

Paramount Spinning Mills Limited
Directors Report
For the half year ended 31 December 2006

Dear Shareholders
Assalam o Alaikum

Your Directors are pleased to present financial statements for the half year ended December 31, 2006 duly reviewed by the auditors.

Operating Performance

The company achieved net sales of Rs.893.381 million during the period under review as compared to Rs. 826.57 million sales of last year corresponding period which shows growth of 8%. There is 11% increase in cost of sales as compared to corresponding half year. The main reasons of this cost rise are 33% increase in minimum wages, 5% rise in average cotton consumption rate, increase in fuel and power due to increase of gas rate by 27%. The above said increase in cost of inputs resulted into 9% drop in gross profit which recorded at Rs 114.72 million for period under review as compared to Rs 124.846 million in corresponding half year. The operating expenses increased by 25% mainly on account of 48% rise in selling and distribution expenses. This huge increase in selling and distribution expenses can mainly be attributed to 60% rise in such expenses for stitching business of the Company. The increase in input costs, selling and distribution expenses, 13% rise in financial cost resulted into loss after tax of Rs 13.311 million for the period under review. It is pertinent to mention here that had the company not suffered huge losses in its newly established stitching business, it would have been in profit for the period under review. The huge loss in stitching business is because of our un competitiveness on account of our rising cost of doing business and large scale subsidies/ incentives available to our competitors.

Future Out look

In our recent reports to you, we comprehensively brought to your notice the problems of textile industry on account of consistently increasing input costs and declining competitive position in international market. We again would like to apprise you that no significant relief has so far been provided to the textile sector. Our regional competitors are enjoying subsidies/incentives in shape of interest rate subsidy, duty draw backs, fuel and electricity subsidies, zero rated taxes and levies and duty free import of machinery and raw material. We would like to reiterate here that Government must immediate provide the needed incentives/subsidies to improve the competitive position of our textile industry in general and ready made Garment segment of this industry in particular which could in turn would boost up the whole chain of textile. The future of textile industry is hugely dependent upon the provision of similar subsidies which are currently available to our regional competitors.

Despite of very tough conditions, your management is making its best efforts to achieve the optimum production efficiency and quality standards at reduced costs through needed balancing and modernization programme.

We would like to thank our customers, suppliers and bankers for their continued support and would like to place on record appreciation for the valuable services of our employees.

For and On behalf of Board of Directors

Karachi
27-02-07

(Tanveer Ahmed)
Chief Executive