INDUS DYEING & MANUFACTURING CO. LIMITED
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

1. LEGAL STATUS AND NATURE OF BUSINESS

1.1 Indus Dyeing & Manufacturing Co. Limited (the Company) was incorporated in Pakistan on July 23, 1957 as a public company limited by shares under the Companies Act 1913 since repealed and replaced by the Companies Ordinance, 1984. Registered office of the Company is situated at Office No. 508, 5th Floor, Beaumont Plaza, Civil Lines, Karachi. The Company is currently listed on Karachi Stock Exchange. The principal activity of the Company is manufacturing and sale of yarn. The manufacturing facilities of the Company are located at Hyderabad, Karachi and Muzaffargarh. The Company is operating three ginning units including two on leasing arrangements and two ice factories on leasing arrangements in District Multan. The Company has also made investment in a joint venture, Indus Home Limited and an associate, Sunrays Textile Mills Limited.

1.2 These financial statement are presented in Pak Rupees, which is the Company's functional and presentation currency.

2. STATEMENT OF COMPLIANCE

2.1 These financial statements have been prepared in accordance with the 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 notified under the provisions of the Companies Ordinance, 1984, the requirements of the Companies Ordinance, 1984 and the directives issued by the Securities and Exchange Commission of Pakistan (SECP). Wherever the requirements of the Companies Ordinance, 1984 or the directives issued by the SECP differ with the requirements of the IFRS, the requirements of the Companies Ordinance, 1984, and the said directives shall take precedence.

2.2 New, revised and amended standards and IFRIC interpretations that are not yet effective

The following standards, amendments and interpretations of approved accounting standards are effective for accounting periods beginning on or after January 1, 2011. These standards are either not relevant to the Company’s operations or are not expected to have significant impact on the Company’s financial statements;

Standard or Interpretation	Effective for periods beginning on or after
IFRS 7 - Financial Instruments: Disclosures (Amendment)	January 1, 2011
IFRS 7 - Financial Instruments: Disclosures (Amendment)	July 1, 2011
IAS 1 - Presentation of Financial Statements (Amendment)	January 1, 2011
IAS 1 - Presentation of Financial Statements (Amendment)	July 1, 2012
IAS 12 - Income Taxes (Amendment)	January 1, 2012
IAS 24 - Related Party Disclosures (Revised)	January 1, 2011
IAS 34 - Interim Financial Reporting (Amendment)	January 1, 2011
IFRIC 13 - Customer Loyalty Programmes (Amendment)	January 1, 2011
IFRIC 14 - IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction (Amendment)	January 1, 2011

3. BASIS OF PREPARATION

3.1 Accounting conventions

These financial statements have been prepared under the historical cost convention as modified by:

- recognition of certain employee retirement benefits at present value
- certain financial instruments at fair value
- investment in associate and investment in joint venture under equity method

3.2 Critical 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. Assumptions and estimates used in the area of property plant and equipment (refer note 14) are significant to the financial statements and it involves management estimates.

Estimates and judgments, if any , are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The areas where various assumptions and estimates are significant to the financial statements or where judgment was exercised in application of accounting policies are as follows:

- Post employment benefits (Note 4.2)
- Provision for current tax and deferred tax (Note 4.1)
- Useful lives and depreciation rates of property, plant and equipment (Note 4.4)
- Classification and impairment of investment (Note 4.5 and 4.10)
- Provisions (Note 4.13)
- Net realisable value of stock-in-trade (Note 4.8)

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

4.1 Taxation

Current

The charge for current taxation is based on taxable income at the current rates of taxation after taking into account applicable tax credits, rebates and exemptions available if any. For income covered under final tax regime, taxation is based on applicable tax rates under such regime.

Deferred

Deferred income tax is recognised using balance sheet liability method for all major temporary differences arising between tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that tax profits and taxable temporary differences will be available against which deductible temporary differences can be utilized. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits and taxable temporary differences will be available to allow all or part of the assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. The effect of deferred taxation of the portion of the income subject to final tax regime is also considered in accordance with the requirement of Technical Release - 27 of Institute of Chartered Accountants of Pakistan.

4.2 Staff retirement benefit

Defined benefit plan

The Company operates an un-funded gratuity scheme for all its permanent employees. Provision is made in accordance with the requirements of International Accounting Standard (IAS)-19 "Employee Benefits". The amount recognized in the balance sheet represents the present value of defined benefit obligations as adjusted for unrecognized actuarial gains and losses. Cumulative net unrecognized actuarial gains and losses at the end of previous year which exceeds 10% of the greater of the present value of the Company's obligation is amortized over the average expected remaining working lives of the employees. Details of the schemes are given in note 9.2 to these financial statements.

4.3 Trade and other payables

Liabilities for trade 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 billed to the company or not.

4.4 Property, plant and equipment

4.4.1 Owned

Property, plant and equipment owned by the Company are stated at cost less accumulated depreciation and impairment loss if any, except freehold and leasehold land. Depreciation is charged to income using the reducing balance method whereby cost of an asset is written-off over its estimated useful life at the rates specified in the property, plant and equipment note.

In respect of additions and disposals during the year, depreciation is charged from the month of acquisition and upto the month preceding the disposal respectively.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to income during the year in which they are incurred.

Gains and losses on disposal of assets, if any, are recognized as and when incurred.

Depreciation methods, useful lives and residual values are reviewed periodically and adjusted, if appropriate, at each balance sheet date.

4.4.2 Capital work-in-progress

Capital work-in-progress (CWIP) is stated at cost. All expenditures connected to the specific assets incurred during the installation and construction period are carried under CWIP. These are transferred to specific assets as and when assets are ready for their intended use.

4.4.3 Assets subject to finance lease

Assets subject to finance lease are depreciated over their expected useful lives on the same basis as owned assets, or, where shorter, over the term of the relevant lease.

4.5 Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Non-financial assets

The company assesses at each balance sheet date whether there is any indication that assets except deferred tax assets and investment property 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 recognised in profit and loss account. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Where impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised recoverable amount but limited to the extent of the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for the asset in prior years. Reversal of impairment loss is recognized as income.

4.6 Leases

Leases are classified as finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as liabilities against assets subject to finance lease. The liabilities are classified as current and long-term depending upon the timing of payment. Lease payments are apportioned between finance charges and reduction of the liabilities against assets subject to finance lease so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to income, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs.

4.7 Stores, spares and loose tools

These are valued on moving average cost method less allowance for obsolete and slow moving items. Items in transit are valued at invoice values plus other charges incurred thereon.

4.8 Stock in trade

Stock in trade, except in transit which is valued at cost accumulated to the balance sheet date, is valued at lower of cost and net realizable value applying the following basis:

	Basis of valuation
Raw material	Weighted average cost
Work in progress	Weighted average cost of material and share of applicable overheads
Finished goods	Weighted average cost of material and share of applicable overheads
Packing material	Moving average cost

Waste	Net realizable value

Net realizable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and estimated cost necessary to make the sale.

4.9 Trade debts and other receivables

Trade debts and other receivables are carried at original invoice amount less an estimate made for doubtful receivables based on review of outstanding amounts at the year end. Balances considered bad and irrecoverable are written off when identified.

4.10 Investments

Regular way purchase or sale of investments

All purchases and sales of investments are recognised using settlement date accounting. Settlement date is the date that the investments are delivered to or by the company.

Investment in associates

Associates are all entities over which the Company has significant influence, but not control, generally accompanying a shareholding of 20% or more of the voting rights.

