

## AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of "D.M. TEXTILE MILLS LIMITED" as at 30 June 2006 and the related profit and loss account, cash flow statement, and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

The company has not changed its accounting policy for initial recognition of financial instruments at fair value and subsequent measurement at amortised cost as required by International Accounting Standard - 39 " Financial Instruments: Recognition and Measurement" (Revised 2003) applicable for the periods beginning on or after January 01, 2005. Accordingly, fair value adjustment of deferred mark-up (Note 9) has not been recognized in these financial statements. Moreover, financial impact of the aforesaid adjustment has not been determined.

Except for the effects of failure to make fair value adjustment of deferred markup as described in the preceding paragraph, we report that:

- a) in our opinion, proper books of account have been kept by the company as required by the Companies Ordinance, 1984;
- b) in our opinion:
  - (i) the balance sheet and profit and loss account together with the notes thereon, have been drawn up in conformity with the Companies Ordinance, 1984 and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the changes as stated in Note 3.13 with which we concur;
  - (ii) the expenditure incurred during the year was for the purpose of the company's business; and
  - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at 30 June 2006 and of the profit, its cash flows and changes in equity for the year then ended; and
- d) in our opinion, zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980) was deducted by Company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

ISLAMABAD:

RIAZ AHMAD & COMPANY  
Chartered Accountants

**D.M. TEXTILE MILLS LIMITED**  
**BALANCE SHEET AS AT 30 JUNE 2006**

	NOTE	2006 Rupees	2005 Rupees		NOTE	2006 Rupees	2005 Rupees
<b>EQUITY AND LIABILITIES</b>				<b>ASSETS</b>			
<b>SHARE CAPITAL AND RESERVES</b>				<b>NON CURRENT ASSETS</b>			
<b>Authorized Share Capital</b>				Property, plant and equipment	15	599,756,448	532,163,207
5,000,000 ordinary shares of Rupees 10 each		<u>50,000,000</u>	<u>50,000,000</u>	Long term investments	16	376,000	376,000
<b>Issued, subscribed and paid up share capital</b>	4	30,524,290	30,524,290	Long term deposits	17	<u>24,476,186</u>	<u>7,061,660</u>
<b>Accumulated profit/(losses)</b>		<u>17,403,807</u>	<u>(16,002,837)</u>			624,608,634	539,600,867
<b>Shareholders' equity</b>		47,928,097	14,521,453				
<b>Surplus on revaluation of fixed assets</b>	5	232,650,934	235,649,065				
<b>NON-CURRENT LIABILITIES</b>				<b>CURRENT ASSETS</b>			
Long term finances	6	60,470,664	76,543,331	Stores, spares and loose tools	18	4,853,441	3,947,430
Liabilities against assets subject to finance lease	7	115,293,089	30,607,820	Stock-in-trade	19	176,179,902	61,561,898
Gratuity to employees		12,883,562	10,399,417	Trade debts- unsecured but considered good		3,293,576	3,902,216
Deferred taxation	8	125,395,870	127,010,248	Advances	20	139,123,063	24,052,229
Deferred mark-up	9	12,455,000	12,455,000	Deposits	21	2,000,000	2,000,000
		326,498,185	257,015,816	Other receivables-considered good	22	15,353,766	16,822,173
<b>CURRENT LIABILITIES</b>				Accrued interest		310,320	222,380
Trade and other payables	10	149,717,743	64,189,363	Cash and bank balances	23	<u>3,609,105</u>	<u>18,611,995</u>
Accrued mark-up	11	4,705,963	3,148,377			344,723,173	131,120,321
Short term borrowings	12	144,641,698	55,269,413				
Current portion of non-current liabilities	13	51,898,048	29,036,693				
Taxation		11,291,139	11,891,008				
		362,254,591	163,534,854				
<b>CONTINGENCIES AND COMMITMENTS</b>	14	-	-				
		<u>969,331,807</u>	<u>670,721,188</u>			<u>969,331,807</u>	<u>670,721,188</u>

