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# Annual Report 2009

*John*



***The National Silk & Rayon Mills Ltd.***



**59th  
ANNUAL REPORT  
AND ACCOUNTS  
JUNE 30, 2009**

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## ***Mission Statement***

- We Shall provide unparalleled service and best value to our customers through dedicated, responsive and cost effective supply chain.
- We are committed to provide quality products by strict adherence to international standards and best practices through technical collaboration with leading global companies in markets we serve.
- We shall strive to maximize our shareholders value through sustained profitable growth.
- We shall enhance existing employee productivity, hire, retain and develop best talent and provide them a competitive environment to excel and grow.
- We will aggressively focus on increasing our market penetration by exploring new channels.
- We shall continue to set new trends through innovative marketing and manufacturing.

**COMPANY INFORMATION**

**BOARD OF DIRECTORS**

**EXECUTIVE DIRECTORS**

Sh. Faisal Tauheed Puri	Chairman/Chief Executive
Sh. Kashif Tauheed Puri	Director
Mrs. Samira Faisal	Director
Mrs. Tahira Kashif	Director

**NON EXECUTIVE DIRECTORS**

Mrs. Saima Shahid	Director
Mrs. Anna Kamran	Director
Mrs. Sadia Kamran	Director

**AUDIT COMMITTEE**

Sh. Kashif Tauheed Puri	Chairman
Mrs. Saima Shahid	Member
Mrs. Anna Kamran	Member
Hafiz Zia Ahmed	Secretary

**CHIEF EXECUTIVE**

Sh. Faisal Tauheed Puri

**CHIEF FINANCIAL OFFICER**

Muhammad Islam Haider

**COMPANY SECRETARY**

Imran Zafar

**AUDITOR'S**

Amin Mudassar and Company  
Chartered Accountants

**BANKERS**

National Bank of Pakistan  
The Bank of Punjab

**REGISTERED OFFICE**

4th Floor, I.E.P. Building,  
97-B/D-I, Gulberg-III, Lahore

**FACTORY**

Dhuddiwala, Jaranwala, Road, Faisalabad.



## **THE NATIONAL SILK & RAYON MILLS LTD.**

### **NOTICE OF MEETING**

Notice is hereby given that the 59th Annual General Meeting of the shareholders of the National Silk and Rayon Mills Limited, Faisalabad will be held at Lahore Hotel, McLeod Road, Lahore on 31st day of October 2009 at 4 p.m. for the following purposes :

1. To Confirm the minutes of the last meeting.
2. To receive, consider and approve the Audited Accounts of the Company together with the Directors and Auditors report for the year ended June 30, 2009.
3. To appoint the Auditors for the year 2009-10 till next Annual General Meeting of the company and to fix their remuneration. The present Auditors M/s. Amin Mudassar and company, Chartered Accountants retire and being eligible offer themselves for reappointment •
4. To transact any other ordinary business of the company that may be brought forward with the permission of the chair.

By Order of the Board

(IMRAN ZAFAR)  
COMPANY SECRETARY

#### **Notes:**

1. The share transfer books of the company will remain closed from 23<sup>rd</sup> day of October 2009 to 31<sup>st</sup> day of October 2009(both days inclusive) •
2. Any member of the Company entitled to attend and vote at this Annual General Meeting may appoint another member as his/her proxy to attend and vote instead of him/her. The Proxies in order to be effective must be received by the company not later than 48 hours before the date of meeting.
3. Those members who have deposited their shares into Central Depository Company of Pakistan (CDC) are requested to bring latest statement of account or participation ID number and their account numbers in CDC along with original Computerized National Identity Card (CNIC) for identification at the time of Annual General Meeting •
4. Shareholders are requested to immediately notify the change in address, if any.

## **DIRECTOR'S REPORT**

Your Directors take this opportunity to present to you the Annual Report together with audited financial statement of the year ended 30th June 2009.

### **Financial and Appropriations:**

The gross turnover of the company was increased by Rs.69,637,013/-. The company suffered loss before taxation Rs.657,861/- (2008 Profit Rs.2,982,383/-) and after taxation Rs.3,590,978/- (2008 Profit Rs.8,355,464/-)

### **Year Under Review**

The textile industry for the last many years has been undergoing turmoil due to short fall in cotton production, economic meltdown recession, unstable political and law and order situation in the country. As a result of aforesaid factor, a large number of spinning, weaving and processing units has been closed down.

During the year under review the sale of the company increased by Rs. 69,637,013. This increase eroded by the uncontrolled prices of inputs i.e. unprecedented hike in electricity and sui gas tariff that was faced by the industry. Whereas due to competitive situation in the market, We could not obtained the desired rates of our products, therefore, we remained to meet all overheads. Hence the company has incurred loss after taxation Rs.3,590,978.

### **Future Prospects**

The management is trying their level best for improving the quality of processing of cloth and hopes that refine quality would fetch better prices of our outputs. Consequently, the company's management anticipates better financial results in respect of the next financial year.

### **Appreciation**

We would like to thank all of our staff members for the way they have responded to challenges of the year. 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.

### **STATEMENT ON CORPORATE AND FINANCIAL REPORTING FRAMEWORK**

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 results 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 future 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 year in summarized form is annexed.
- Information about taxes and levies is given in the notes to the accounts.

## **THE NATIONAL SILK & RAYON MILLS LTD.**

- 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. The projected unit credit method has been used to determine the actuarial values as specified by the IAS 19.

During the year seven (7) meeting of the Board of Directors were held. Attendance by each Director was as follows:

Sh. Faisal Tauheed Puri	7
Sh. Kashif Tauheed Puri	7
Mst. Samira Faisal	7
Mst. Tahira Kashif	7
Mst. Saima Shahid	7
Mst. Amna Kamran	7
Mst. Sadia Kamran	5

### ***PATTERN OF SHAREHOLDING***

The Pattern of shareholding in prescribed form is annexed.

No share traded by directors, CEO, CFO, company secretary and their spouse and minor children during the year.



**STATEMENT OF COMPLIANCE WITH THE CODE  
OF CORPORATE GOVERNANCE**

This statement is being presented to comply with the Code of Corporate Governance contained in the listing regulations of Karachi and Lahore Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles in the Code in the following manner:

1. The Board comprises seven Directors including CEO. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At Present the Board includes three non-executive directors.
2. The directors have confirmed that none of them is serving as a directors in more than ten listed companies, including this company
3. All the directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI and NBFIs or, being member of a stock exchange, has been declared a defaulter by that stock exchange.
4. No casual vacancy occurred in the Board during the current year.
5. The company has prepared a 'Statement of Ethics and Business Practices' which has been signed by all the directors and employees of the Company.
6. The Board has developed a vision statement, overall cooperate strategy and significant polices of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the power of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of the employment of the CEO and other executive director, have been taken by the Board.
8. The meeting of the Board were presided over by the Chairman. The Board met at least once every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meeting. The minutes of the meeting were appropriately recorded and circulated.
9. Directors are well conversant with the listing regulation and legal requirements and as such are fully aware of their duties and responsibilities.
10. The Chief Financial Officer and the Company Secretary were appointed according to the implementation of the Code of Corporate Governance. Remuneration, terms and conditions in case of future appointments on these positions will be approved by the Board, However, the appointment of head of internal audit and terms and conditions of this employment have been approved by the Board.
11. The directors' report has been prepared in compliance with the requirements of the code and fully describes the salient matters required to the disclosed.
12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.
13. The directors, CEO and executive do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
14. The Company has complied with all the corporate and financial reporting requirement of the Code.
15. The Board has formed an audit committee. It comprises Chairman, 2 Members and a Secretary.
16. The Company has complied with approval of transaction with related parties as per Karachi stock exchange (Guarantee) limited vide circular KSE / N -269 dated 19 January 2009.

