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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

Kulsum Plaza, 4th Floor,  
 2020 - Blue Area, Islamabad-44000  
 Phone : (051) 2823924, 2829415  
 Fax : (051) 2822564, 2278537  
 e-mail : ktm@saifgroup.com

### REGISTERED OFFICE

APTMA House, Tehkal Payan,  
 Jamrud Road, Peshawar  
 Phone : (091) 5843870, 5702941  
 Fax : (091) 5840273  
 e-mail : peshawar@saifgroup.com

### MILLS

Saifabad, Kohat  
 Phone : (0922) 518615, 518712  
 Fax : (0922) 512295  
 E-mail : ktmkht@saifgroup.com

### WEB SITE

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

## **DIRECTORS' 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 nine months ended March 31, 2007.

### **General Market Conditions**

Market conditions have worsened and this has coincided with inflationary pressures on the cost side. The unfortunate mix has adversely impacted the Company's financials. The following conditions have prevailed since the start of the current financial year causing depression in the Company's state of affairs:

- An increase in cost of inputs caused by the elevated prices of petroleum.
- Bearish sentiments dominating the market for cotton and man made fiber yarns.
- Higher borrowing costs.

### **Operating Results**

In the face of a contracting market your Company still managed a 18% growth in turnover against the corresponding period of the previous year.

- Gross profit margin has decreased to 9.40% from 10.26% in the corresponding period of the preceding year, due to depressed market conditions and increased cost of raw material.
- The Company has earned an Operating Profit of Rs 60.67 million as compared to Rs 56.15 million during the corresponding period of the preceding year.
- High interest rates continue to increase cost of debt, thereby causing net loss to the Company.

### **Future Outlook**

Pakistan's textile sector is in crisis like situation, primarily due to prevailing impediments in the national economy. The sharp rises in the cost of domestic borrowings, accompanied by bearish sentiment of the yarn market has created an extremely challenging environment for all manufacturers. In addition we are facing stiff competition from heavily subsidized competitors from other countries. The Government so far has not taken enough steps to check this down trend despite repeated appeals from all quarters.

In this operating environment, the challenge before the management is indeed a Herculean one. The mission before us is to minimize the adverse impact of the depressed market and economic conditions. In the absence of any positive external factors, our operating results are unlikely to improve.

### **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 : Islamabad  
Dated: 30 April, 2007

**JAVED SAIFULLAH KHAN**  
Chairman

## CONDENSED INTERIM BALANCE SHEET

	Note	(Un-audited) 31 March, 2007 (Rupees in thousand)	(Audited) 30 June, 2006
<b>SHARE CAPITAL</b>			
Authorised			
22,000,000 ordinary shares of Rs.10 each (30 June, 2006 22,000,000 ordinary shares of Rs.10 each)		220,000	220,000
Issued, subscribed and paid-up		208,000	208,000
<b>ACCUMULATED LOSS</b>		(51,075)	(34,783)
		156,925	173,217
<b>SURPLUS ON REVALUATION OF PROPERTY PLANT AND EQUIPMENT</b>			
		154,156	156,476
<b>NON-CURRENT LIABILITIES</b>			
Demand finances	4	142,000	182,000
Long term deposits		1,465	1,147
Liabilities against assets subject to finance lease	5	66,380	91,125
Staff retirement benefits - gratuity		16,203	15,340
		226,048	289,612
<b>CURRENT LIABILITIES</b>			
Current portion of:			
- Demand finances	4	52,000	52,000
- Liabilities against assets subject to finance lease		29,106	28,529
Short term finances	6	559,749	395,141
Trade and other payables		67,236	60,369
Accrued interest / mark-up		18,092	23,535
Taxation	7	4,550	5,956
		730,733	565,530
<b>CONTINGENCIES AND COMMITMENTS</b>			
	8		
		1,267,862	1,184,835

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

**Jehangir Saifullah Khan**

Director

These financial statements are not signed by the Chief Executive as he is out of country. This information is disclosed as required under Section 241(2) of the Companies Ordinance, 1984.