The annexed notes form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR

**D.M. TEXTILE MILLS LIMITED**  
**CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED 30 JUNE 2006**

	NOTE	30 June 2006 Rupees	30 June 2005 Rupees
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from operations	34	(48,391,542)	68,100,163
Financial charges paid		(39,420,719)	(15,751,479)
Taxes paid		(5,109,206)	(1,247,517)
Gratuity paid		(1,957,185)	(925,700)
Workers' profit participation fund paid		(1,054,387)	(516,000)
<b>Net cash from/(used in) operating activities</b>		<u>(95,933,039)</u>	<u>49,659,467</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(101,680,557)	(40,988,127)
Fixed assets acquired under finance leases		(49,045,575)	(31,202,800)
Long term investments		-	(98,000)
Long term deposits		(17,414,526)	(2,493,311)
Proceeds from sale of property, plant and equipment		69,176,815	31,271,800
<b>Net cash used in investing activities</b>		<u>(98,963,843)</u>	<u>(43,510,438)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>Proceeds from:</b>			
Long term finances		-	85,000,000
Finance leases		125,144,012	33,136,427
Short term borrowings		1,500,191,044	290,035,008
<b>Repayment of:</b>			
Long term finances		(11,994,147)	(82,703,435)
Finance leases		(21,675,908)	(9,699,087)
Subordinated loan		-	(20,700,000)
Short term borrowings		(1,410,818,759)	(309,147,186)
Dividend paid		(952,250)	(1,287,658)
<b>Net cash generated from/(used in) financing activities</b>		<u>179,893,992</u>	<u>(15,365,931)</u>
<b>Net decrease in cash and cash equivalents</b>		<u>(15,002,890)</u>	<u>(9,216,902)</u>
<b>Cash and cash equivalents at the beginning of the year/period</b>		<u>18,611,995</u>	<u>27,828,897</u>
<b>Cash and cash equivalents at the end of the year/period</b>		<u><u>3,609,105</u></u>	<u><u>18,611,995</u></u>

The annexed notes form an integral part of these financial statements.

\_\_\_\_\_  
CHIEF EXECUTIVE

\_\_\_\_\_  
DIRECTOR

# COMPANY'S INFORMATION

## BOARD OF DIRECTORS

**CHAIRMAN:**

**&**

**CHIEF EXECUTIVE:**

Mr Habib Ullah

**DIRECTORS:**

Mian Muhammad Saleem Omer  
Mian Naeem Omer  
Mr.Hussain Ahmed Qureshi  
Mr.Irshad Hussain Shah  
Rao Khalid Pervaiz  
Mr.Shahid Anwar (Nominee of NIT)

**AUDIT COMMITTEE:**

**CHAIRMAN:**

Mian Muhammad Saleem Omer

**MEMBERS:**

Mian Naeem Omer  
Mr.Hussain Ahmed Qureshi

**COMPANY SECRETARY &  
CHIEF FINANCIAL OFFICER**

Mr.M.F.Zaman Qureshi F.C.A.

**BANKERS:**

PICIC Commercial Bank Limited  
Prime Commercial Bank Limited  
Saudi Pak Commercial Bank Limited

**AUDITORS:**

M/S Riaz Ahmed & Company  
Chartered Accountants  
2-A, ATS Centre, 30-West,  
Fazal ul haq Road, Blue Area Islamabad

**LEGAL ADVISER:**

M/S Hassan & Hassan Advocates PAAF  
Building, 7-D, Kashmir Egerton Road,  
Lahore.

**REGISTERED  
OFFICE  
& MILLS AT:**

Westridge, Rawalpindi  
Telephone: 051-5480139-5480156  
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E-Mail: dmtm@dmtextile.com.pk  
E-Mail: dmtm@apollo.net.pk  
Website: www.dmtextile.com.pk

## **DIRECTORS' REPORT TO THE SHAREHOLDERS**

The Directors welcome you to the 49<sup>th</sup> 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		<b><u>12 Months</u></b> <b><u>30-06-2006</u></b>	<b><u>9 Months</u></b> <b><u>30-06-2005</u></b>
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:

<b>Name of Directors</b>	<b>No. of Meetings attended</b>
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](http://www.dmtextile.com.pk). The permission of the SECP was obtained on 12<sup>th</sup> 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 24<sup>th</sup> 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





