

Paramount Spinning Mills Limited
Directors' Report
For the 3rd Quarter and 9 months
ended 31th March 2007

Dear Shareholders
Assalam o Alaikum

Your Directors are pleased to present financial statements for the 3rd quarter and 9 months ended March 31, 2007.

Operating Performance

The company has earned gross profit of Rs.56.9 million during 3rd quarter and Rs 171 million during 9 months of ongoing financial year despite of stiff competition in international markets and rising cost of doing business at home. The gross profit margin has reduced to 14.8% in 3rd quarter and 13.4% in 9 months from 16.4% and 15.5% of corresponding periods last year. The decline in gross profit margins can be attributed to lower quantity and prices of sales and higher cost of sales on account of 33% increase in minimum wages, substantial rise in average cotton prices and increase of gas rate by 27%. The operating expenses registered an increase of 17% in 3rd quarter and 23% in 9 months on account of 36% and 44% rise in selling and distribution expenses during the said periods respectively. This substantial growth in selling and distribution expenses can mainly be attributed to huge rise of such expenses for stitching business in order to generate sales in very competitive environment in international markets. The increase in input costs and selling and distribution expenses and huge financial cost on account of rise in KIBOR resulted into loss after tax of Rs 4.5 million for 3rd quarter and Rs 19.232 million for first 9 months of current financial year. It is pertinent to mention here that had the company not suffered huge loss in its newly established stitching business, it would have been in profit for the periods under review. The loss in stitching business is because of our un competitiveness on account of our rising cost of doing business and competitive advantage available to our regional competitors in shape of large scale subsidies/incentives.

Future Out look

In our recent reports to you, we comprehensively brought to your notice the problems of our textile industry on account of consistently increasing input costs and declining competitive position in international market. The industry has not yet been provided with the needed relief package to become competitive. 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 immediately 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
30-04-07

(Tanveer Ahmed)
Chief Executive