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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 Phone : (051) 2823924, 2829415 Fax : (051) 2822564, 2278537 Email : ktm@saifgroup.com
REGISTERED OFFICE	APTMA House, Tehkal Payan, Jamrud Road, Peshawar Phone : (091) 5843870, 5702941 Fax : (091) 5840273 Email : Peshawar@saifgroup.com
MILLS	Saifabad, Kohat Phone : (0922) 518615, 518712 Fax : (0922) 512295 Email : ktmkht@saifgroup.com
WEB SITE	www.kohattextile.com

VISION AND MISSION STATEMENT

VISION

- To attain market leadership through unmatched quality, a diverse and unique product mix, empowered employees, world class systems, and the highest ethical and professional standards.

MISSION

- Give our shareholders a competitive return on their investment through market leadership, sustainable business growth and sound financial management.
- Earn and sustain the trust of our stakeholders through efficient resource management.
- Provide the highest quality products and services consistent with customer needs and continue to earn the respect, confidence and goodwill of our customers and suppliers.
- Foster a culture of trust and openness in order to make professional life at the Kohat Textile Mills Limited a stimulating and challenging experience for all our people.
- Strive for the continuous development of Pakistan while adding value to the textile sector.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that 40th Annual General Meeting of the Shareholders of **KOHAT TEXTILE MILLS LIMITED** will be held APTMA House, Tehkal Payan, Jamrud Road, Peshawar on Monday the October 30, 2006 at 10:00 am to transact the following business:-

1. To confirm the minutes of the last Meeting.

2. To receive and adopt Audited Financial Statements for the year ended on 30 June, 2006 together with the Auditors' and Directors' Reports thereon.

3. To appoint Auditors for the year ending 30 June, 2007 and fix their remuneration. The retiring auditors M/s. Hameed Chaudhri & Co., Chartered Accountants, being eligible offered themselves for reappointment.

4. To transact any other business with the permission of the Chair.

By order of the Board

Place : Peshawar,
Dated : 09 October, 2006

MUMTAZ H. CHAUDHRY
Company Secretary

NOTES:

1. The Share Transfer Books of the Company will remain closed from 24 October, 2006 to 30 October 2006 (both days inclusive) for the purpose of determination of entitlement.

2. A member entitled to attend and vote at the meeting may appoint a proxy to attend and vote on his/her behalf. Proxies, in order to be effective must be received at the Registered Office of the Company not later than 48 hours before the meeting.

3. Individual CDC Account holders shall produce his/her original National Identity Card or Passport, account and Participant's ID # to prove his/her identity. A corporate member from CDC must submit the Board of Directors' resolution or power of attorney and the specimen signature of the nominee, attending meeting.

4. Members are requested to notify change in their address, if any, to the company's Registered Office at APTMA House, Tehkal Payan, Jamrud Road, Peshawar.

DIRECTORS' REPORT TO THE MEMBERS

On behalf of Board of Directors, it gives me tremendous pleasure to present the 40th Annual audited Financial Statements for the year ended 30th June, 2006.

FINANCIAL RESULTS & OVERVIEW

	2006 12 Months	2005 09 Months
	(Rupees in thousand)	
Sales - Net	**1,177,509**	786,446
Cost of sales	**1,051,975**	760,358
Gross profit	**125,534**	26,088
Gross margin	**10.66%**	3.31%
Administrative expenses	**32,706**	22,777
Distribution cost	**4,218**	2,316
Other operating charges	**1,727**	1,173
	38,651	26,266
	86,883	(178)
Other operating income	**944**	229
Operating profit	**87,827**	51
Finance cost	**83,357**	34,664
Profit/(Loss) before taxation	**4,470**	(34,613)
Provision for taxation	**6,020**	(10,307)
Loss after taxation	**(1,550)**	(24,306)

OPERATING RESULTS

The major highlights of your company as compared to the corresponding period of the preceding financial year are as follows:

Turnover

The Company achieved an annualized 13% increase in turnover due to the up gradation of the production facilities and the creation of a more diversified product range. Significantly, this was the first time in the company's history that our turnover has exceeded the One Billion Rupee threshold.

Profitability

By the grace of God there has been a tremendous improvement in the overall performance of your company as compared to the last financial year.

This implementation of the new Production and Marketing strategies led to a healthy 13% growth in Sales and helped to increase the Gross Margin to 10.66% from the last year's 3.31% margin. This three-fold improvement in the Gross Margin was fundamental to the turnaround in the Company's financial performance.

As a direct result of this the Operating Profit Margin rose to 7.45% from just 0.01% in the previous financial year, thereby earning the Company a pre-tax profit of Rs. 4.470 million during the current year against a loss of Rs. 34.613 million during the pervious comparable period.

LOSS PER SHARE

The loss per share of the Company remained at Rs. 0.10 as compared to Rs. 2.76 for 2005.

APPROPRIATIONS

In view of the net loss suffered by the Company your directors have decided not to pay any dividend this year.

CONTRIBUTION TO THE NATIONAL ECONOMY

Besides payment to the financial institutions against long and short term debt, the Company contributed Rs. 41.217 million (2005: Rs. 47.607 million) to the National exchequer during the year under review in sales tax, surcharges and various other levies.

MAJOR DEVELOPMENTS

The Gas Fired Power Plant has started production during the year under review, and has enabled us to offset the effects of high power and fuel costs. Moreover the control and reliability of our own Power Plant will help counter the production losses that arise as a result of frequent power failures and breakdowns in the National Grid.

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 oil prices will lead to higher prices for man made fibers as well as increased freight charges which may adversely impact the cost of production. Future prices of cotton are also witnessing a rising trend in the local and international commodity market.

However the management is optimistic that the development of an improved product mix and the delivery of the enhanced production efficiencies of the current year will continue to bring about profitability in the next financial year as well. We are focusing our efforts on upgrading our facilities and systems, diversifying our product portfolio and lowering our operating cost.

STATEMENT ON CORPORATE AND FINANCIAL REPORTING FRAME WORK

We are pleased to report that your company has taken necessary steps to comply with the provision of the Code of Corporate Governance, as incorporated in the listing rules of the Stock Exchanges.

a) The financial statements, for the year ended on 30th June, 2006 prepared by the management of the company, present fairly the Company's state of affairs, the results of its operations, cash flows and changes in equity.
b) The company has maintained proper books of account.
c) Except for the change in accounting policy detailed in notes to the financial statements No. 3.11 which was necessary for the purpose of complying with the statutory requirements and bringing accounting policies in pursuance with the Companies Ordinance 1984, appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
d) International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has been adequately disclosed.
e) The system of internal control is sound in design and has been effectively implemented and monitored.
f) There are no uncertainties upon the company's ability to continue as a going concern.
g) There has been no departure from the best practices of Corporate Governance, as detailed in the Listing Regulations.
h) The Board of the Directors had formed an Audit committee. It comprises of three members of the Board.
i) The Company has prepared and circulated a Statement of Ethics and Business Strategy among directors and key employees.
j) The Board of the Directors has adopted a Mission Statement and a Statement of Overall Corporate Strategy.
k) Key operating and financial data of the company for the last six years is reproduced below:

	30 June,		Year ended 30 September,			
	2006 12 Months	2005 09 Months	2004	2003	2002	2001
Operating assets (RS 000)	676,148	618,061	450,662	252,926	201,463	193,740
Net worth (Rs 000)	329,693	281,243	206,275	126,080	108,193	107,330
Production (Kgs 000)	6,105	4,138	3,410	2,639	2,346	2,135
Turnover (Rs 000)	1,177,509	786,446	629,323	490,528	489,220	532,302
Gross profit (Rs 000)	125,534	26,088	45,372	33,040	51,062	80,012
Operating profit (Rs 000)	87,827	51	11,287	3,271	24,584	57,262
Net Profit/(loss) after taxation (Rs 000)	(1,550)	(24,306)	(4,483)	(836)	3,778	27,685
Earnings/(Loss) per share (Rs)	(0.10)	(2.76)	(0.51)	(0.10)	0.43	3.15

l) During the year seven meetings of the Board of Directors were held. Attendance by each director is as follows:

Name of Directors	No. of Meetings Attended
Javed Saifullah Khan	05
Osman Saifullah Khan	07
Kulsum Saifullah Khan	05
Omar Saifullah Khan	04
Jehangir Saifullah Khan	07
Ch. Maqbool Ahmad	07
Zafar Qureshi	07

Leave of absence was granted to Directors who could not attend any of the Board meetings.

m) The Directors, Chief Executive, Chief Financial Officer, Company Secretary, their spouses and minor children have made no transactions in company's shares during the year under review other than those disclosed in the pattern of share holders.

n) There are no outstanding statutory payments due on account of taxes, duties, levies & charges except of a normal and routine matter.

o) The company operates an un-funded gratuity scheme for its eligible employees. Provision is made annually to cover obligation under the scheme in accordance with actuarial recommendations.

PATTERN OF SHAREHOLDING

The pattern of shareholding of the Company under section 236(2) (d) of the Companies Ordinance, 1984 and additional information as required by the code of corporate governance is annexed.

AUDITORS

The present auditors M/s Hameed Chaudhri & Co., Chartered Accountants, retire and being eligible to offer themselves for reappointment. As suggested by the Audit Committee, the Board recommends their appointment as auditors of the Company for the year ending 30 June, 2007.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

The requirements of the Code of Corporate Governance set out by the Karachi and Islamabad Stock Exchanges in their Listing Rules, relevant for the year ended 30th September, 2004, have been duly complied with. A statement to this effect is annexed.

ACKNOWLEDGMENT

The Director wish to record their appreciation of 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 during the current financial year. We are confident that the Executives, Officers and Staff will continue to show the same dedication and performance for the smooth operation and success of your Company in the future.

For and on behalf of the Board

Place : Islamabad

Dated : 07 October, 2006

OSMAN SAIFULLAH KHAN

Chief Executive

PATTERN OF SHAREHOLDING

AS AT 30TH JUNE, 2006

Incorporation Number of the Company C 43 of 1966 - 1967

No. of Shareholders	Shareholding From	Shareholding To	Total Shares Held
465	1	100	25,789
153	101	500	46,468
71	501	1,000	63,474
76	1,001	5,000	204,954
8	5,001	10,000	59,560
6	10,001	15,000	76,992
1	15,001	20,000	20,000
3	25,001	30,000	82,481
2	30,001	35,000	61,950
1	35,001	40,000	40,000
1	45,000	50,000	49,000
1	60,001	65,000	62,231
1	75,001	80,000	78,300
1	85,001	90,000	87,200
3	95,001	100,000	298,624
1	105,001	110,000	107,727
1	115,001	120,000	116,704
1	190,001	195,000	192,700
1	2,900,001	2,925,000	2,906,900
1	5,340,001	6,345,000	6,340,010
1	4,275,001	4,280,000	9,878,936
799	**Total**		**20,800,000**

Categories of Shareholders	Number of Shareholders	Shares Held	Percentage
Directors, Chief Executive Officer, their spouse & minor Children	7	331,891	1.60
Associated Companies, Undertaking & related parties	12	16,296,201	78.35
NIT and ICP	2	186,049	0.89
Banks Development Financial Institutions Non-Banking Financial Institutions	5	3,109,350	14.95
Insurance Companies	2	1,950	0.01
Joint Stock Companies	16	265,575	1.28
Modarabas & Mutual Funds		Nil	Nil
Shareholders holding 10%	- As mentioned under the head Associated Companies, Banks, Development Financial Institutions & Non Banking Financial Institutions.		
Executives		Nil	Nil
General Public			
a. Local	753	605,908	2.91
b. Foreign		Nil	Nil
Others	2	3,076	0.01
Total	**799**	**20,800,000**	**100.00**

NIC Number of Chief Executive 6110117877463

Dated : 07 October, 2006

DETAIL OF CATEGORY OF SHAREHOLDERS
AS AT 30 JUNE, 2006

Sr. No.	Name of Shareholders		Shares Held	Percentage
Directors, Chief Executive and their spouse and minor children				
1	Javed Saifullah Khan		107,723	0.52
2	Osman Saifullah Khan		62,231	0.30
3	Jehangir Saifullah Khan		116,704	0.56
4	Kulsum Saifullah Khan		11,867	0.06
5	Zafar Qureshi		5,835	0.03
6	Omar Saifullah Khan		26,931	0.13
7	Gulshan Saifullah Khan		600	0
	Total		**331,891**	**1.60**
Associated Companies, Undertakings & Related Parties				
1	Saif Telecom Limited		9,880,000	47.50
2	GlobeComm (Pvt) Limited		6,340,010	30.48
3	Humayun Saifullah Khan		10,000	0.05
4	Anwar Saifullah Khan		1,526	0.01
5	Salim Saifullah Khan		715	0
6	Iqbal Saifullah Khan		4,450	0.02
7	Samina Saifullah Khan		15,000	0.07
8	Shirin Saifullah Khan		500	0.01
9	Shehernaz Saifullah Khan		14,000	0.07
10	Yasmin Saifullah Khan		5,000	0.02
11	Shireen Saifullah Khan		5,000	0.02
12	Zeb Saifullah Khan		20,000	0.10
		Total	**16,296,201**	**78.35**
NIT and ICP				
1	National Bank of Pakistan (Trustee wing)		79,050	0.38
2	Investment Corporation of Pakistan		106,999	0.51
		Total	**186,049**	**0.89**
Banks, Development Financial Institutions & Non-Banking Financial Institutions				
1	United Bank Limited		100,000	0.48
2	Habib Bank Limited		100,100	0.48
3	Muslim Commercial Bank Limited		2,000	0.01
4	National Bank of Pakistan		2,906,900	13.98
5	Pak Islamia Co-operative Bank Limited		350	0
		Total	**3,109,350**	**14.95**

Sr. No.	Name of Shareholders		Shares Held	Percentage
Insurance Companies				
1	United Insurance Company of Pakistan		1,150	0.01
2	Eastern Federal Union Insurance Company		800	0
		Total	**1,950**	**0.01**
Joint Stock Companies				
1	Assadullah Limited		500	0.01
2	M/s. Muhammad Amin Limited		100	0
3	Molasses Export Company Limited		200	0
4	Fateh Textile Mills Limited		50	0
5	Murree Bravery Company Limited		50	0
6	Ambreen Silk Mills Limited		400	0
7	Naseer Shaheed Limited		300	0
8	United Executors & Trustee Company Limited		2,200	0.01
9	Azeem Services Limited		100	0
10	NH Securities (Pvt) Limited		4,000	0.02
11	Ali Hussain Rajab Ali Limited		49,000	0.24
12	Javed Omar Vohra & Co. Limited		192,700	0.93
13	Jan Muhammad A. Latif Nani & Sons (Pvt) Limited		1,000	0
14	Jamshaid & Hasan Securities (Pvt) Limited		1,850	0.01
15	Azee Securities (Pvt) Limited		1,000	0
16	A.Sattar Motiwala Securities (Pvt) Ltd		12,125	0.06
		Total	**265,575**	**1.28**
General Public - Local		**Total**	**605,908**	**2.91**
Others				
1	Abondent Properties		3,075	0.01
2	Securities & Exchange Commission of Pakistan		1	0
		Total	**3,076**	**0.01**

STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

This Statement is being presented to comply with the Code of Corporate Governance contained in the Listing Regulations of Karachi and Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed Company is managed in compliance with the best practices of Corporate Governance.