These investments are accounted for using equity method of accounting and initially are recognized at cost. When the Company's share of losses exceeds its interest, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

Investment in joint venture

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

The Company has investment in a joint venture which is a jointly controlled entity. The Company recognises its interest in the joint venture using equity method of accounting and initially are recognised at cost. When the Company's shares of losses exceeds its interest, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments.

Financial assets at fair value through profit or loss

These include investments held for trading and those that are designated at fair value through profit or loss at inception. Investments are classified as held for trading if they are acquired for the purpose of selling in the near term. They are initially measured at fair value and changes on re-measurement are taken to profit and loss account.

Derivative Financial instruments

Derivatives are initially recorded at fair value on the date a derivative contract is entered into and are remeasured to fair value at subsequent reporting dates. Derivatives with positive impact at balance sheet date are included in 'other financial assets' and with negative impacts in 'trade and other payable' in the balance sheet. The resultant gains and losses are included in the income.

Derivatives financial instruments entered into by the Company do not meet the hedging criteria as defined by IAS 39, Financial Instruments: 'Recognition and Measurement consequently hedge accounting is not used by the Company.

4.11 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 recognised in profit and loss account in the period in which they are incurred.

4.12 Foreign currency translation

Transactions in other than Pakistani Rupee are translated into reporting currency at the rates of exchange prevailing on the date of transactions except for those covered by forward contracts, which are translated at contracted rates. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date except for those covered by forward contracts, which are stated at contracted rates.

Gains and losses arising on retranslation are included in profit or loss for the period.

4.13 Provisions

Provisions are recognized when the Company has a present, legal or constructive obligation as a result of past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. However, provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

4.14 Revenue recognition

Sales are recorded on dispatch of goods to customers.
Income on bank deposits are recorded on time proportionate basis using effective interest rate.
Dividend income is recorded when the right to receive the dividend is established.

4.15 Financial instruments

All financial assets and liabilities are recognized at the time when the Company becomes party to the contractual provisions of the instrument and derecognised when the Company loses control of the contractual rights that comprise of the financial assets and in case of financial liability when the obligation specified in the contract is discharged cancelled or expired. These are initially measured at cost, which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value, amortized cost or cost, as the case may be. Any gain or loss on the recognition and derecognition of the financial assets and liabilities is included in the net profit and loss for the period to which it relates.

4.16 Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss where the financial liability is either held for trading or it is designated as at fair value through profit or loss. Financial liabilities at fair value through profit or loss are recognized on trade date basis and stated at fair value, with any resultant gain or loss recognized in profit or loss.

4.17 Offsetting of financial assets and financial liabilities

A financial asset and a financial liability is offset and net amount is reported in the balance sheet if the company has a legal right to offset the recognized amounts and also intends either to settle on a net basis or to realize the assets and settle the liability simultaneously.

4.18 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of cash flow statement, cash and cash equivalents comprise cash, demand drafts in transit and balances with banks on current and deposits accounts.

4.19 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders.

5. SHARE CAPITAL

2011	*2010*		*Note*	*2011*	*2010*
----- *No. of shares* -----				*Rupees in '000*	
		Authorised			
45,000,000	45,000,000	Ordinary shares of Rs.10/- each		450,000	450,000
		Issued, subscribed and paid up			
		Ordinary shares of Rs.10/- each			
9,637,116	9,637,116	Fully paid in cash		96,371	96,371
		Other than cash			
5,282,097	5,282,097	Issued to the shareholders of YTML	5.1	52,821	52,821
3,154,519	3,154,519	Issued as bonus shares		31,545	31,545
18,073,732	18,073,732			180,737	180,737

5.1 5,282,097 ordinary shares of Rs. 10 each determined as at October 01, 2004 pursuant to the Scheme of Amalgamation with Yousuf Textile Mills Limited (YTML) in accordance with the share-swap ratio.

5.2 There is no movement in issued, subscribed and paid-up capital during the year.

5.3 The Company has only one class of ordinary shares which carry no right to fixed income. The holders are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

5.4 The Company has no reserved shares for issuance under options and sales contracts.

	Note	*2011*	*2010*
		Rupees in '000	
6. RESERVES			
Capital			
Share premium	6.1	10,920	10,920
Merger reserve	6.2	11,512	11,512
		22,432	22,432
Revenue			

General reserve	4,000,000	3,000,000
	4,022,432	3,022,432

6.1 Share premium received in year 2001 in respect of the issue of 3,639,960 right shares at a premium of Rs. 3/- per share.

6.2 Merger reserve represents excess of (a) assets of YTML over its liabilities merged with the Company and (b) consideration to shareholders of YTML as per the Scheme of Amalgamation.

	Note	2011	2010
		Rupees in '000	
7. LONG-TERM FINANCING			
Secured			
From banking companies	7.1 & 7.2	310,019	998,362
Less: Payable within one year shown under current liabilities		(50,405)	(403,512)
		259,614	594,850

7.1 The particulars of above long-term loans are as follows:

Type and nature of loan	2011			
	Amount outstanding	Limit	Mark up rate per annum	Terms of repayments
	Rupees in '000			
Demand finance loans	83,540	281,665	14.77% to 15%	Quarterly and half yearly
Fixed assets finances	1,801	2,058	13.51% to 15.01%	Half yearly
Term finances	118,566	1,729,154	14.33% to 15.03%	Quarterly and half yearly
LTF - EOP	103,620	162,692	6% to 11.10%	Quarterly and half yearly
Musharakah Agreement	2,492	(Refer note 7.1.1)		
	310,019	**2,175,569**		

Type and nature of loan	2010			
	Amount outstanding	Limit	Mark up rate per annum	Terms of Repayments
	Rupees in '000			
Demand finance loans	236,667	850,000	13.09% to 15.28%	Quarterly and half yearly
Fixed assets finances	5,886	102,058	9% to 14.33%	Half yearly
Term finances	594,548	2,388,419	9.70% to 15.29%	Quarterly and half yearly
LTF - EOP	161,261	354,513	5% to 7%	Quarterly and half yearly

	998,362	3,694,990

7.1.1 This represents musharakah arrangement for purchase of plant and machinery. Terms and conditions of the musharakah arrangement is yet to be finalised, however, management intents to repay the finance in a period of five years.

7.2 These finances are secured by joint pari passu equitable mortgage on land, building and plant and machinery.

8. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

The future minimum lease payments to which the Company is committed as at balance sheet date are as follows:

	2011		***2010***	
	Minimum lease payments	**Present value**	**Minimum lease payments**	**Present value**
	Rupees in '000		***Rupees in '000***	
Within one year	26,864	24,966	11,537	7,072
After one year but not more than five years	7,532	6,889	35,511	31,798
Total minimum lease payments	34,396	31,855	47,048	38,870
Less: Amount representing finance charges	(2,541)	-	(8,177)	-
Present value of minimum lease payments	31,855	31,855	38,870	38,870
Less: Current portion	(24,966)	(24,966)	(7,072)	(7,072)
	6,889	6,889	31,798	31,798

8.1 These represents finance lease arrangements entered into with the financial institutions for generator and plant and machinery. Subsequent to the year end, the Company has terminated finance lease arrangement for plant and machinery which was maturing on January 2015 by paying the outstanding amount. Remaining lease rentals for generator are payable in equal quarterly installments upto August 2013. Interest rates for both the leases range from 12.93% to 16.29% (2010 : 13.12% to 16.29%) per annum have been used as discounting factor. The Company intends to exercise the option to purchase the leased assets upon completion of the lease period. Liabilities are secured against demand promissory notes and security deposits.

