

**INDUS DYEING & MANUFACTURING CO. LIMITED**  
**SELECTED EXPLANATORY NOTES**  
**TO THE INTERIM CONSOLIDATED FINANCIAL INFORMATION (UN-AUDITED)**  
**FOR THE NINE MONTH PERIOD ENDED MARCH 31, 2012**

**1. General information :**

**1.1 Legal status and nature of business**

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company) was incorporated in Pakistan on July 23, 1957 as a public limited Company under the Companies Act 1913 since repealed and replaced by the by the Companies Ordinance,1984.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

**1.2** During the period, the holding company acquired 71,540,000 Ordinary shares of MIMA Cotton Mills Limited @ 6.85 per share aggregating to Rs. 490 million, making it a wholly owned subsidiary of the holding company through execution of an agreement for purchase of shares. In addition to the total price to be paid as consideration for the shares, the holding company has also agreed to assume the obligation of the subsidiary in respect of retained liabilities up to an amount of Rs. 100 million, resulting in a total cost of acquisition of Rs. 590 million. The effective date of acquisition is January 31, 2012. MIMA Cotton Mills Limited is an unlisted public limited company, incorporated in Pakistan on April 25, 1992 under the Companies Ordinance, 1984. Principal business of the Company is manufacturing and sale of yarn. Mill is located at 38th kilometer, Shaikhupura road, District Faisalabad in the province of Punjab.

**1.3** This condensed un-audited interim consolidated financial information is presented in Pak Rupees, which is the holding company's functional and presentation currency.

**1.4** This condensed un-audited interim consolidated financial information has 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.

**1.5** After the acquisition of 100% shares of MIMA Cotton Mills Limited, the holding company is preparing consolidated condensed interim financial information for the first time. The condensed interim financial information of MIMA Cotton Mills Limited for the period ended March 31, 2012 have been used for the purpose of consolidation. This condensed un-audited interim consolidated financial information has been prepared in accordance with the International Financial Reporting Standards 34 "Interim Financial Reporting" and in compliance with requirements of section 245 of the Companies Ordinance, 1984 and the Listing Regulations of the Karachi Stock Exchange. Review of this condensed interim consolidated financial information has been performed by the internal auditors of the company.

- 1.6 This condensed un-audited interim consolidated financial information does not include all the information required for annual financial statements and therefore should be read in conjunction with the published standalone annual financial statements of the company for the year ended June 30, 2011. The accounting policies and methods of computation followed in the preparation of this condensed interim consolidated financial information are the same as those used for the published standalone annual financial statements for the year ended June 30, 2011, except for the following:

#### **Basis of Consolidation**

All business combinations are accounted for using the purchase method. The cost of an acquisition is measured at the fair value of the assets given and liabilities incurred or assumed at the date of exchange plus cost directly attributable to the acquisition. Identifiable assets and liabilities assumed in a business combination (including contingent liabilities) are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the fair value of the net identifiable assets of the acquired subsidiary over the cost of acquisition at the effective date of acquisition is accounted for as gain from bargain purchase in the condensed interim consolidated profit and loss account.

The consolidated financial statements include the financial statements of the holding company and its subsidiary - "the group". The financial statements of the subsidiary are prepared for the same reporting period as the holding company, using consistent accounting policies.

The assets and liabilities of the subsidiary have been consolidated on a line by line basis and the carrying value of investments held by the holding company is eliminated against the subsidiary's share capital and pre-acquisition reserves in the financial statements. Material intra group balances and transactions are eliminated.

A change in the ownership interest of the subsidiary, without a change of control, is accounted for as an equity transaction.

Subsidiary companies are consolidated from the date on which more than 50% voting rights are transferred to the holding company or power to govern the financial and operating policies of the subsidiary is established and is excluded from consolidation from the date of disposal or cessation of control.

Non-controlling interest is the equity in a subsidiary not attributable, directly or indirectly, to the holding company.

- 1.7 The Group consists of:

Indus Dyeing & Manufacturing Co. Limited (the holding company)

MIMA Cotton Mills Limited (subsidiary) - 100%

Sunrays Textile Mills Limited (associate) - 24.57%

Indus Home Limited (joint venture) - 49.99%

- 1.8 The comparative balance sheet presented has been extracted from the published standalone annual financial statements for the year ended June 30, 2011, whereas comparative condensed profit and loss account, condensed cash flow statement and condensed statement of changes in equity are stated from the un-audited standalone condensed interim financial information for the nine month period ended March 31, 2011.

