

**NOTES TO THE ACCOUNTS
FOR THE FIRST QUARTER ENDED 30 SEPTEMBER 2006
(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 2006.
- 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.

	30 September 2006 Rupees	30 June 2006 Rupees
3. SURPLUS ON REVALUATION OF FIXED ASSETS		
Opening Balance	232,650,934	235,649,065
Incremental depreciation on revalued assets relating to current period / year transferred to accumulated losses	(697,771)	(2,998,131)
	231,953,163	232,650,934
4. LONG TERM FINANCES		
Long term finances from banking companies (secured) utilized under mark up arrangements are as under :		
PICIC Commercial Bank Limited (PCBL)	74,374,999	77,916,666
MCB Bank Limited-formerly Muslim commercial Bank Limited	4,757,000	5,710,000
	79,131,999	83,626,666
Less:		
Current portion	(16,072,668)	(16,072,668)
Over due	(7,083,334)	(7,083,334)
	(23,156,002)	(23,156,002)
	55,975,997	60,470,664

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

- (a) Income tax demand for assessment year 2002-2003 was raised for Rupees 774,582 out of which 15% amounting to Rupees 116,188 was paid. The Company filed an appeal with the Commissioner of Income Tax (Appeals) Zone III Lahore. The decision was in Company's favour on April 11, 2005, but the Income Tax department filed an appeal with the Income Tax Appellate Tribunal on August 04, 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.
- (b) The Company filed an appeal with the 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's favour on May 02, 2005. The Company applied for appeal effects to the concerned taxation officer but benefit of Rupees 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 appeal.
- (c) Liability of Rupees 3.5 million on decision to be made by CBR (Central Board of Revenue) against our application to pay customs duty @ 5% under SRO 594(1)/98 date June 12, 1998 as amended by SRO 452(1)/2004 dated June 12 2004 to avail exit scheme on imported machinery released against bonded license.

5.2 Commitments

- a) Letter of credit for import of plant and machinery amounting to Rupees 74.958 million (June 2006:Rupees 46.692 million).

	30 September 2006 Rupees	30 June 2006 Rupees
6. PROPERTY, PLANT AND EQUIPMENT		
Operating:		
Owned		
Opening book value	504,304,367	478,584,865
Addition during the period / year	23,600,671	97,216,989
	<u>527,905,038</u>	<u>575,801,854</u>
Book value of the property, plant and equipment disposed off during the period/year	(22,422,022)	(47,501,079)
Accumulated depreciation of property, plant and equipment disposed off during the period / year	-	(11,017,097)
	(22,422,022)	(58,518,176)
	505,483,016	517,283,678
Depreciation charged during the period/Year	(3,375,663)	(12,979,310)
Closing book value	<u>502,107,353</u>	<u>504,304,368</u>
	-	
Leased		
Opening book value	85,640,940	48,230,770
Addition during the period / year	20,953,080	49,045,575
	<u>106,594,020</u>	<u>97,276,345</u>
Book value of the property, plant and equipment disposed off during the period/year	-	(19,078,128)
Accumulated depreciation of property, plant and equipment disposed off during the period / year	-	11,428,442
	-	(7,649,686)
Depreciation charged during the period/Year	(1,134,415)	(3,985,719)
Closing book value	<u>105,459,605</u>	<u>85,640,940</u>
	607,566,958	589,945,308
Capital work in progress	11,268,665	9,811,140
	<u>618,835,623</u>	<u>599,756,448</u>

	30 September 2006 Rupees	30 September 2005 Rupees
7. COST OF GOODS SOLD		
Raw material consumed	142,359,964	116,187,668
Stores and spares consumed	2,459,187	2,589,664
Salaries, wages and benefits	15,255,192	11,656,729
Fuel and power	22,978,757	20,446,719
Insurance	380,251	279,002
Packing material	3,447,760	2,277,016
Labour welfare	206,885	601,546
Depreciation	3,818,344	3,480,221
	<u>190,906,340</u>	<u>157,518,565</u>
Work-in-process		
Opening stock	12,150,308	8,209,301
Closing stock	(11,345,310)	(9,836,419)
	804,998	(1,627,118)
Cost of goods manufactured	<u>191,711,338</u>	<u>155,891,447</u>
Finished goods		
Opening stock	2,373,731	6,852,409
Closing stock	(5,542,118)	(11,119,327)
	(3,168,387)	(4,266,918)
Cost of goods sold	<u>188,542,951</u>	<u>151,624,529</u>
Cost of raw material sold	<u>17,537,369</u>	<u>2,076,410</u>
Cost of yarn sold	<u><u>206,080,320</u></u>	<u><u>153,700,939</u></u>

	30 September 2006 Rupees	30 September 2005 Rupees
8. CASH GENERATED FROM OPERATIONS		
Profit before taxation	8,215,609	15,065,500
Adjustments for non cash charges and other items:		
Depreciation	4,510,078	4,048,272
Gratuity	1,035,382	1,302,928
(Gain)/Loss on sale of property, plant and equipment	1,468,942	-
Workers' profit participation fund	432,400	792,921
Financial charges	14,047,144	5,949,552
working capital changes	8,341,095	29,831,591
Operating profit before working capital changes	<u>38,050,650</u>	<u>56,990,764</u>
8.1 Working capital changes		
(Increase)/decrease in current assets		
Stores, spares and loose tools	(839,549)	(1,734,844)
Stock-in-trade	16,727,822	19,043,235
Trade debts	906,282	(613,451)
Advances	(266,138)	(4,708,039)
Deposits and short term prepayments	(1,400,025)	(1,083,151)
Other receivables	(417,042)	7,875
	<u>14,711,350</u>	<u>10,911,625</u>
Increase/(decrease) in current liabilities		
Trade and other payable	(6,370,255)	18,919,966
	<u>8,341,095</u>	<u>29,831,591</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	1,979,726	9,016,860
Purchase of goods and services	7,286,458	1,874,574

Bilal Fibers Limited

Purchase of goods and services	-	60,000
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10. DATE OF AUTHORIZATION OF FINANCIAL STATEMENTS

These financial statements were authorised for issue on 28 October 2006 by the Board of Directors of the company.

11. COMPARATIVE FIGURES

11.1 Previous period's figures have been re-arranged and reclassified where ever necessary for the purpose of comparison. However no significant reclassification has been made.

11.2 Figures have been rounded off to the nearest Rupee.

CHIEF EXECUTIVE

DIRECTOR