9. DEFERRED LIABILITIES

	Note	***2011***	***2010***
		Rupees in '000	
Deferred taxation	9.1	165,922	215,421
Staff retirement gratuity	9.2	79,385	73,877
Infrastructure fee	9.3	47,759	47,759
		293,066	337,057

	2011	2010
	Rupees in '000	

9.1 Deferred taxation

	2011	2010
Deferred tax liability on taxable temporary differences:		
Accelerated tax depreciation allowance	175,278	228,616
Leased assets	4,141	6,177
	179,419	234,793
Deferred tax assets on deductible temporary differences:		
Provision for staff retirement gratuity	(9,110)	(11,382)
Liabilities against assets subject to finance lease	(3,656)	(5,989)
Unrealised exchange loss	(189)	(952)
Fair value loss on other financial assets	(27)	(602)
Provision for doubtful debts	(400)	(293)
Provision for slow moving and obsolete stores and spares	(115)	(154)
	(13,497)	(19,372)
	165,922	215,421

9.1.1 Deferred tax has been calculated in accordance with the requirement of Technical Release -27 of Institute of Chartered Accountants of Pakistan taking in to consideration turnover trend of three years including current year.

9.2 Staff retirement gratuity

The Company operates an approved Defined Benefit Gratuity Scheme (the Scheme) for all permanent employees. Minimum qualifying period for entitlement of gratuity is six months continuous service with the Company. Provisions are made to cover the obligation under the Scheme on the basis of actuarial valuation and charged to income. The most recent valuation was carried out as at June 30, 2011.

Projected Unit Credit Method based on following significant assumptions was used for the valuation of the Scheme.

	2011	2010
	Rupees in '000	
Defined benefit plan		
(a) Movement in liability		
Opening balance	73,877	69,694
Charge for the year	24,241	25,326
Paid during the year	(18,733)	(21,143)
Closing balance	79,385	73,877
(b) Reconciliation		
Present value of defined benefit obligation	79,385	73,877
Unrecognized actuarial loss	-	-
Unrecognized past service cost	-	-
	79,385	73,877
(c) Charge for the year		
Current service cost	14,831	16,963
Interest cost	8,865	8,363
Actuarial loss recognised	545	-
	24,241	25,326

	2011	2010
	Rupees in '000	
(d) Changes in the present value of the defined benefit obligation		
Opening defined benefit obligation	73,877	69,694
Current service cost	14,831	16,963
Interest cost	8,865	8,363
Benefits paid	(18,733)	(21,143)
Actuarial loss recognised	545	-
Closing defined benefit obligation	79,385	73,877

The principal assumptions used in the valuation of gratuity are as follows:	2011	2010
Discount rate	12%	12%
Expected rate of salary increase	13%	11%
Average expected remaining working life of employees	6 years	6 years

Amounts for the current and previous four years are as follows:

	2011	2010	2007	2008	2007
	---------------------------------- Rupees in '000 ----------------------------------				
Present value of the defined benefit obligation	79,385	73,877	69,694	50,836	44,822

9.3 It represent infrastructure fee / cess payable to Excise and Taxation Officer (ETO) in respect of imported goods under Sindh Finance Ordinance 2001. An amount of Rs 104.42 million (2010: Rs. 69.32 million) in this respect has also been included in trade and other liabilities in note 10. During the year, the High Court of Sindh has passed an interim order to return the bank guarantees in respect of infrastructure fee / cess payable on goods imported before December 28, 2006. Further the Honorable Court has also ordered to pay off 50% of the infrastructure fee / cess payable on goods imported on and after December 28, 2006 and to submit bank guarantees for balance 50%. However the Company has not reversed the provision in respect of the infrastructure fee pertaining to period before December 28, 2006, considering the possible future legal action by the ETO against the order and has classified such provision under non current liabilities.

10. TRADE AND OTHER PAYABLES

	Note	2011	2010
		Rupees in '000	
Creditors		70,629	73,265
Accrued liabilities		191,045	154,846
Infrastructure fee	9.3	104,418	69,317
Workers' profit participation fund	10.1	114,152	87,174
Workers' welfare fund	13.1.1	-	32,508
Advance from customers		10,269	3,408
Unclaimed dividend		5,105	2,724
Withholding tax payable		79	303
Others	10.2	6,901	16,088
		502,598	439,633

	Note	2011	2010
		Rupees in '000	

10.1 Workers' profit participation fund

Balance at beginning of the year	87,174	9,047
Allocation for the year	114,152	87,174
Interest charged during the year on the funds utilized by the Company	4,371	605
	205,697	96,826
Payments made during the year	(91,545)	(9,652)
Balance at end of the year	114,152	87,174

10.2 This includes Rs. 1 million (2010: 0.73 million) due to associated undertakings.

11. INTEREST / MARK-UP PAYABLE

On secured loans from banking companies		
- Long-term financing	6,104	16,582
- Short-term borrowings	18,147	6,571
On lease liabilities	775	-
	25,026	23,153

12. SHORT-TERM BORROWINGS

	Note	2011	2010
From banking companies - secured			
Running finances	12.1	127,003	79,259
Finance against imported merchandise	12.2	210,920	647,884
Finance against export	12.3	140,522	11,820
	12.4	478,445	738,963
From related parties - unsecured			
Directors	12.5	5,512	9,586
		483,957	748,549

12.1 These are subject to mark-up ranging from 14.28% to 15.66% (2010: 13.60% to 15.76%). These are secured against hypothecation charge over raw material, finished goods, stores and spares, and receivables.

12.2 These are subject to mark-up ranging from 1.85% to 3.44% (2010: 1.54% to 3.28%) on foreign currency borrowing amount. These arrangements are secured against pledge of stock, lien on export documents and letter of credits, and pari passu charge over current assets.

12.3 These are subject to mark-up at 2.25% (2010: 1.75 % to 2.39 %) on foreign currency borrowing amount. These are secured against charge over stocks and book debt.

12.4 The Company has aggregate short-term borrowing facilities amounting to Rs. 6,250 million (2010: Rs. 6,012 million) from various commercial banks. These are secured against hypothecation charge over raw material, finished goods, stores and spares, and receivables.

12.5 These are interest free and are payable within one year.

13. CONTINGENCIES AND COMMITMENTS

13.1 Contingencies

13.1.1 Earlier Workers' Welfare Fund Ordinance (the Ordinance), 1971 Workers Welfare Fund (WWF) was levied at 2% of the assessed income excluding income falling under the Final Tax Regime (FTR). Through Finance Act, 2008 an amendment was made in section 4(5) of the WWF Ordinance, 1971 (the Ordinance) whereby WWF liability is applicable at 2% of the higher of the profit before taxation as per the accounts or declared income as per the return.

Subsequent to the balance sheet date, the Lahore High Court has struck down the aforementioned amendments to the WWF Ordinance. Further, the management also expects that decision of the petition of the similar case in the honorable High Court of Sindh on the subject will also support the companies of similar nature of business. The management is of the opinion that recording of WWF liability is no longer applicable to the Company as the total income of the Company falls under FTR. Accordingly no provision has been made for the current year in respect of WWF amounting to Rs. 41 million.

