

INDUS DYEING & MANUFACTURING COMPANY LIMITED
SELECTED EXPLANATORY NOTES
TO THE UNCONSOLIDATED CONDENSED INTERIM FINANCIAL INFORMATION (UN-AUDITED)
FOR THE HALF YEAR ENDED DECEMBER 31, 2012

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Company) was incorporated in Pakistan on July 23, 1957 as a public limited Company under the Companies Act 1913 since repealed and replaced by the Companies Ordinance, 1984.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 Limited. The principal activity of the Company is manufacturing and sale of yarn. The manufacturing facilities of the Company are located in Karachi, Hyderabad and Muzaffargarh. The Company is also operating three ginning units including two on leasing arrangements and two ice factories on leasing arrangements in District Multan. The Company has also made investments in a joint venture, Indus Home Limited and in an associate, Sunrays Textile Mills Limited. The Company has also investment in a subsidiary, Indus Lyallpur Limited (formerly MIMA Cotton Mills Limited).

2. BASIS OF PREPARATION

2.1 This unconsolidated condensed interim financial information is unaudited but subject to limited scope review by external auditors of the Company in accordance with the requirements of clause (xxi) of the Code of Corporate Governance and they have issued their review report thereon and is being submitted to the shareholders as required under Section 245 of the Companies Ordinance, 1984 and also presented in accordance with the listing regulations of Karachi Stock Exchange. This unconsolidated condensed interim financial information has been prepared in accordance with the requirements of the International Accounting Standard 34 "Interim Financial Reporting" as applicable in Pakistan.

2.2 The accounting policies and methods of computation followed in the preparation of the unconsolidated condensed interim financial information are the same as those of the published annual audited financial statements for the year ended June 30, 2012. This unconsolidated condensed interim financial information does not include all of the information required for annual financial statements and therefore should be read in conjunction with the annual financial statements of the Company for the year ended June 30, 2012.

2.3 The comparative balance sheet presented has been extracted from annual financial statements for the year ended June 30, 2012, whereas comparative condensed profit and loss account, condensed cash flow statement and condensed statement of changes in equity are stated from the unaudited condensed interim financial information for the half year ended December 31, 2011.

3. ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the condensed interim 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 unconsolidated condensed interim financial information, the significant judgments made by the management in applying the Company's accounting policies and the key source of estimation and uncertainty were the same as those that applied to the financial statements as at and for the year ended June 30, 2012.

4. FINANCIAL RISK MANAGEMENT

The Company's financial risk management objectives and policies are consistent with those disclosed in the financial statements as at and for the year ended June 30, 2012.

5. TAXATION

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

6. CONTINGENCIES AND COMMITMENTS

6.1 Contingencies

6.1.1 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.

In the year 2011, 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 December 31, 2012 amounted to Rs. 90.359 million (June 30, 2012: 69.3 million).

| | December 31, 2012 (Unaudited) | June 30, 2012 (Audited) |
|--|-------------------------------------|-------------------------------|
| | -----Rupees in '000'----- | |
| 6.1.2 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 |
| 6.1.3 Guarantees issued by banks on behalf of the Company | 107,820 | 96,820 |
| 6.2 Commitments | | |
| Letters of credit for raw material | 2,441,641 | 1,274,691 |
| Letters of credit for stores and spares | 41,705 | 20,585 |
| Letters of credit for property, plant and equipment | 398,714 | 153,470 |
| Civil work contracts | 15,811 | 17,532 |
| US dollar forward contracts | - | 385,900 |

7. ACQUISITION AND DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

During the period, following additions and disposals were made: -

| | December 31, 2012 | | December 31, 2011 | |
|---------------------------------|--------------------------|-------------------------------|--------------------------|-------------------------------|
| | Additions / Transfers | Disposal at Carrying value | Additions / Transfers | Disposal at Carrying value |
| < ----- Rupees in '000' ----- > | | | | |
| Assets | | | | |
| Factory building | 5,743 | - | 702 | - |
| Plant and machinery | 191,485 | (92) | 1,084,344 | (529) |
| Power generator | 10,700 | - | 35,929 | (482) |
| Factory equipment | - | - | - | (188) |
| Office equipment | - | - | - | (284) |
| Furniture and fixtures | 6,050 | (41) | - | (69) |
| Vehicles | 41,904 | (595) | 16,597 | (541) |
| Plant and machinery - leased | - | - | - | (21,547) |
| Capital work in progress | 66,576 | | 93,359 | - |
| | 322,458 | (728) | 1,230,931 | (23,639) |

December 31,
2012
(Unaudited) June 30,
2012
(Audited)
-----Rupees in '000'-----

8. LONG TERM INVESTMENTS

| | | |
|-------------------------------|-----------|-----------|
| Investment in a joint venture | 1,198,084 | 1,198,084 |
| Investment in an associate | 332,768 | 332,768 |