**THE NATIONAL SILK & RAYON MILLS LTD.**

**STATEMENT OF COMPLIANCE WITH THE CODE  
OF CORPORATE GOVERNANCE**

17. The meeting of the audit committee were held at least once every quarter prior to approval of in term and final result of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
18. The Board has set up an effective internal audit function and personal involved are considered suitably qualified and experience for the purpose and are conversant with the policies and procedures of the Company and they are involved in the internal audit function on a full time Basis.
19. The statutory auditors of the Company have confirmed that:
  - a. They have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan.
  - b. They any of the partners of the firm, their spouses and minor children do not hold shares of the Company ; and
  - c. The firm and all its partners are in compliance with International Federation of Accountants (I FAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. We confirm that all other material principal contained in the code have been complied with.



**REVIEW REPORT TO THE MEMBERS ON STATEMENT OF  
COMPLIANCE WITH BEST PRACTICES OF 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 The national Silk & Rayon Mills Limited ("The Company") to comply with the Listing Regulations of the Lahore and Karachi Stock Exchanges 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, whether 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 system sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the company's corporate governance procedures and risks.

Further, Sub-Regulation (xiii) of Listing Regulations 37 notified by the Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated 19 January 2009 requires the Company to place before the board of directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the board of directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

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 respect, with the best practices contained in the Code of Corporate Governance.



**AUDITORS' REPORT TO THE MEMBERS**

We have audited the annexed balance sheet of The National Silk & Rayon Mills Limited as at June 30, 2009 and the related profit and loss account, cash flow statement and statement of changes in equity, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

- (a) in our opinion, proper books of accounts have been kept by the company as required by the companies Ordinance, 1984;
- (b) in our opinion:
  - (i) The balance sheet and profit and loss account, together with the notes thereon, have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of accounts and are further in accordance with accounting policies consistently applied;
  - (ii) the expenditure incurred during the year was for the purpose of the company's business; and
  - (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the company;
- (c) In our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity, together with the notes forming part thereof, conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at June 30, 2009 and of the loss, its cash flows and changes in equity for the year then ended; and
- (d) In our opinion, no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

**THE NATIONAL SILK & RAYON MILLS LTD.****SUMMARY OF LAST SIX YEARS FINANCIAL RESULTS**

<i>Description</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
<b>Trading Results</b>							
Turnover	390,774,463	321,137,450	303,087,989	278,335,900	237,024,849	209,339,996	189,085,432
Gross Profit	18,803,528	20,504,613	23,477,175	23,421,113	27,745,379	25,402,143	23,181,318
Operating Profit (Loss)	3,104,406	9,126,498	8,274,297	5,973,887	11,121,698	8,329,548	8,789,737
Profit/(Loss) before taxation	(657,861)	2,982,383	594,245	639,825	6,261,763	6,744,908	5,116,669
Profit/(Loss) after taxation	3,590,978	8,355,464	1,279,459	(2,517,526)	2,543,021	2,479,149	3,296,677
<b>Balance Sheet</b>							
Shareholders equity	11,109,410	11,109,410	11,109,410	11,109,410	11,109,410	11,109,410	11,109,410
Unappropriated profit/(Loss)	9,448,630	13,039,608	4,684,144	3,404,685	7,033,152	5,823,269	3,344,120
Tangible fixed assets	157,174,921	171,671,822	149,480,205	138,517,937	127,262,171	105,708,942	99,615,839
<b>Significant Ratios</b>							
Gross Profit %	4.81	6.38	7.75	9.52	11.71	12.13	12.26
Current Ratio	1.21	0.90	0.72	0.82	1.02	0.93	1.12
Earning per share	3.23	7.52	1.15	(2.27)	2.29	2.23	2.97

**THE NATIONAL SILK & RAYON MILLS LTD.****BALANCE SHEET**

<b>EQUITY AND LIABILITIES</b>	<b>Note</b>	<b>2009 RUPEES</b>	<b>2008 RUPEES</b>
<b>SHARE CAPITAL AND RESERVES</b>			
Authorised capital	3	<u>14,000,000</u>	<u>14,000,000</u>
Issued, subscribed and paid-up capital	4	11,109,410	11,109,410
Revenue reserves		<u>9,448,630</u>	<u>13,039,608</u>
		20,558,040	24,149,018
<b>SURPLUS ON REVALUATION OF FIXED ASSETS</b>			
	5	49,379,091	49,379,091
<b>NON CURRENT LIABILITIES</b>			
Long term loans	6	92,088,707	79,241,524
Liabilities against assets subject to finance lease	7	3,593,659	7,386,881
Deferred liabilities	8	6,259,400	2,574,404
Deferred income	9	542,893	1,197,792
		102,484,659	90,400,601
<b>CURRENT LIABILITIES</b>			
Trade and other payables	10	53,732,908	68,752,434
Accrued interest and mark up	11	223,659	967,029
Short term finances- Secured	12	-	27,096,288
Current portion of finance lease liability	13	4,615,835	12,191,240
Taxation	14	-	-
		58,572,402	109,006,991
<b>CONTINGENCIES AND COMMITMENTS</b>			
	15		
		<u>230,994,192</u>	<u>272,935,701</u>

The annexed notes form an integral part of these financial statements.

LAHORE

October 06, 2009



**THE NATIONAL SILK & RAYON MILLS LTD.****AS AT JUNE 30, 2009**

<b>NON CURRENT ASSETS</b>	<b>Note</b>	<b>2009 RUPEES</b>	<b>2008 RUPEES</b>
Property, plant and equipment	16	157,174,921	171,671,822
Long term deposits	17	2,973,221	2,973,221
		<u>160,148,142</u>	<u>174,645,043</u>

**CURRENT ASSETS**

Stores, spares and loose tools	18	229,398	360,927
Stock in trade	19	23,803,495	29,364,471
Trade debts	20	23,340,282	27,377,114
Loans and advances	21	2,771,916	8,929,568
Trade deposits, short term prepayments and current account balances with statutory authorities	22	13,442,006	16,794,046
Accrued interest		9,226	4,438
Due from Government departments	23	5,355,497	6,128,140
Cash and bank balances	24	1,894,230	9,331,954
		70,846,050	98,290,658
		<u>230,994,192</u>	<u>272,935,701</u>

**Sh. Faisal Tauheed Puri**  
Chief Executive

**Sh. Kashif Tauheed Puri**  
Director

**THE NATIONAL SILK & RAYON MILLS LTD.**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	<b>Note</b>	<b>2009 RUPEES</b>	<b>2008 RUPEES</b>
Sales	25	390,774,463	321,137,450
Cost of sales	26	<u>371,970,935</u>	<u>300,632,837</u>
<b>Gross profit</b>		18,803,528	20,504,613
Distribution costs	27	836,223	196,040
Administrative expenses	28	16,146,831	14,875,100
Other operating expenses	29	4,348,370	156,968
		21,331,424	15,228,108
		(2,527,896)	5,276,505
Other operating income	30	5,632,302	3,849,993
		3,104,406	9,126,498
Finance costs	31	3,762,267	6,144,115
<b>(Loss) / Profit before taxation</b>		(657,861)	2,982,383
Taxation:			
Current:			
For the year	14	201,536	1,617,287
Deferred	8.2	2,731,581	(6,990,368)
		2,933,117	(5,373,081)
<b>(Loss)/ Profit after taxation</b>		<u>(3,590,978)</u>	<u>8,355,464</u>
<b>(Loss)/ Earning per share- Basic and Diluted</b>	32	<u>(3.23)</u>	<u>7.52</u>

- The annexed notes form an integral part of these financial statements.

