u>	<u>5,956</u>
		614,271	565,530
<b>CONTINGENCIES AND COMMITMENTS</b>	10	<u>1,183,399</u>	<u>1,184,835</u>
<b>NON - CURRENT ASSETS</b>			
<b>Property, plant and equipment</b>			
Operating assets	11	667,082	676,148
Capital work-in-progress		0	5,382
Stores held for capital expenditure		4,225	4,604
		671,307	686,134
Long term deposits		1,137	1,137
Long term loans		2,064	1,841
Deferred taxation	12	<u>4,250</u>	<u>16,026</u>
		678,758	705,138
<b>CURRENT ASSETS</b>			
Stores, spares and loose tools		24,424	22,489
Stock-in-trade		282,973	306,950
Trade debtors		170,884	131,915
Loans and advances		1,802	376
Advance payments		1,248	870
Deposits and prepayments		3,194	603
Sales tax refundable		13,279	8,998
Other receivables		1,075	908
Advance income tax and tax deducted at source		3,032	6,146
Cash and bank balances		<u>2,730</u>	<u>442</u>
		504,641	479,697
		<u>1,183,399</u>	<u>1,184,835</u>

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

**Osman Saifullah Khan**  
Chief Executive

**Zafar Qureshi**  
Director

**Kohat Textile Mills Limited Half Yearly Report 2006-07**

**CONDENSED INTERIM PROFIT AND LOSS ACCOUNT  
FOR THE HALF-YEAR ENDED 31 DECEMBER, 2006 (UN-AUDITED)**

	For the 2nd Quarter		Cumulative	
	Oct. - Dec. 2006	Oct. - Dec. 2005	Jul. - Dec. 2006	Jul. - Dec. 2005
	(Rupees in thousand)			
<b>Sales</b>	288,268	329,138	651,157	551,574
<b>Less: commission</b>	584	592	1,410	1,383
<b>Sales - net</b>	287,684	328,546	649,747	550,191
<b>Cost of sales</b>	257,025	297,868	580,412	500,209
<b>Gross profit</b>	30,659	30,678	69,335	49,982
<b>Administrative expenses</b>	7,461	8,380	15,465	16,120
<b>Distribution cost</b>	1,409	1,167	3,074	2,239
<b>Other operating charges</b>	851	483	2,439	653
	9,721	10,030	20,978	19,012
<b>Other operating income</b>	20,938	20,648	48,357	30,970
	341	90	341	181
<b>Finance cost</b>	21,279	20,738	48,698	31,151
	22,711	22,641	44,833	42,882
<b>(Loss) / profit before taxation</b>	(1,432)	(1,903)	3,865	(11,731)
<b>Taxation</b>				
- current - note 9	1,440	1,696	3,250	2,806
- prior years' - note 9	(310)	(31)	(310)	7,081
- deferred - note 12	9,376	(2,089)	11,776	(2,089)
	10,506	(424)	14,716	7,798
<b>Loss after taxation</b>	(11,938)	(1,479)	(10,851)	(19,529)
	Rupees			
<b>Loss per share</b>	(0.57)	(0.10)	(0.52)	(1.29)

- 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

**CONDENSED INTERIM CASH FLOW STATEMENT  
FOR THE HALF-YEAR ENDED 31 DECEMBER, 2006 (UN-AUDITED)**

	Half-year ended	
	31 Dec. 2006	31 Dec. 2005
	(Rupees in thousand)	
<b>Cash flow from operating activities</b>		
Profit / (loss) for the period - before taxation	3,865	(11,731)
Adjustments for:		
Depreciation and amortisation	27,977	29,324
Staff retirement benefits - gratuity (net)	952	(75)
Gain on sale of vehicle	(340)	(1)
Finance cost	44,833	42,586
<b>Cash flow from operating activities</b>		
- before working capital changes	77,287	60,103
(Increase) /decrease in current assets:		
Stores, spares and loose tools	(1,935)	1,166
Stock-in-trade	23,977	62,090
Trade debtors	(38,969)	(53,279)
Loans and advances	(1,426)	(733)
Advance payments	(378)	2,253
Deposits and prepayments	(2,591)	(1,124)
Sales tax refundable	(4,281)	(4,865)
Due from associates	0	(2,246)
Other receivables	(167)	5,479
Increase in trade and other payables	(6,815)	(4,674)
	(32,585)	4,067
<b>Cash flow from operating activities - before taxation</b>	44,702	64,170
Taxes paid	(2,788)	(2,778)
<b>Cash flow from operating activities - after taxation</b>	41,914	61,392
Long term loans - net	(223)	(168)
Long term deposits	0	(819)
<b>Net cash inflow from operating activities</b>	41,691	60,405
<b>Cash flow from investing activities</b>		
Fixed capital expenditures	(13,259)	(58,349)
Sale proceeds of vehicle	450	1
<b>Net cash outflow from investing activities</b>	(12,809)	(58,348)
<b>Cash flow from financing activities</b>		
Proceeds from issue of right shares	0	70,000
Deposit for shares	0	(70,000)
Demand finances	(26,000)	0
Long term deposits	201	237
Lease finances - net	(14,153)	9,576
Short term finances - net	55,269	33,007
Finance cost paid	(41,911)	(44,063)
<b>Net cash outflow from financing activities</b>	(26,594)	(1,243)
<b>Net increase in cash and cash equivalents</b>	2,288	814
<b>Cash and cash equivalents - at the beginning of the period</b>	442	2,812
<b>Cash and cash equivalents - at the end of the period</b>	2,730	3,626