The Company has applied the principles contained in the Code in the following manner:

1. The Company encourages representation of independent non-executive directors; at present the Board includes two independent non-executive directors.
2. The directors have confirmed that none of them is serving as a director in more than ten listed Companies, including this Company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking Company, a DFI or an NBFI or, being a member of a Stock Exchange, has been declared as a defaulter by the Stock Exchange.
4. No casual vacancy occurred in the Board during the current year.
5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and key employees of the Company.
6. The Board has adopted a vision/mission statement, overall corporate strategy and significant policies of the Company.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and in his absence, by a director elected by the Board for this purposes and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. Directors are well conversant with the listing regulations and legal requirements and as such are well aware of their duties and responsibilities.
10. There were no new appointments of CFO, Company Secretary and head of Internal Audit during the year.
11. The Directors' Report has been prepared in compliance with the requirements of the Code and it fully describes the salient matters required to be disclosed.
12. The financial statements of the Company were duly endorsed by the CEO and CFO before approval of the Board.

13. The Directors, CEO and executives do not hold any interest in the shares of the company other than that disclosed in the pattern of shareholding.

14. The company has complied with all the corporate and financial reporting requirements of the Code.

15. There exists an audit committee comprising of 3 members, of whom two are non-executive directors including the chairman of the committee.

16. The meetings of the audit committee were held at least once every quarter prior to approval of quarterly, interim and final results of the Company as required by the Code.

17. The Board has set up an effective internal audit function, managed by suitably qualified and experienced personnel who are conversant with the policies and procedures of the company.

18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the Quality Control Review program of the institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on code ethics as adopted by the ICAP.

19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

20. We confirm that all other material principals contained in the Code have been complied with.

21. We confirm that none of the Directors, CEO and Executives or their spouses sold, buy or took any position whether directly or indirectly in the shares of the Company during the year ended 30 June, 2006 accept reported in the pattern of shareholding.

For and on behalf of the Board

Place : Islamabad
Dated : 07 October, 2006

OSMAN SAIFULLAH KHAN
Chief Executive

REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of KOHAT TEXTILE MILLS LIMITED to comply with the Listing Regulation No. 37 of the Karachi Stock Exchange (Guarantee) Limited and Chapter XI of the Listing Regulations of the Islamabad Stock Exchange (Guarantee) Limited where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the status of the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended 30 June, 2006.

Place : Lahore
Date : 07 October, 2006

HAMEED CHAUDHRI & CO.,
Chartered Accountants

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **KOHAT TEXTILE MILLS LIMITED** as at 30 June, 2006 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

(a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

(b) in our opinion:

   (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the change as stated in note 3.11 with which we concur;

   (ii) the expenditure incurred during the year was for the purpose of the Company's business; and

   (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and, except for the contents of note 18.1 and the extent to which this may affect the annexed financial statements, respectively give a true and fair view of the state of the Company's affairs as at 30 June, 2006 and of the loss, its cash flows and changes in equity for the year then ended; and

(d) in our opinion, no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Place : Lahore
Date : 07 October, 2006

HAMEED CHAUDHRI & CO.,
Chartered Accountants

BALANCE SHEET

	Note	2006	2005
		(Rupees in thousand)	
EQUITY AND LIABILITIES			
SHARE CAPITAL			
Authorised			
22,000,000 (2005: 9,000,000) ordinary shares of Rs.10 each		**220,000**	90,000
Issued, subscribed and paid-up	4	**208,000**	88,000
ACCUMULATED LOSS		**(34,783)**	(36,611)
		173,217	51,389
DEPOSIT FOR SHARES	5	**0**	70,000
SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT	6	**156,476**	159,854
NON-CURRENT LIABILITIES			
Demand finances	7	**182,000**	220,000
Long term deposits	8	**1,147**	561
Liabilities against assets subject to finance lease	9	**91,125**	101,711
Staff retirement benefits - gratuity	3.8(a)	**15,340**	15,520
		289,612	337,792
CURRENT LIABILITIES			
Current portion of:			
- Demand finances	7	**52,000**	40,000
- Liabilities against assets subject to finance lease	9	**28,529**	20,541
Short term finances	10	**395,141**	388,075
Trade and other payables	11	**60,369**	30,863
Accrued interest / mark-up	12	**23,535**	24,939
Taxation	13	**5,956**	66
		565,530	504,484
CONTINGENCIES AND COMMITMENTS	14		
		1,184,835	1,123,519

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

Osman Saifullah Khan
Chief Executive

AS AT 30 JUNE, 2006

	Note	2006	2005
		(Rupees in thousand)	
NON - CURRENT ASSETS			
PROPERTY, PLANT AND EQUIPMENT			
Operating assets	15	**676,148**	618,061
Capital work-in-progress	16	**5,382**	36,566
Stores held for capital expenditure		**4,604**	338
		686,134	654,965
LONG TERM DEPOSITS		**1,137**	318
LONG TERM LOANS	17	**1,841**	1,584
DEFERRED TAXATION	18	**16,026**	9,075
		705,138	665,942
CURRENT ASSETS			
Stores, spares and loose tools	19	**22,489**	28,340
Stock-in-trade	20	**306,950**	327,889
Trade debtors	21	**131,915**	76,714
Loans and advances	22	**376**	320
Advance payments		**870**	6,011
Deposits and prepayments	23	**603**	552
Sales tax refundable		**8,998**	2,594
Other receivables	24	**908**	5,823
Advance income tax and tax deducted at source		**6,146**	6,522
Bank balances	25	**442**	2,812
		479,697	457,577
		1,184,835	1,123,519

Jehangir Saifullah Khan
Director

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE, 2006

	Note	Year ended 30 June 2006	Nine months ended 30 June, 2005
		(Rupees in thousand)	
SALES - Net	26	**1,177,509**	786,446
COST OF SALES	27	**1,051,975**	760,358
GROSS PROFIT		**125,534**	26,088
ADMINISTRATIVE EXPENSES	28	**32,706**	22,777
DISTRIBUTION COST	29	**4,218**	2,316
OTHER OPERATING CHARGES	30	**1,727**	1,173
		38,651	26,266
		86,883	(178)
OTHER OPERATING INCOME	31	**944**	229
OPERATING PROFIT		**87,827**	51
FINANCE COST	32	**83,357**	34,664
PROFIT / (LOSS) BEFORE TAXATION		**4,470**	(34,613)
TAXATION			
- Current	13	**5,890**	0
- Prior years'	13	**7,081**	0
- Deferred	18	**(6,951)**	(10,307)
		6,020	(10,307)
LOSS AFTER TAXATION		**(1,550)**	(24,306)
		Rupees	
LOSS PER SHARE	33	**(0.10)**	(2.76)

