Interpretation

1. Gross profit rate-

Gross profit margin measures the percentage of each sales rupee remaining after the firm has paid for its goods.

The gross profit rate in the year 2007 is higher than in year 2006.This indicates, the overall performances in year 2007 is better than the performances in year 2006 and firm has effectively used its resources to generate profits in year 2007.

2. Net profit rate -

Net profit margin indicates the relative efficiency of the firm after taking into account all expenses, including taxes, interest and preferred stock dividends.

The net profit rate in year 2007 is higher than in year 2006.This indicates that the company has earned more profits in 2007 after deducting all costs and expenses from the net revenue. Thus, the relative efficiency of the firm in year 2007 is higher than that in year 2006.

3. Current ratio -

Current ratio compares the company's current assets with its current liabilities.

In year 2007, there are 1.28 current assets to pay back 1 current liability and in 2006 there are only 0.99 current assets to pay back 1 current liability. Therefore, when comparing with the year 2006, the company is in a better liquidity position in year 2007. According to the industry norm (2:1) the current ratios are below 2 in both years. Therefore, liquidity position of the company is not good in both years and they may face future cash problems when paying back their current liabilities.

4. Quick ratio -

The quick ratio provides a better measure of overall liquidity only when a firm's inventory cannot be easily converted into cash. (Should exclude inventories from current assets).

In year 2007, there are 0.42 quick assets to pay back 1 current liability and comparing to year 2006 the company's liquidity position is better in year 2007.When comparing with the industry norm (1:1), the ratios are below 1 in both years. It indicates that the liquidity position of the company is not good in both years and they may face future cash problems when paying back their current liabilities.

5. Receivable days -

This ratio measures the length of time it takes trade receivables (debtors) to pay.

In 2006, debtors have taken 23 days to pay back their credits. In year 2007, the debtors have taken 19 days to pay back their credits to the firm. This indicates, the firm has efficiently collected their money from debtors in year 2007 comparing to 2006 and the company policy for collecting debts has been improved in 2007 than the previous year.

6. Gearing Ratio -

This quantifies the relationships between debt and equity.

Since the higher proportion of debt indicates high risk, the company has a high risk 2006. As the debts have been reduced in proportion to equity in 2007 the gearing ratio in 2007 is in a better position than that in 2006.