## AS AT 31 MARCH, 2007

	Note	(Un-audited) 31 March, 2007	(Audited) 30 June, 2006
(Rupees in thousand)			
<b>NON - CURRENT ASSETS</b>			
<b>Property, plant and equipment</b>			
Operating assets	9	656,162	676,148
Capital work-in-progress		202	5,382
Stores held for capital expenditure		0	4,604
		656,364	686,134
Long term deposits		1,137	1,137
Long term loans		2,366	1,841
Deferred taxation	10	10,214	16,026
		670,081	705,138
<b>CURRENT ASSETS</b>			
Stores, spares and loose tools		25,076	22,489
Stock-in-trade		380,710	306,950
Trade debtors		162,554	131,915
Loans and advances		859	376
Advance payments		926	870
Deposits and prepayments		1,629	603
Sales tax refundable		13,405	8,998
Other receivables		1,604	908
Advance income tax and tax deducted at source		4,592	6,146
Cash and bank balances		6,426	442
		597,781	479,697
		1,267,862	1,184,835

**Zafar Qureshi**  
Director

## CONDENSED INTERIM PROFIT AND LOSS ACCOUNT

FOR THE QUARTER AND NINE MONTHS ENDED ON 31 MARCH, 2007 (UN-AUDITED)

	Note	Quarter ended		Nine months ended	
		Jan. - Mar. 2007	Jan. - Mar. 2006	Jul. 2006 Mar. 2007	Jul. 2005 Mar. 2006
------(Rupees in thousand)-----					
<b>Sales</b>		<b>311,734</b>	262,653	<b>962,891</b>	814,227
<b>Less: Commission</b>		<b>866</b>	352	<b>2,276</b>	1,735
		<b>310,868</b>	262,301	<b>960,615</b>	812,492
<b>Cost of sales</b>		<b>289,899</b>	228,947	<b>870,311</b>	729,156
<b>Gross Profit</b>		<b>20,969</b>	33,354	<b>90,304</b>	83,336
<b>Administrative expenses</b>		<b>8,496</b>	7,446	<b>23,961</b>	23,566
<b>Distribution cost</b>		<b>1,339</b>	843	<b>4,413</b>	3,082
<b>Other operating charges</b>		<b>(409)</b>	64	<b>2,030</b>	717
		<b>9,426</b>	8,353	<b>30,404</b>	27,365
		<b>11,543</b>	25,001	<b>59,900</b>	55,971
<b>Other operating income</b>		<b>424</b>	0	<b>765</b>	181
<b>Operating profit</b>		<b>11,967</b>	25,001	<b>60,665</b>	56,152
<b>Finance cost</b>		<b>24,136</b>	20,016	<b>68,969</b>	62,898
<b>(Loss) / profit before taxation</b>		<b>(12,169)</b>	4,985	<b>(8,304)</b>	(6,746)
<b>Taxation</b>					
Current	7	<b>1,556</b>	1,335	<b>4,806</b>	4,141
Prior	7	<b>0</b>	0	<b>(310)</b>	7,081
Deferred		<b>(5,964)</b>	1,448	<b>5,812</b>	(641)
		<b>(4,408)</b>	2,783	<b>10,308</b>	10,581
<b>(Loss) / profit after taxation</b>		<b>(7,761)</b>	2,202	<b>(18,612)</b>	(17,327)
------(Rupees)-----					
<b>Earnings / (loss) per share</b>		<b>(0.37)</b>	0.14	<b>(0.89)</b>	(1.13)

The annexed selected explanatory notes form an integral part of these financial statements. Appropriations have been reflected in the statement of changes in equity.

**Jehangir Saifullah Khan**  
Director

**Zafar Qureshi**  
Director

These financial statements are not signed by the Chief Executive as he is out of country. This information is disclosed as required under Section 241(2) of the Companies Ordinance, 1984.