**Sh. Faisal Tauheed Puri**  
 Chief Executive

**Sh. Kashif Tauheed Puri**  
 Director

**THE NATIONAL SILK & RAYON MILLS LTD.****CASH FLOW STATEMENT****FOR THE YEAR ENDED JUNE 30, 2009**

	<b>NOTE</b>	<b>2009 Rupees</b>	<b>2008 Rupees</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Cash Generated from Operations		20,984,358	5,925,195
Taxes Paid		(1,774,739)	(1,055,071)
Finance cost paid		(4,505,637)	(6,090,415)
Gratuity paid		(1,590,965)	(632,611)
<b>Net cash flow from operating activities</b>		<u>13,113,017</u>	<u>(1,852,903)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Fixed capital expenditure		(12,914,989)	(34,387,607)
Capital work in progress		(117,915)	(2,084,339)
Long term deposits		-	607,830
Sale proceeds of fixed assets		18,100,000	14,913,000
<b>Net cash flow from investing activities</b>		<u>5,067,096</u>	<u>(20,951,116)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Long term loans		12,847,183	34,300,082
Dividend paid		(105)	(420)
Repayment of lease finance liabilities		(11,368,627)	(11,450,340)
<b>Net cash flow from financing activities</b>		<u>1,478,451</u>	<u>22,849,322</u>
<b>Net decrease in cash and cash equivalents</b>		19,658,564	45,303
<b>Cash and cash equivalents at the beginning of the year</b>		(17,764,334)	(17,809,637)
<b>Cash and cash equivalents at the end of the year</b>	<b>B</b>	<u><u>1,894,230</u></u>	<u><u>(17,764,334)</u></u>

The annexed notes form an integral part of these financial statements.

**Sh. Faisal Tauheed Puri**  
Chief Executive

**Sh. Kashif Tauheed Puri**  
Director



**THE NATIONAL SILK & RAYON MILLS LTD.****NOTES TO THE CASH FLOW STATEMENT  
FOR THE YEAR ENDED JUNE 30, 2009**

	<b>2009 Rupees</b>	<b>2008 Rupees</b>
<b>A- CASH GENERATED FROM OPERATIONS</b>		
(Loss) / Profit before taxation	(657,861)	2,982,383
<b>Adjustment of non cash and other item:</b>		
Provision for gratuity	2,544,380	1,885,882
Depreciation	13,496,352	11,238,020
Profit on disposal of fixed assets	(4,066,548)	(2,367,014)
Profit on sale and lease back	(654,899)	(654,899)
Provision for Workers' Profit Participation Fund	-	156,968
Finance cost	3,762,267	6,144,115
	<u>15,081,552</u>	<u>16,403,072</u>
<b>Cash flow before working capital changes</b>	<u>14,423,691</u>	<u>19,385,455</u>
<b>EFFECT ON CASH FLOW OF WORKING CAPITAL CHANGES</b>		
<b>(Increase)/Decrease in current assets</b>		
Stores, spares and loose tools	131,529	15,530
Stocks in trade	5,560,976	(11,531,859)
Trade debt	4,036,832	(3,041,686)
Loan and advances	6,157,652	(6,071,404)
Trade deposit and short term prepayments	4,925,243	(11,240,927)
Due from Government	772,643	(1,727,552)
Accrued interest	(4,788)	9,326
<b>Increase/(Decrease) in current liabilities</b>		
Trade and other payables	(15,019,420)	20,128,312
	<u>6,560,667</u>	<u>(13,460,260)</u>
	<u>20,984,358</u>	<u>5,925,195</u>
<b>B- CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	24 1,894,230	9,331,954
Short term finances	12 -	(27,096,288)
	<u>1,894,230</u>	<u>(17,764,334)</u>

The annexed notes form an integral part of these financial statements.

**Sh. Faisal Tauheed Puri**  
Chief Executive

**Sh. Kashif Tauheed Puri**  
Director

**THE NATIONAL SILK & RAYON MILLS LTD.**

**STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED JUNE 30, 2009**

	<b>SHARE CAPITAL</b>	<b>UNAPPROPRIATED PROFIT</b>	<b>TOTAL</b>
		<b>R u p e e s</b>	
<b>Balance as at June 30, 2007</b>	11,109,410	4,684,144	15,793,554
Profit for the year		8,355,464	8,355,464
<b>Balance as at June 30, 2008</b>	11,109,410	13,039,608	24,149,018
Loss for the year	-	(3,590,978)	(3,590,978)
<b>Balance as at June 30, 2009</b>	11,109,410	9,448,630	20,558,040

The annexed notes form an integral part of these financial statements.

**Sh. Faisal Tauheed Puri**  
Chief Executive

**Sh. Kashif Tauheed Puri**  
Director

# **THE NATIONAL SILK & RAYON MILLS LTD.**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009**

### **1. STATUS 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 principal activity of the company is dyeing, bleaching, finishing and embroidery of fabrics.

### **2. STATEMENT OF COMPLIANCE AND SIGNIFICANT ACCOUNTING POLICIES**

#### **2.1 STATEMENT OF COMPLIANCE**

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

#### **Accounting standards not yet effective**

The following revised standards and interpretations with respect to approved accounting standards as applicable in Pakistan would be effective from the dates mentioned below against the respective standards or interpretations.

<b>Standard or Interpretation</b>	<b>Effective date ( accounting periods beginning on or after)</b>
IAS 1 -Presentation of Financial Statements (Revised)	January 1, 2009
IAS 23 -Borrowing Costs (Revised)	January 1, 2009
IAS 27 -Consolidated and Separate Financial Statements (Revised)	January 1, 2009
IAS 32 --Financial Instruments: (Amended)	January 1, 2009
IAS 39 -Financial Instruments: Recognition and Measurement (Amended)	January 1, 2009
IFRS 2 -Share-based Payments	January 1, 2009
IFRS 3 -Business Combinations (Revised)	July 1, 2009
IFRS 8 -Operating Segments	January 1, 2009
IFRIC 15 -Agreement for the Construction of Real Estate	January 1, 2009
IFRIC 16 -Hedge of Net Investment in a Foreign Operation	October 1, 2008
IFRIC 17 -Distribution of Non-Cash Assets to Owners	July 1, 2009
IFRIC 18 -Transfer of Assets from Customers	July 1, 2009

The Company expects that the adoption of the above standards and interpretations will have no material impact on the Company's financial statements in the period of initial application other than certain changes and/ or enhancements in presentation and disclosures of financial statements.

#### **ADOPTION OF NEW ACCOUNTING STANDARDS**

The company has adopted the following new and amended IFRS and IFRIC interpretations as of July 01, 2008:

IFRS 7	Financial Instruments: Disclosure
IFRIC 12	Service concession arrangements
IFRIC 13	Customer loyalty programs: and
IFRIC 14	IAS- 19 The limit on defined benefit assets, minimum funding requirement and their interactions.

Adoption of these standards and interpretations did not have any material effect on the financial statements of the company except for certain additional disclosures in respect of IFRS 7 included in the relevant notes to the financial statements.

### **2.2 SIGNIFICANT ACCOUNTING POLICIES**

#### **2.2.1 Basis of Preparation**

These financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.



**2.2.1 Significant Accounting Estimates and Judgments**

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the company's accounting policies. Estimates and judgment are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements are as follows:

- a) Staff retirement benefits;
- b) Taxation; and
- c) Useful life of depreciable assets and provision for impairment there against.

**2.2.2 Staff Retirement Benefits**

The Company operates an unfunded Gratuity Scheme covering all the Employees of the Company with qualifying service period of six months. Provision is made annually on the basis of actuarial valuation which is charged to income currently. The most recent actuarial valuation was carried out as at June 30, 2008 using the Projected Unit Credit Method. Actuarial gains and losses are recognized in accordance with the recommendations of the actuary.