	NOTE	30 June 2006 Rupees	30 June 2005 Rupees
<b>4. ISSUED, SUBSCRIBED AND PAID UP SHARE CAPITAL</b>			
2,952,429 ordinary shares of Rupees 10 each, issued for cash		29,524,290	29,524,290
100,000 ordinary shares of Rupees 10 each, issued as bonus shares		1,000,000	1,000,000
		<u>30,524,290</u>	<u>30,524,290</u>
<b>5. SURPLUS ON REVALUATION OF FIXED ASSETS</b>			
Opening Balance		235,649,065	238,242,541
Surplus realized on disposal of revalued fixed assets during the year/period		-	(227,109)
Incremental depreciation on revalued assets relating to current year/period transferred to accumulated profit/( losses) - net of deferred tax		(2,998,131)	(2,366,367)
		<u>232,650,934</u>	<u>235,649,065</u>
<b>6. LONG TERM FINANCES</b>			
Long term finances under mark-up arrangements from banking companies - secured			
PICIC Commercial Bank Limited (PCBL)	6.1	77,916,666	85,000,000
MCB Bank Limited (MCB)	6.2	5,710,000	7,616,000
Habib Bank Limited (HBL)	6.3	-	3,004,813
		<u>83,626,666</u>	<u>95,620,813</u>
Less: Current portion	13	<u>23,156,002</u>	<u>19,077,482</u>
		<u>60,470,664</u>	<u>76,543,331</u>
<b>6.1 PICIC Commercial Bank Limited (PCBL)</b>			
This represents term finance facility of Rupees 85 million under a swap agreement executed between PICIC Commercial Bank Limited, IDBP and the Company. It is repayable in 24 equal quarterly installments, commenced from July 26, 2005. This is secured against first equitable charge on land, building and machinery, hypothecation of current assets and personal guarantees of sponsor directors. It carries mark-up at the rate of six months KIBOR plus 4.5% per annum with a floor of 8% and no caps to be reviewed at the beginning of each calendar quarter.			
<b>6.2 MCB Bank Limited (MCB)</b>			
This is secured against second charge on all fixed assets and guarantees of sponsor directors. It carries mark-up at the rate of 10% per annum. The finance is repayable in 20 equal half yearly installments commenced from September 01, 1999. The bank has deferred payment of mark-up capitalized			
<b>6.3 Habib Bank Limited (HBL)</b>			
This was secured against third charge on fixed assets and personal guarantees of sponsor directors. It carried mark-up at the rate of 10% per annum. The finance was repayable in 12 half yearly installments commenced from September 01, 2000, and was finally repaid during the year and charge vacated.			
<b>7. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE</b>			
Minimum lease payments		181,278,941	46,547,115
Less: Unamortized finance charges		<u>37,243,806</u>	<u>5,980,084</u>
Present value of minimum lease payments		144,035,135	40,567,031
Less: Current portion	13	<u>28,742,046</u>	<u>9,959,211</u>
		<u>115,293,089</u>	<u>30,607,820</u>
<b>7.1</b>			
The present value of minimum lease payments have been discounted at an implicit interest rate ranging from 8.50% to 15.45% (2005:8% to 15%) per annum to arrive at their present value.			
Lease rentals are payable in monthly installments. In case of default an additional charge of Rupee 1 and 83 Paise per thousand per day shall be payable. Taxes, repairs and insurance cost are to be borne by the Company. The Company shall have no right to terminate the lease agreement and if the lease agreement is terminated, the Company shall pay the entire amount for an expired period of lease agreement. Lease agreements are renewable at the option of lessor on such terms as may be agreed upon. Liabilities are secured against charge on the leased assets, personal guarantees of sponsor directors and security deposit of Rupees 21,455,780 (2005: Rupees 6,166,390) as provided in Note 17.			
<b>7.2</b>			
Minimum lease payments and present value of minimum lease payments are regrouped as under:			

30 June 2006

30 June 2005

	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Due not later than one year	43,692,724	28,742,046	16,011,952	9,959,211
Due later than one year not later than five years	137,586,217	115,293,089	30,535,163	30,607,820
	<u>181,278,941</u>	<u>144,035,135</u>	<u>46,547,115</u>	<u>40,567,031</u>

NOTE

30 June 2006  
Rupees

30 June 2005  
Rupees

## 8. DEFERRED TAXATION

The liability for deferred tax comprises temporary differences relating to:

### Taxable temporary difference

Accelerated tax depreciation allowance

Liability against assets subject to finance lease

132,874,922	138,753,367
3,122,350	1,764,350
<u>135,997,272</u>	<u>140,517,717</u>

### Deductible temporary differences

Tax losses carry forward

Provision for gratuity

(9,732,002)	(13,420,669)
(869,400)	(86,800)
<u>(10,601,402)</u>	<u>(13,507,469)</u>
<u>125,395,870</u>	<u>127,010,248</u>

- 8.1 The movement in deferred tax assets and liabilities during the year without taking into consideration the off setting of balance within the same tax jurisdiction is as follows:

	Deferred tax liability			Deferred tax assets			Net liability/(asset)
	Assets subject to finance lease	Accelerated tax depreciation	TOTAL	Provision for gratuity	Tax losses carry forward	TOTAL	
	( R u p e e s )						
Balance as at July 01, 2004	782,250	143,386,509	144,168,759	708,050	(16,592,363)	(15,884,313)	128,284,446
Charged/(credited) to income statement	982,100	(4,633,142)	(3,651,042)	(794,850)	3,171,694	2,376,844	(1,274,198)
Balance as at June 30, 2005	<u>1,764,350</u>	<u>138,753,367</u>	<u>140,517,717</u>	<u>(86,800)</u>	<u>(13,420,669)</u>	<u>(13,507,469)</u>	<u>127,010,248</u>
Charged/(credited) to income statement	1,358,000	(5,878,445)	(4,520,445)	(782,600)	3,688,667	2,906,067	(1,614,378)
Balance as at June 30, 2006	<u>3,122,350</u>	<u>132,874,922</u>	<u>135,997,272</u>	<u>(869,400)</u>	<u>(9,732,002)</u>	<u>(10,601,402)</u>	<u>125,395,870</u>

## 9. DEFERRED MARK UP

MCB Bank Limited (MCB) has deferred payment of mark-up capitalized of Rupees 12.455 million ( 2005: Rupees 12.455 million) which will be repaid in 20 equal half yearly installments with effect from September 01, 2009, after the principal repayment of original demand finance.

NOTE

30 June 2006  
Rupees

30 June 2005  
Rupees

## 10. TRADE AND OTHER PAYABLES

Secured creditors:

Against letters of credit

26,650,242

19,374,589

Un-secured creditors:

For goods

87,839,439

22,100,234

For services

735,643

1,347,699

88,575,082

23,447,933

	Advances from customers		19,952,563	4,599,772
	Sales Tax payable		-	6,369,985
	Short term employees benefits		425,939	274,159
	Withholding tax payable		319,372	64,849
	Unclaimed dividend		145,283	15,574
	Workers' profit participation fund	10.1	1,775,253	1,054,387
	Others		11,874,009	8,988,115
			<u>149,717,743</u>	<u>64,189,363</u>
10.1	<b>Workers' profit participation fund</b>			
	Balance at the beginning of the year/period		1,054,387	534,989
	Allocation for the year/period	28	1,775,253	1,054,387
	Interest on funds utilized in the Company's business	30	87,068	15,683
			<u>1,862,321</u>	<u>1,070,070</u>
			2,916,708	1,605,059
	Less: Payments to the fund		(1,141,455)	(550,672)
			<u>1,775,253</u>	<u>1,054,387</u>
10.2	The Company retains workers' profit participation fund for its business operations till the date of its allocation to workers. Mark-up is paid at the prescribed rate under the Companies Profits (Workers' Participation) Act, 1968 on the funds utilized by the Company till the date of its allocation to workers.			
11.	<b>ACCRUED MARK-UP</b>			
	Long term finances		2,042,801	2,062,471
	Liabilities against assets subject to finance lease		-	16,820
	Short term borrowings		2,663,162	1,069,086
			<u>4,705,963</u>	<u>3,148,377</u>
12.	<b>SHORT TERM BORROWINGS-Secured</b>			
	<b>From banking companies:</b>			
	Cash finances	12.1	125,907,593	45,095,878
	Running finance	12.2	9,966,069	9,998,547
	Book overdraft		8,768,036	174,988
			<u>144,641,698</u>	<u>55,269,413</u>

12.1 These are secured against pledge of stock of raw materials, finished goods and personal guarantees of sponsor directors. Rate of mark-up on these finances ranges from 27 paisa to 34 paisa (2005: from 16 paisa to 31 paisa) per thousand per day. The total sanctioned limits of these facilities obtained from three (2005:three) financial institutions is Rupees 220 million (2005:Rupees 135 million).

12.2 This represents running finance facility of Rupees 10 million (2005:Rupees 10 million) obtained from PICIC Commercial Bank Limited. It is secured against first equitable charge on land, building and machinery, hypothecation on current assets and personal guarantees of three sponsor directors. Rate of mark up on this finance is 31 paisa to 38 paisa (2005: 34 paisa) per thousand per day .