	2011	*2010*
	Rupees in '000	
13.1.2 Claim of arrears of social security contribution not acknowledged, appeal is pending in honorable High Court of Sindh. The management is hopeful for favorable outcome.	453	453
13.1.3 Guarantees issued by banks on behalf of the Company and outstanding	182,674	147,550

13.2 Commitments

Letters of credit for raw material and stores and spares	50,759	658,282
Letters of credit for property, plant and equipment	1,088,319	16,856
Operating lease rentals	-	4,605
Civil work contracts	100,117	-
US dollar forward contracts	991,496	-

14. PROPERTY, PLANT AND EQUIPMENT

	Note	*2011*	*2010*
		Rupees in '000	
Operating assets	14.1	2,790,546	2,918,740
Capital work in progress	14.2	9,815	-
		2,800,361	2,918,740

14.1 PROPERTY, PLANT AND EQUIPMENT

Particulars	Cost at July 1, 2010	Additions/ (disposals) during the year	Cost at June 30 2011	Accumulated depreciation at July 1 2010	Depreciation/ (adjustment) for the year	Accumulated depreciation at June 30 2011	Carrying value at June 30	Dep. Rate
	< ------------------	------------------	------------------	Rupees in '000'	------------------	------------------	------------------ >	%
Freehold land	14,902	-	14,902	-	-	-	14,902	-
Leasehold land	3,696	1,600	5,296	-	-	-	5,296	-
Factory building	704,896	36,295	741,191	224,409	25,061	249,470	491,721	5
Non-factory building	106,874	-	106,874	57,635	4,924	62,559	44,315	10
Plant and machinery	4,120,227	122,771 (52,852)	4,190,146	2,058,538	208,907 (30,042)	2,237,403	1,952,743	10
Electric installations	99,835	-	99,835	49,628	5,021	54,649	45,186	10
Power generators	298,839	-	298,839	126,810	17,203	144,013	154,826	10
Factory equipment	1,576	- (867)	709	1,315	52 (845)	522	187	20
Office equipment	14,505	- (8,607)	5,898	11,126	335 (8,501)	2,960	2,938	10
Furniture and fixtures	21,137	-	21,137	13,141	800	13,941	7,196	10
Vehicles	68,891	10,983 (6,578)	73,296	34,127	8,021 (4,006)	38,142	35,154	20
	5,455,378	171,649 (68,904)	5,558,123	2,576,729	270,324 (43,394)	2,803,659	2,754,464	
Leased								
Plant and machinery	44,775	-	44,775	4,684	4,009	8,693	36,082	10
June 30, 2011	5,500,153	171,649 (68,904)	5,602,898	2,581,413	274,333 (43,394)	2,812,352	2,790,546	

for comparative period

Particulars	Cost at July 1, 2009	Additions/ (disposals) during the year	Cost at June 30 2010	Accumulated depreciation at July 1 2009	Depreciation/ (adjustment) for the year	Accumulated depreciation at June 30 2010	Carrying value at June 30	Dep. Rate
	< ----			Rupees in '000'			---- >	%
Owned								
Freehold land	14,902	-	14,902	-	-	-	14,902	-
Leasehold land	3,696	-	3,696	-	-	-	3,696	-
Factory building	698,343	6,553	704,896	199,366	25,043	224,409	480,487	5
Non-factory building	106,490	384	106,874	52,196	5,439	57,635	49,239	10
Plant and machinery	4,032,734	120,697 (33,204)	4,120,227	1,842,163	222,617 (6,242)	2,058,538	2,061,689	10
Electric installations	98,163	1,672	99,835	44,049	5,579	49,628	50,207	10
Power generators	285,726	24,307 (11,194)	298,839	111,756	19,034 (3,980)	126,810	172,029	10
Factory equipment	1,576	-	1,576	1,250	65	1,315	261	20
Office equipment	14,487	18	14,505	10,751	375	11,126	3,379	10
Furniture and fixtures	21,137	-	21,137	12,252	889	13,141	7,996	10
Vehicles	63,460	9,658 (4,227)	68,891	29,777	7,531 (3,181)	34,127	34,764	20
	5,340,714	163,289 (48,625)	5,455,378	2,303,560	286,572 (13,403)	2,576,729	2,878,649	
Leased								
Plant and machinery	19,573	25,202	44,775	1,794	2,890	4,684	40,091	10
June 30, 2010	5,360,287	188,491 (48,625)	5,500,153	2,305,354	289,462 (13,403)	2,581,413	2,918,740	

14.1.1 Allocation of depreciation

	Note	*2011*	*2010*
		--------Rupees in '000'--------	
Manufacturing expense	27.2	265,512	281,043
Administrative expense	30	8,821	8,419
		274,333	**289,462**

14.2 Capital work in progress

Advance against Civil work for factory mills building	9,815	-

14.3 Disposals of property, plant and equipment

	Particulars	Cost	Accumulated depreciation	Carrying value	Sale proceed	Gain / (loss)	Sold to	Mode of disposal
		Rupees in '000						
1	Plant and Machinery	12,979	(12,808)	171	185	14	Mr. Jameel Ahmed Shop # 38 Sher Shah, Karachi	Negotiation
2	Plant and Machinery	1,813	(1,792)	21	30	9	Mr. Faiq Mohammad Block 15A-4, Shadman, Karachi	Negotiation
3	Plant and Machinery	37,219	(14,631)	22,588	23,594	1,006	Ghazi Fabric International 8-C, E-III, Gulberg, Lahore	Negotiation
4	Plant and Machinery	840	(812)	28	42	14	Mr. Lal Muhammad Chot Ki Gitti, Hyderabad	Negotiation
5	Factory equipment	867	(845)	22	27	5	Mr. Sher Ali - Scrap Merchant Sher Shah Kabari Market, Karachi	Negotiation
6	Office equipment	8,607	(8,501)	106	130	24	Mr. Sher Ali - Scrap Merchant Sher Shah Kabari Market, Karachi	Negotiation
7	Vehicle	600	(346)	254	277	23	Mr. Abdul Sattar Landani Near Makki Masjid, New Town, Karachi	Negotiation
8	Vehicle	427	(354)	73	85	12	Mr. Shaukat Hamid An employee	Negotiation
9	Vehicle	46	(38)	8	10	2	Mr. Muhammad Zahid Korangi Industrial Area, Karachi	Negotiation
10	Vehicle	47	(41)	6	6	-	Mr. Muhammad Raza Block-3, P.E.C.H.S, Karachi	Negotiation
11	Vehicle	49	(46)	3	6	3	Mr. Tariq Shop # 13, Akber Road, Karachi	Negotiation
12	Vehicle	2,717	(657)	2,060	2,492	432	Adamjee Insurance Company limited 6th Floor, Adamjee Insurance Building, I.I. Chundrigar Road, Karachi	Insurance claim
13	Vehicle	47	(33)	14	15	1	Mr. Mehboob Ali An employee	Negotiation
14	Vehicle	935	(791)	144	325	181	Ch. Naseem/Anwer Sabir An employee	Negotiation
15	Vehicle	1,648	(1,648)	-	8	8	Mr. Sher Ali - Scrap Merchant Sher Shah Kabari Market, Karachi	Negotiation
16	Vehicle	63	(51)	12	4	(8)	Mr. Jawed Sattar An employee	Negotiation
	2011	**68,904**	**(43,394)**	**25,510**	**27,236**	**1,726**		
	2010	**48,625**	**(13,403)**	**35,222**	**35,080**	**(142)**		

	Note	2011	2010
		Rupees in '000	

15. LONG TERM INVESTMENTS

	Note	2011	2010
Investment in a joint venture	15.1	1,214,517	1,165,996
Investment in an associate	15.2	298,617	243,208
		1,513,134	1,409,204

15.1 Investment in a joint venture

- Indus Home Limited

	Note	2011	2010
Cost		750,000	750,000
Share of post acquisition profits			-
Opening		415,996	126,076
			-
Share of profit for the year		48,521	289,920
		464,517	415,996
	15.1.1	1,214,517	1,165,996

	2011	2010
Number of shares held	74,999,997	74,999,997
Cost of investments (Rupees in '000)	750,000	750,000
Ownership interest	49.99%	49.99%

Indus Home Limited is a jointly controlled entity which is involved in the manufacturing, export and sale of greige and finished terry towel and other textile products.