	2009	2008
Principal Actuarial Assumptions		
Expected rate of eligible salary increase in future years	11% per annum	11% per annum
Discount Rate	12% per annum	12% per annum
Average expected remaining working life time of employees	12 years	12 years

**2.2.3 Taxation**

**Current**

Company's export sales fall under presumptive tax regime under Section 154 of the Income Tax Ordinance, 2001. Charge for current taxation other than export is based on taxable income at the current rates of taxation after taking into account tax credits, brought forward losses, accelerated depreciation allowances and any minimum limits imposed by the taxation laws.

**Deferred**

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

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized.

Deferred tax is calculated at the rates expected to apply to the period when the related temporary differences reverse, based on tax rates that have been enacted or substantially enacted by the balance sheet date.

**2.2.4 Foreign Currency Translations**

Foreign Currency Transactions are translated into Pak Rupees using the exchange rates prevailing at the dates of the transactions. All monetary assets and liabilities in foreign currencies are translated in to Pak Rupees at the rates of exchange prevailing at the balance sheet date. Foreign exchange gains and losses on translation are included in income currently.

**2.2.5 Borrowing Cost**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are charged to income in the period of incurrence.

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### **2.2.6 Property, Plant and Equipment and Depreciation**

Operating fixed assets are stated at cost less accumulated depreciation except freehold land and capital work-in-progress. Freehold land is stated at revalued amount and capital work-in-progress is stated at cost consisting of expenditure incurred in respect of fixed assets in the course of their construction and installation. Cost of certain plant and machinery consists of historical cost and exchange fluctuations on foreign currency loans utilized for acquisition thereof. Borrowing costs pertaining to erection / construction period are capitalized as part of the historical cost.

Depreciation is charged to income applying reducing balance method to write-off the cost, capitalized exchange fluctuations and borrowing costs over estimated remaining useful life of assets. The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of fixed assets. Rates of depreciation are stated in (note 16).

Depreciation on additions is charged from the month the asset is available for use while no depreciation is charged in the month in which the asset is disposed off.

The company assesses at each balance sheet date whether there is any indication that property, plant and equipment may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in income currently. The recoverable amount is the higher of an assets' fair value less costs to sell and value in use. Where an impairment loss is recognized, the depreciation charge is adjusted in the future periods to allocate the assets' revised carrying amount over its estimated useful life.

Gains/losses on disposal of fixed assets are taken to Profit and Loss Account.

Minor repairs and maintenance are charged to income, as and when incurred. Major renewals and replacements are capitalized and the assets so replaced, if any, other than those kept as stand by, are retired.

### **2.2.7 Assets Subject to Finance Lease**

These are stated at the lower of present value of minimum lease payments under the lease agreements and the fair value of the assets. The related obligation of lease are accounted for as liabilities. Financial charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of financial cost on the remaining balance of principal liability for each period.

Depreciation is charged at the rates stated in (note 16) applying reducing balance method to write-off the cost of the asset over its estimated remaining useful life.

Financial charges and depreciation on leased assets are charged to income currently.

### **2.2.8 Capital Work in Progress**

Capital work in progress is stated at cost less any identified impairment loss.

### **2.2.9 Long Term Deposits and Loans.**

These are stated at cost.

### **2.2.10 Stores , Spares and Loose Tools**

These are valued at moving average cost. Stores-in-transit are valued at cost accumulated to the balance sheet date.

### **2.2.11 Stocks-in-Trade**

These are valued as follows:

Raw materials:

Dyes, Chemicals and Packing Material

At Weighted Average Cost.

Chemicals and Dyes in Process

At Weighted Average Cost.

Finished goods

At Lower of Cost and net Realizable Value.

Cost in relation to work-in-process and finished goods represents the annual average manufacturing cost which consists of prime cost and appropriate production overheads.

Net realizable value signifies the selling price in the ordinary course of business less cost necessary to be incurred to effect such sales.

### **2.2.12 Revenue Recognition:**

Local sales are recorded when goods are delivered to customers and invoices raised.

Export sales are booked on shipment basis.

Processing charges are recorded when goods are delivered to customers and invoices raised.



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### **2.2.13 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.

### **2.2.14 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, demand deposits, other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value and short term running finances under mark up arrangements.

### **2.2.15 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.

#### **Off-setting of Financial Assets and Financial Liabilities**

A financial asset and financial liability 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.

### **2.2.16 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.

### **2.2.17 Trade 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.

### **2.2.18 Provisions**

A provision is recognized in the balance sheet when the company has a legal or constructive obligation as a result of 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.

### **2.2.19 Dividends**

Dividend distribution to company's shareholders is recognized as a liability in the period in which dividend is approved by the Company's shareholders.

### **2.2.20 Contingencies and Commitments**

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

	<b>2009</b>	<b>2008</b>
	<b>Rupees</b>	<b>Rupees</b>
<b>3 AUTHORIZED SHARE CAPITAL</b>		
1,000,000 A - Class Ordinary shares of Rs. 10/- each.	10,000,000	10,000,000
400,000 B - Class Ordinary shares of Rs. 10/- each.	4,000,000	4,000,000
	<u>14,000,000</u>	<u>14,000,000</u>
<b>4 ISSUED, SUBSCRIBED &amp; PAID-UP CAPITAL</b>		
<b>Issued for Cash</b>		
609,034 A - Class Ordinary Shares of Rs. 10. each	6,090,340	6,090,340
320,100 B - Class Ordinary Shares of Rs. 10. each	3,201,000	3,201,000
	<u>9,291,340</u>	<u>9,291,340</u>
<b>Issued as Bonus Shares</b>		
181,807 Ordinary Shares of Rs. 10. each	1,818,070	1,818,070
	<u>11,109,410</u>	<u>11,109,410</u>



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### **5 SURPLUS ON REVALUATION OF FIXED ASSETS**

The Company has revalued its freehold Land during the year 2000. The revaluation exercise was carried-out by M/s Iqbal Malik 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 the Companies Ordinance 1984. except and to extent actually realized on disposal of the assets which are revalued.

### **6 LONG TERM LOANS-Unsecured**

These loans are interest free and their repayment schedules have not yet been finalised, but they are not payable within next twelve months.

	<i>Note</i>	<i>2009 Rupees</i>	<i>2008 Rupees</i>
<i>From related parties</i>			
Directors and associates	6.1	92,088,707	79,241,524
		<u>92,088,707</u>	<u>79,241,524</u>

### **6.1 LOAN FROM DIRECTORS AND ASSOCIATES**

Balance as at July 01,	79,241,524	44,941,442
Add: Received during the year	<u>12,847,183</u>	<u>34,300,082</u>
	92,088,707	79,241,524
Less: Repaid during the year	<u>-</u>	<u>-</u>
	<u>92,088,707</u>	<u>79,241,524</u>

### **7 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE**

The reconciliation between gross minimum lease payments, future financial charges and present value of minimum lease payments is as follows:

	Not later than one year	Later than one year but not later than Five years	2009 Rupees	2008 Rupees
Gross Minimum Lease Payments	5,299,311	3,765,656	9,064,967	21,990,003
Less: Financial charges allocated to future years	683,476	171,997	855,473	2,411,882
Present Value of Minimum Lease Payments	<u>4,615,835</u>	<u>3,593,659</u>	<u>8,209,494</u>	<u>19,578,121</u>

The Company has lease finance facilities with Askari Leasing Limited and The Bank of Punjab to acquire plant & machinery & vehicles. These are secured against charge over plant and machinery and personal guarantee of Directors. These are repayable in 36 equal monthly installments. The markup charged thereon ranges from 12% to 18.96% per annum.(2008: 12% to 18.96%) The company intends to exercise its option to purchase the leased assets upon completion of respective lease terms. The leased vehicles are registered in the name of Leasing company and on the exercise of option of purchase, title of these vehicles will be transferred in the name of company