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

**Osman Saifullah Khan**  
Chief Executive

**Zafar Qureshi**  
Director

**Kohat Textile Mills Limited      Half Yearly Report 2006-07**

**CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY  
FOR THE HALF-YEAR ENDED 31 DECEMBER, 2006 (UN-AUDITED)**

	Share capital	Accumulated Loss	Total
( R u p e e s i n t h o u s a n d )			
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)
Nominal value of shares issued	70,000	0	70,000
Transfer from surplus on revaluation of property, plant and equipment on account of incremental depreciation for the half- year ended 31 December, 2005 - net of deferred taxation	0	1,609	1,609
Balance as at 31 December, 2005	158,000	(54,531)	103,469
Profit after taxation for the half-year ended 30 June, 2006	0	17,979	17,979
Nominal value of shares issued	50,000	0	50,000
Transfer from surplus on revaluation of property, plant and equipment on account of incremental depreciation for the half- year ended 30 June, 2006 - net of deferred taxation	0	1,769	1,769
Balance as at 30 June, 2006	208,000	(34,783)	173,217
Loss for the half-year ended 31 December, 2006	0	(10,851)	(10,851)
Transfer from surplus on revaluation of property, plant and equipment on account of incremental depreciation for the half- year ended 31 December, 2006 - net of deferred taxation	0	1,547	1,547
<b>Balance as at 31 December, 2006</b>	<b>208,000</b>	<b>(44,087)</b>	<b>163,913</b>

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

**Osman Saifullah Khan**  
Chief Executive

**Zafar Qureshi**  
Director

**NOTES TO THE CONDENSED INTERIM  
FINANCIAL STATEMENTS  
FOR THE HALF-YEAR ENDED 31 DECEMBER, 2006 (UN-AUDITED)**

1. 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. These interim financial statements (the financial statements) are presented in condensed form in accordance with International Accounting Standard 34 (Interim Financial Reporting). The financial statements have been reviewed by the external Auditors as required by the Code of Corporate Governance and are being submitted to the shareholders in accordance with the requirements of section 245 of the Companies Ordinance, 1984.
3. These financial statements do not include all the information required for full financial statements and should be read in conjunction with the annual financial statements as at and for the year ended 30 June, 2006.
4. The accounting policies and methods of computation, which have been used in the preparation of these financial statements, are the same as those applied in the preparation of the financial statements as at and for the year ended 30 June, 2006.
5. The significant judgment, estimates and assumptions used by the management in preparation of these financial statements are the same as those applied to the annual financial statements as at and for the year ended 30 June, 2006.

	<b>(Un-audited) 31 Dec., 2006</b>	<b>(Audited) 30 June, 2006</b>
	<b>(Rupees in thousand)</b>	
<b>6. DEMAND FINANCES - Secured</b>		
National Bank of Pakistan		
Demand Finance (DF) - I	<b>112,000</b>	126,000
Demand Finance (DF) - II	<b>96,000</b>	108,000
	<b>208,000</b>	234,000
Less: current portion grouped under current liabilities	<b>52,000</b>	52,000
	<b>156,000</b>	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. 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.

**7. 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

## Kohat Textile Mills Limited      Half Yearly Report 2006-07

10.71% to 13.10% 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, ranking charge on all present and future movable fixed assets of the Company including plant & machinery and equipment, demand promissory note and title of the leased vehicle in the name of FBL.

### 8. SHORT TERM FINANCES - Secured

Short term cash, trust receipt, running and murabaha finance facilities available from National Bank of Pakistan, United Bank Limited, The Bank of Punjab, First National Bank Modaraba and AlBaraka Islamic Bank aggregate Rs.775 million (30 June, 2006: Rs.725 million). These facilities, during the period, carried mark-up at the rates ranging from 6.72% to 13.34% 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. 249.445 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 June, 2007.