	2011	2010
	Rupees in '000	

15.1.1 The share of assets and liabilities of the jointly controlled entity at June 30 are as follows:

	2011	2010
Current assets	1,072,338	903,225
Non-current assets	1,419,968	1,542,594
	2,492,306	2,445,819
Current liabilities	(723,001)	(579,623)
Non-current liabilities	(554,788)	(700,200)
	1,214,517	1,165,996

15.1.2 Summarized financial highlights of Indus Home Limited as at and for the year ended June 30 are as follows:

	2011	2010
Total assets	4,985,610	4,891,637
Total liabilities	2,556,090	2,559,645
Revenue	5,927,560	6,407,983
Profit for the year	97,528	579,840

	Note	2011	2010
		Rupees in '000	

15.2 Investment in an associate
- Sunrays Textile Mills Limited

	Note	2011	2010
Cost		42,382	42,382
Share of post acquisition profits			
Opening		200,826	117,656
Dividend received		(5,086)	(1,695)
Share of associate's reversal of deferred tax liability on account of incremental depreciation		2,630	1,945
Share of profit from associate for the year		57,865	82,920
		256,235	200,826
	15.2.1	298,617	243,208

	2011	2010
Number of shares held	1,695,290	1,695,290
Cost of investments (Rupees in thousand)	42,382	42,382
Ownership interest	24.57%	24.57%
Market value (Rupees in thousand)	57,640	56,504

15.2.1 The share of assets and liabilities of the associate at and for the year ended June 30 are as below:

	2011	2010
Current assets	304,701	204,439
Non-current assets	217,123	212,757
	521,825	417,196
Current liabilities	203,319	128,489
Non-current liabilities	19,889	45,499
	223,208	173,988
	298,617	243,208

15.2.2 Summarized financial highlights as at and for the year ended June 30 are as follows:

	2011	2010
Total assets	2,123,881	1,698,029
Total liabilities	908,480	708,149
Revenue	5,185,456	2,968,382
Profit for the year	234,689	337,492

16. LONG TERM DEPOSITS

	Note	2011	2010
Electricity		1,815	1,475
Lease	16.1	979	3,499
Telephone		453	453
Others		60	60
		3,307	5,487

16.1 It represents interest free deposit paid at inception of lease and are adjustable on maturities of lease arrangements.

	Note	2011	2010
		Rupees in '000	

17. STORES, SPARES AND LOOSE TOOLS

	Note	2011	2010
Stores, spares and loose tools	17.1	152,906	151,782
Less: Provision for slow moving and obsolete stock		(1,000)	(1,000)
		151,906	150,782

17.1 It include stores and spares in transit amounting to Rs. 2.55 million (2010: Rs 16.67 million).

18. STOCK-IN-TRADE

	Note	2011	2010
Raw material			
- in hand	18.1	1,304,277	1,128,435
- in transit		114,390	79,176
		1,418,667	1,207,611
Work-in-process		250,719	121,321
Finished goods		279,141	176,534
Packing material		36,782	26,432
Waste		27,819	40,046
		2,013,128	1,571,944

18.1 At current year end, net realizable value of raw material was lower than its cost, which resulted in write-down of Rs. 498.23 million (2010: Nil) and was charged to cost of goods sold.

19. TRADE DEBTS

	Note	2011	2010
Considered good			
Secured			
Foreign debtors		178,177	132,312
Local debtors	19.1	268,350	-
		446,527	132,312
Unsecured			
Local debtors	19.2	749,098	589,649
		1,195,625	721,961
Considered doubtful		3,493	1,904
		1,199,118	723,865
Less: Provision for doubtful debts	19.3	(3,493)	(1,904)
		1,195,625	721,961

19.1 This include amount due from joint venture of Rs. 10.87 million (2010 : Nil).

19.2 This include amount due from associated undertaking of Rs. 0.52 million (2010 : Rs. 26.70 million).

	Note	2011	2010
		Rupees in '000	
19.3 Movement of provision			
Opening balance		1,904	2,016
Charge for the year		1,589	-
Reversal during the year		-	(83)
Written off during the year		-	(29)
Closing balance		3,493	1,904

20. LOANS AND ADVANCES

	Note	2011	2010
Considered good			
Loans to staff		8,948	8,254
Advance income tax - net	20.1	56,191	-
Advance against letter of credit		3,723	-
Advances to			
- Suppliers		12,521	5,196
- Others		13,832	9,887
		26,353	15,083
		95,215	23,337

20.1 Advance income tax - net

	2011	2010
Advance income tax	241,438	143,401
Less: Provision for taxation	(185,247)	(187,504)
	56,191	(44,103)

21. TRADE DEPOSITS AND SHORT-TERM PREPAYMENTS

	2011	2010
Considered good		
Security deposits		
- Lease	2,520	-
- Others	683	2,043
Prepayments	307	811
Margin deposits	9	9
	3,519	2,863

22. OTHER RECEIVABLES

	2011	2010
Cotton claims	7,516	9,340
Subsidy on markup	-	3,276
Others	2,765	1,637
	10,281	14,253

23. OTHER FINANCIAL ASSETS

	Note	2011	2010
Cost of investment at fair value through profit and loss			
- listed equity securities		6,977	16,607
Unrealised gain on re-measurement at fair value		5,412	3,605
	23.1	12,389	20,212
Derivate financial instrument	23.2	1,932	-

	14,321	20,212

23.1 ***Market value of other financial assets***

2011	2010		2011	2010
No. of shares / certificates			*Rupees in '000*	
43,748	64,999	Fauji Fertilizer Company Limited	6,578	6,699
-	845,500	First Habib Modaraba	-	5,665
-	26,387	National Bank of Pakistan	-	1,691
100,000	100,000	Pakistan International Airlines Corporation	214	275
7,000	10,000	Pakistan State Oil Company Limited	1,852	2,602
60,500	60,500	United Bank Limited	3,746	3,280
			12,389	20,212

23.2 This represent unrealised gain on remeasurement of forward contracts at fair value as on the balance sheet date.

	Note	2011	2010
		Rupees in '000	
24. TAX REFUNDABLE			
Sales tax refundable		27,362	22,116
Income tax refundable		-	9,954
		27,362	32,070
25. CASH AND BANK BALANCES			
With banks			
- in deposit accounts	25.1	32,409	22,105
- in current accounts		40,471	39,411
		72,880	61,516
Cash in hand		9,028	7,752
		81,908	69,268

25.1 This includes term deposit receipts amounting to Rs.23.26 million (2010: Rs 20.86 million) kept as lien on account of guarantees provided by the banks for a period of 12 months carrying markup at the rate of 5% to 10.2% per annum (2010: 5% to 6%).