- 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

Jehangir Saifullah Khan
Director

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE, 2006

	Year ended 30 June 2006	Nine months ended 30 June, 2005
	(Rupees in thousand)	
CASH FLOW FROM OPERATING ACTIVITIES		
Profit / (loss) for the year / period - before taxation	**4,470**	(34,613)
Adjustments for:		
Depreciation and amortisation	**56,579**	36,063
Staff retirement benefits - gratuity (net)	**(180)**	(134)
Unclaimed balances written back	**(476)**	(5)
(Loss) / gain on sale of operating assets	**(1)**	624
Finance cost	**83,357**	34,664
CASH FLOW FROM OPERATING ACTIVITIES - before working capital changes	**143,749**	36,599
(Increase) / decrease in current assets:		
Stores, spares and loose tools	**5,851**	(12,740)
Stock-in-trade	**20,939**	(16,163)
Trade debtors	**(55,201)**	20,965
Loans and advances	**15**	176
Advance payments	**5,141**	(5,562)
Deposits and prepayments	**(51)**	(445)
Sales tax refundable	**(6,404)**	14,077
Other receivables	**4,915**	(3,188)
Increase / (decrease) in trade and other payables	**29,982**	(287)
	5,187	(3,167)
CASH INFLOW FROM OPERATING ACTIVITIES - before taxation	**148,936**	33,432
Taxes paid	**(6,705)**	(3,526)
CASH INFLOW FROM OPERATING ACTIVITIES - after taxation	**142,231**	29,906
Long term loans - net	**(328)**	(1,091)
Long term deposits	**(819)**	0
NET CASH INFLOW FROM OPERATING ACTIVITIES	**141,084**	28,815
CASH FLOW FROM INVESTING ACTIVITIES		
Fixed capital expenditure	**(87,749)**	(119,720)
Sale proceeds of operating assets	**2**	9,396
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	**(87,747)**	(110,324)
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from issue of right shares	**120,000**	0
Deposit for shares	**(70,000)**	50,000
Demand finances	**(26,000)**	0
Long term deposits	**586**	313
Lease finances - net	**(2,598)**	76,806
Short term finances - net	**7,066**	(32,620)
Finance cost paid	**(84,761)**	(12,283)
NET CASH (OUTFLOW) / INFLOW FROM FINANCING ACTIVITIES	**(55,707)**	82,216
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	**(2,370)**	707
CASH AND CASH EQUIVALENTS - At the beginning of the year / period	**2,812**	2,105
CASH AND CASH EQUIVALENTS - At the end of the year / period	**442**	2,812

The annexed 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 YEAR ENDED 30 JUNE, 2006

	Share capital	Accumulated loss	Total
	Rupees in thousand		
Balance as at 30 September, 2004	88,000	(12,434)	75,566
Loss after taxation for the period of nine months ended 30 June, 2005	0	(24,306)	(24,306)
Transfer from surplus on revaluation of property, plant and equipment on account of incremental depreciation for the period - net of deferred taxation	0	129	129
Balance as at 30 June, 2005	88,000	(36,611)	51,389
Loss after taxation for the year ended 30 June, 2006	0	(1,550)	(1,550)
Nominal value of shares issued	120,000	0	120,000
Transfer from surplus on revaluation of property, plant and equipment on account of incremental depreciation for the period - net of deferred taxation	0	3,378	3,378
Balance as at 30 June, 2006	**208,000**	**(34,783)**	**173,217**

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

Osman Saifullah Khan
Chief Executive

Jehangir Saifullah Khan
Director

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2006

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

2.1 These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance) and approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Accounting Standards (IASs) as notified under the provisions of the Ordinance. Wherever, the requirements of the Ordinance or directives issued by the Securities and Exchange Commission of Pakistan (SECP) differ with the requirements of these standards, the requirements of the Ordinance or the requirements of the said directives take precedence.

2.2 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied except for adoption of cost model for freehold land and buildings on freehold land as explained in note 3.11

3.2 Overall valuation policy
These financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

Critical accounting estimates, assumptions and judgements
The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Estimates and judgement are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are as follows:

a) staff retirement benefits;

b) taxation; and

c) useful life of depreciable assets and provision for impairment there against.

3.3 Equity instruments
These are recorded at their face value.

3.4 Taxation
(a) Current:
Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits and tax rebates available, if any, or minimum tax at the rate of 0.5% of turnover, whichever is higher.

(b) Deferred:
Deferred tax is recognised using the balance sheet liability method in respect of all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilised. Deferred tax liability is based on the expected tax rates applicable at the time of reversal.

3.5 Provisions
Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

3.6 Trade and other payables
Creditors relating to trade and other payables are carried at cost which is the fair value of the consideration to be paid in future for goods and services received, whether or not billed to the Company.

3.7 Foreign currency translations

Transactions in foreign currencies are accounted for in Pak Rupees at the exchange rates prevailing on the date of transactions. Assets and liabilities in foreign currencies are translated into Pak Rupees at the exchange rates prevailing on the balance sheet date except where forward exchange rates are booked, which are translated at the contracted rates.

The Company, during the preceding period, in pursuance of the substituted Fourth Schedule to the Companies Ordinance, 1984 had changed its accounting policy with respect to capitalisation of exchange differences. Upto 30 September, 2004, exchange differences on loans / borrowings utilised for acquisition of fixed assets were capitalised and all other exchange differences were charged to income. The Company, effective from 01 October, 2004, is charging all exchange differences to profit and loss account.

3.8 Staff retirement benefits

The Company operates an un-funded gratuity scheme for its eligible employees. Provision for gratuity is made annually to cover obligation under the scheme in accordance with the actuarial recommendations.

Actuarial valuation was conducted on 30 June, 2006 on the basis of the projected unit credit method by an independent Actuary; significant assumptions are as follows:

- Discount rate	9% per annum
- Expected rate of salary increase in future years	8% per annum
- Average expected remaining working life time of employees	09 years

	2006	2005
(a) Movement in the net liability recognised in the balance sheet is as follows:	(Rupees in thousand)	
Net liability at the beginning of the year / period	**15,520**	15,654
Expense recognised	**4,475**	2,649
Contribution paid	**(4,655)**	(2,783)
Net liability at the end of the year / period	**15,340**	15,520
(b) The amount recognised in the balance sheet is as follows:		
Present value of obligation	**16,933**	14,012
Unrecognised actuarial (loss) / gain	**(1,540)**	1,641
Unrecognised transitional provision	**(53)**	(133)
Liability recognised in the balance sheet	**15,340**	15,520
(c) The amount recognised in the profit and loss account is as follows:		
Current service cost	**3,302**	1,734
Interest cost	**1,120**	852
Transitional provision recognised	**80**	80
Actuarial gain recognised	**(27)**	(17)
Expense recognised in the profit and loss account	**4,475**	2,649

The Company's policy with regard to actuarial gains / (losses) is to follow minimum recommended approach under IAS 19 (Employee Benefits).

3.9 Dividend distribution

Dividend distribution to shareholders is recognised as liability in the financial statements in the period in which the dividend is approved.

3.10 Borrowing costs

Borrowing costs incurred on finances obtained for acquisition of fixed assets are capitalised upto the date of commissioning of the respective assets. All other borrowing costs are taken to profit and loss account.

3.11 Property, plant and equipment and depreciation

These are stated at cost less accumulated depreciation and any identified impairment loss except for freehold land and capital work-in-progress, which are stated at cost. Cost of some items of plant & machinery consists of historical cost and exchange fluctuation effects on foreign currency loans capitalised during prior years. Borrowing costs are also capitalised for the period upto the date of commencement of commercial production of the respective plant & machinery, acquired out of the proceeds of such borrowings.

Freehold land, buildings on freehold land and plant & machinery were revalued during the years 1984,1995, 2004 and 2005; latest revaluation was carried-out during the preceding period of nine months ended 30 June, 2005 by independent Valuers; these property, plant and equipment are shown at such revalued figures. To comply with the requirements of the revised IAS 16 (Property, Plant and Equipment), which became applicable to financial statements covering annual periods beginning on or after 01 January, 2005, the Company has adopted the cost model for its fixed assets. Consequently, the revalued figures of such assets as at 01 July, 2005 have been treated as deemed cost. The surplus on revaluation on these assets shall be held on the balance sheet till realisation in accordance with the requirements of section 235 of the Companies Ordinance, 1984. This change has no impact on loss for the year.