	NOTE	30 June 2006 Rupees	30 June 2005 Rupees
<b>13. CURRENT PORTION OF NON-CURRENT LIABILITIES</b>			
Long term finances:	6		
Current		16,072,668	19,077,482
Over Due		7,083,334	-
		23,156,002	19,077,482
Finance leases:	7		
Current		28,742,046	9,822,442
Over Due		-	136,769
		28,742,046	9,959,211
		<u>51,898,048</u>	<u>29,036,693</u>

#### 14 CONTINGENCIES AND COMMITMENTS

##### 14.1 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 the 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 which is pending for hearing. 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). No provision for the demand has been made in the financial statements as the Company is confident of favourable outcome of the appeal.
- (c) There were no significant changes in the contingencies since the last audited financial statements except liability of Rupees 3.5 million on decision to be made by CBR (Central Board of Revenue) against the application to pay custome 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.

##### 14.2 Commitments

Letters of credit for import of plant and machinery amounting to Rupees 46.692 million (2005:Rupees 61.746 million).

	30 June 2006 Rupees	30 June 2005 Rupees
<b>15. PROPERTY, PLANT AND EQUIPMENT</b>		
Operating fixed assets (Note 15.1 and 15.2)	589,945,308	526,815,635
Capital work in progress-Buildings	9,811,140	5,347,572
	<u>599,756,448</u>	<u>532,163,207</u>

## NOTICE OF THE ANNUAL GENERAL MEETING

Notice is given that 49<sup>th</sup> Annual general Meeting of the shareholders of D.M. Textile Mills Ltd, will be held on Tuesday October 31, 2006 at 1500 hours at registered office of the company at Westridge Rawalpindi to transact the following business:

### Ordinary Business

1. To confirm the minutes of the 48<sup>th</sup> Annual General Meeting of the company held on October 29, 2005.
2. To receive and adopt the Audited Accounts of the company for the year ended June 30, 2006 together with Directors' & Auditors Report thereon.
3. To appoint Auditors and to fix their remuneration.
4. To transact any other business with the permission of the Chairman.

### Special Business

5. To approve remuneration of Mr. Habib Ullah Chief Executive and working Directors of the company namely Mr. Hussain Ahmed Qureshi, Syed Irshad Hussain Shah and Rao Khalid Pervaiz.

### STATEMENT U/S 160(1) (b) OF THE COMPANIES ORDINANCE 1984 REGARDING SPECIAL BUSINESS

The statement set out material facts concerning the special business given in Agenda No. 5 of the notice as required U/S 218 of the companies ordinance.

Approval of shareholders for the remuneration payable to the chief executive and the whole time working directors in accordance with their terms and conditions of the service, for this purpose it is intended to propose that the following resolution be passed as an ordinary resolution namely.

"RESOLVED THAT the Company hereby authorizes the holding of office of profit and payment as remuneration to the Chief Executive not exceeding Rs. 2.4 Million per annum exclusive of perquisites such as company maintained cars and residential telephone facility.

The Chief Executive is authorized to grant annual increments and other benefits as per terms and condition of the service rules of the company to whole- time working Directors whose aggregate remuneration was Rs. 818,555/- for the year ended on 30-6-2006."

Rawalpindi  
Dated: October 5, 2006

By order of the Board  
M.F. Zaman Qureshi FCA  
Company Secretary

### Note:

- (i) The share transfer books of the company will remain closed from 31-10-2006 to 7-11-2006 (both days inclusive)
- (ii) A member entitled to attend and vote at this general meeting is entitled to appoint as a proxy to attend and vote instead of him/her. Proxies in order to be valid must be received at the registered office of the company not less than 48 hours before the meeting.
- (iii) Shareholders are requested to promptly notify the company of any change in their addresses. Members who have not yet submitted photocopies of their computerized National Identity Card to the company are requested to send the same at the earliest.
- (iv) Account holders and sub-account holders holding book entry securities of the company in the Central Depository System of Central Depository Company of Pakistan Limited who wish to attend the Annual General Meeting are requested to please bring their original National Identity Card with copies thereof duly attested by their bankers for identification purpose.