	<i>Note</i>	<i>2009 Rupees</i>	<i>2008 Rupees</i>
<b>8 DEFERRED LIABILITIES</b>			
Provision for Staff Gratuity	8.1	5,384,786	4,431,371
Deferred Taxation	8.2	874,614	(1,856,967)
		<u>6,259,400</u>	<u>2,574,404</u>

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	<i>Note</i>	<b>2009 Rupees</b>	<b>2008 Rupees</b>
<b>8.1 STAFF GRATUITY - Defined benefits plan</b>			
The amount recognized in the balance sheet on this account as per IAS 19 is:			
Present Value of defined benefit obligation		4,431,371	6,308,115
Less: Actuarial gain/(losses) not yet recognized		953,415	(1,876,744)
		<u>5,384,786</u>	<u>4,431,371</u>
<b>Movement in Present value of Defined Benefit Obligation</b>			
Present Value of Defined Benefit Obligations as on July 01,		4,431,371	3,234,608
Add: expense recognized during the year		2,544,380	1,885,882
		<u>6,975,751</u>	<u>5,120,490</u>
Less: Benefits paid during the year		(1,590,965)	(632,611)
		<u>5,384,786</u>	<u>4,487,879</u>
Actuarial (Gains)/ Losses recognized during the year		-	(56,508)
Present Value of Defined Benefit Obligations as on June 30,		<u>5,384,786</u>	<u>4,431,371</u>
<b>Charge to Profit and Loss Account for the year is as follows:</b>			
Current service cost		1,674,139	1,594,767
Interest cost		756,974	291,115
Actuarial (gains) loss charge		113,267	
		<u>2,544,380</u>	<u>1,885,882</u>
<b>8.2 DEFERRED TAXATION</b>			
<b>Deferred credits arising due to:</b>			
Accelerated tax depreciation		16,420,064	8,586,805
Excess of accounting book value of leased assets over liabilities		3,272,017	4,811,544
Deferred debits arising in respect of staff gratuity		(1,884,675)	(1,550,980)
Deferred debits arising on brought forward losses		(16,932,792)	(13,704,336)
		<u>874,614</u>	<u>(1,856,967)</u>
Balance as at July 01,		(1,856,967)	5,133,401
Add: charge for the year		2,731,581	(6,990,368)
		<u>874,614</u>	<u>(1,856,967)</u>
<b>9 DEFERRED INCOME</b>		<u>542,893</u>	<u>1,197,792</u>
This represents profit on sale and lease back transactions executed with financial institutions for plant and machinery items amounting Rs. Nil(2008: Rs. 1852,691) It is amortized over the lease term of the asset.			
	<i>Note</i>	<b>2009 Rupees</b>	<b>2008 Rupees</b>
Opening balance		1,197,792	224,015
Add: Addition during the year		-	1,628,676
		<u>1,197,792</u>	<u>1,852,691</u>
less: Transferred to other income		(654,899)	(654,899)
		<u>542,893</u>	<u>1,197,792</u>

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	Note	2009 Rupees	2008 Rupees
<b>10 TRADE AND OTHER PAYABLES</b>			
Sundry Creditors		27,636,739	22,995,816
Accrued Expenses		17,455,050	14,025,917
Advance from Customers		5,050,682	4,673,148
Unclaimed and Unpaid dividend		418,957	419,063
Letter of Credit Payable		3,151,188	26,434,987
Income tax withheld		20,292	46,535
Workers' (Profit) Participation Fund	10.1	--	156,968-
		<u>53,732,908</u>	<u>68,752,434</u>
<b>10.1 WORKERS' (PROFIT) PARTICIPATION FUND</b>			
Balance as at July 01,		156,968	31,276
Interest charged for period		16,482	3,284
		<u>173,450</u>	<u>34,560</u>
Less: Payments during the Year		<u>173,450</u>	<u>34,560</u>
		-	-
Allocation for the year		-	156,968
		<u>-</u>	<u>156,968</u>
<b>11 ACCRUED INTEREST AND MARK UP</b>			
Mark up on short term finances- Secured		113,959	863,185
Lease finance charges- Secured		109,700	103,844
		<u>223,659</u>	<u>967,029</u>
<b>12 SHORT TERM FINANCES -Secured</b>			
Running Finance	12.1	-	19,798,575
Cash Finance	12.2	-	7,297,713
		<u>-</u>	<u>27,096,288</u>

**12.1** This facility has been obtained from National Bank of Pakistan with sanctioned limit of Rs.22.00 Million ( 2008: Rs.22.00 million) for working capital. This is secured against hypothecation charge over Company's present and future current assets, mortgage charge over fixed assets and personal guarantees of all directors. This carries markup @ 3 months KIBOR(Ask) rate+3.75% per annum (2008:@ 12 month KIBOR (Ask) rate + 1.5% per annum) payable on quarterly basis. Principal has been paid during the year

**12.2** This facility has been obtained from The Bank of Punjab with sanctioned limit of Rs.8.00 Million (2008:Rs.8.00 million) for working capital. This is secured against hypothecation charge over Company's present and future current assets, mortgage charge over fixed assets and personal properties of two directors and personal guarantees of all directors. This carries markup @ 3 month KIBOR(Avg) + 325 bps with floor of 10% per annum (2008:@ 3 month KIBOR + 325 bps with floor of 10% per annum) payable on quarterly basis. The principal has been repaid during the year.

The facilities for opening letters of credit and export bills negotiation as at June 30, 2009 amounted to Rs.50.00 Million (2008: Rs.50.00 Million) of which the amount under utilized at year end was Rs.8.05 Million (2008: over utilised Rs. 1.977 Million)



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	<i>Note</i>	<b>2009 Rupees</b>	<b>2008 Rupees</b>
<b>13</b>			
<b>CURRENT PORTION OF LEASE LIABILITY</b>			
Payable within next twelve months		3,793,219	12,191,240
Overdue principal		822,616	-
		<u>4,615,835</u>	<u>12,191,240</u>
<b>14</b>			
<b>TAXATION</b>			
Balance as at 1st July,		-	-
Less: Adjusted during the year		-	-
		<u>-</u>	<u>-</u>
Add: Provision for the Tax Year		201,536	1,617,287
		<u>201,536</u>	<u>1,617,287</u>
Less: Tax deducted at source / advance tax		<u>(201,536)</u>	<u>(1,617,287)</u>
		<u>-</u>	<u>-</u>

- 14.1** Income tax assessments of the company have been finalized up to the tax year 2008. On the basis of return filed for the tax year 2008 the loss of Rs. 18,161,746 was determined.
- 14.2** Provision for the current year represents tax on income chargeable under the final tax regime; (2008: in view of available tax losses, the preceding year's tax provision represented minimum tax on turnover due under section 113 of the income Tax Ordinance, 2001).
- 14.3** No numeric tax rate reconciliation is presented in these financial statements as the company is not liable to pay normal tax due to available tax losses.

## **15 CONTINGENCIES AND COMMITMENTS**

### **15.1 Contingencies**

Counter guarantees by the bank in respect of guarantees issued in the normal course of business for sum of Rs.15.00 million (2008: Rs.15.00 million).