26. SALES

	Note	2011	2010
Export sales	26.1 and 26.2	15,073,082	8,287,823
Less: Commission		(119,751)	(77,704)
		14,953,331	8,210,119
Local sales			
Yarn		3,016,653	2,545,135
Waste		364,428	189,526
		3,381,081	2,734,661
Less: Brokerage		(80,889)	(33,185)
		3,300,192	2,701,476
		18,253,523	10,911,595

26.1 It include exchange gain of Rs.0.79 million (2010: Rs 2.08 million) and indirect export of Rs.7,399.46 million (2010: Rs. 4,395.44 million).

26.2 It include indirect export to associated undertakings of Rs. 520.28 million (2010: Rs.639.50 million).

	Note	*2011*	*2010*
		Rupees in '000	
27. COST OF GOODS SOLD			
Raw material consumed	27.1	13,700,429	6,771,348
Manufacturing expenses	27.2	1,857,371	1,656,833
Outside purchases - yarn		17,838	22,730
		15,575,638	8,450,911
Work in process			-
- Opening		121,321	101,265
- Closing		(250,719)	(121,321)
		(129,398)	(20,056)
Cost of goods manufactured		15,446,240	8,430,855
Finished goods			-
- Opening		216,580	157,865
- Closing		(306,960)	(216,580)
		(90,380)	(58,715)
		15,355,860	8,372,140

27.1 Raw material consumed

Opening stock		1,128,435	1,601,211
Purchases		13,876,271	6,298,572
		15,004,706	7,899,783
Closing stock		(1,304,277)	(1,128,435)
		13,700,429	6,771,348

27.2 Manufacturing expenses

Salaries, wages and benefits	27.2.1	511,356	454,017
Fuel, water and power		609,532	550,583
Stores and spares consumed		256,302	197,417
Packing material consumed		180,277	140,286
Repairs and maintenance		17,108	14,741
Insurance		5,501	10,215
Rent, rates and taxes		1,580	1,398
Depreciation on property, plant and equipment	14.1	265,512	281,043
Other		10,203	7,133
		1,857,371	1,656,833

27.2.1 It include staff retirement benefits Rs. 21.22 million (2010: Rs. 22.56 million).

28. OTHER OPERATING INCOME

Gross profit of ice factories	28.1	403	1,068
Gross profit on trading of raw cotton	28.2	31,797	16,427

	Note	2011	2010
Other income	28.3	60,993	27,763
		93,193	45,258

	Note	2011	2010
		Rupees in '000	

28.1 Gross profit of ice factories

	Note	2011	2010
Sales		7,188	9,545
Cost of goods sold	28.1.1	(6,785)	(8,477)
		403	1,068

28.1.1 Cost of goods sold

	2011	2010
Salaries, wages and benefits	1,193	1,481
Fuel and power	4,711	5,998
Repairs and maintenance	378	403
Lease rentals	200	260
Stationery and others	260	253
Salt and ammonia gas	43	82
	6,785	8,477

28.2 Gross profit on trading of raw cotton

	2011	2010
Sales		
- Export	122,533	-
- Local	319,584	289,095
	442,117	289,095
Less: Cost of goods sold		
- Export	(107,619)	-
- Local	(302,701)	(272,668)
	(410,320)	(272,668)
	31,797	16,427

28.3 Other income

	Note	2011	2010
Income from assets other than financial assets			
Scrap sale		4,744	2,876
Storage income		864	4,126
Unrealised gain on disposal of property, plant and equipment		1,726	-
Insurance claim		28	161
Gross profit on trading of stores and spares		5	6
Income from financial assets			
Exchange gain on foreign currency forward contracts		31,986	-
Exchange gain on foreign currency transactions		12,665	-
Gain on derivative financial instrument-interest rate swap		-	7,923
Unrealised gain on derivative financial instrument	23.2	1,932	-
Gain on disposal of other financial assets		2,846	5,082
Unrealised gain on other financial assets		1,807	3,605
Dividend income		1,913	2,347
Profit on fixed deposits		477	1,554

Recovery of doubtful debts		-	83
		60,993	27,763

	Note	2011	2010
		Rupees in '000	

29. DISTRIBUTION COST

Freight and forwarding		229,970	202,728
Export development surcharge		19,986	9,268
Advertisement		1,444	2,123
Insurance		4,133	3,515
		255,533	217,634

30. ADMINISTRATIVE EXPENSES

Salaries and benefits	30.1	51,650	42,871
Repairs and maintenance		1,748	1,214
Postage and telephone		5,398	5,632
Traveling and conveyance		9,695	13,679
Vehicles running		5,023	5,553
Printing and stationery		3,346	3,052
Rent and electricity		13,310	10,359
Entertainment		1,162	1,374
Fees and subscription		2,625	2,329
Insurance		3,067	2,340
Legal and professional		431	1,391
Charity and donations	30.2	2,026	1,123
Auditors' remuneration	30.3	1,566	1,554
Depreciation on property, plant and equipment	14.1	8,821	8,419
Others		5,659	3,250
		115,527	104,140

30.1 It includes staff retirement benefits Rs. 3.02 million (2010: Rs.2.77 million).

30.2 None of the directors and their spouses have any interest in the donees fund.

30.3 Auditors' remuneration

	2011	2010
	Rupees in '000	
Audit fee	1,000	1,000
Half year limited review fee	225	225
Fee for certifications and other	125	45
Out of pocket expenses	216	284
	1,566	1,554

31. OTHER OPERATING EXPENSES

Workers' profit participation fund		114,152	87,174
Workers' welfare fund	13.1.1	-	32,508

Exchange loss	-	23,616
Loss on disposal of property, plant and equipment	-	142
	114,152	143,440

	Note	2011	2010
		Rupees in '000	

32. FINANCE COST

Mark-up on:		
- long-term financing including long-term murabaha finance	75,945	183,586
- liabilities against assets subject to finance lease	5,117	2,623
- short-term borrowings	172,296	243,985
Discounting charges on letters of credit	72,227	54,630
Interest on workers' profit participation fund	4,371	605
Bank charges and commission	6,804	10,273
	336,760	495,702

33. TAXATION

Current	185,247	187,504
Prior year's	8,262	-
Deferred	(49,499)	(49,332)
	144,010	138,172

33.1 Figures in respect of relationship between accounting profit and tax expense for the year are not reported as the tax liability for the year is determined under final tax regime and the company have opted for the Income Tax Circular No. 20 of 1992 as a result the provision for taxation for local sale other than sale of raw material is calculated at rate applicable to export sales.

