

ANNUAL REPORT 2004

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DIRECTOR'S REPORT

Your Directors take this opportunity to present to you the annual report together with audited financial statements of the company for the year ended 30th June 2004.

Financial and Appropriations:

Your company is maintaining the pace of regular improvement in all areas and by the grace of Almighty Allah, your company continued to perform well and posted a profit after tax of 2.479 million (2003: Rs.3.297 million). The decrease in net profit is due to deferred taxation amounting to Rs. 2.482 million. Your directors have pleasure in recommending a final cash dividend of 12% i.e. 1.20 per share (2003: @ 10% i.e. Rs. 1.00 per share) for the approval of shareholders at the forthcoming Annual General Meeting. Financial results for the year is summarized as under: -

	2004	2003
	Rupees	Rupees
Profit for the year before taxation	6,744,908	5,116,669
Provision for taxation	4,265,759	1,819,992
Profit after taxation	2,479,149	3,296,677
Unappropriated profit brought forward	3,344,120	1,158,384
Profit available for appropriation	5,823,269	4,455,061
Appropriation:		
Proposed dividend	1,333,129	1,110,941
Un-appropriated Profit carried forward	4,490,140	3,344,120
Earning per share	2.23	2.97

The gross turnover of the company has increased by Rs. 20.255 million with a tremendous growth of 10.71 % over the last year. The major contribution in the growth of turnover is from processing section. The increase in the administrative expense shows a normal growth. The effect of decrease in mark up rate is visible in the financial charges i.e. 1.860 million as compared to Rs. 3.880 million in the last year.

Year Under Review

The year under review was a good year in terms of profit. Mashallah your company has posted its name in market by its better quality output. The processing unit had contributed a major portion towards the total profit before taxation.

Future Prospects

The management is trying their best for improving the processing unit to compete the market and has imported one further Stenter machine, which has been shown as capital work in progress as at June 30, 2004. The management hopes that with the refine quality of processing and increase in production after installation of stenter machine the performance will improve, consequently company anticipate better final results of next year.

Appreciation

We would like to thank all of our staff members for the way they have responded to challenges of the year. The increase in competitive pressures meant that everyone had to work harder. Their hard work and commitment is greatly appreciated and is reflected in these results.

We are also thankful for the encouragement and support which we received from our suppliers, shareholders, bankers and financial institutions.

SUMMARY OF LAST SIX YEARS

FINANCIAL RESULTS

Description	2004	2003	2002	2001
Trading Results:				
Turnover	209,339,996	189,085,432	164,887,360	114,703,034
Gross profit	25,402,143	23,181,318	18,160,090	12,971,671
Operating profit/(loss)	8,329,548	8,789,737	7,020,731	2,640,866
Profit/(loss) before taxation	6,744,908	5,116,669	2,064,015	291,630
Profit/(loss) after taxation	2,479,149	3,296,677	1,165,592	-112,424
Balance Sheet				
Shareholders equity	11,109,410	11,109,410	11,109,410	11,109,410
Unappropriated profit/(loss)	4,490,140	3,344,120	1,158,384	-7,208
Tangible fixed assets	105,708,942	99,615,839	96,384,128	92,778,701
Long term security deposits	544,871	794,871	889,421	912,121
Significant Ratios:				
Gross profit ratio%	12.13	12.26	11.01	11.31
Current ratio	0.93	1.12	1.02	0.95
earning per share Rs.	2.23	2.97	1.04	-0.87

STATEMENT ON CORPORATE AND FINANCIAL REPORTING FRAMWORK

The directors would like to confirm in relation to the financial statements and controls, the following:

- The financial statements prepared by the management, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- The company has maintained proper books of accounts.
- Appropriate accounting policies have been consistently applied.
- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
- The system of internal control is sound in design. The system is being continuously monitored by Internal Audit and through other such monitoring procedure . The process of monitoring internal controls will continue as an ongoing process with the objective to further strengthen the controls and bring in improvement in the system.
- There are no doubts upon the Company's ability to continue as a going concern.
- There has been no material departure from the best practices of the corporate governance, as listed in the listing regulations.
- Key operation and financial data for last six years in summarized form is annexed.
- Information about taxes and levies is given in the notes to the accounts.

- None of directors of the company are serving on the board of 10 or more listed companies.
- The company operated an un-funded and unapproved gratuity scheme. The provision was made annually to cover the obligations under the scheme as at the end of the financial year. The company has adopted the revised IAS 19 and a result actuarial valuation has been carried out as at June 30, 2004. The projected unit credit method has been used to determine the actuarial values as specified by the IAS 19.