Depreciation is taken to profit and loss account applying reducing balance method so as to write off the depreciable amount of an asset over its remaining useful life at the rates stated in note 15. The assets' residual values and useful lives are reviewed at each financial year-end and adjusted if impact on depreciation is significant.

Effective from the current year, to comply with the requirements of revised IAS 16, depreciation on additions to operating assets is charged from the month in which an asset is acquired or capitalised while no depreciation is charged for the month in which the asset is disposed off. Upto 30 June, 2005, no depreciation was provided on assets in the period/ year of disposal / retirement whereas full period / year's depreciation was charged in the period / year of purchase / commercial operations.

The aforementioned revision has been accounted for as change in accounting estimates in accordance with the requirements of IAS 8 (Accounting Policies, Changes in Accounting

Estimates and Errors). The effect of this change in accounting estimate has been recognised prospectively in the profit and loss account of the current year and it has increased current year profit before taxation by Rs. 4.350 million.

Normal repairs and replacements are taken to profit and loss account as and when incurred. Major renewals and replacements are capitalised and assets replaced, if any, other than those kept as stand-by, are retired.

Gain / loss on disposal of property, plant and equipment, if any, is taken to profit and loss account.

3.12 Intangible assets and amortisation thereon

These are stated at cost less accumulated amortisation except assets-in-progress, which are stated at cost. Amortisation is charged to income applying straight-line method to amortise the cost of intangible assets over their estimated useful life. Rate of amortisation is stated in note 15.

Gain / loss on retirement / disposal of intangible assets is taken to profit and loss account.

3.13 Assets subject to finance lease

These are stated at the lower of present value of minimum lease payments under the lease agreements and the fair value of assets. The related obligation of lease are accounted for as liabilities. Financial charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of financial cost on the remaining balance of principal liability for each period.

Depreciation is charged at the rates stated in note 15 applying reducing balance method to write-off the cost of asset over its estimated remaining useful life in view of certainty of ownership of assets at the end of lease period.

Financial charges and depreciation on leased assets are charged to income currently.

3.14 Stores, spares and loose tools

These are valued at moving average cost. Items-in-transit are valued at cost accumulated to the balance sheet date.

3.15 Stock-in-trade

Basis of valuation are as follows:

Particulars	**Mode of valuation**
Raw materials:	
At mills	- At lower of moving average cost and market value.
In transit	- At cost accumulated to the balance sheet date.
Work-in-process	- At manufacturing cost.
Finished goods	- At lower of cost and net realisable value.
Waste	- At contracted rates.

- Cost in relation to work-in-process and finished goods consists of prime cost and appropriate production overheads. Prime cost is allocated on the basis of moving average cost.

- Net realisable value signifies the selling price in the ordinary course of business less cost of completion and cost necessary to be incurred to effect such sale.

3.16 Trade debtors

Trade debtors are carried at original invoice amount less an estimate for doubtful debtors based on review of outstanding amounts at the year-end. Bad debts are written-off when identified.

3.17 Cash and cash equivalents

These comprise of bank balances.

3.18 Revenue recognition

- Local sales through agents are recorded on intimation from agents whereas direct sales are recorded when goods are despatched to customers. Export sales are booked on shipment of goods.
- Return on bank deposits is accounted for on 'accrual basis'

3.19 Financial instruments

All financial assets and liabilities are initially measured at cost, which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value, amortised cost or cost, as the case may be.

All purchases and sales of financial assets are recognised on the 'trade date'.

3.20 Off setting of financial instruments

Financial assets and liabilities are off-set and the net amount reported in the balance sheet when there is a legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

3.21 Related party transactions

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 Associates, which are on the actual basis.

3.22 Impairment

The carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of impairment loss, if any. Impairment losses are recognised as expense in the profit and loss account.

4. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

		Note	2006	2005
			(Rupees in thousand)	
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 year	**4.1**	**70,000**	0
5,000,000	ordinary shares of Rs.10 each fully paid in cash issued and allotted during the year otherwise than right	**4.2**	**50,000**	0
20,800,000			**208,000**	88,000

4.1 Against the total offer of 7,000,000 ordinary right shares of Rs. 10 each made to the existing shareholders on 20 May, 2005, the shareholders subscribed a total of 3,130,000 shares leaving 3,870,000 shares as unsubscribed. Saif Telecom Ltd., as per the terms of underwriting agreement, procured another subscriber i.e. GlobeComm (Pvt.) Ltd. which has subscribed and paid in cash in full the unsubscribed shares. Accordingly, 7,000,000 ordinary right shares of Rs.10 each have been allotted to the shareholders on 18 July, 2005.

4.2 The Company, during the year, has also issued further 5,000,000 ordinary shares of Rs.10 each without offering right shares to all the existing shareholders, as permissible under section 86(1) of the Companies Ordinance, 1984. The Securities and Exchange Commission of Pakistan, vide its letter Ref. # EMD / CI / 45 / 2005 dated 04 May, 2006, has allowed the Company to issue 5,000,000 ordinary shares of Rs.10 each otherwise than right to its Associates i.e. Saif Telecom Ltd.: 2,529,990 shares and GlobeComm (Pvt.) Ltd.: 2,470,010 shares. The Company has allotted these shares to its Associates on 05 May, 2006.

	2006	2005
	Number of shares	
4.3 16,220,010 (2005: 4,410,575) ordinary shares are held by the following Associates at the year / period-end:		
- Saif Telecom Ltd.	**9,880,000**	4,280,000
- GlobeComm (Pvt.) Ltd.	**6,340,010**	0
- KSK Investments (Pvt.) Ltd.	**0**	130,575
	16,220,010	4,410,575

5. DEPOSIT FOR SHARES

	2006	2005
	(Rupees in thousand)	
The movement in deposit for shares account during the year / period was as follows:		
Opening balance	**70,000**	0
Deposits received during the year / period from:		
- Saif Telecom Ltd.	**25,300**	70,000
- GlobeComm (Pvt.) Ltd.	**8,700**	0
- Shareholders	**1,906**	0
	115,906	70,000
	185,906	70,000
Less: Deposits refunded during the year to:		
- Saif Telecom Ltd.	**40,606**	0
- GlobeComm (Pvt.) Ltd.	**25,300**	0
	65,906	0
	120,000	70,000
Less: Shares issued during the year to:		
- Saif Telecom Ltd.	**54,694**	0
- GlobeComm (Pvt.) Ltd.	**63,400**	0
- Shareholders	**1,906**	0
	120,000	0
Closing balance	**0**	70,000

6. SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT

This represents surplus over book values resulted from the revaluations of freehold land, buildings on freehold land and plant & machinery during the years 1984, 1995, 2004 and 2005 adjusted only by surplus realised on disposal of revalued assets, incremental depreciation arising out of revaluation and deferred taxation. Freehold land and buildings of the Company were again professionally revalued by M/s Hamid Mukhtar & Co (Pvt.) Ltd. (Independent Valuation Consultants) as at 30 June, 2005, which resulted in appraisal surplus aggregating Rs.71.926 million. The year / period-end balance has been arrived at as follows:

	2006	2005
Opening balance	**159,854**	110,709
Add: surplus arisen on revaluation of freehold land and buildings carried-out during the preceding period	**0**	71,926
Less: related deferred taxation	**0**	22,652
	0	49,274
	159,854	159,983
Less: transferred to accumulated loss on account of incremental depreciation for the year / period - net of deferred taxation	**3,378**	129
Closing balance	**156,476**	159,854

7. DEMAND FINANCES - Secured

	Note	2006	2005
		(Rupees in thousand)	
National Bank of Pakistan (NBP)			
Demand Finance (DF) - I	7.1	**126,000**	140,000
Demand Finance (DF) - II	7.1	**108,000**	120,000
		234,000	260,000
Less: current portion grouped under current liabilities		**52,000**	40,000
		182,000	220,000

7.1 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 year, carried mark-up at the rates ranging from 8.39% to 11.23% per annum. As per the revised repayment terms, 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.