**D.M. TEXTILE MILLS LIMITED**  
**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 2006**

	NOTE	30 June 2006 Rupees	30 June 2005 Rupees
Sales	24	768,053,038	456,257,742
Cost of sales	25	<u>675,942,922</u>	<u>412,657,690</u>
Gross profit		92,110,116	43,600,052
Selling and distribution expenses	26	<u>2,562,513</u>	<u>1,288,709</u>
Administrative expenses	27	14,664,792	9,063,307
Other operating expenses	28	<u>3,479,438</u>	<u>1,492,566</u>
		<u>20,706,743</u>	<u>11,844,582</u>
Profit from operations		71,403,373	31,755,470
Other operating income	29	2,321,628	45,531,723
Financial and other charges	30	<u>39,995,193</u>	<u>12,301,756</u>
Profit before taxation		33,729,808	64,985,437
Provision for taxation	32	<u>2,239,336</u>	<u>1,004,996</u>
Profit after taxation		<u><u>31,490,472</u></u>	<u><u>63,980,441</u></u>
Basic earnings per share (Rupees)	33	<u><u>10.32</u></u>	<u><u>20.96</u></u>

The annexed notes form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR

Form 34  
The Companies Ordinance, 1984  
**D.M.Textile Mills Limited**

Pattern of holding of the shares held by the shareholders as at 30th June,2006 and additional information

Number of Shares holders	Shares Holding		Total Shares Held
	From	To	
206	1	100	13,440
90	101	500	24,696
47	501	1000	39,452
45	1001	5000	109,996
12	5001	10000	91,455
2	10001	15000	26,008
6	15001	20000	103,176
3	20001	25000	63,211
2	40001	45000	79,913
2	50001	55000	104,671
1	250001	255000	252,573
1	285001	290000	289,814
1	295001	300000	296,706
1	320001	325000	322,274
2	550001	555000	551,689
1	680001	685000	683,355
422			3,052,429
Categories of Shareholders	Number of Share Holders	Total Shares Held	Percentage
<b>General Public</b>	404	572,258	18.748
<b><u>Chief Executive /Directors</u></b>			
Mian Habib Ullah	1	322,274	10.558
Mian M.Saleem Omer	1	289,814	9.495
Mian Naeem Omer	1	276,399	9.055
Mr.Hussain Ahmad Qureshi	1	500	0.016
Syed Irshad Hussain Shah	1	550	0.018
Rao Khalid Perviaz	1	17,476	0.573
<b><u>Mohter and Spouses</u></b>			
Mst.Surraya Begum	1	52,259	1.712
Mrs.Riffat Habib	1	296,706	9.720
Mrs.Shaista Saleem	1	275,290	9.019
Mrs.Farah Naeem	1	252,573	8.274
<b>Executives</b>	0	-	-
<b>Associated Companies</b>	0	-	-
Investment Companies	2	10,492	0.344
Joint Stock Companies	1	100	0.003
National Bank of Pakistan Trustee(NIT)	1	683,355	22.387
United Bank Ltd	1	200	0.007
Private Ltd Companies	2	2,004	0.066
Abondend Properties	1	179	0.006
	422	3,052,429	100.000



# Proxy Form



The Company Secretary,  
D.M Textile Mills Ltd  
Westridge, Rawalpindi

I/We \_\_\_\_\_  
of \_\_\_\_\_ in the district \_\_\_\_\_  
being a member of D.M Textile mills Ltd and holder of \_\_\_\_\_  
ordinary shares as per the share Register Folio No. \_\_\_\_\_ and / or CDC participant  
I.D. No. \_\_\_\_\_ and sub-Account No. \_\_\_\_\_ hereby appoint  
\_\_\_\_\_ of \_\_\_\_\_ or failing him/her \_\_\_\_\_

As my / our proxy to vote for me & on my / our behalf at the 49<sup>th</sup> Annual General Meeting of the  
company to be held at D.M Textile Mills Ltd, Westridge Rawalpindi on October 28. 2006 at 1500 hours  
and at any adjournment thereof.



Signature of Shareholder \_\_\_\_\_  
Name of Shareholder \_\_\_\_\_  
Folio No. /CDC No. \_\_\_\_\_

## WITNESSES:

Signature \_\_\_\_\_  
Name \_\_\_\_\_  
Address \_\_\_\_\_  
\_\_\_\_\_  
NIC or Passport No. \_\_\_\_\_

Signature \_\_\_\_\_  
Name \_\_\_\_\_  
Address \_\_\_\_\_  
\_\_\_\_\_  
NIC or Passport No. \_\_\_\_\_

## NOTES:

A member entitled to attend and vote at the meeting may appoint a proxy in writing to attend the meeting and vote on the member's behalf. A proxy need not be a member of the company.

If a member is unable to attend the meeting, they may complete and sign this form and send it to the Company Secretary, D. M Textile Mills Ltd, Westridge Rawalpindi so as to reach not less than 48 hours before the time of appointed for holding the meeting.

### For CDC Account Holders / Corporate Entities

In addition to the above the following requirements have to be met.

