

**NOTES TO THE ACCOUNTS
FOR THE FIRST QUARTER ENDED 30 SEPTEMBER 2005**

(UN-AUDITED)

1. THE COMPANY AND ITS ACTIVITIES

D.M Textile Mills Limited is a public limited company in-corporated in Pakistan under the companies Act 1913 (Now Companies Ordinance 1984). Shares of company are quoted on Karachi and Islamabad Stock Exchanges. Registered office of the company is situated at Rawalpindi. The company is engaged in the manufacturing, sale and trading of cotton polyester, viscose and blended yarn.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 These financial statements are Un-audited and are being submitted to share holders as required u/s 245 of the Companies Ordinance, 1984 and have been prepared in accordance with the International Accounting Standards No.34, interim financial reporting as applicable in Pakistan as notified by Securities and Exchange Commission of Pakistan.

2.2 The accounting policies and method of computation followed in the preparation of first quarterly financial statements are same as those published in the annual financial statements for the period ended 30 June 2005.

2.3 Transactions and contracts with the related parties are carried out at an arm's length prices determined in accordance with comparable uncontrolled price method.

3. SURPLUS ON REVALUATION OF FIXED ASSETS

	30 September 2005 Rupees	30 September 2004 Rupees
Opening Balance	235,649,065	134,226,092
Addition due to revaluation of fixed assets during the period / year	-	165,055,047
Un-depreciated portion of surplus on revaluation of fixed assets	235,649,065	299,281,139
Deferred tax liability recognized on revaluation	-	(57,769,266)
Surplus on revaluation - net of deferred tax	235,649,065	241,511,873
Surplus realized on disposal of revalued fixed assets during the period / year	-	-
Incremental depreciation on revalued assets relating to current period / year transferred to accumulated losses	(749,533)	(3,269,332)
	234,899,532	238,242,541

	30 September 2005 Rupees	30 September 2004 Rupees
4. LONG TERM FINANCES	-	
Long term finances from banking companies (secured) utilized under mark up arrangements are as under :		
Industrial Development Bank of Pakistan (IDBP)		
Long term loan	-	88,801,517
Deferred mark-up	-	19,192,689
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	-	107,994,206
PICIC Commercial Bank Limited (PCBL)	81,458,333	-
MCB Bank Limited-formerly Muslim commercial Bank Limited	6,663,000	8,569,000
Habib Bank Limited (HBL)	3,004,813	7,790,274
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	91,126,146	124,353,480
Less: current portion	(16,849,298)	(51,364,243)
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	<u>74,276,848</u>	<u>72,989,237</u>

PCBL finances carry markup rate Kibor plus 4.5% pa with floor rate of 8 % and other finances @ 10% p.a

5. CONTINGENCIES AND COMMITMENTS

5.1 Contingencies

Taxation

- (i) Income tax demand for assessment year 2002-2003 was raised for Rs 774,582 out of which 15% Rs 116,188 was paid. Company filed an appeal with Commissioner of Income Tax Appeals Zone III Lahore. The decision was in company favour on 11 April 2005. But the Income Tax department filed an appeal with the Income Tax Appellate Tribunal on 04 August 2005. No provision for the remaining demand made in the financial statements as the Company is confident of outcome of the appeal in its favour.
- (ii) The company filed an appeal with Commissioner of Income Tax (Appeals) Zone III Lahore against the assessment order for Assessment year 1998-1999, in which Rupees 44.306 million were treated as income of the company. The appeal was decided in company favour on 02 May 2005. The company applied for appeal effects to the concerned taxation officer but benefit of Rs 44.306 million has not yet given. the Company has filed rectification application in this regard but income tax department has filed an appeal with Income Tax Appellate Tribunal Islamabad against the order of the CIT (A). However the Company is confident of favourable outcome of the case.

Commitments

- 5.2 a) Letters of credit for import of plant and machinery amounting to Rs 61.746 million (September 2004:Rs 36.089 million).

