

**J.A. TEXTILE MILLS LIMITED
DIRECTORS' REPORT TO SHAREHOLDERS**

Your directors are pleased to present the 16th annual report with audited accounts of the company for the year ended 30th, September 2003.

ECONOMIC ENVIRONMENT

During the year under review the economy moved into a stable phase. All the major indicators remained very stable. Interest rates came down, security situation improved to some extent and cross border tension de-escalated. However, the international economic scenario remained bleak with the continuation of the worldwide recession. Iraq war and the outbreak of SARS aggravated the slowdown in the world economy. The export sector of Pakistan, although benefiting from the positive developments at home, remained under pressure because of the unfavourable international conditions and a further appreciation of Pak Rupee against the US Dollar.

FINANCIAL RESULTS

| | |
|---|-----------|
| | Rs. |
| Net profit for the year before taxation | 5,639,734 |
| Taxation | 1,804,764 |
| | ----- |
| Net profit for the year after taxation | 3,834,970 |
| Transferred to accumulated losses. | ===== |

Earning per share (Basic) for the year under review is Rs. 0.30 in comparison to Rs. 2.75 for the last year.

REVIEW OF OPERATING RESULTS:

Sales during the year amounted to Rs 357.6 million registering a small increase of 3.33% from last year. Export sales were 18% of the turnover (2002: 29%). Decrease in export sales was due to management shifting its efforts to local markets for better rates.

Gross profit margin increased to 5.39% of turnover in the current year as compared to 2.51% in the previous year. This was mainly due to better selling rates in comparison with last year.

Administration expenses have registered an increase of 14.25% this year, when compared to last year. This is due to increase in legal and professional fee paid to lawyers conducting cases against banks as fully explained below.

Selling expenses have registered a decrease of 51.85% from last year. As stated earlier that the management shifted its efforts from foreign to local markets, due to better availability of rates, which caused a reduction of selling expenses from Rs 8.11 million last year to Rs. 3.96 million in the current year.

Financial charges in the current year amounting to Rs. 2.84 million (2002: Rs 5.50 million) registered a decrease of 48.44% from last year. Short term borrowing against export documents was not obtained, instead same were discounted, resulting in saving of interest expense. Also as a result of decrease in exports, foreign bank commission charges decreased, in comparison with last year.

Due to aforesaid reasons net profit before tax increased from Rs 1.39 million last year to Rs. 5.63 million in the current year. After providing for tax for Rs. 1.8 million (2002:Rs 2.7 million) net profit after tax comes to Rs. 3.83 m for the year.

DIVIDEND

Due to position of accumulated losses and nominal profits in the current year directors do not recommend payment of any dividend.

COURT CASES.

As mentioned in last year's directors' reports that the case filed against the company by Faysal Bank Limited for recovery of Rs. 45.616 million was decided in company's favour in the sense that a decree of only Rs 4.05 M was awarded to the bank by the banking court No.2, Faisalabad. Faysal Bank Limited has appealed against this decision to the Division Bench of the honourable Lahore High Court, Lahore. The appeal has not yet been fixed for regular hearing.

The case filed by the company against Muslim Commercial Bank, as reported in last year's directors' report for charging compound markup to the extent of Rs 10,006 M is still in progress. As a counter blast, the bank has filed a recovery suit for Rs. 23.34 million, in the same court. Both these cases are being heard together. Final outcome of this litigation will at least take more than one year. Payments on account of banks' liability have been stopped, until decision of the cases.

OUTSTANDING STATUTORY PAYMENT

An amount of Rs. 5,591,401, has been shown in the balance sheet as custom levies payable. This consists of import duty and import surcharge on the import of ring spinning frames. The payment has not yet been made because the exact payable amount has to be settled with the custom authorities. Our contention is that only 30% of the total import duty was payable, which the company has paid. As per our understanding it was intention of the Federal Government to exempt 70% of the import duty and that the exemption under SRO 1076(1195) should be extended to the import surcharge as well.

OTHER INFORMATION

In accordance with the requirements of SRO 45(1) 2003 dated 13.1.2003 of the SECP, incremental depreciation due to revaluation of Fixed Assets, for the year under review and previous years, has been transferred from surplus on Revaluation of Fixed Assets to Accumulated losses, as per details given in statement of changes in equity.

Unfunded staff retirement gratuity liability of Rs. 5,477,812, as shown in the Balance sheet has been valued by independent actuaries M/s. Nauman Associates in accordance with the provisions and requirements of International Accounting Standard (IAS) 19. Benefit on account of restatement of previous years liability has been shown in the statement of changes in equity.

FUTURE PROSPECTS

With continuous efforts of the management the company has been able to show operating profit. The management will continue to put in its best efforts and improve further its profitability and financial standing.

AUDITORS

The present auditors M/s. Yousif Adil Saleem & Co., Chartered Accountants retire, and being eligible offers themselves for reappointment for the next year.

PATTERN OF SHAREHOLDING

Pattern of shareholding as on September 30, 2003 as per new format is annexed.

NUMBER OF BOARD MEETINGS HELD

Four board meetings were held during the year ended on 30.9.2003. Attendance by each director is given below:-

| Name of Director | No of Meetings Attended |
|------------------------------|-------------------------|
| Mr. Imran Zahid (CEO) | 4 |
| Mr. Mehmood Ul Hassan | 4 |
| Mr. Riaz Ahmed | 4 |
| Mr. Jamil Ahmed Tahir | 4 |
| Mr. Muhammad Siddique Farroq | 4 |
| Mr. Shamsheer Khan | 4 |
| Mr. Barkat Ali | 4 |

AUDIT COMMITTEE

The Board in compliance with the Code of Corporate Governance has established an audit committee comprising of the following members:

| | | |
|------------------------|---|----------|
| Mr. Imran Zahid | - | Chairman |
| Mr. Jamil Ahmed Tahidr | - | Member |
| Mr. Riaz Ahmed | - | Member |

CORPORATE AND FINANCIAL REPORTING FRAME WORK

In compliance to new listing regulations of Stock Exchanges and as required under the Companies Ordinance, 1984, your directors are pleased to report as under:

1. The Financial Statements prepared by the management of your company present fairly state of its affairs, the result of its operations, cash flow and changes in equity.
2. Proper books of accounts of the company have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates which are based on reasonable and prudent judgement.
4. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has been adequately disclosed.
5. The system of internal control is sound in design and has been effectively implemented and monitored.

6. There is no doubt upon the company's ability to continue as a going concern.
7. There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
8. Key operating and financial data of last six years in summarized form is annexed.

DIRECTORS' REMUNERATION:

As in previous years, the directors did not draw any remuneration during the current year.

ACKNOWLEDGEMENT

The management would like to place on record its deep appreciation for the continuous support of its shareholders, customers and employees and expect to get the same cooperation in the future.

Date: 05.1.2004

On behalf of the Board

Faisalabad.

Imran Zahid
Chief Executive