### **15.2 Commitments**

Commitments in respect of letters of credit for capital expenditures were amounting Rs.6.659 million (2008: Rs.6.24 million)

Commitments in respect of letters of credit other than for capital expenditures were amounting Rs.11.165 million (2008: Rs.23.25 million)



# THE NATIONAL SILK & RAYON MILLS LTD.

	Note	2009 Rupees	2008 Rupees
<b>17 LONG TERM DEPOSITS</b>			
Security Deposits		721,971	721,971
Deposits against finance lease		2,251,250	2,251,250
		<u>2,973,221</u>	<u>2,973,221</u>
<b>18 STORES, SPARES AND LOOSE TOOLS</b>			
Stores		42,231	137,281
Spares		187,167	223,464
		<u>229,398</u>	<u>360,927</u>
<b>19 STOCK IN TRADE</b>			
Raw Material		17,631,712	21,731,914
Packing Material		100,108	546,031
Work in Process - Cost of processing done on third party order		2,525,777	3,234,280
Finished Goods - Cost of processing done on third party orders		3,545,898	3,852,246
		<u>23,803,495</u>	<u>29,364,471</u>
<b>19.1</b> These stocks are hypothecated with banks as security against short term finances as indicated in note no.12.			
	Note	2009 Rupees	2008 Rupees
<b>20 TRADE DEBTS</b>			
Export - Secured against confirmed letters of credit		1,317,728	3,129,167
Local - Unsecured and considered good by the management		22,022,554	24,247,947
		<u>23,340,282</u>	<u>27,377,114</u>
<b>21 LOANS AND ADVANCES</b>			
Advances to: (Unsecured but considered good)			
Suppliers of goods		2,062,245	6,248,043
Employees against Salaries		100,000	100,000
Employees against expenses		609,671	2,581,525
		<u>2,771,916</u>	<u>8,929,568</u>
<b>22 TRADE DEPOSITS , SHORT TERM PRE-PAYMENTS AND CURRENT ACCOUNT BALANCES WITH STATUTORY AUTHORITIES</b>			
<b>Trade deposits</b>			
Security deposits		9,921,900	8,989,080
Guarantee Margin		750,000	750,000
Short term prepayments		115,553	252,340
Immature Letters of Credit- Secured	22.1	494,768	6,216,044
Advance Income Tax		2,159,785	586,582
Other		-	-
		<u>13,442,006</u>	<u>16,794,046</u>

**22.1** These comprise of Opening Charges, Bank Charges and Partial Payments of Cost of Documents .



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	<i>Note</i>	<b>2009 Rupees</b>	<b>2008 Rupees</b>
<b>23 DUE FROM GOVERNMENT DEPARTMENTS</b>			
Sales tax refundable		5,355,497	6,128,140
		<u>5,355,497</u>	<u>6,128,140</u>
<b>24 CASH &amp; BANK BALANCES</b>			
Cash in hand		195,819	726,339
Cash with banks in:			
Current accounts	24.1	1,393,411	8,300,615
Deposit accounts		305,000	305,000
		<u>1,698,411</u>	<u>8,605,615</u>
		<u>1,894,230</u>	<u>9,331,954</u>
<b>24.1</b>	These are Term Deposit Receipts (TDR) held under lien by National Bank of Pakistan as margin against guarantees issued to Sui Northern Gas Pipe Lines Limited and carry mark up @2.61% per annum (2008:@2.61% pe annum).		
<b>25 SALES</b>	<i>Note</i>	<b>2009 Rupees</b>	<b>2008 Rupees</b>
Exports		19,496,978	8,453,290
Exports rebate		93,593	122,348
Exchange gain		562,985	32,745
		<u>20,153,556</u>	<u>8,608,383</u>
Processing receipts		370,620,907	312,529,067
		<u>390,774,463</u>	<u>321,137,450</u>
<b>26 COST OF SALES</b>			
Salaries, wages and benefits	26.2	22,796,058	19,734,681
Fuel and power		158,382,297	121,292,656
Raw material consumed		159,328,011	131,949,112
Packing material consumed		7,036,569	5,534,561
Stores and spares consumed		4,805,589	4,064,498
Oil and greases consumed		1,656,384	4,147,690
Repair and maintenance		4,804,459	3,869,559
Depreciation	16.1	12,146,717	10,114,218
		<u>370,956,084</u>	<u>300,706,975</u>
<b>Work in process</b>		<u>3,234,280</u>	<u>2,992,555</u>
Opening stock		(2,525,777)	(3,234,280)
Closing stock		708,503	(241,725)
		<u>371,664,587</u>	<u>300,465,250</u>
<b>Finished goods</b>		<u>3,852,246</u>	<u>4,019,833</u>
Opening stock		(3,545,898)	(3,852,246)
Closing stock		306,348	167,587
		<u>371,970,935</u>	<u>300,632,837</u>
<b>26.1 RAW MATERIAL CONSUMED</b>			
Balance as at July 01,		21,731,914	10,636,075
Purchases during the Year		155,227,809	143,044,951
Available for Consumption		<u>176,959,723</u>	<u>153,681,026</u>
Less: Balance as at June 30,		17,631,712	21,731,914
		<u>159,328,011</u>	<u>131,949,112</u>
<b>26.2</b>	Salaries, Wages and Benefits include Rs.2,137,279 (2008: Rs. 1,225,823) in respect of staff gratuity.		

## **THE NATIONAL SILK & RAYON MILLS LTD.**

<b>27 DISTRIBUTION COSTS</b>	<b>Note</b>	<b>2009 Rupees</b>	<b>2008 Rupees</b>
Salaries and benefits		86,400	72,000
Advertisement and sales promotion expenses		32,200	31,650
Commission Paid		-	6,495
Freight and octroi charges		420,640	-
Clearing and forwarding charges		296,983	85,895
		<u>836,223</u>	<u>196,040</u>

## **28 ADMINISTRATIVE EXPENSES**

Directors' remuneration		3,571,200	3,571,200
Rent, rates and taxes	28.2	359,734	409,260
Staff Salaries and benefits	28.1	3,952,591	4,050,399
Traveling and conveyance		125,590	82,765
Electricity		3,789	284,799
Water and sewerage expense		1,538,686	1,538,364
Communication expense		812,165	703,079
Printing and maintenance		319,913	343,497
Repair & maintenance		605,503	595,079
Vehicle running and maintenance		885,351	924,920
Fees and subscription		584,530	221,350
Legal and professional charges		56,500	32,000
Auditors' remuneration	28.3	270,000	175,000
Newspaper and periodicals		13,352	9,761
Entertainment		268,954	306,816
Insurance		355,523	431,655
Zakat deducted at source		7,625	7,625
Depreciation	16.1	1,349,635	1,123,802
General expenses		1,066,190	53,729
Donation	28.4	-	10,000
		<u>16,146,831</u>	<u>14,875,100</u>

**28.1** Salaries and Benefits includes Rs.407,101(2008: Rs. 660,059) in respect of staff gratuity.

**28.2** Transaction with related parties amounting Rs.180,000 (2008: Rs.180,000).

### **28.3 Auditors' remuneration**

The audit fee and remuneration for other services included in the financial statements is as follows:

	<b>Note</b>	<b>2009 Rupees</b>	<b>2008 Rupees</b>
<b>Amin, Mudassar &amp; Co.</b>			
Statutory audit		250,000	150,000
Others		20,000	25,000
		<u>270,000</u>	<u>175,000</u>

**28.4** None of the directors and their spouses had any interest in the donee.

## **29 OTHER OPERATING EXPENSES**

Workers' (profit) Participation Fund		-	156,968
Exchange loss		4,348,370	-
		<u>4,348,370</u>	<u>156,968</u>

## **THE NATIONAL SILK & RAYON MILLS LTD.**

<b>30 OTHER OPERATING INCOME</b>	<b>Note</b>	<b>2009 Rupees</b>	<b>2008 Rupees</b>
Profit on bank deposits		18,579	7,974
Sale of scrap		891,356	815,983
Profit on disposal of fixed assets		4,066,548	2,367,014
Profit on sale and lease back agreement		654,899	654,899
Others		920	4,123
		<u>5,632,302</u>	<u>3,849,993</u>
<b>31 FINANCE COST</b>			
Markup on:			
Lease finance		1,710,426	2,225,841
Short term finances		855,411	3,291,049
Interest on Workers' (Profit) Participation Fund		16,482	3,284
Bank charges and commission		1,179,948	623,941
		<u>3,762,267</u>	<u>6,144,115</u>
<b>32 (LOSS)/EARNING PER SHARE</b>		<b>No. of Shares</b>	
Issued, subscribed and paid up shares		<u>1,110,941</u>	<u>1,110,941</u>
(Loss) / Profit for the year (Rs.)		<u>(3,590,978)</u>	<u>8,355,464</u>
Earning per share (Rs.)		<u>(3.23)</u>	<u>7.52</u>

### **33 TRANSACTION WITH ASSOCIATED COMPANY**

Transactions with related parties have been disclosed in the relevant notes to the financial statements.