34. EARNINGS PER SHARE - BASIC AND DILUTED

There is no dilutive effect on the basic earnings per share of the company, which is based on:

		2011	2010
Profit for the year	Rupees in '000	2,131,260	1,858,465
Average number of ordinary shares	No. of shares	18,073,732	18,073,732
Earnings per share - Basic and diluted	Rupees	117.92	102.83

	Note	2011	2010
		Rupees in '000	

35. CASH GENERATED FROM OPERATIONS

	Note	2011	2010
Profit before taxation		2,275,270	1,996,637
Adjustments for:			
Depreciation		274,333	289,462
Provision for gratuity		24,241	25,326
Provision for doubtful debts		1,589	-
Unrealised gain on other financial assets		(1,807)	(3,605)
Gain on disposal of other financial assets		(2,846)	(5,082)
Unrealised gain on derivative financial instrument		(1,932)	-
(Gain) / Loss on disposal of property, plant and equipment		(1,726)	142
Dividend income		(1,913)	(2,347)
Share of profit from associate		(57,865)	(82,920)
Share of profit from joint venture		(48,521)	(289,920)
Finance cost		336,760	495,702
Cash generated before working capital changes		2,795,583	2,423,395
Working capital changes:			
(Increase) / decrease in current assets			
Stores, spares and loose tools		(1,124)	(35,301)
Stock-in-trade		(441,184)	643,848
Trade debts		(475,253)	(206,255)
Loans and advances		(15,687)	19,066
Trade deposits and short term prepayments		(656)	(176)
Other receivables		3,972	(8,346)
Sales tax refundable		(5,246)	(7,672)
		(935,178)	405,164
Increase in current liabilities			
Trade and other payables		60,584	183,013
Cash generated from operations		1,920,989	3,011,572

36. CASH AND CASH EQUIVALENTS

	Note	2011	2010
Cash and bank balances	25	81,908	69,268
Running finance	12	(127,003)	(79,259)
		(45,095)	(9,991)

37. REMUNERATION TO CHIEF EXECUTIVE OFFICER AND DIRECTORS

The aggregate amounts charged in the accounts for remuneration, including all benefits to chief executive officer and directors of the company are given below:

	2011			
	Rupees in '000			
Particulars	**Chief Executive Officer**	**Directors**	**Executives**	**Total**
Remuneration	2,160	6,480	3,512	12,152
Medical	240	720	390	1,350
Retirement benefits	-	-	599	599
Total	2,400	7,200	4,501	14,101

Number of persons	1	3	6	10

	2010			
	----------------------*Rupees in '000*--------------------			
Particulars	**Chief Executive Officer**	**Directors**	**Executives**	**Total**
Remuneration	1,080	3,240	2,318	6,638
House rent	720	2,160	1,546	4,426
Retirement benefits	-	-	-	-
Total	1,800	5,400	3,864	11,064
Number of persons	1	5	6	12

37.1 Company maintained cars and cellular phones are provided to Chief Executive Officer and directors.

37.2 Meeting fee of Rs. 0.025 million (2010: 0.015 million) paid to a non-executive director.

38. TRANSACTION WITH RELATED PARTIES

The related parties comprise of associate (Sunrays Textiles Mills Limited), joint venture (Indus Home Limited), Riaz Cotton Factory, Silver Seeds, MB Industries, Gailawala Cotton Company and key management personnel and post employment benefit scheme. The Company in the normal course of business carries out transactions with related parties. Short term loan obtained from directors are disclosed in note 12 to the financial statements. Remuneration of key management personnel is disclosed in note 37 to the financial statements and amount due in respect of staff retirement benefits is disclosed in note 9.2. Other significant transactions with related parties are as follows.

Relationship with the Company	**Nature of transactions**	*2011*	*2010*
		Rupees in '000	
Associate	Sale of yarn	66,458	9,646
	Sale of waste	-	1,924
	Purchase of yarn	17,658	22,729
	Payments made on behalf of associate	22,411	28,812
	Payments made by associate on behalf of the Company	27,283	28,308
Joint Venture	Sale of property, plant and equipment	-	8,000
	Sale of yarn	353,236	627,931
	Sale of stores and spares	1,396	-
	Rental income	864	-
Directors	Long term loan repaid	-	73,000
	Short term borrowing repaid	117,780	57,684
	Short term borrowing received	113,703	-
Other related parties	Expenses paid on behalf of associates	170	-
	Expenses adjusted / reimbursed	1,106	-

	2011	2010
	Rupees in '000	
Balances with related parties		
Associate		
- Receivable	420	1,522
- Payable	265	-
Joint Venture - receivable	10,870	19,315
Directors - payable	5,512	9,586
Other related parties		
- Receivable	98	1,169
- Payable	733	733

39. FINANCIAL RISK MANAGEMENT

The Company's principal financial liabilities, comprise long term financing, short term borrowings, liabilities against assets subject to finance lease, trade and other payables and financial guarantee contracts. The main purpose of these financial liabilities is to raise finance for the Company's operations. The Company has loans and advances, trade and other receivables, cash and bank balances and short-term deposits that arrive directly from its operations. The Company also holds long-term and short term investments, and enters into derivative transactions.

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

39.1 Credit risk and concentration of credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter party to the financial instrument fails to perform as contracted. Out of the total financial assets of Rs. 2,856.07 million (2010: Rs.2,266.59) million, the financial assets which are subject to credit risk amounted to Rs.2,193.80 million (2010: Rs.2,126.52 million).

The Company is exposed to credit risk from its operating activities (primarily for trade receivables and loans and advances) and from its investing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Credit risk related to receivables

Customer credit risk is managed by business unit subject to the Company's established policy, procedures and control relating to customer credit risk management. Outstanding customer receivables are regularly monitored and any shipments to major customers are generally covered by letters of credit or other form of credit insurance.

At June 30, 2011, the Company had approximately 185 customers (2010: 137 customers) that owed Rs. 1,199 million (2010: Rs. 724 million). There were 53 customers (2010: 38 customers) with balances greater than Rs. 5 million accounting for over 87 % (2010: 81%) of trade debts.

The Company does not hold collateral as security against its local debtors.

Credit risk related to equity investments and cash deposits

The Company limits its exposure to credit risk by only investing in liquid securities. Credit risk from balances with banks and financial institutions is managed by Finance Director in accordance with the Company's policy.

The credit risk on liquid funds (cash and bank balances) is limited because the counter parties are banks with a reasonably high credit rating the names and credit rating of major banks where the Company maintains its bank balances are as follows:

Name of bank	*Rating agency*	*Credit rating Long-term*	*Credit rating Short-term*
Allied Bank Limited	PACRA	AA	A1+
Dubai Islamic Bank (Pakistan) Limited	JCR-VIS	A	A-1
Habib Bank Limited	JCR-VIS	AA+	A-1+
Bank Al-Habib Limited	PACRA	AA+	A1+
J.S Bank Limited	PACRA	A	A1
MCB Bank Limited	PACRA	AA+	A1+
Soneri Bank Limited	PACRA	AA-	A1+
United Bank Limited	JCR-VIS	AA+	A-1+

39.2 Liquidity risk management

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to effective cash management and planning policy, the Company aims at maintaining flexibility in funding by keeping committed credit lines available.

The Company manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note - 12 is a listing of additional undrawn facilities that the Company has at its disposal to further reduce liquidity risk.

39.2.1 Liquidity and interest risk table

The following tables detail the Company's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay.

	Effective interest rate	**Less than 1 month**	**1 to 3 months**	**3 months - 1 year**	**1 - 5 years**	**More than 5 years**	**Total**
	%	*Rupees in '000'*					
Trade and other payables	-	502,598	-	-	-	-	502,598
Long-term financing	6% - 15.03%	2,529	9,839	40,528	257,123	-	310,019
Liabilities against assets subject to finance lease	12.93%-16.29%	20,926	958	3,082	6,889	-	31,855
Short-term borrowings	1.85%-15.66%	16,523	334,919	132,515	-	-	483,957
Interest / mark-up payable	-	25,026	-	-	-	-	25,026
2011		567,602	345,716	176,125	264,012	-	1,353,455
Trade and other payables	-	439,633	-	-	-	-	439,633
Long-term financing	5%-15.29%	4	28,098	375,409	561,692	33,159	998,362
Liabilities against assets subject to finance lease	13.12%-16.29%	832	851	5,389	31,798	-	38,870
Short-term borrowings	1.54%-15.75%	195,108	499,673	53,768	-	-	748,549
Interest / mark-up payable	-	23,153	-	-	-	-	23,153
2010		658,730	528,622	434,566	593,490	33,159	2,248,567

39.3 Market risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising returns.

39.3.1 Interest rate risk management

The Company analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the Company calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions.