**CONDENSED INTERIM CASH FLOW STATEMENT****FOR THE PERIOD OF NINE MONTHS ENDED 31 MARCH, 2007 (UN-AUDITED)**

	2007	2006
	(Rupees in thousand)	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Loss for the period	(8,304)	(6,746)
Adjustments for:		
Depreciation and amortisation	42,366	44,614
Staff retirement benefits (gratuity) - net	863	122
Gain on sale of vehicle	(340)	0
Finance cost	68,969	62,898
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
-Before working capital changes	103,554	100,888
(Increase) / decrease in current assets:		
Stores, spares and loose tools	(2,587)	1,105
Stock-in-trade	(73,760)	18,985
Trade debtors	(30,639)	(28,638)
Loans and advances	(483)	(400)
Advance payments	(56)	2,955
Deposits and prepayments	(1,026)	(1,888)
Sales tax refundable	(4,407)	(7,323)
Due from associates	0	(15,285)
Other receivables	(697)	5,770
Increase / (Decrease) in trade and other payables	6,867	18,769
	(106,788)	(5,950)
<b>CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES</b>		
-After working capital changes	(3,234)	94,938
Taxes paid	(4,348)	(3,937)
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
- After taxation	(7,582)	91,001
Long term deposits	0	(819)
Long term loans - net	(525)	(588)
<b>NET CASH INFLOW / (OUTFLOW) FROM OPERATING ACTIVITIES</b>	(8,107)	89,594
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Fixed capital expenditure	(12,705)	(66,836)
Sale proceeds of vehicle	450	0
<b>NET CASH OUTFLOW FROM INVESTING ACTIVITIES</b>	(12,255)	(66,836)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Issue of right shares	0	70,000
Deposit for shares	0	(20,000)
Demand finances	(40,000)	(14,000)
Long term deposits	318	487
Lease finance-net	(24,168)	(261)
Short term finances - net	164,608	14,776
Finance cost paid	(74,412)	(73,883)
<b>NET CASH (OUTFLOW) / INFLOW FROM FINANCING ACTIVITIES</b>	26,346	(22,881)
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	5,984	(123)
<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>	6,426	2,689

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

**Jehangir Saifullah Khan**  
Director

**Zafar Qureshi**  
Director

These financial statements are not signed by the Chief Executive as he is out of country. This information is disclosed as required under Section 241(2) of the Companies Ordinance, 1984.

**CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY  
FOR THE PERIOD OF NINE MONTHS ENDED 31 MARCH, 2007 (UN-AUDITED)**

	Share capital	(Accumulated Loss)	Total
<b>( R u p e e s   i n   t h o u s a n d )</b>			
Balance as at 30 June, 2005	88,000	(36,611)	51,389
Issue of right shares	70,000	0	70,000
Loss for the period from 01 July, 2005 to 31 March, 2006	0	(17,327)	(17,327)
Transfer from surplus on revaluation of fixed assets on account of incremental depreciation for the period from 01 July 2005 to 31 March, 2006 - net of deferred taxation	0	2,413	2,413
Balance as at 31 March, 2006	158,000	(51,525)	106,475
Issue of right shares	50,000	0	50,000
Profit for the period from 01 Apr, 2006 to 30 Jun, 2006	0	15,777	15,777
Transfer from surplus on revaluation of fixed assets on account of incremental depreciation for the period from 01 Apr, 2006 to 30 Jun, 2006 - net of deferred taxation	0	965	965
Balance as at 30 June, 2006	208,000	(34,783)	173,217
Loss for the period from 01 July, 2006 to 31 March, 2007	0	(18,612)	(18,612)
Transfer from surplus on revaluation of fixed assets on account of incremental depreciation for the period ended 31 March, 2007 - net of deferred taxation	0	2,320	2,320
Balance as at 31 March, 2007	<b>208,000</b>	<b>(51,075)</b>	<b>156,925</b>

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

**Jehangir Saifullah Khan**  
Director

**Zafar Qureshi**  
Director

These financial statements are not signed by the Chief Executive as he is out of country. This information is disclosed as required under Section 241(2) of the Companies Ordinance, 1984.

## SELECTED EXPLANATORY NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UN-AUDITED) FOR THE PERIOD OF NINE MONTHS ENDED 31 MARCH, 2007

### 1. 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 interim financial statements (the financial statements) are presented in condensed form in accordance with 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 interim 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.