8. LONG TERM DEPOSITS - Secured

These interest free deposits have been received in accordance with the Company's Car Incentive Scheme and against these deposits vehicles have been provided to the employees. These are adjustable after specified periods by transfer of title of vehicles to the respective employees.

9. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE - Secured

	Upto one year	From one year to five years	2006	2005
	------(Rupees in thousand)------			
Minimum lease payments	41,136	112,452	**153,588**	161,860
Less: Financial charges				
- allocated to future periods	12,102	16,327	**28,429**	34,174
- accrued during the year	444	0	**444**	373
	12,546	16,327	**28,873**	34,547
	28,590	96,125	**124,715**	127,313
Less: Security deposits adjustable on expiry of lease terms	61	5,000	**5,061**	5,061
Present value of minimum lease payments	28,529	91,125	**119,654**	122,252
Less: Current portion grouped under current liabilities:			**28,529**	20,541
			91,125	101,711

9.1 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 year, carried finance charges at the rates ranging from 10.71% to 12.18% 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.

10. 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.725 million (2005: Rs.400 million). These facilities, during the year, carried mark-up at the rates ranging from 5.26% to 12.12% 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 (2005: Rs.183 million) of which the amount aggregating Rs. 235.086 million (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 30 June, 2007.

11. TRADE AND OTHER PAYABLES

	Note	2006	2005
		(Rupees in thousand)	
Creditors		**6,568**	9,841
Bills payable against:			
- Imported plant & machinery	**11.1**	**394**	1,662
- Raw materials	**11.1**	**40,230**	3,267
Accrued expenses		**12,788**	14,639
Unclaimed dividends		**154**	154
Workers' (profit) participation fund - allocation for the year		**235**	0
Others		**0**	1,300
		60,369	30,863

11.1 These are secured against the securities as detailed in note 10.

12. ACCRUED MARK-UP AND INTEREST

	2006	2005
Mark-up accrued on:		
- Demand finances	**11,287**	8,965
- Short term finances	**11,804**	15,601
Interest accrued on lease finances	**444**	373
	23,535	24,939

	Note	2006	2005
		(Rupees in thousand)	
13. TAXATION - Net			
Opening balance		**66**	66
Add: provision made during the year			
- Current		**5,890**	0
- Prior years'	**13.3**	**7,081**	0
		12,971	0
		13,037	66
Less: adjustments against completed assessments		**7,081**	0
		5,956	66

13.1 Income tax assessments of the Company have been completed upto the Tax Year 2005; the return for the said year has not been taken-up for audit till 30 June, 2006.

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

13.3 This represents minimum tax payable under section 113 of the Ordinance for the financial year ended 30 September, 2004 and financial period ended 30 June, 2005.

13.4 The Company's appeal for the Income Year ended 30 September, 2001 (Assessment Year 2002-03) is pending adjudication before the Income Tax Appellate Tribunal.

13.5 The Company has also filed an appeal before the Commissioner of Income Tax (Appeals) against the order of Deputy Commissioner of Income Tax wherein tax demands amounting Rs.173 thousand have been raised for the Assessment Year 1999-2000; the appeal is pending adjudication.

13.6 No numeric tax rate reconciliation is given as the Company is liable for minimum tax.

14. CONTINGENCIES AND COMMITMENTS

14.1 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.

14.2 **(a)** National Bank of Pakistan, on behalf of the Company, has issued an inland bank guarantee of Rs.8 million (2005: 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 during the year, 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.

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

	2006	2005
- Capital expenditure	**0**	23,711
- Others	**54,914**	17,861
	54,914	41,572

15. OPERATING ASSETS

PARTICULARS	COST/REVALUATION As at 30 June, 2005	Additions	Disposals	As at 30 June, 2006	Rate %	DEPRECIATION/AMORTISATION To 30, June 2005	For the year / period	On disposals	To 30 June, 2006	NET BOOK VALUE AS AT 30 JUNE, 2006
	(Rupees in thousand)					(Rupees in thousand)				
TANGIBLE										
Owned:										
Freehold land	115,900	0	0	115,900		0	0	0	0	115,900
Buildings on freehold land										
- Factory	80,639	8,168	0	88,807	10	22,149	6,481	0	28,630	60,177
- Non-factory	25,407	383	0	25,790	5	4,299	1,073	0	5,372	20,418
Residential:										
- Officers	21,195	0	0	21,195	5	1,160	1,002	0	2,162	19,033
- Workers	7,668	0	0	7,668	10	2,254	541	0	2,795	4,873
	134,909	8,551	0	143,460		29,862	9,097	0	38,959	104,501
Plant and machinery	444,278	39,903	0	484,181	10	193,316	27,402	0	220,718	263,463
Diesel generators & fuel reservoir	28,408	0	0	28,408	10	18,612	980	0	19,592	8,816
Gas fired power plant	0	6,462	0	6,462	10	0	248	0	248	6,214
Electric installations	23,587	355	0	23,942	10	12,279	1,162	0	13,441	10,501
Equipment & appliances	30,239	1,104	0	31,343	10	14,378	1,640	0	16,018	15,325
Fire extinguishing equipment	1,435	25	0	1,460	10	636	81	0	717	743
Furniture & fixtures	5,381	422	0	5,803	10	1,138	454	0	1,592	4,211
Vehicles	14,420	640	11	15,049	20	7,772	1,340	10	9,102	5,947
Live-stock	1	0	0	1		0	0	0	0	1
	798,558	57,462	11	856,009		277,993	42,404	10	320,387	535,622
Leased:										
Plant and machinery	103,604	18,903	0	122,507	10	7,770	10,214	0	17,984	104,523
Gas fired power plant	0	37,814	0	37,814	10	0	3,151	0	3,151	34,663
Vehicle	657	0	0	657	20	210	90	0	300	357
	104,261	56,717	0	160,978		7,980	13,455	0	21,435	139,543
INTANGIBLE										
Computer software	3,113	488	0	3,601	20	1,898	720	0	2,618	983
30 June, 2006:	**905,932**	**114,667**	**11**	**1,020,588**		**287,871**	**56,579**	**10**	**344,440**	**676,148**
30 June, 2005	711,657	213,482	19,207	905,932		260,995	36,063	9,187	287,871	618,061

15.1 Additions to plant & machinery and building include borrowing cost amounting Rs.2,066 thousand (2005: Rs.2,641 thousand) and Rs.23 thousand (2005:nil) respectively.

15.2 Refer contents of note 6.

15.3 Depreciation and amortisation for the year / period have been apportioned as under:

	Note	Year ended 30 June, 2006	Nine months ended 30 June, 2005
		(Rupees in thousand)	
Depreciation:			
Cost of sales		**51,582**	32,898
Administrative expenses		**4,277**	2,698
		55,859	35,596
Amortisation - Administrative expenses		**720**	467
		56,579	36,063

	Note	2006	2005
		(Rupees in thousand)	
16. CAPITAL WORK-IN-PROGRESS			
Buildings - costs and expenses		**0**	4,060
Plant and machinery			
- Owned (in transit)		**5,382**	0
- Leased		**0**	32,506
		5,382	32,506
		5,382	36,566
17. LONG TERM LOANS - Secured			
Loan to an executive	**17.1**	**1,000**	1,000
Loans to employees	**17.2**	**930**	602
		1,930	1,602
Less: current portion grouped under current assets		**89**	18
		1,841	1,584

17.1 This interest-free loan of Rs. one million was advanced to an executive during the preceding period for construction of house and is secured against his gratuity benefits. It is recoverable in lump sum at the time of retirement by way of adjustment against the gratuity benefits of the executive.