39.3.1.1 Interest rate sensitivity

If interest rates had been 50 basis points higher / lower and all other variables were held constant, the Company’s profit for the year ended June 30, 2011 would decrease / increase by Rs.3.4 million (2010: Rs. 5.4 million). This is mainly attributable to the Company’s exposure to interest rates on its variable rate borrowings.

39.3.2 Foreign exchange risk management

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company’s exposure to the risk of changes in foreign exchange rates relates primarily to the Company’s operating activities (when revenue or expense are denominated in a different currency from the Company’s functional currency).

Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Company. This provides an economic hedge without derivatives being entered into and therefore, no application of hedge accounting.

39.3.2.1 Foreign currency sensitivity

At June 30, 2011, if the Rupee had weakened / strengthened by 5% against the US dollar with all other variables held constant, profit for the year would have been higher / lower by Rs 8.69 million (2010: Rs 28 million), mainly as a result of foreign exchange gains / losses on translation of foreign currency trade debts, export loans and import loans.

39.3.3 Equity price risk management

The Company’s listed and unlisted equity securities are susceptible to market price risk arising from uncertainties about future values of the investment securities. The Company manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Company’s senior management on a regular basis. The Company’s Board of Directors reviews and approves all equity investment decisions.

At the balance sheet date, the Company have exposure of Rs.1,212 million (2010: Rs. 1,166 million) to unlisted equity securities of a joint venture which is held for strategic rather than trading purpose. The Company does not actively trade these securities.

At the balance sheet date, the Company have exposure of Rs. 298.62 million (2010: Rs. 243.21 million) to listed equity securities of an associate which is held for strategic rather than trading purpose. The Company does not actively trade these securities.

At the balance sheet date, the exposure to listed equity securities at fair value was Rs. 12.39 million (2010: Rs. 20.21 million). A decrease / increase of 5% on the KSE market index would have an impact of approximately Rs.0.67 million (2010: Rs. 0.5 million) on the income of the Company, depending on whether or not the decline is significant and prolonged.

39.4 Determination of fair values

Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arms length transaction other than in a forced or liquidation sale.

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values.

39.5 *Financial instruments by category*

The accounting policies for financial instruments have been applied for line items below:

	At equity method	*Loan & advances*	*Fair value through P&L*	*Total*
	Rupees in '000			
Assets as per balance sheet - June 30, 2011				
Long-term investments	1,513,134	-	-	1,513,134
Trade debts	-	1,195,625	-	1,195,625
Loans and advances	-	39,024	-	39,024
Trade deposits and short-term prepayments	-	3,519		3,519
Other receivables	-	10,281	-	10,281
Other financial assets	-	-	14,321	14,321
Bank balances	-	81,908	-	81,908
	1,513,134	1,330,357	14,321	2,857,812

	Financial liabilities measured at amortized cost	*Total*
	Rupees in '000	
Liabilities as per balance sheet - June 30, 2011		
Long-term financing	310,019	310,019
Trade and other payables	502,598	502,598
Short-term borrowings	483,957	483,957
Liabilities against assets subject to finance lease	31,855	31,855
Interest / mark-up payable	25,026	25,026

			1,353,455	1,353,455

	At equity method	*Loans & advances*	*Fair value through P&L*	*Total*
	Rupees in '000			
Assets as per balance sheet - June 30, 2010				
Long term investments	1,409,204	-	-	1,409,204
Trade debts	-	721,961	-	721,961
Loans and advances	-	23,337	-	23,337
Trade deposits and short-term prepayments	-	2,863	-	2,863
Other receivables	-	14,253	-	14,253
Other financial assets	-	-	20,212	20,212
Cash and bank balances	-	69,268	-	69,268
	1,409,204	831,682	20,212	2,261,098

	Financial liabilities measured at amortized cost	*Total*
	Rupees in '000	
Liabilities as per balance sheet - June 30, 2010		
Long-term financing	998,362	998,362
Trade and other payables	439,633	439,633
Short-term borrowings	748,549	748,549
Liabilities against assets subject to finance lease	38,870	38,870
Interest / mark-up payable	23,153	23,153
	2,248,567	2,248,567

39.6 ***Fair value hierarchy***

The fair values of the financial instruments have been analysed in various fair value levels as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1	*Level 2*	*Level 3*	*Total*
Fair value through P&L	*Rupees in '000*			
Other financial assets	12,389	1,932	-	14,321

Total	12,389	1,932	-	14,321

40. CAPITAL RISK MANAGEMENT

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt.

The gearing ratios at June 30, 2011 and 2010 were as follows:

	2011	***2010***
	Rupees in '000	
Total borrowings (note 7,8 & 12)	825,831	1,785,781
Less: cash and bank balances (note 25)	81,908	69,268
Net debt	743,923	1,716,513
Total equity	6,263,546	4,310,395
Total capital	7,007,469	6,026,908
Gearing ratio	11%	28%

41. CAPACITY AND PRODUCTION

Spinning units	***2011***	***2010***
Total number of spindles installed	130,224	130,224
Total number of spindles worked per annum (average)	130,166	129,255
Number of shifts worked per day	3	3
Installed capacity of yarn converted into 20 counts based on 365 days (lbs.)	98,306,122	96,948,694
Actual production for the year after conversion into 20 counts (lbs.)	89,208,438	89,301,761

Ginning units	***2011***	***2010***
Installed capacity to produce cotton bales	135,000	135,000
Actual production of cotton bales	25,822	40,379
Number of shifts	2	2
Capacity attained in (%)	19.13%	29.91%

The reason for shortfall in the production of cotton bales is limited availability of raw cotton.

42. SEGMENT REPORTING

The Company's core business is manufacturing and sale of yarn and it generate more than 90% of its revenue and profit from the production and sale of yarn. Decision making process is centralized at head office lead by Chief Executive Officer who continuously involves in day to day operations and regularly reviews operating results and assesses its performance and makes necessary decisions about resources to be allocated to the segments. Currently it has total three yarn manufacturing units at Hyderabad, Karachi and Muzafarghar. Owing to the similarity in nature of the products and services, nature of the production processes, type or class of customers for the products and services, the methods used to distribute the products, the nature of the regulatory environment all the yarn producing units are aggregated into a single operating segment and the Company performance is evaluated by the management on an overall basis, therefore these operational segments by location are not separately reportable segments. The Company also has an ice factory and ginning factory results of these operations are separately disclosed in note 28.1 and 28.2 of these financial statements respectively. The Company also holds investments in equity shares of listed Companies, long term strategic investments in Joint venture and in an associated company which are accounted for under the 'equity method' results of which is disclosed in note 15.1 and note 15.2 to these financial statements.

43. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

In respect of current year, the directors proposed to pay cash dividend of Rs. 180.74 million (2010: Rs. 90.37 million) @ Rs.10 (2010: Rs. 5) per ordinary share of Rs. 10 each. This dividend is subject to approval by the shareholders at the forthcoming Annual General Meeting and has not been included as a liability in these financial statements. This will be accounted for subsequently in the year of payment.

44. DATE OF AUTHORIZATION FOR ISSUE

These financial statements have been authorised for issue on September 30, 2011 by the Board of Directors of the Company.

45. GENERAL

Figures have been rounded off to the nearest thousand.

Chief Executive Officer ***Director***