

D.M Textile Mills Ltd

DIRECTORS' REPORT

Dear Shareholders,

The Directors welcome you to the 54th Annual General Meeting of D.M. Textile Mills Ltd and present audited accounts and annual report of the company for the year ended June 30, 2011 along with Auditors' Report thereon.

1. Net Profit/(Loss)

During the year the company suffered a net loss of Rs. (63.550) Million as compared to previous year net profit of Rs.15.796 Million.

In put cost increased due to inflation cost of fuel has been continuously increasing. Similarly raw material prices have been sky rocketed. Capative power gas was not supplied for 92 days by SNGPL up to 13-04-2011 after which the mill was forced to be closed due to financial crises.

2- Comparative financial results are given below:

Year Ended on	Rupees in Thousand	
	30-06-2011	30-06-2010
Gross Sales	831,952	982,345
Cost of Sales	(846,145)	(903,849)
Gross Profit/(Loss)	(14,193)	78,496
Gross Profit/(Loss) Rate (%)	(1.71)%	7.99%
Selling, Admin & Other operating Expenses	(29,967)	(27,837)
Other Operating Income	0.281	8,995
Financial and Other Charges	(36,217)	(43,870)
Provision for Taxation	16,545	12
Profit / (Loss) after taxation	(63,550)	15,796
Basic Earning/(Loss) per share in Rs	(20.82)	5.17
Breakup Value per share in Rs	146.88	167.69

3- Production Results.

Year Ended		30-06-2011	30-06-2010
Actual production yarn	Million Kgs	3.054	4.824
Converted production yarn 20's	Million Kgs	7.270	11.703
Average count spun	No.	35.40	35.95
Yield combine	%age	91.48	91.37

4- Debt Servicing

The company paid installments of loan to the financial institutions except Rs.73.194 Million shown overdue of long-term loan, Rs. 30.871 Million of finance lease and deferred markup Rs. 4.089 million in note no 12 of current portion of non currents liabilities resulting decrease in current ratio below Relaxed Current Ratio notified by State Bank of Pakistan.

5- Dividend

The Directors have not recommended any dividend due to losses.

6- Directors granted specific approval regarding the following transactions/ Adjustments incorporated in the financial statements:

	Rupees
Property, plant and equipment	
• Additions (Owned)	732,013
• Cost of deletions	(55,020,109)
Chief Executive Remuneration	2,400,000
Provision for gratuity	3,872,238
Movement-Short term borrowings-net	(3,332,579)
Creditors over 3 years written off	15,323

Directors granted general approval of following transactions in the financial statements.

- A. Sales of Fixed Assets through negotiation as per note No 14.2
- B. Approval of expenditures including Capital expenditure.
- C. Loans taken by the company and mark up paid there on.
- D. Advances given in Note 15 & 21.

7- Statement on Corporate and Financial Reporting Frame Work

- a) The financial statements prepared by the management of the Company, present fairly its state of affairs, the results of its operations, cash flow and changes in equity.
- b) Company has maintained proper books of accounts.
- c) In preparation of financial statements appropriate accounting policies have been consistently applied and accounting estimates are based on reasonable and prudent judgments.
- 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. The process of review will continue and any weakness in control will be removed.
- f) There are no significant doubts upon the Company's ability to continue as a going concern.
- g) There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
- h) Key Operating and Financial Data for the last six years in summarized form is annexed.
- i) There are no overdue taxes and levies as on June 30, 2011 except reported in note No. 13 under contingencies and commitments in balance sheet.
- j) Pattern of Shareholding and Additional information is annexed.

- k) During the year under review Directors, Chief Executive, Chief Financial Officer/ Company Secretary, their spouses and minor children were not involved in the trading of the shares of the Company except gifting of shares by their spouses and mother.
- l) During the year four meetings of the Board of Directors were held. Attendance by each director is as follows:

Name of Directors	No. of Meetings attended
Mr. Habib Ullah	5
Mr. Hussain Ahmed Qureshi	5
Syed Obaid-ul-Haq	5
Mr. Shahid Anwar (Nominee of NIT)	4
Rao Khalid Pervaiz	5
Mian Mohammad Saleem Omer (Ex)	2
Mian Naeem Omer (Ex)	3
Mr. Hussain Ahmed Ozgen	1
Ch. Muhammad Yasin	1

Directors who could not attend Board Meetings due to illness or some other engagements were granted leave of absence in accordance with the law.

- m) Messrs. Corplink (Private) Limited, Wings Arcade, 1-K Commercial Model Town, Lahore is our share registrar under section 204-A of the companies ordinance 1984

8- Future Prospects & Plans

Textile crisis is still continuing. Energy crises, fuel tariff increase and levy of sales tax @6% on spinning stage on unregistered units are the biggest problems. The sale prices have considerably been reduced. The company had to lay off 13 days during 9 months ended 31-03-2011. Load shedding of WAPDA and SNGP Limited have badly affected power looms sector at Faisalabad and there is no yarn demand. The company has been forced to lay off mills operation from 13-04-2011 due to cash liquidity crunch. Future is difficult to predict. However, the management intends to start operation of the mills subject to reduction in textile crises.

9- Auditors

The retiring Auditors M/s Riaz Ahmed & Company Chartered Accountants being eligible offer themselves for re-appointment.

10- Remarks in Auditors' report to the members:

Quote: 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; **Unquote**

It is clarified that due to textile crises current liabilities included following:

- (a) Non-Payment of overdue installments of loans to NIB Bank Ltd Rs. 73.194 million and deferred markup Rs. 4.089 million
- (b) Non-Payment of overdue installments of principal Rs. 30.871 million against liabilities against assets subject to finance lease
- (c) Overdue acceptance under usance L/C could not be paid within their expiry period such as payable to NIB Bank Limited Rs. 24.194 million and to the Royal Bank of Scotland Rs. 10.874 million and Rs. 6.816 million.

The company is trying its level best to negotiate with NIB Bank Limited for rescheduling and restructuring of loans.

None of the leasing companies have written letter to pay the entire outstanding lease finance as such auditors qualification is subjudice.

Quote: "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 these financial statements which is in contravention of para 74 of International Accounting Standard (IAS) 1 "Presentation of Financial Statements"; **Unquote**

Due to losses during the year, the directors do not agree with the Auditors' opinion regarding doubt on the company's ability to continue as a going concern.

11- Acknowledgement

The directors wish to place on record their acknowledgement for the cooperation extended by the financial institutions. Appreciation is also due to the employees of the company for their hard work and devoted efforts for the betterment of the company.

For and behalf of the Board of Directors

Habib Ullah
Chief Executive

Rawalpindi: October 05, 2011

Hussain Ahmad Qureshi
Director