

DIRECTORS' REPORT TO THE SHAREHOLDERS

The Directors welcome you to the 49th Annual General Meeting of D.M. Textile Mills Ltd. and present audited accounts and annual report of the company for the period ended June 30, 2006 along with Auditor Report thereon.

Salient features are reported as under;

1. Net Profit

The company earned net profit during the year Rs.31.490 Million as compared to previous 9 months Rs.63.980 Million which included Rs.44.952 Million relief granted by IDBP. The profit before taxation was Rs.33.730 Million as compared to previous Rs.20.033 Million.

2. Gross profit

Gross profit of the year Rs.92.110 Million as compared to Rs.43.600 Million of the previous period. Gross profit rate for the year was 11.99% as compared to 9.56 % of previous period resulting increase in GP rate by 2.43%. Commission on sale of yarn has been shown in selling expenses instead of deducting from sales as per changes in 4th Schedule to the Companies Ordinance 1984.

3. Earning per share

The earning per share for the period under review is Rs 10.37 in comparison to the earning per share of Rs 20.96 of the previous period.

4. Break up value of share

The break up value of share as on June 30, 2006 was Rs 91.97 as compared to Rs81.96 of the previous period.

5. Sales

Sales (yarn & waste) for the year were Rs.768.053 Million as compared to Rs.456.258 Million of previous period. The increase in sales revenue is Rs. 311.795 Million i.e. 68.34 % due to increase in capacity and increase in average yarn sale rate.

6. Raw Material

Cost of Raw material consumed during the year was Rs 490.004 Million as compared to Rs 309.630 Million of previous period. The increase is Rs 180.374 Million i.e. 58.25%. The major reasons are increase in capacity and period difference of three months.

7. Financial and Other Charges

Financial and other charges were Rs 40.978 Million as compared to Rs 12.302 Million of previous period. For the sake of comparison monthly financial cost amounted to Rs 3.418 Million as compared to Rs 1.367 Million of previous period. The reasons are increase in long term loans, cash finances, and running finances due to increase in capacity as well as linkage of markup with KIBOR rate.

8. Production Results

Period Ended		<u>12 Months</u> <u>30-06-2006</u>	<u>9 Months</u> <u>30-06-2005</u>
Actual production yarn	Million Kgs	5.819	3.652
Converted production yarn 20's	Million Kgs	15.757	9.124
Average count spun	No.	38.720	36.770
Yield	%age	94.370	90.920

9. Debt Servicing

The company paid installments of loan regularly to the financial institutions except Rs 7.083 Million shown overdue in note 13 of current portion of non currents liabilities.

10. Modernization

Rs 62.175 Million were spent in the current year for procurement of machinery under BMR program as compared to Rs. 34.084 Million in the pervious period.

We have established letter of credits for import of 3 sets of Murata by availing supplier's credit of 360 days.

11. Dividend

In view of funds invested in expansion/ Modernization of the project, the Directors have not recommended any dividend.

12. 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, 2006 except reported in note no 14 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.

- 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	4
Mr. Hussain Ahmed Qureshi	4
Syed Irshad Hussain Shah	4
Mr. Shahid Anwar (Nominee of NIT)	3
Rao Khalid Pervaiz	4
Mian Mohammad Saleem Omer	1
Mian Naeem Omer	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.

13. Future Prospects and Plans

The price of raw material has increased recently without corresponding increase in sale prices and may affect profitability of the company. The management is trying its level best to control Men, Material and Machinery with maximum efficiency and optimum production.

14. Placement of Quarterly Accounts on Website

The company is maintaining its website www.dmtextile.com.pk. The permission of the SECP was obtained on 12th Dec 2005 and transferred the quarterly accounts through company's website after obtaining approval of the shareholders. The company will however supply the copies of account to the shareholders on their demand at their registered address free of cost.

15. CDC

The company became member of CDC on 24th Nov 2005 and all transfer of shares of the company are routed through CDC.

16. Auditors

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

17. 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 amortized cost as required by the International accounting standard -39 "Financial Instrument: Recognition and Measurements". Management of the Company was of the view that deferred mark-up is not a loan but is mark-up payable on demand finance Loan, the payment of which was differed at the time of rescheduling of the principle loan amount. The banker of the company at the time of rescheduling loan capitalized accrued mark-up and formed a fresh loan resulting charge on markup on markup. This was in contravention of BPD Circular No 37 dated November 7, 1995 of State Bank of Pakistan. The banker rectified by segregating the amount of mark-up to be payable after repayment of original loan in the year 2009 to 2019.

18. Acknowledgement

The directors wish to place on record their acknowledgement for the cooperation extended by 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

Hussain Ahmad Qureshi
Director

Rawalpindi:
September 27, 2006