## **2. Accounting estimates and judgments**

The preparation of the condensed un-audited interim consolidated financial information in conformity with approved accounting standards as applicable in Pakistan for interim financial reporting requires management to make estimates, assumptions and use judgments that affect the application of policies and reported amounts of assets and liabilities and income and expenses. Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Revision to accounting estimates are recognized prospectively commencing from the period of revision.

In preparing this condensed interim consolidated financial information, the significant judgments made by the management in applying the Company's accounting policies and the key sources of estimation and uncertainty were the same as those that applied to published standalone financial statements as at and for the year ended June 30, 2011.

## **3. Financial risk management**

The holding company's financial risk management objectives and policies are consistent with those disclosed in the published standalone financial statements as at and for the year ended June 30, 2011.

#### 4. Business Combination

On January 31, 2012, the company acquired 100% controlling interest in the subsidiary as disclosed in note 1.2. The fair value of the identifiable assets and liabilities of the subsidiary as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were:

	Fair value recognized on acquisition	Previous carrying value
----- Rupees in '000 -----		
Property, plant and equipment	717,913	557,272
Other assets	74,540	74,540
Trade debts	2,592	2,592
Advances, deposits, prepayments and other receivables	25,066	25,066
Cash and bank balances	167	167
	<u>820,278</u>	<u>659,637</u>
Liabilities against assets subject to finance lease	-	-
Deferred income	-	-
Short term borrowings	88,977	88,977
Trade and other payables	57,844	57,844
Provision for contingent liability	-	-
Interest / mark-up accrued	1,342	1,342
	<u>148,163</u>	<u>148,163</u>
<b>Net assets</b>	<b>672,115</b>	<b>511,474</b>
Non-controlling interest	-	-
Total net assets acquired	<u>672,115</u>	<u>511,474</u>
Gain from bargain purchase	(82,115)	-
<b>Total consideration</b>	<b>590,000</b>	<b>511,474</b>
<b>Cost of business combination:</b>		
Cash paid at the time of acquisition		59,000
Cash paid upon completion		431,000
Obligation in respect of retained liabilities		100,000
<b>Total cost of business combination</b>		<b>590,000</b>
<b>Cash outflow on acquisition:</b>		
Net cash acquired with subsidiary		167
Cash paid		(490,000)
<b>Net cash outflow</b>		<b>(489,833)</b>

## **5. Contingencies and commitments**

- 5.1** Earlier, under the 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.

During the current period, 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. The aggregate unrecognized amount of WWF as at March 31, 2012 amounted Rs. 61.066 million.

**Mar - 2012**      **June - 2011**

----- Rupees in '000 -----

**5.2 Contingencies**

Claim of arrears of Social Security Contribution not acknowledged, appeal is pending in The Honorable High Court of Sindh. The management is hopeful for favourable outcome.

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**5.3 Guarantees issued by banks on behalf of the company**

114,100

182,674

**114,553**

**183,127**

**5.4 Commitments**

**Letters of credit:**

Letter of credit for raw material

96,030

36,124

Letter of credit for stores and spares

56,726

14,635

Letter of credit for property, plant and equipment

252,842

1,088,319

Civil work contracts

4,545

100,117

**410,143**

**1,239,195**

**6. Additions and disposal of property, plant and equipment**

Acquisition and disposal of property, plant and equipment, except for the acquisition of assets through combination of business with MIMA Cotton Mills Limited which has been

	<u>March 31,2012</u>		<u>March 31,2011</u>	
	<u>Additions</u>	<u>Disposal</u>	<u>Additions</u>	<u>Disposal</u>
	<u>cost</u>	<u>W.D.V.</u>	<u>cost</u>	<u>W.D.V.</u>
	----- Rupees in '000 -----		----- Rupees in '000 -----	
Land	-	-	1,600	-
Office building	32,001	-	-	-
Mill building	55,469	-	10,133	-
Plant and machinery 6.1	1,270,568	(2,765)	40,988	(23,791)
Factory equipment	-	(188)	-	(9)
Electric Installations	452	-	-	-
Power generator	62,694	(935)	-	-
Office equipment	-	(284)	-	(40)
Furniture and fixtures	-	(69)	-	-
Vehicles	41,709	(2,725)	10,234	(2,318)
Plant and machinery - leased	-	(21,547)	-	-
	<u>1,462,893</u>	<u>(28,512)</u>	<u>62,955</u>	<u>(26,158)</u>

- 6.1 Additions to plant & machinery include transfer from assets subject to finance lease amounting to Rs. 21.547 million.