### **34 REMUNERATION TO CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVE**

The aggregate amount charged in the accounts for the year for remuneration, including certain benefits to the chief executive, working directors and executive of the company is as follows:

	<b>CHIEF EXECUTIVE</b>		<b>DIRECTOR</b>		<b>EXECUTIVE</b>	
	<b>2009 Rupees</b>	<b>2008 Rupees</b>	<b>2009 Rupees</b>	<b>2008 Rupees</b>	<b>2009 Rupees</b>	<b>2008 Rupees</b>
Basic Salary	811,644	811,644	2,434,932	2,434,932	600,000	-
Re-imbursable Exp.	81,156	81,156	243,468	243,468	60,000	-
	<u>892,800</u>	<u>892,800</u>	<u>2,678,400</u>	<u>2,678,400</u>	<u>660,000</u>	<u>-</u>
	1	1	3	3	1	None

The Chief Executive and Directors are also provided with free use of company maintained cars and residential telephones.



**35 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES**

The company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including currency risk and interest rate risk.) Financial risk management is carried out under risk policies established and approved by the board of Directors. The management administers all aspects of risk management involving currency and interest rate risk, and cash management, in accordance with the risk policy.

The company's exposure to financial risk, the way these risks affect revenues, expenses, assets, liabilities and forecast transactions of the company and the manner in which these risks are managed is as follows:

**35.1 Credit Risk**

Credit risk is the risk of financial loss to the company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from trade debts, and advances and deposits, interest accrued, other receivables and margin on letter of guarantee. The carrying amount of financial assets represent the maximum credit exposure. The maximum exposure to credit risk at the reporting date is as follows.

	<b>2009</b> <b>Rupees</b>	<b>2008</b> <b>Rupees</b>
Trade debts	23,340,282	27,377,114
Loans and advances	709,671	2,681,525
Interest accrued	9,226	4,438
Margin on letters of guarantee	750,000	750,000
Cash and bank balances	1,894,230	9,331,954
	<u>26,703,409</u>	<u>40,145,031</u>

Geographically there is no concentration of credit risk.

**35 Credit Quality of Financial Assets**

Foreign trade debts are secured against confirmed letter of credit. The company has placed funds in financial institution keeping in view credit ratings. The company assesses the credit quality of the counter parties as satisfactory. The company does not hold any collateral as security against any of its financial assets except foreign debtors.

The aging of trade debts at the reporting date was:

	<b>Gross</b> <b>2009</b>	<b>Gross</b> <b>2008</b>
Past due less than one year	23,340,282	24,247,940
past due over one year but less than three years	-	-
	<u>23,340,282</u>	<u>24,247,940</u>
<b>Cash at banks</b>		
AAA	635,217	428,848
AA+	389,603	236,591
AA	329,178	6,719,935
AA-	152,424	164
A+	174,944	1,063,903
A	6,545	6,845
A-	10,501	149,329
	<u>1,698,411</u>	<u>8,605,615</u>

**Credit Risk Management**

In respect of trade receivables, the company does not have significant concentration of credit risk with a single customer. Formal policies and procedures of credit management and administration of receivables are established and executed. In monitoring customer credit risk, the ageing profile of total receivables balance and individually significant balance, along with collection activities are reported to the Board of Directors on a monthly basis. High risk customers are identified and restrictions are placed on future trading, including suspending future shipments and administering dispatches on a prepayment basis of confirmed letters of credit. These actions are also reported to the Board on a monthly basis.

## **THE NATIONAL SILK & RAYON MILLS LTD.**

### **35.2 Liquidity Risk**

Liquidity risk is the risk that the company will not be able to meet its financial obligation as they fall due. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation. The following are the contractual maturities of financial liabilities, including expected interest payments and excluding the impact of netting agreements.

2009			
Carrying Amount	Contractual Cash Flows	Maturity upto one year	Maturity after one year

R u p e e s

#### **Financial liabilities**

Liabilities against assets subject to finance lease	8,209,494	9,064,967	5,299,311	3,765,656
Trade and other payables	53,732,908	53,732,908	53,732,908	-
Mark up accrued	223,659	223,659	223,659	-
	<u>62,166,061</u>	<u>63,021,534</u>	<u>59,255,878</u>	<u>3,765,656</u>

2008			
Carrying Amount	Contractual Cash Flows	Maturity upto one year	Maturity after one year

R u p e e s

#### **Financial liabilities**

Liabilities against assets subject to finance lease	19,578,121	21,990,003	13,824,262	8,165,741
Trade and other payables	68,752,434	68,752,434	68,752,434	-
Mark up accrued	967,029	967,029	967,029	-
Short term borrowing	27,096,288	27,096,288	27,096,288	-
	<u>116,393,872</u>	<u>118,805,754</u>	<u>110,640,013</u>	<u>8,165,741</u>

#### **Liquidity Risk Management**

The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the company's reputation.

The company monitors cash flow requirements and produces cash flow projections for the short and long term. Typically, the company ensures that it has sufficient cash on demand to meet expected operational cash flows, including serving of financial obligations. This includes maintenance of balance sheet liquidity ratios, debtors and creditors concentration both in terms of overall funding mix and avoidance of undue reliance on large individual customer. Further, the company has the support of its sponsors in respect of any liquidity shortfalls.

### **35.3 Market Risk**

Market risk is the risk that changes in market prices such as foreign exchange rates, interest rates and equity prices will effect the company's net profit or the fair value of its financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing return.

#### **35.3.1 Currency Risk**

The company is exposed to currency risk in respect of export sales, imports and resulting balances that are denominated in a currency other than functional currency. The company's exposure to currency risk as at the reporting date is as follows :

	2009 Rupees	2008 Rupees
Trade receivables	1,317,728	3,129,167
Total exposure	<u>1,317,728</u>	<u>3,129,167</u>



## **THE NATIONAL SILK & RAYON MILLS LTD.**

All foreign currency balances are denominated in USD. Average exchange rate used during the year is Rs.78.10/USD (2008: Rs.63.90/USD). Spot exchange rate applied for measuring financial assets and liabilities as at the reporting date is Rs.81.10/USD (2008 Rs.67.82/USD) respectively.

A ten percent change in foreign currency would change loss(2008: profit) by Rs.0.131 million (2008: Rs.0.313 Million). This sensitivity analysis is based on assumption that all the variables, with the exception of foreign exchange rates, remain unchanged.

### **Foreign Currency Risk Management**

Foreign currency risk arises mainly due to fluctuation in foreign exchange rates. The company also has transactional currency exposure. Such exposure arises from sales and purchases of certain materials by the company in currencies other than rupees. Approximately 5% of the company's sales are denominated in currencies other than rupees while 95% of sales are denominated in local currency. In appropriate cases, the management takes out forward contracts to mitigate risk where it is necessary.

### **35.3.2 Market Risk**

The interest rate profit the company interest bearing financial instruments as at the reporting dates is as follows.

