

**PARAMOUNT SPINNING MILLS LIMITED
DIRECTOR'S REVIEW TO THE SHAREHOLDERS
FOR THE QUARTER ENDED 31 MARCH, 2006**

Dear Shareholders,

Assalam-o-Alaikum

Your Directors are pleased to place before you the un audited financial statements for the third quarter ended on 31 March 2006.

Operating and Financial Results:

During the nine months ended on March 31, 2006, your company earned a gross profit of Rs. 190.851 million on sales of Rs. 1,229 million as compared to gross profit of Rs. 120.281 million on sales of Rs. 1,030 million for the corresponding period of the previous financial year. The Company made operating profit of Rs. 116.756 million and pre tax profit of Rs. 23.297 million as compared to operating profit of Rs. 61.512 million and pre tax loss of Rs. 1.546 million during the corresponding period of last year. The Company showed marked improvement in its profitability margins. The gross profit margin has increased to 15.5% from 11.67% in the corresponding period of last year. The operating profit margin has risen to 9.46% from 6.00 % in the corresponding period of last year. The 92% rise in financial cost from Rs. 61.105 million of the corresponding period of last year to Rs. 98.851 million during the period under review can be attributed to rising markup rates, increased working capital requirements and enhanced borrowing related to balancing and modernization of the plant and machinery.

The cotton crop of current year as per Cotton Ginners Association announcement is only 12.388 million bales which is 14% less than the cotton production of 14.347 million bales of the preceding year. While the cotton production has reduced, the demand has increased due to enhanced capacity utilization and commissioning of expansion in the spinning capacity during current financial year. As a result of this low supply and higher demand scenario, the average cost of cotton has substantially increased. The tight monetary strategy by the State Bank of Pakistan in order to counter inflationary pressure resulted into rising interest rates and consequently higher financial cost.

As you are aware that your company after the addition of some value added activities in recent time is no more just a spinning unit, so our future profitability is heavily dependent on the profitability potential of value added segments of our company. Your company is continuously making efforts to produce quality products at competitive cost. However we strongly feel that value addition textile sectors particularly the value added Garment sector need strong Government support to remain in international competition where the most of our competitors are having such support from their respective Government. The Government can support the value added sectors as it has supported the spinning sector through providing tax holidays, export refinance etc. This would make our value added products competitive in the international markets and resultantly would enhance country's exports and create more employment opportunities in the country. We are optimistic that Government would announce significant incentives for value added sectors particularly Garment sector in the coming budget. Without that we foresee very serious strain on our future profitability.

The Management places on record the appreciation for the services of our employees and assistance extended from time to time by our financiers.

Karachi
29-04-2006

TANVEER AHMED
Chief Executive