	30 September 2005 Rupees	30 September 2004 Rupees
6. PROPERTY, PLANT AND EQUIPMENT		
Operating fixed assets	553,720,826	500,818,882
Capital work in progress: Building	2,296,453	1,346,568
	<u>556,017,279</u>	<u>502,165,450</u>
6.1 Operating fixed assets		
Opening book value	526,815,635	325,767,852
Addition during the period	45,278,644	35,791,942
Deletion during the period	(14,325,180)	(12,733,213)
Revaluation surplus	-	165,055,047
	<u>557,769,099</u>	<u>513,881,628</u>
Depreciation charged during the period	(4,048,273)	(13,062,746)
	<u>553,720,826</u>	<u>500,818,882</u>
7. COST OF GOODS SOLD		
Raw material consumed	116,187,668	87,042,487
Stores and spares consumed	2,589,664	2,332,533
Salaries, wages and benefits	11,656,729	7,376,529
Fuel and power	20,446,719	14,650,314
Insurance	279,002	311,678
Packing material	2,277,016	1,581,009
Labour welfare	601,546	103,182
Other factory overheads	-	48,220
Depreciation	3,480,221	3,157,686
	<u>157,518,565</u>	<u>116,603,638</u>
Work-in-process		
Opening stock	8,209,301	9,259,867
Closing stock	(9,836,419)	(8,611,648)
	<u>(1,627,118)</u>	<u>648,219</u>
Cost of goods manufactured	155,891,447	117,251,857
Finished goods		
Opening stock	6,852,409	1,485,392
Closing stock	(11,119,327)	(3,744,675)
	<u>(4,266,918)</u>	<u>(2,259,283)</u>
Cost of goods sold	151,624,529	114,992,574
Cost of raw material sold	2,076,410	-
Cost of yarn sold	<u>153,700,939</u>	<u>114,992,574</u>

	30 September 2005 Rupees	30 September 2004 Rupees
8. CASH GENERATED FROM OPERATIONS		
Profit before taxation	15,065,500	9,803,995
Adjustments for non cash charges and other items:		
Depreciation	4,048,272	13,062,746
Gratuity	1,302,928	1,511,869
(Gain)/Loss on sale of property, plant and equipment	-	888,713
Workers' profit participation fund	792,921	516,000
Financial charges	5,949,552	17,719,420
working capital changes	29,831,591	(69,133,407)
Operating profit before working capital changes	<u>56,990,764</u>	<u>(25,630,664)</u>
8.1 Working capital changes		
(Increase)/decrease in current assets		
Stores, spares and loose tools	(1,734,844)	(481,850)
Stock-in-trade	19,043,235	(68,534,518)
Trade debts	(613,451)	(1,180,157)
Advances	(4,708,039)	(4,479,072)
Deposits and short term prepayments	(1,083,151)	319,512
Other receivables	7,875	(4,432,751)
	<u>10,911,625</u>	<u>(78,788,836)</u>
Increase/(decrease) in current liabilities		
Trade and other payable	18,919,966	9,655,429
	<u>29,831,591</u>	<u>(69,133,407)</u>
9. TRANSACTIONS WITH RELATED PARTIES		

Related parties comprise of associated undertakings, other related parties and key management personnel. Detail of transactions with related parties other than those which have been specifically disclosed elsewhere in these financial statements are as follows

Bilal Textiles (Private) Limited

Sale of goods and services	1,390,220	26,568,100
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DATE OF AUTHORIZATION OF FINANCIAL STATEMENTS

These financial statements were authorised for issue on 26 September 2005 by the Board of Directors of the company.

11. COMPARATIVE FIGURES

Due to revision of the Fourth Schedule to Companies Ordinance, 1984 by the Securities and Exchange Commission of Pakistan vide SRO. 589(I) 2004 dated 05 July 2004, previous year's figures have been rearranged and / or reclassified, for the purpose of comparison. The entire reclassifications and rearrangements due to revision are impracticable to list and disclose .

CHIEF EXECUTIVE

DIRECTOR