17.2 These interest-free loans have been advanced for various purposes and are secured against employees' gratuity benefits. These loans, except for six loans (2005: two loans), are recoverable in lump sum at the time of retirement by way of adjustment against gratuity benefits of the respective employees.

17.3 The fair value adjustment in accordance with the requirements of IAS 39 arising in respect of staff loans is not considered material and hence not recognised.

18. DEFERRED TAXATION	**Note**	**2006**	2005
		(Rupees in thousand)	
The deferred tax asset comprises of temporary differences arising due to:			
Debit balances arising in respect of:			
- Available tax losses	**18.1**	**100,551**	92,721
- Minimum tax recoverable against tax charge in future years		**12,971**	0
		113,522	92,721
Credit balances arising in respect of:			
-Accelerated tax depreciation allowances		**(90,535)**	(81,359)
-Lease finances		**(6,961)**	(2,287)
		(97,496)	(83,646)
		16,026	9,075

18.1 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.

19. STORES, SPARES AND LOOSE TOOLS

Stores including in transit valuing Rs.1,892 thousand (2005: Rs.9,978 thousand)	**12,735**	19,752
Spares	**8,307**	7,725
Loose tools	**1,447**	863
	22,489	28,340

20. STOCK-IN-TRADE

Raw materials:		
- At mills	**185,769**	295,609
- In transit	**61,573**	3,280
	247,342	298,889
Work-in-process	**27,499**	29,000
Finished goods	**32,109**	0
	306,950	327,889

20.1 The entire closing stock-in-trade inventory is pledged with commercial banks as security for short term finance facilities (note 10).

21. TRADE DEBTORS

Unsecured - considered good		
- Local	**125,465**	76,714
Secured		
- Export bills	**6,450**	0
	131,915	76,714

22. LOAN AND ADVANCES

	2006	2005
	(Rupees in thousand)	
Current portion of long term loans	**89**	18
Advances - considered good		
- Executives	**0**	130
- Employees	**287**	172
	287	302
	376	320

23. DEPOSITS AND PREPAYMENTS

	2006	2005
Security deposits	**5**	27
Prepayments	**598**	525
	603	552

24. OTHER RECEIVABLES

	2006	2005
Quality claims	**573**	3,576
Letters of credit	**183**	2,247
Others	**152**	0
	908	5,823

25. BANK BALANCES

	2006	2005
Cash at banks on:		
- Current accounts	**442**	1,301
- Deposit accounts	**0**	1,511
	442	2,812

26. SALES - Net

	Year ended 30 June, 2006	Nine months ended 30 June, 2005
	(Rupees in thousand)	
Own manufactured goods:		
Local		
- Yarn	**1,024,922**	731,632
- Waste	**19,682**	9,660
	1,044,604	741,292
Export - Yarn	**6,450**	0
	1,051,054	741,292
Trading activities:		
- Yarn	**100,107**	38,619
- Raw materials	**29,125**	89,709
	129,232	128,328
	1,180,286	869,620
Less:		
- Sales tax	**0**	83,000
- Commission	**2,777**	174
	2,777	83,174
	1,177,509	786,446

27. COST OF SALES

	Note	Year ended 30 June, 2006	Nine months ended 30 June, 2005
		(Rupees in thousand)	
Raw materials consumed	27.1	**730,633**	550,372
Packing materials consumed		**18,710**	10,818
Salaries, wages and benefits	27.2	**71,782**	47,621
Power and fuel		**90,735**	79,084
Repair and maintenance		**19,550**	9,630
Depreciation		**51,582**	32,898
Insurance		**1,873**	1,246
Textile cess		**44**	33
Doubling charges		**166**	0
		985,075	731,702
Adjustment of work-in-process			
Opening		**29,000**	13,813
Closing		**(27,499)**	(29,000)
		1,501	(15,187)
Cost of goods manufactured		**986,576**	16,515
Cost of yarn purchased		**97,508**	32,037
Adjustment of finished goods			
Opening stock		**0**	11,806
Closing stock		**(32,109)**	0
		(32,109)	11,806
		1,051,975	760,358

27.1 Raw materials consumed

	2006	2005
Opening stock	**298,889**	286,107
Add:		
Purchases (for manufacturing)	**648,239**	471,779
Cost of raw materials sold	**28,502**	90,503
Insurance	**2,321**	790
	679,062	563,072
	977,951	849,179
Less: closing stock	**247,342**	298,889
	730,609	550,290
Add: cotton cess	**24**	82
	730,633	550,372

27.2 These include Rs.2,962 thousand (2005: Rs.1,599 thousand) in respect of staff retirement benefits - gratuity.

	Note	Year ended 30 June, 2006	Nine months ended 30 June, 2005
		(Rupees in thousand)	

28. ADMINISTRATIVE EXPENSES

	Note	2006	2005
Directors' remuneration and fees		**2,717**	2,040
Salaries and benefits	**28.1**	**10,575**	7,257
Travelling and conveyance:			
- Directors		**91**	362
- Others		**967**	721
Rent, rates and taxes		**2,439**	1,396
Entertainment and guest house expenses		**878**	649
Communication		**1,907**	1,245
Printing and stationery		**897**	685
Utilities		**783**	274
Insurance		**2,232**	1,834
Vehicles' running		**2,154**	1,284
Repair and maintenance		**590**	874
Advertisement		**100**	173
Subscription		**166**	120
Newspapers & periodicals		**26**	17
Depreciation		**4,277**	2,698
Amortisation of intangible assets		**720**	467
Auditors' remuneration:			
- Statutory audit		**125**	125
- Half yearly review		**55**	55
- Certification charges		**25**	0
- Consultancy and tax services		**180**	100
		385	280
Legal and professional (other than Auditors')		**537**	278
Others		**265**	123
		32,706	22,777

28.1 These include Rs.884 thousand (2005: Rs.651 thousand) in respect of staff retirement benefits - gratuity.

28.2 The Company, during the year / period, shared administrative expenses aggregating Rs.1.290 million (2005: Rs.0.870 million) with its Associates on account of proportionate expenses of the combined offices at Karachi and Lahore. These expenses have been booked in the respective heads of account.

29. DISTRIBUTION COST

	Note	2006	2005
Freight and forwarding		**647**	206
Travelling and conveyance		**61**	29
Salaries and benefits	**29.1**	**2,589**	1,662
Rent, rates and utilities		**99**	72
Communication		**167**	74
Insurance		**168**	99
Advertisement		**3**	0
Entertainment		**0**	4
Others		**484**	170
		4,218	2,316

29.1 These include Rs.630 thousand (2005: Rs.399 thousand) in respect of staff retirement benefits - gratuity

	Note	Year ended 30 June, 2006	Nine months ended 30 June, 2005
		(Rupees in thousand)	
30. OTHER OPERATING CHARGES			
Donations	**30.1**	**639**	120
Right shares subscription expenses		**25**	0
Loss on sale of operating assets - net		**0**	624
Exchange fluctuation loss - net		**828**	429
Workers' (profit) participation fund		**235**	0
		1,727	1,173

30.1 **(a)** These include Rs.195 thousand (2005: Rs.120 thousand) donated to Saifullah Foundation for Sustainable Development (a social welfare society) administered by the following directors of the Company:

-Mr. Javed Saifullah Khan
-Begum Kulsum Saifullah Khan
-Mr. Osman Saifullah Khan
-Mr. Jehangir Saifullah Khan

(b) These also include Rs.444 thousand donated to President's Relief Fund for Earthquake Victims - 2005. None of the directors and their spouses had any interest in any of the donees.