Name	Meeting Attended
Sh. Faisal Tauheed	7
Sh. Kashif Tauheed	7
Mst. Shahida Tauheed	4
Mst. Saima Tauheed	5
Mst. Amna Tauheed	5
Mst. Samira Faisal	7
Mst. Tahira Kashif	7
Mst. Saadia Tauheed	3

PATERN OF SHAREHOLDING

The pattern of shareholding in prescribed form is annexed.

Share traded by Directors, CEO, CFO, Company Secretary and their spouses and minor children are given as under:-

1. Mst. Samira Faisal (Director)	Purchased	Sold
2. Mst. Tahira Ka	No of shares	—
	4,200	—
	4,200	—

REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of National Silk & Rayon Mills Limited to comply with the Listing Regulation No.37 of the Karachi Stock Exchange (Guarantee) Limited, Listing Regulation No.XIII of the Lahore Stock Exchange (Guarantee) Limited where the company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the company. Our responsibility is to review, to the extent where such compliance can be objectively verified, where the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any, special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of

Compliance does not appropriately reflected the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance, as applicable to the company for the year ended June 30,2004.

ABSTRACT UNDER SECTION 218 OF THE COMPANIES ORDINANCE 1984

In terms of section 218 of the Companies Ordinance, 1984, the Board of Directors of the Company in their meeting have passed the following resolutions to amend the existing terms of appointment of the Chairman/Chief Executive and Directors.

"RESOLVED that the Board hereby approves and authorizes the holding of office of profit and payment as remuneration to Sh. Faisal Tauheed Puri Chairman/Chief Executive, not exceeding Rs. 558,0007- per annum inclusive of perquisites to which he is entitled under terms of his appointment with the Company."

"RESOLVED that the Board hereby approves and authorizes the holding of office of profit and payment as remuneration to Sh. Kashif Tauheed Puri Director, not exceeding Rs. 558,0007- per annum inclusive of perquisites to which he is entitled under terms of his appointment with the Company."

"RESOLVED that the Board hereby approves and authorizes the holding of office of profit and payment as remuneration to Mst. Samira Faisal and Mst. Tahira Kashif, Directors, not exceeding Rs. 480,0007- per annum inclusive of perquisites to which they are entitled under terms of his appointment with the Company.

Each Director is interested in the resolution to the extent of remuneration given above.

PROFIT & LOSS ACCOUNT

FOR THE YEAR ENDED JUNE 30, 2004

	Note	2004 Rupees	2003 Rupees
Sales	21	209,339,996	189,085,432
Cost of goods sold	22	183,937,853	165,904,114
Gross profit		25,402,143	23,181,318
Administrative and general expenses	23	16,636,749	13,838,869
Selling expenses	24	435,810	550,839
		17,072,559	14,389,708
Operating profit		8,329,584	8,791,610
Other Income	25	630,072	474,162
		8,959,656	9,265,772
Financial charges	26	1,859,753	3,879,805
Worker's profit participation fund		354,995	269,298
		2,214,748	4,149,103
Profit before taxation		6,744,908	5,116,669
Provision for taxation	27	4,265,759	1,819,992
Profit after taxation		2,479,149	3,296,677
Un-appropriated profit brought forward		3,344,120	1,158,384
Profit available for appropriation		5,823,269	4,455,061
Appropriation			
Proposed final dividend @ Rs. 1.20 (2003: Rs.1) per share		1,333,129	1,110,941

Unappropriated profit carried forward		4,490,140	3,344,120
Earning per share	28	2.23	2.97

CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 2004

	NOTE	2004 Rupees	2003 Rupees
Cash flow from operating activities		24,548,985	13,430,959
Cash generated from operation		-484,076	—
Gratuity		-1,414,094	-1,385,302
Taxes paid		-2,176,759	-3,444,711
Financial charges paid		20,474,056	8,600,946
Net cash inflow from operating activities			
Cash flow from investing activities		-18,471,150	—
Capital work in progress		-11,395,246	-9,141,163
Fixed assets purchased		310,000	—
Sale proceeds of fixed assets		74,533	130,343
Profit on bank deposits		-29,481,863	-9,010,820
Net cash outflow from investing activities			
Cash flow from financing activities		7,293,692	7,361,000
Long term loans		-1,396,378	-3,456,557
Repayment of finance of lease liabilities		-30,000	94,550
Long term security deposits		-1,066,089	
Dividend paid		4,801,225	3,998,993
Net cash inflow from investing activities		-4,206,582	3,589,119
Net (decrease) / increase in cash and cash equivalents		-16,938,116	-20,527,235
Cash and cash equivalent at beginning of the year		-21,144,698	-16,938,116