	<b>2009</b> <b>Rupees</b>	<b>2008</b> <b>Rupees</b>
<b>Fixed rate instruments</b>		
Financial assets	-	-
Financial liabilities	8,209,494	19,578,121
<b>Variable rate instrument</b>		
Financial assets	305,000	305,000
financial liabilities		27,096,288

The company is exposed to interest rate risk in respect of its variable rate instruments. A 100 basis points increase in variable interest rates would have increased loss by Rs.62.228 (2008 decreased profit by Rs.271.034). A 100 basis points decrease in variable interest rate would have had an equal but opposite impact on profit. This sensitivity analysis is based on assumption that all variable, with the exception of interest rates, remain unchanged.

The effective interest / mark-up rates in respect of financial instruments are mentioned in respective notes to the financial statements.

### **35.4 Capital risk management**

The primary objective of the Company's capital management is to maintain healthy capital ratios strong credit rating and optimal capital structures in order to ensure ample availability of finance for its existing and potential investment projects, to maximize shareholder value and reduce the cost of capital.

The company manages its capital structure and makes adjustment to it, in light of changes in economic conditions. In order to maintain or adjust the capital structure, the company may adjust the amount of dividends payments to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policy and processes during the year ended June 30, 2009.

The company monitors capital using a gearing ratio. Which is net debt divided by total capital plus net debt. Net debt is calculated as total loans and borrowings including any finance cost thereon, trade and other payables, less cash and bank balances. Capital signifies equity as shown in the balance sheet plus net debt.



## **THE NATIONAL SILK & RAYON MILLS LTD.**

During 2009, the company's strategy was to minimize leveraged gearing. The gearing ratios as at June 30, 2009 and 2008 were as follows:

	2009 Rupees	2008 Rupees
Long term loans	92,088,707	79,241,524
liabilities against assets subject to finance lease	3,593,659	7,386,881
Trade and other payables	53,732,908	68,752,434
Accrued interest	223,659	967,029
Current portion of long term finance	4,615,835	12,191,240
Short term borrowings	-	27,096,288
<b>Total debt</b>	<b>154,254,768</b>	<b>195,635,396</b>
Cash and bank balances	1,894,230	9,331,954
<b>Net debt</b>	<b>152,360,538</b>	<b>186,303,442</b>
Share capital	11,109,410	11,109,410
Surplus on revaluation of fixed assets	49,379,091	49,379,091
Reserves	9,448,630	13,039,608
Equity	69,937,131	73,528,109
Capital	222,297,669	259,831,551
<b>Gearing ratio</b>	<b>68.54</b>	<b>71.70</b>

### **36 PLANT CAPACITY AND ACTUAL PRODUCTION**

#### **Cloth processing**

Rated Capacity (Meters)	57,600,000	57,600,000
Actual Processing (Meters)	52,254,641	42,735,939
Percentage	90.72%	74.19%

#### **Embroidery processing**

Rated Capacity (Meters)	2,951,600	2,629,200
Actual Processing (Meters)	2,117,480	1,246,232
Percentage	71.74%	47.40%
No. of working days	313	313

1,698,411	8,605,615
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Under utilization of available capacity is due to different melange of cloth available for processing and embroidery and frequent shutdown of electricity by WAPDA.

### **37 DATE OF AUTHORISATION FOR ISSUE**

These accounts have been authorized for issue by the board of directors of the company on October 06, 2009.

### **38 CORRESPONDING FIGURES**

Corresponding figures have been rearranged and reclassified wherever necessary for the purpose of comparison and for better presentation. However, there were no material rearrangement of figures to report.

### **39 GENERAL**

Amounts have been rounded off to the nearest rupees unless otherwise stated.

**Sh. Faisal Tauheed Puri**

Chief Executive

**Sh. Kashif Tauheed Puri**

Director

**FORM "A"**

**PATERN OF SHAREHOLDING AS AT JUNE 30, 2009**

Number of Shareholders	From	to	Total Share Held
259	1	100	11,235
100	101	500	25,540
27	501	1,000	20,036
14	1,001	5,000	26,644
1	5,001	10,000	9,680
2	10,001	15,000	21,141
0	15,001	20,000	-
3	20,001	25,000	75,000
0	25,001	30,000	-
0	30,001	35,000	-
0	35,001	40,000	-
2	40,001	45,000	82,204
0	45,001	50,000	-
0	50,001	55,000	-
1	55,001	60,000	59,638
0	60,001	65,000	-
0	65,001	70,000	-
0	70,001	75,000	-
0	75,001	80,000	-
2	80,001	85,000	162,371
0	85,001	90,000	-
0	90,001	95,000	-
0	95,001	100,000	-
1	100,001	105,000	104,198
1	105,001	110,000	107,500
2	200,001	205,000	405,754
0	205,001	210,000	-
415			1,110,941

Categories of Shareholders	Number of	Number of	Percentage Shareholder	Share held
<b>I</b> Associated Companies, Undertaking & Related Parties				
<b>II</b> Directors, Chief Executive, their spouse and minor children		11	947,927	-
i. Sh. Faisal Tauheed Puri		1	202,975	18.27
ii. Sh. Kashif Tauheed Puri		1	202,779	18.25
iii. Sh. Tauheed Ellahi Puri		1	107,500	9.68
iv. Mst. Shahida Tauheed		1	115,098	10.36
v. Mst. Saima Shahid		1	25,000	2.25
vi. Mst. Anna Kamran		1	25,000	2.25
vii. Mst. Sadia Kamran		1	25,000	2.25
viii. Mst. Samira Faisal		1	81,088	7.30
ix. Mst. Tahira Kashif		1	81,283	7.32
x. Sh. Mustafa Tauheed		1	40,776	3.67
xi. Sh. Mahad Kashif		1	41,428	3.73
<b>III</b> Executive				
<b>IV</b> Public Sector Companies and Corporation		-	-	
<b>V</b> Joint Stock Companies		-	-	
<b>VI</b> Investment Companies		2	1,020	0.09
<b>VII</b> Banks, Non Banking Finance Institutions, Development Finance Institutions, Insurance Companies, Leasing Companies, Modaraba and Mutual Fund		3	60,846	5.48
i. Banks		-	-	-
ii. Non Banking Finance Institutions		-	-	-
iii. Development Financial Institutions (excluding the share holders holding 10 percent or more voting interests)		-	-	-
iv. Insurance companies		3	60,846	5.48
v. Leasing companies		-	-	-
vi. Modaraba		-	-	-
vii. Mutual Funds		-	-	-
<b>VIII</b> Individuals		397	101,057	9.10
<b>IX</b> Others		2	91	0.01
		415	1,110,941	100





**FORM OF PROXY**

**FOLIO Number**

I/We \_\_\_\_\_

OF \_\_\_\_\_

Being a member of the NATIONAL SILK & RAYON MILLS LIMITED hereby appoint

\_\_\_\_\_

(Name)

of \_\_\_\_\_

(Another member of the( failing him

\_\_\_\_\_

(Name)

of \_\_\_\_\_

(Another member of the Company) to attend, act and vote for me and on my/our behalf at the 59th Annual General Meeting of the Company to be held on Saturday, 31<sup>st</sup> day of October 2009 at 4.00 p.m. at Lahore Hotel, Mcleod Road Lahore and at any adjournment thereof.

As witness my/our hand this) \_\_\_\_\_ day of \_\_\_\_\_ 2009

Signature on  
Revenue Stamp  
Of Correct value

(Signature should agree with the specimen  
Signature registered with the Company)

Date: \_\_\_\_\_

**NOTE:**

Proxy form must be signed across a correct value Revenue Stamp and it should be deposited in the Registered Office of the company not later than 48 hours before time of holding the meeting.

