AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **D.M. TEXTILE MILLS LIMITED** as at 30 June 2011 and the related profit and loss account, statement of comprehensive income, 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) The company sustained net loss of Rupees 63.55 million during the year ended 30 June 2011 and as of that date its accumulated loss was Rupees 143.982 million due to which total equity stood at negative balance of Rupees 113.458 million. As of 30 June 2011, the company's current liabilities exceeded its current assets by Rupees 370.888 million. Financing from banking companies and liabilities against assets subject to finance lease are overdue or payable within one year. The company has been unable to re-negotiate or obtain replacement financing. The company is unable to properly repay its liabilities against assets subject to finance lease even after grant of moratorium of one year and extension in lease term. The mill remained closed for ninety two days during the year due to non-supply of captive power gas. The management of the company did not provide us its assessment of going concern assumption used in preparation of these financial statements and the future financial projections indicating the economic viability of the company. These events indicate a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern and therefore it may be unable to realize its assets and discharge its liabilities in the normal course of business. The financial statements have been prepared on the going concern basis;

(b) Owing to the default of the company in timely payment of finance lease rentals, the total liabilities against assets subject to finance lease amounting to Rupees 109.314 million and deferred markup amounting to Rupees 12.47 million are repayable on demand. But the company has classified these current liabilities against assets subject to finance lease and deferred markup thereon amounting to

Rupees 43.898 million and Rupees 4.317 million respectively as non-current liabilities in note 6 and note 8 respectively to theses financial statements which is in contravention of para 74 of International Accounting Standard (IAS) 1 “Presentation of Financial Statements”;

(c) Except for the effects of matters discussed in paragraphs (a) and (b) above, in our opinion, proper books of account have been kept by the company as required by the Companies Ordinance, 1984;

(d) in our opinion:

i. Except for the effects of matters discussed in paragraphs (a) and (b) above, 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;

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;

(e) in our opinion and to the best of our information and according to the explanations given to us, because of the effects of matters discussed in paragraphs (a) and (b) above, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof do not conform with approved accounting standards as applicable in Pakistan and do not give a true and fair view of the state of the company's affairs as at 30 June 2011 and of the loss, its comprehensive loss, its cash flows and changes in equity for the year then ended. In all other respects, in our opinion the financial statements give the information required by the Companies Ordinance, 1984, in the manner so required; and

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

(g) Without qualifying our opinion, we draw attention to Note 15 to the financial statements, which states that the company has advanced an amount of Rupees 51.150 million against purchase of property. The property has not yet been transferred in the company's name due to the want of completion of legal formalities. Directions were given for transferring the property in the name of the company within thirty days of the order of Securities and Exchange Commission of Pakistan (SECP) dated 29 November 2007. The Chief Executive Officer of the company has filed a revision application with the Appellate Bench of SECP and also filed an appeal before the Lahore High Court, Rawalpindi Bench whereby stay order was granted to suspend the operation of above said order. Pending the outcome of this matter, no adjustment has been made in these financial statements, which may be required consequent to the outcome of the aforesaid uncertainty.

Name of engagement partner:
Atif Bin Arshad
DATE: October 05,2011
ISLAMABAD

RIAZ AHMAD & COMPANY
Chartered Accountants