- a) The proxy form shall be witness by two persons whose name, addresses and NIC / Passport numbers shall be stated on the form.
- b) Attested copies of NIC or the passport of the beneficial owners and the proxy shall be provided with the proxy form.
- c) The proxy shall produce his original NIC or original passport at the time of the meeting.
- d) In case of a corporate entity, the board of directors resolution / power of attorney with specimen signatures shall be submitted (unless it has been provided earlier) along with proxy form to the company

**REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BEST  
PRACTICES OF CODE OF CORPORATE GOVERNANCE**

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of D.M. Textile Mills Limited, for the period ended 30 June 2006, to comply with the respective listing regulations of the Karachi Stock Exchange and Islamabad Stock Exchange where the company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the company. Our responsibility is review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the Status of the company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the company personnel and review of various documents prepared by the company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on the internal control covers all controls and effectiveness of such internal controls.

Based on our review, nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance, effective as at 30 June 2006.

ISLAMABAD:  
30 September 2006

**RIAZ AHMAD & COMPANY  
CHARTERED ACCOUNTANTS**

## Statement of Compliance with the Code of Corporate Governance for year ended June 30, 2006

This statement is being presented to comply with the Code of corporate Governance contained in regulation no. 37 chapter XIII and XI of listing regulations of Karachi and Islamabad Stock Exchange (Guarantee) limited respectively, for the purpose of establishing a framework of good governance, whereby a listed company is in compliance with the best practices of corporate governance.

1. The Company encourages representation of non-executive directors on its Board of Directors. At present the Board includes three non-executive directors.
2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.
3. All the resident directors of the Bank are registered as taxpayers and none of them has defaulted in payment of any loan to a Company, a DFI or a NBFIs or, being a member of a Stock Exchange, has been declared as a defaulter by that Stock Exchange.
4. No causal vacancy of directors has occurred during the year.
5. The Company has prepared a Statement of Ethics and Business Practices for directors & employees. It has been signed by the directors and by employees of the Bank. During the year, It has been circulated as required under the code.
6. The Board has developed a vision / mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies alongwith the dates on which these were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decision on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman. The Board met atleast once in every quarter. Written notices of the Board meeting, along with agenda and working papers, were circulated atleast seven days before the meetings. The minutes of the meeting were appropriately recorded and circulated. The company secretary and Chief Financial Officer (CFO) attend the meetings of the Board of Directors.
9. The orientation courses for directors have not been arranged in the past. However, appropriate arrangements shall be made in future as and when required.
10. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
11. The financial statements of the Company were duly endorsed by the CEO and CFO before approval of the Board.
12. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

13. The Company has complied with all the corporate and financial reporting requirements.
14. The Board has formed an audit committee. It comprises of 3 members, of whom two are non-executive directors including the Chairman of the Committee.
15. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
16. The board has set up an internal audit function.
17. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the Quality Control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
18. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
19. We confirm that all other material principles contained in the Code have been complied with.

**ON BEHALF OF THE BOARD OF DIRECTORS**

**HABIB ULLAH**

**Chief Executive**

**HUSSAIN AHMED QURESHI**

**Director**

Rawalpindi

Date: 27 September, 2006

## **STATEMENT OF ETHICS AND BUSINESS PRACTICES**

D.M. Textile Mills Ltd has laid down the following Ethics and Business Practices, the observance of which is compulsory for all the directors and staff members of the company in the conduct of company's business in order to protect and safeguard the reputation and integrity of the company at all levels of its operations. Any contravention of these Ethics and Business Practices is regarded as misconduct. The company will ensure that all the executives and subordinate staff members are fully aware of these standards and principles.

1. **Conflict of interest.**

All staff members are expected not to engage in any activity which can cause conflict between their personal interests and company's interests, such as:

- a) In effecting the purchases for the company and selling its products the directors and the staff members are forbidden from holding any personal interest in any organization supplying goods or services to the company or buying its products.
- b) The staff members should not engage in any outside business while serving the company.
- c) Staff members are not permitted to conduct personal business in company's premises or use company's facilities for the same.
- d) If a staff member has direct or indirect relationship with an outside organization dealing with the company he must disclose the same to the management.

2. **Confidentiality**

All staff members are required not to divulge any secret / information of the company to any outsider even after leaving the service of the company unless it is so required by a court of law. During the course of service in the company they should not disseminate any information relating to business secrets of the company without the consent of management.

3. **Kickbacks**

All staff members are strictly forbidden not to accept any favour, gifts or kick backs from any organization dealing with the company. In case if such a favour is considered, in the interest of the company, the same should be disclosed clearly to the management.

