

# D.M Textile Mills Ltd

## DIRECTORS' REPORT

Dear Shareholders,

The Directors are pleased to present before you the financial statements for the Half Year Ended 31<sup>st</sup> Dec, 2006 and append below the financial results.

1. The company earned a net profit of Rs 2.260 million during the half year ended 31-12-2006 as compared to Rs. 25.468 million of previous half year ended 31-12-2005. The net profit for the first quarter ended 30-9-2006 was Rs. 7.433 million and in the second quarter company suffered a net loss of Rs. 5.173 million. The textile industry is facing severe financial crises and the government is considering for its revival. Comparative financial results are given below;

Half Year Ended on	Rs in million		
	31-12-06	31-12-05	Increase/ Decrease
Gross Sales	462.680	367.778	94.903
Cost of Sales	420.639	320.252	100.387
Gross Profit	42.041	47.526	(5.485)
Gross Profit Rate	9.086	12.922	
Depreciation	9.631	3.041	6.590
Other operating income	2.335	3.037	(0.702)
Financial Cost	30.875	13.459	17.416
Profit before taxation	3.822	26.514	(22.692)
Net Profit	2.260	25.468	(23.208)
Basic Earning per share in Rs	0.74	8.34	
Breakup Value per share in Rs	92.66	89.95	

2. Cost of sales increased by 31.35% as compared to increase in sales revenue by 25.80 % resulting decrease in gross profit by 11.54 %.
3. Average yarn sale rate per kg increased by 2.07 % where as raw material consumed rates per kg increased by 6.41 % as compared to previous corresponding period respectively reducing profitability.
4. Financial cost increased due to following reasons
  - a) Markup rates are linked with KIBOR which increases on quarterly basis.
  - b) Additional lease financing against machinery.
  - c) Increased utilization of cash limit due to enhancement of production capacity.

5. Production Results;

Half Year Ended on		31-12-2006	31-12-2005
Average Spindles Installed	Nos	34,188	32,675
Yarn production Actual	M kgs	3.109	2.858
Converted into 20's	M kgs	8.148	7.669
Average Count Spun	Nos	37.84	38.54
Yield Percentage	%	94.50	94.09

6. Dividend:

In view of funds invested in expansion/ modernization Directors have not recommended any interim dividend.

7. Debt Servicing:

The company made payments to the lenders on due dates except over dues shown in Note No 5 to financial statements due to self financed capital expenditure for construction of Workers Colony and Power House Building .

8. Modernization:

We established Lc's for import of one set Murata Auto Conner to reach by end of February 2007 whereas 8 set Tuetzchler Cards reached mills premises on 12th February, 2007.

9. Prospects and Plans:

The company has set up power generation plant from gas operator as 18-11-2006 and will reduce the electric cost reasonably. The company intends to import 4 set Ring Frames for enhancement of capacity. Increase in production and will reduce administrative cost proportionally.

10. Qualification by Auditors:

The auditors qualified that the company has not changed its accounting policy for initial recognition of financial instruments at fair value and subsequent measurement at amortization cost as required by the international accounting standard-39 "Financial Instruments: Recognition and Measurements".

Management of the company was of the view that deferred markup is not a loan but is markup payable on demand finance loan, the payment of which was deferred at the time of rescheduling of the principle loan amount. The banker of the company at the time of rescheduling loan capitalized accrued markup and formed a fresh loan resulting charge on markup on markup. This was contravention of BPD Circular No 37 dated 7<sup>th</sup> November, 1995 of State Bank of Pakistan. The banker rectified by segregating the amount of markup to be payable after repayment of original loan in the year 2009 to 2019.

The management has written for clarification to the president ICAP Karachi with a copy to the Chairman SECP Islamabad and the reply is awaited.

The management is trying its level best to increase production, efficiency and to control expenses/ waste wherever possible.

*For and on behalf of the Board of Directors*

Habib Ullah  
Chief Executive

Hussain Ahmad Qureshi  
Director

Rawalpindi dated: February 23, 2007