(Un-audited) 31 March, 2007	(Audited) 30 June, 2006
(Rupees in thousand)	

### 4. DEMAND FINANCES - Secured

National Bank of Pakistan

Demand Finance (DF) - I

Demand Finance (DF) - II

Less: Current portion grouped under current liabilities

<b>98,000</b>	126,000
<b>96,000</b>	<b>108,000</b>
<b>194,000</b>	234,000
<b>52,000</b>	52,000
<b>142,000</b>	<b>182,000</b>

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.

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

The Company has entered into lease agreements with First National Bank Modaraba and AlBaraka Islamic Bank to acquire plant & machinery. 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 10.71% 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, demand promissory note.

**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.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. 213.29 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 December, 2007.

Note	(Un-audited) 31 March, 2007	(Audited) 30 June, 2006
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(Rupees in thousand)

**7. TAXATION**

Opening balance	5,956	66
Add: Provision made during the period		
- Current	7.1	5,890
- Prior years'	4,806	7,081
	(310)	12,971
	4,496	13,037
	10,452	13,037
Less: advance payments/adjustments made during the period/year	5,902	7,081
	4,550	5,956

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

**8. CONTINGENCIES AND COMMITMENTS**

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

- Others	768	54,914
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8.2 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.

8.3 (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 Limited. (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 issued an inland bank guarantee of Rs. 3 million (30 June, 2006: Rs. 3 million) in favour of Sui Northern Gas Pipelines Limited. (SNGPL). The guarantee is secured against second charge for Rs. 5 million on the Company's current assets.

	(Un-audited) Nine Months ended 31 March, 2007	(Audited) Year ended 30 June, 2006
	(Rupees in thousand)	
<b>9. PROPERTY, PLANT AND EQUIPMENT</b>		
Opening book value	676,148	618,061
Additions during the period/year:		
<b>Owned:</b>		
<b>Tangible</b>		
Factory buildings on freehold land	3,217	8,168
Non-factory buildings on freehold land	0	383
Plant & machinery	14,845	39,903
Gas fired power plant	0	6,462
Electric installations	39	355
Equipment & appliances	3,268	1,104
Fire extinguishing equipment	0	25
Furniture & fixtures	103	422
Vehicle	1,017	640
<b>Intangible - computer software</b>	0	488
	22,489	57,950
<b>Leased - Plant &amp; machinery</b>	0	18,903
- Gas fired power plant	0	37,814
	22,489	114,667
Book value of assets disposed-off during the period/year	(109)	(1)
Depreciation / amortisation charge for the period/year	(42,366)	(56,579)
Closing book value	<u>656,162</u>	<u>676,148</u>

	(Un-audited) 31 March, 2007	(Audited) 30 June, 2006
	(Rupees in thousand)	

**10. DEFERRED TAXATION**

The deferred tax asset comprised 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

107,318	100,551
4,806	12,971
<u>112,124</u>	<u>113,522</u>
(90,162)	(90,535)
(11,748)	(6,961)
<u>(101,910)</u>	<u>(97,496)</u>
<u>10,214</u>	<u>16,026</u>

**11. TRANSACTIONS WITH ASSOCIATED COMPANIES**

11.1 Aggregate transactions with Associates during the period/year were as follows:

- Sale of goods and services
- Purchase of goods and services

384,574	483,151
<u>370,068</u>	<u>315,811</u>

11.2 No other transaction, other than remuneration and benefits to key management personnel under the terms of their employment, were executed with other related parties during the period/year.

- 11.3 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.

**12. DATE OF AUTHORISATION OF FINANCIAL STATEMENTS**

These financial statements were authorised for issue on 30 April, 2007 by the Board of Directors of the Company.

**13. 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.

**Jehangir Saifullah Khan**  
Director

**Zafar Qureshi**  
Director

These financial statements are not signed by the Chief Executive as he is out of country. This information is disclosed as required under Section 241(2) of the Companies Ordinance, 1984.