4. **Proper Books of Accounts.**

All funds, receipts and disbursements should be properly recorded in the books of accounts of the company. No false or fictitious entries should be made or misleading statements pertaining to the company or its operations should be issued. All agreements with agents, dealers and consultants should be made in writing supported with required evidence.

5. **Relationship with Government officials, suppliers, buyers and agents etc.**  
The dealings of the company with Government officials, suppliers, buyers, agents and consultants of the company should always be such that the integrity of the company and reputation is not damaged. Members having queries in connection with how to deal with these requirements should consult with the management.
6. **Health and Safety**  
Every staff member is required to take care of his health and safety and of those working with him. The management is responsible for keeping its staff members insured as per government rules and regulations.
7. **Environment**  
To preserve and protect the environment, all staff members are required to operate the company's facilities and processes so as to ensure maximum safety of the adjoining communities and strive continuously to improve environmental awareness and protections.
8. **Alcohol and Drugs etc.**  
All types of gambling and betting at the company's work place are strictly forbidden. Also taking of any alcohols or drugs inside the work places is not allowed and any member of the staff, not abiding by these prohibitions will attract disciplinary as well as penal action under the law.
9. **Coordination among staff members to maintain Discipline.**  
All staff members will work in close coordination with their co-workers, superiors and colleagues. Every member will cooperate with other members so that the company's work is carried out effectively and efficiently. All cases of non-cooperation among staff members should be reported to the management for necessary and suitable action. Strict disciplinary action will be taken against those staff members who violate the rules and regulations of the company.
10. **Workplace harassment**  
All members of the staff will provide an environment that is free from harassment and in which all employees are equally respected. Work place harassment means any action that creates an intimidating, hostile or offensive environment, which may include sexual harassment, disparaging remarks based on gender, religious, race or ethnicity.

**D.M. TEXTILE MILLS LIMITED**  
**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2006**

	Share capital Rupees	Accumulated Profit/ (Loss) Rupees	Shareholders' equity Rupees
<b>Balance as at 30 September 2004</b>	30,524,290	(81,062,531)	(50,538,241)
Net profit for the period	-	63,980,441	63,980,441
Final cash dividend for the year ended 30 September 2004 @ Rupee 1 per share(2003:Rupee Nil)	-	(1,287,114)	(1,287,114)
Transferred from revaluation surplus	-	2,366,367	2,366,367
<b>Balance as at 30 June 2005</b>	<u>30,524,290</u>	<u>(16,002,837)</u>	<u>14,521,453</u>
Net profit for the year	-	31,490,472	31,490,472
Final cash dividend for the period ended 30 June 2005 @ Rupee 1 per share(2004:Rupee1)	-	(1,081,959)	(1,081,959)
Transferred from revaluation surplus	-	2,998,131	2,998,131
<b>Balance as at 30 June 2006</b>	<u><u>30,524,290</u></u>	<u><u>17,403,807</u></u>	<u><u>47,928,097</u></u>

The annexed notes form an integral part of these financial statements.

\_\_\_\_\_  
**CHIEF EXECUTIVE**

\_\_\_\_\_  
**DIRECTOR**

## **VISION STATEMENT**

We D. M. Textile Mills Ltd. aim at seeing our mills to be a good manufacturing unit producing high quality yarn by complying with the requirements of Quality Management System and continuously improving its effectiveness for total customers' satisfaction. We wish to play an honorable role in the spinning sector by keeping a substantial presence in the export and local markets.



## **MISSION STATEMENT**

1. To install state of the art machinery and to acquire sophisticated process technology to achieve maximum growth in a competitive standard quality environment.
2. To make strenuous efforts to enhance profitability of the company ensuring a fair return to the investors, shareholders and employees of the company.
3. To exercise maximum care for improvement of standard of quality of our products by employing a team of highly skilled technicians and professional managers.
4. To strive hard to explore / develop new markets for the sale of our products in export and local markets.
5. To improve customers' satisfaction level by adhering strictly to standard quality requirement of our customers in local and export markets and by improving communications with customers for receiving prompt feed back about quality standard of our products.
6. To attend for the prompt resolution of customers' complaints by taking timely corrective measures to redress the quality complaints.
7. To improve logistic facilities for our customers dispatch programme and issue all shipments / delivery documents well in time.
8. To make comprehensive arrangements for the training of our workers / technicians.
9. To improve teamwork, sense of transparency creativity in our professionals and technical personnel.