	(Un-audited) 31 Dec., 2006	(Audited) 30 June, 2006
<b>Note</b>	<b>(Rupees in thousand)</b>	

### 9. TAXATION - Net

Opening balance	5,956	66
Add: provision made during the period / year:		
- current	9.1      3,250	5,890
- prior years'	(310)	7,081
	2,940	12,971
	8,896	13,037
Less: adjustments against completed assessments	5,902	7,081
	2,994	5,956

9.1 In view of available tax losses, the current tax provision represents the minimum tax on turnover for the half-year due under section 113 of the Income Tax Ordinance, 2001.

### 10. CONTINGENCIES AND COMMITMENTS

10.1 The Company has filed a claim for Rs.268 thousand with the Customs and Central Excise Department in respect of rebate of excise duty already paid for manufacturing of man-made yarn.

10.2 (a) National Bank of Pakistan, on behalf of the Company, has issued an inland bank guarantee of Rs.8 million (30 June, 2006: Rs.8 million) in favour of Sui Northern Gas Pipelines Ltd. (SNGPL). The guarantee is secured against pari passu charge on fixed assets for Rs. 8 million.

(b) AlBaraka Islamic Bank, on behalf of the Company, has also issued a bank guarantee of Rs.3 million in favour of SNGPL. The guarantee is secured against second charge for Rs.5 million on the Company's current assets.

10.3 No commitments were outstanding as at 31 December, 2006; (30 June, 2006: commitments outstanding for irrevocable letters of credit amounted Rs.54,914 thousand).

Note	Un-audited Half-year ended 31 Dec., 2006	Audited year ended 30 June, 2006
	(Rupees in thousand)	
<b>11. OPERATING ASSETS</b>		
Opening book value	676,148	618,061
Additions during the period / year:		
<b>Owned:</b>		
<b>Tangible</b>		
- factory buildings on freehold land	3,107	8,168
- non-factory buildings on freehold land	0	383
- plant & machinery	7,596	39,903
- gas fired power plant	4,003	6,462
- electric installations	0	355
- equipment & appliances	3,209	1,104
- fire extinguishing equipment	0	25
- furniture & fixtures	87	422
- vehicles	1,018	640
<b>Intangible</b> - computer software	0	488
	19,020	57,950
<b>Leased:</b>		
- plant & machinery	0	18,903
- gas fired power plant	0	37,814
	19,020	114,667
Book value of vehicle sold during the period / year	(109)	(1)
Depreciation / amortisation charge for the period / year	(27,977)	(56,579)
Closing book value	667,082	676,148
	Un-audited 31 Dec., 2006	Audited 30 June, 2006
	(Rupees in thousand)	

**12. DEFERRED TAXATION**

The deferred tax asset comprises of temporary differences arising due to:

Debit balances arising in respect of:

- available tax losses
- minimum tax recoverable against tax charge in future years

Credit balances arising in respect of:

- accelerated tax depreciation allowances
- lease finances

12.1	101,323	100,551
	3,250	12,971
	104,573	113,522
	(90,856)	(90,535)
	(9,467)	(6,961)
	(100,323)	(97,496)
	4,250	16,026

## Kohat Textile Mills Limited Half Yearly Report 2006-07

**12.1** 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.

### 13. TRANSACTIONS WITH RELATED PARTIES

**13.1** Aggregate transactions made during the period / year with Associated Companies were as follows:

	<b>Un-audited Half-year ended 31 Dec., 2006</b>	<b>Audited Year ended 30 June, 2006</b>
	<b>(Rupees in thousand)</b>	
- sale of goods and services	<b>243,852</b>	483,151
- purchase of goods and services	<b>241,694</b>	315,811

**13.2** No other transactions, other than remuneration and benefits to key management personnel under the terms of their employment, were executed with other related parties during the period.

**13.3** Sales, purchases and other transactions with related parties are made at arm's length prices determined in accordance with the comparable uncontrolled price method except for the allocation of expenses relating to combined offices shared with the Associated Companies, which are on the actual basis.

### 14. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue by the Board of Directors of the Company in its meeting held on 26 February, 2007.

### 15. FIGURES

- Figures in the financial statements have been rounded-off to the nearest thousand Rupees except stated otherwise.
- Corresponding figures have neither been rearranged nor reclassified.

**Osman Saifullah Khan**  
Chief Executive

**Zafar Qureshi**  
Director