	Year ended 30 June, 2006	Nine months ended 30 June, 2005
31. OTHER OPERATING INCOME		
Sale of scrap [net of sales tax - Rs.39 thousand (2005:Rs.32 thousand)]	**261**	214
Gain on disposal of vehicle	**1**	0
Gain on sale of stores	**120**	0
Unclaimed balances written-back	**476**	5
Profit on bank deposits	**12**	10
Miscellaneous	**74**	0
	944	229
32. FINANCE COST		
Mark-up on:		
- Long term finances	**27,676**	13,819
- Short term finances	**42,793**	18,466
Lease finance charges	**12,132**	2,045
Bank charges and others	**756**	334
	83,357	34,664
33. LOSS PER SHARE		
Loss after taxation attributable to ordinary shareholders	**(1,550)**	(24,306)
	No. of shares	
Weighted average number of shares outstanding during the year / period	**16,254,795**	8,800,000
	Rupees	
Loss per share	**(0.10)**	(2.76)

34. FINANCIAL INSTRUMENTS

34.1 Financial assets and Liabilities

	Interest / mark-up bearing				Non-mark-up bearing			Total
	Interest/ mark-up rates range % per annum	Maturity upto one year	Maturity after one year	Sub-total	Maturity upto one year	Maturity after one year	Sub-total	
		(Rupees in thousand)						
Financial assets:								
Long term deposits		0	0	0	0	1,137	1,137	1,137
Long term loans		0	0	0	89	1,841	1,930	1,930
Trade debtors		0	0	0	131,915	0	131,915	131,915
Deposits and other receivables		0	0	0	157	0	157	157
Bank balances		0	0	0	442	0	442	442
2006:		**0**	**0**	**0**	**132,603**	**2,978**	**135,581**	**135,581**
2005:		1,511	0	1,511	78,060	1,902	79,962	81,473
Financial liabilities:								
Demand finances	8.39% to 11.23%	52,000	182,000	234,000	0	0	0	234,000
Long term deposits		0	0	0	0	1,147	1,147	1,147
Liabilities against assets subject to finance lease	10.36% to 13.07%	28,529	91,125	119,654	0	0	0	119,654
Short term finances	5.26% to 12.12%	395,141	0	395,141	0	0	0	395,141
Trade and other payables		0	0	0	59,740	0	59,740	59,740
Accrued mark-up and interest		0	0	0	23,535	0	23,535	23,535
2006:		**475,670**	**273,125**	**748,795**	**83,275**	**1,147**	**84,422**	**833,217**
2005:		448,616	321,711	770,327	54,502	561	55,063	825,390
Off balance sheet items:								
Letters of credit 2006:								**54,914**
Guarantees 2006:								**11,000**
Letters of credit 2005:								41,572
Guarantees 2005:								8,000

34.2 Foreign exchange risk

Foreign currency risk arises where receivables and payables exist due to transactions with foreign undertakings. Payables exposed to foreign currency risks are monitored by the management and, if necessary, are covered through forward foreign exchange contracts. However, no foreign forward exchange contracts were outstanding at the year-end.

34.3 Concentration of credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties fail completely to perform as contracted. All of the Company's financial assets, except for long term loans amounting Rs.1,930 thousand (2005: Rs.1,602 thousand), are subject to credit risk.

34.4 Fair values of financial assets and liabilities

The carrying values of all financial assets and liabilities reflected in the financial statements approximate to their fair values. Further, staff loans have been valued at their original cost less repayments.

34.5 Liquidity risk

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. The Company follows an effective cash management and planning policy to ensure availability of funds and to take appropriate measures for the new requirements.

34.6 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates. The Company usually borrows funds at fixed and market based rates and as such the risk is minimised.

	Year ended 30 June, 2006	Nine months ended 30 June, 2005
	(Rupees in thousand)	

35. TRANSACTIONS WITH ASSOCIATES

Sales:		
- Goods and services	**483,151**	313,949
- Fixed assets	**0**	7,410
Purchase of goods and services	**315,811**	41,078

36. REMUNERATION OF DIRECTORS AND EXECUTIVES

Particulars	Directors		Executives	
	Year ended 30 June, 2006	Nine months ended 30 June, 2005	**Year ended 30 June, 2006**	Nine months ended 30 June, 2005
	(Rupees in thousand)			
Managerial remuneration	**2,700**	2,025	**3,788**	1,914
Retirement benefits	**0**	0	**457**	181
Medical expenses reimbursed	**11**	10	**81**	55
	2,711	2,035	**4,326**	2,150
Number of persons	**1**	1	**4**	3

36.1 Meeting fee of Rs.6 thousand (2005: Rs.5 thousand) was also paid to 2 (2005: two) non-executive directors during the year / period.

37. CAPACITY AND PRODUCTION

		Year ended 30 June, 2006	Nine months ended 30 June, 2005
		(Figures in thousand)	
No. of spindles installed		**44**	44
No. of spindles shifts worked		**47,827**	35,390
Rated capacity at 20's count	Kgs	**17,730**	13,846
Actual production 1,094 Shifts (2005:816 Shifts)	Kgs	**6,105**	4,138
Actual production converted into 20's count	Kgs	**16,638**	12,083

It is difficult to describe precisely the production capacity in textile spinning industry since it fluctuates widely depending on various factors, such as count of yarn spun, spindles speed, twist per inch and raw materials used, etc. It also varies according to the pattern of production adopted in a particular year / period.

38. DATE OF AUTHORISATION OF FINANCIAL STATEMENTS

These financial statements were authorised for issue on 07 October, 2006 by the board of directors of the Company.

39. CHANGE IN FINANCIAL YEAR

The Central Board of Revenue vide SRO No. 684(I)/2004 dated 10 August, 2004 had directed to change the financial year-end of Cotton Textile Industry from September to June. Consequently, the financial statements for the corresponding period were prepared for the period of nine months ended on 30 June, 2005.

40. 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. However, no significant rearrangements and reclassifications have been made in the financial statements.

Osman Saifullah Khan
Chief Executive

Jehangir Saifullah Khan
Director

PROXY FORM

I/we____

of____

a Member(s) of **KOHAT TEXTILE MILLS LIMITED** and holder of____________________

Ordinary Shares, do hereby appoint________________________________

of____

or failing him____

of____

a member of **KOHAT TEXTILE MILLS LIMITED,** vide Registered Folio No.__________and/or

CDC participant I.D. No.________________ and Sub Account No.________________

as my/our proxy to act on my/our behalf at the 40th Annual General Meeting of the Company to be held on 30th October, 2006.

Signed this______________________________day of____________2006

Signature

Affix Five Rupees Revenue Stamp

(Signature should agree with the Specimen Signature registered with the Company).

NOTES:

1. No proxy shall be valid unless it is duly stamped with a revenue stamp worth Five Rupees.
2. In the case of Bank or Company, the proxy form must be executed under its Common seal and signed by its authorised person.
3. If this proxy form is signed under a power of attorney or other authority then a notarially certified copy of that power of attorney/authority must be deposited alongwith this proxy form.
4. This form of proxy duly completed must be deposited at the Registered office of Company at least 48 hours before the meeting.
5. Individual CDC Account holders shall produce his/her original National Identity Card or Passport, account and participant's ID # to prove his/her identity. A corporate member from CDC must submit the board of directors' resolution or power of attorney and the specimen signature of the nominee, attending meeting.