**Mar - 2012          June - 2011**  
**----- Rupees in '000 -----**

**7. Long-term investments**

Investment in associate	358,638	1,214,517
Investment in joint venture	1,251,198	298,617
	<u>1,609,836</u>	<u>1,513,134</u>

**7.1 Investment in associate - Sunrays Textile Mills Limited**

Cost	42,382	42,382
Share of post acquisition profit		
Opening	256,235	200,826
Dividend received	(5,086)	(5,086)
Share of associate reversal of deferred tax liability on account of incremental depreciation	1,987	2,630
Share of profit from associate	63,120	57,865
	<u>316,256</u>	<u>256,235</u>
	<u>358,638</u>	<u>298,617</u>

Number of shares held	1,695,290	1,695,290
Cost of investment (Rupees in '000')	42,382	42,382
Ownership interest	24.57%	24.57%
Market value (Rupees in '000')	59,335	57,640

**7.2 Investment in joint venture - Indus Home Limited**

Cost	750,000	750,000
Share of post acquisition profit		
Opening	464,517	415,996
Share of profit from the joint venture	36,681	48,521
	<u>501,198</u>	<u>464,517</u>
	<u>1,251,198</u>	<u>1,214,517</u>

Ownership interest	49.99%	49.99%
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**Nine month period ended****Jul, 11 - Mar, 12      Jul, 10 - Mar, 11**

----- Rupees in '000 -----

**Quarter ended****Mar 31, 2012      Mar 31, 2011**

----- Rupees in '000 -----

**8. Cost of goods sold**

Raw material consumed	7,875,686	9,804,953	2,560,455	4,214,071
Manufacturing expenses	1,602,734	1,411,615	580,241	495,417
Outside purchases	46,587	181	3,543	181
	<b>9,525,007</b>	<b>11,216,749</b>	<b>3,144,239</b>	<b>4,709,669</b>

**Work in process**

Opening stock	250,719	121,321	217,884	215,494
Closing stock	(215,572)	(231,245)	(215,572)	(231,245)
	<b>35,147</b>	<b>(109,924)</b>	<b>2,312</b>	<b>(15,751)</b>

**Cost of goods manufactured**

	<b>9,560,154</b>	<b>11,106,825</b>	<b>3,146,551</b>	<b>4,693,918</b>
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**Finished goods**

Opening stock	306,960	216,580	258,517	335,948
Closing stock	(258,140)	(329,567)	(258,140)	(329,567)
	<b>48,820</b>	<b>(112,988)</b>	<b>377</b>	<b>6,380</b>

	<b>9,608,974</b>	<b>10,993,837</b>	<b>3,146,928</b>	<b>4,700,298</b>
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**8.1 Manufacturing expenses**

Salaries, wages & benefits	416,832	385,437	132,943	132,512
Stores and spare consumed	210,991	188,500	72,872	63,127
Packing material consumed	160,728	131,087	50,778	46,359
Other overheads	13,558	9,467	2,714	5,423
Fuel & power	533,678	475,362	210,763	169,911
Insurance	13,055	11,499	6,058	5,044
Repairs & maintenance	14,709	10,888	5,305	6,384
Rent rates and taxes	1,820	1,580	747	376
Depreciation	237,363	197,795	98,061	66,281
	<b>1,602,734</b>	<b>1,411,615</b>	<b>580,241</b>	<b>495,417</b>

9. **Aggregate transaction with related parties :**

The related parties comprise of associate (Sunrays Textile Mills Limited), joint venture (Indus Home Limited). The company in the normal course of business carries out transactions with related parties.

**Mar 31, 2012**                      **Mar 31, 2011**

----- Rupees in '000 -----

9.1 **Transactions with related parties**

**Associates:**

Sale of yarn	6,546	-
Purchase of yarn	30,464	-

**Joint Venture:**

Sale of yarn	305,532	230,869
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10. Allocation to taxation and W.P.P.F. is provisional. Final liability will be determined on the basis of annual results.

11. **Non-adjusting event after the balance sheet date**

In respect of the current period, the directors proposed to pay interim cash dividend of Rs. 18,074 million @ Rs.10/= per ordinary share of Rs. 10/= each. The proposed dividend has not been included as a liability in these financial statements.

**12. Approval of financial statements.**

These condensed interim financial information were authorized for issue on 30th April 2012 by the Board of Directors of the company.

**13. Figures.**

Figures have been rounded off to the nearest thousand Rupees.

Chief Executive Officer

Director