NOTES TO THE CASH FLOW STATEMENT

FOR THE YEAR ENDED JUNE 30, 2004

	2004 Rupees	2003 Rupees
A. Cash generated from operations	6,744,908	5,116,669
Profit before taxation		
Add/(Less)adjustments for non cash charges and other items.	6,533,189	5,394,202
Depreciation	226,800	515,250
Amortisation of leased assets	-80,091	—
Profit on sale of fixed assets	-43,246	-130,343
Profit on bank deposits	1,859,753	3,444,711
Financial charges	411,913	—
Provision for gratuity	15,653,226	14,340,489
Profit before working capital changes		
Movement in working capital		
(Increase)/ Decrease in current assets	-177,529	320,035
Stores, spares and loose tools	-1,982,361	4,613,603

Stock in trade	9,140,248	-6,596,795
Trade debts		
Advances, deposits, prepayments and other receivables	860,272	3,679,001
	7,840,630	2,015,844
Increase/(Decrease) in current liabilities	1,140,129	-3,057,224
Creditors, accrued and other liabilities	-85,000	131,850
Due to directors	1,055,129	-2,925,374
	24,548,985	13,430,959
B. Cash and cash equivalents	3,264,884	3,807,623
Cash and bank balances	-24,409,582	-20,745,739
Short term running finance	-21,144,698	-16,938,116

FOR THE YEAR ENDED JUNE 30, 2004

1. The company and nature of business

The Company is a Public Limited Company, incorporated under the Companies Act, 1913 (Now Companies Ordinance, 1984). The Company is quoted on Lahore and Karachi stock exchanges. The principle activity of the company is the dyeing, bleaching, finishing and embroidery of textile materials.

2. Statement of compliance and significant accounting policies

2.1 Statement of compliance

These financial statement have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of the Companies Ordinance, 1984. Approved accounting standards comprise of such International Accounting Standards as modified under the provisions of the Companies Ordinance, 1984. Wherever, the requirements of Companies Ordinance, 1984 or directives issued by Securities and Exchange Commission of Pakistan (SECP) differ with the requirements of these standards, the requirements of these standards, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take precedence.

2.2 Significant accounting policies

2.2.1 Accounting Convention

These accounts have been prepared under the historical cost convention, modified to include the revaluation of free hold land as referred to note 5 and retirement benefits which has been stated at present value.

2.2.2 Staff retirement benefits

The Company operated an unfunded gratuity scheme covering all employees with qualifying service period of six months. Previous year company operated provident fund scheme to which contribution was made towards its share @ 10% of basic salary. At inclination of employees gratuity funds revived during the year and above contribution transferred to gratuity fund. Consequential to the adoption of IAS 19 (Revised 2000). Employees Benefits, company made provision annually to cover the obligation on the basis of actuarial valuation which is charged to

income currently. The most recent actuarial valuation was carried out as at June 30, 2004 using the Projected Unit credit Method (note-8). Actuarial gains and losses are recognized in accordance with the recommendations of the actuary.

The principal actuarial assumptions used in the valuation of this staff retirement benefits as at June 2004 are as follows:

Discountrate	7%per annum
Interestrates	8%per annum
Average expected remaining working life time of employees	11 years

2.2.3 Taxation

Current

The provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits and tax rebates realisable, if any, company's export sales fall in the ambit of presumptive tax regime under section 154 of the Income Tax Ordinance 2001.

Deferred

The company accounts for deferred taxation using the liability method on all major timing differences which are considered reversible in the foreseeable future.

2.2.4 Tangible Fixed Assets and Depreciation

Owned

These are stated at cost less accumulated depreciation except freehold land which was revalued and is shown at such revalued amount. Depreciation is charged on reducing balance method at the rates specified in note 12. Full year depreciation is provided in the year of addition while no depreciation is charged in the year of disposal.

Repairs and maintenance cost is charged to the profit and loss account in the year in which it is incurred, major renewals and improvements are capitalized. Profit on disposal of fixed assets is credited and loss is debited to the profit and loss account.

Leased

Assets held under finance lease are stated at cost less accumulated amortization. The outstanding obligation under the lease less financial charges allocated to future periods are shown as liability, the financial charges are calculated at the interest rate implicit in the lease and are charged to the profit and loss account.

Amortization is charged at the same rates as company owned assets or over the lease period whichever is appropriate.

2.2.5 Stores, Spares, Loose Tools and Stocks in Trade

These are valued as follows:

Stores, spare parts, dyes, chemicals and packing material	At moving average cost
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Chemicals and dyes in process	at estimated cost
Finished goods	at lower of average cost and net realisable value

Cost in relation to work in process and finished goods represents the annual average manufacturing cost which consists of prime cost and appropriate manufacturing overheads. Net realisable value signifies the estimated selling price in the ordinary course of business less estimated cost necessary to be incurred to make the sale.

2.2.6 Revenue Recognition

Sales are recognized as revenue when invoiced, which coincides with delivery. Profit on bank deposits is recognized on time proportionate basis.

2.2.7 Foreign Currencies Translation

Transactions in foreign currencies are translated into Pak rupees at the rates of exchange approximating those prevailing on the date of transactions. Monetary assets and liabilities at rates of exchange ruling on the balance sheet date. Exchange differences are included in profit and loss account currently.

2.2.8 Borrowing Cost

Borrowing cost related to the financing of major projects is capitalised. All other borrowing costs are expensed as incurred.

2.2.9 Trade Debtors

Trade debts originated by the company are recognized and carried at original invoice amount less any allowance for any uncollectible amounts. Known bad debts, if any, are written-off and provision is made against debts considered doubtful.

2.2.10 Cash and cash equivalent

Cash and cash equivalent consist of cash in hand and balances with banks. Cash and cash equivalent included in cash flow statement comprise of cash in hand, balances with banks and short term running finance.

2.2.11 Financial instruments

Recognition and measurements

All financial assets and liabilities are recognized at cost when the company becomes a party to the contractual provisions of the instrument. Any gain or loss on subsequent re-measurement to fair value of financial assets and financial liability is taken to profit and loss account on occurrence.

Offsetting of financial assets and financial liabilities

A financial assets and financial liabilities is offset against each other and the net amount is reported in the balance sheet if the company has a legally enforceable right to set off the recognized amount and intends either to settle on net basis or realize the assets and settle the liability simultaneously.

2.2.12 Provisions

A provision is recognized in the balance sheet when the company has a legal or constructive obligation as a result of a past event; it is probable that an outflow of economic resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

2.2.13 Contingencies and commitments

Capital commitments and contingencies, unless those are actual liabilities, are not incorporated in the accounts.

2.2.14 Trade creditors and other payables

Liabilities for trade creditors and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the company.

2.2.15 Impairment

The carrying amounts of the company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated and impairment losses are recognized in the profit and loss account.

3. Authorized Share Capital

1,000,000 A-Class Ordinary shares of Rs. 10/- each.

400,000 B-Class Ordinary shares of Rs. 10/- each.

4. Issued, subscribed & paid- up share capital

609,034 A-Class ordinary shares of Rs. 10 each issued for cash

320,100 B-Class ordinary shares of Rs. 10 each issued for cash

181,807 Ordinary shares of Rs. 10 each issued as fully paid bonus shares

Surplus on Revaluation of Fixed Assets

During the year 2000 revaluation of freehold land was carried out by M/s. Iqbal and company Surveyors-Assessors Consultants, Multan, resulting in surplus of Rs.49,379,091 over book value. This has been credited to surplus on revaluation of fixed assets. The surplus on revaluation is not available for appropriation under the requirement of Section 235 of Companies Ordinance 1984, except and to the extent actually realised on di which are revalued.

	2004	2003
	Rupees	Rupees
6. Long Term Loans-Unsecured and interest free	10,000,000	10,000,000
From Directors	4,000,000	4,000,000
Others	14,000,000	14,000,000
7. Liabilities Against Assets Subject to Finance Lease	6,,090,340	6,090,340
Future minimum lease payments under finance lease together	3,201,000	3,201,000
lease payment are:	1,818,070	1,818,070
	11,109,410	11,109,410

(C) Foreign Currency Risk

Foreign currency risk arises against receivable exist due to export sale to foreign undertakings. But the Company is not exposed to major currency risk.

(D) Liquidity Risk

Liquidity risk reflects company's inability in raising funds to meet commitments. The management closely monitors company's liquidity and cash flow position to ensure adequate liquidity and manage the assets keeping in view the liquidity position.

32.2 Fair Value of Assets and Liabilities

The carrying value of financial assets and liabilities reflected in the financial statements approximated their fair value.

Under Utilization of capacity is due to quality of cloth available for processing and embroidery.

34. Authorisation

These accounts have been authorised for issue by the board of directors of the company on 25-09-2004

35. Corresponding figures

Corresponding figures have been rearranged, where necessary, for the purpose of comparison.

Material rearrangements are as follows:

- a) Previous year gratuity payable of Rs.2,928,989 included in accrued liabilities now it has been classified as deferred liability.
- b) Previous year stores for embroidery of Rs. 112,913 included in stock in trade now it has been classified under head stores, spares and loose tools.

PATTERN OF SHAREHOLDING AS AT JUNE 30, 2004

Number of Shareholders	Shareholding	To	Total Share Held
276	From	To	
111	1	100	12464
33	101	500	28556
20	501	1000	24106
1	1001	5000	39315
1	5001	10000	9680
2	10001	15000	10900
1	20001	25000	50000
2	55001	60000	59638
3	70001	80000	155900
2	100001	110000	314628
458	200001	210000	405754
			1110941