Investment in subsidiary

| | | |
|--|-----------|-----------|
| Investment at cost | 490,000 | 490,000 |
| Advance against purchase of further shares of subsidiary | 350,000 | 350,000 |
| | 840,000 | 840,000 |
| | 2,370,852 | 2,370,852 |

| | Note | Half year ended | | Quarter ended | |
|------------------------------|------|-------------------|-------------------|-------------------|-------------------|
| | | December 31, 2012 | December 31, 2011 | December 31, 2012 | December 31, 2011 |
| 9. COST OF GOODS SOLD | | | | | |
| -----Rupees in '000'----- | | | | | |
| Raw material consumed | | 5,795,574 | 5,315,231 | 2,902,825 | 2,554,938 |
| Manufacturing expenses | 9.1 | 1,283,345 | 1,022,493 | 660,480 | 520,748 |
| Outside purchase-yarn | | 145,033 | 43,044 | 46,729 | 12,580 |
| | | 7,223,952 | 6,380,768 | 3,610,034 | 3,088,266 |
| Work in process | | | | | |
| Opening stock | | 198,325 | 250,719 | 217,052 | 243,120 |
| Closing stock | | (217,426) | (217,884) | (217,426) | (217,884) |
| | | (19,101) | 32,835 | (374) | 25,236 |
| Cost of goods manufactured | | 7,204,851 | 6,413,603 | 3,609,660 | 3,113,502 |
| Finished Goods | | | | | |
| Opening stock | | 290,016 | 306,960 | 291,851 | 320,349 |
| Closing stock | | (245,595) | (258,517) | (245,595) | (258,517) |
| | | 44,421 | 48,443 | 46,256 | 61,832 |
| | | 7,249,272 | 6,462,046 | 3,655,916 | 3,175,334 |

9.1 Manufacturing expenses

| | | | | |
|------------------------------|-----------|-----------|---------|---------|
| Salaries, wages and benefits | 337,717 | 283,889 | 161,096 | 150,505 |
| Fuel, water and power | 419,026 | 322,915 | 219,909 | 158,670 |
| Stores and spares consumed | 171,731 | 138,119 | 89,507 | 64,891 |
| Packing material consumed | 126,789 | 109,950 | 64,612 | 58,846 |
| Insurance | 10,405 | 6,997 | 4,702 | 3,892 |
| Repairs and maintenance | 7,785 | 9,404 | 3,657 | 5,479 |
| Rent, rate and taxes | 1,111 | 1,073 | 75 | 488 |
| Depreciation | 179,411 | 139,302 | 90,517 | 75,798 |
| Others | 29,370 | 10,844 | 26,405 | 2,179 |
| | 1,283,345 | 1,022,493 | 660,480 | 520,748 |

10. AGGREGATE TRANSACTION WITH RELATED PARTIES

The related parties comprise of subsidiary (Indus Lyallpur Limited), associate (Sunrays Textiles Mills Limited), joint venture (Indus Home Limited) and entities where directors are common (Riaz Cotton Factory, Silver Seeds, MB Industries, Gailawala Cotton Company, Indus Heartland Limited, Lyallpur Properties) and key management personnel and post employment benefit scheme. The Company carries out transactions with related parties on agreed terms. Transactions with related parties during the period and balances with them at period end are as follows: -

| 10.1 Transactions during the period | Relationship with Company | Nature of transaction | Unaudited | Unaudited |
|-------------------------------------|---------------------------|--|------------------|------------------|
| | | | December 31 2012 | December 31 2011 |
| -----Rupees in '000'----- | | | | |
| | Subsidiary | Sale of Fiber | 1,460 | - |
| | | Purchases of yarn | 142,559 | - |
| | | Contract manufacturing cost | 20,223 | - |
| | | Payments made on behalf of subsidiary | 1,454,137 | - |
| | | Payments made by subsidiary on behalf of the Company | 1,308,030 | - |
| | Associate | Sale of yarn | - | 6,456 |
| | | Purchases of yarn | 114 | 30,464 |
| | | Payments made on behalf of associate | 33,608 | 12,448 |
| | | Payments made by associate on behalf of the Company | 22,888 | 10,366 |

| | | Unaudited December 31 2012 | Unaudited December 31 2011 |
|---------------------------------|--|----------------------------------|----------------------------------|
| | | -----Rupees in '000'----- | |
| Joint venture | Sale of yarn | 70,855 | 247,866 |
| | Payments made on behalf of joint venture | 1,359 | 8,734 |
| | Payments made by joint venture on behalf of the Company | 1,359 | 7,766 |
| Key management personnel | Short term borrowing repaid | 109,455 | 54,131 |
| | Short term borrowing received | 107,099 | 70,375 |
| | Remuneration paid | 22,320 | 9,600 |
| Other related parties | Expenses paid on behalf of entities where directors are common | 234 | 179 |
| | Expenses adjusted / reimbursed | 1,848 | 214 |

| | | December 31, 2012 (Unaudited) | June 30, 2012 (Audited) |
|---|--------------------------------------|-------------------------------------|-------------------------------|
| | | -----Rupees in '000'----- | |
| 10.2 Balances with related parties | | | |
| | Subsidiary | | |
| | - Advance against purchase of shares | 350,000 | 350,000 |
| | - Receivable | 5,043 | - |
| | Associate | | |
| | - Receivable | 491 | - |
| | - Payable | 582 | 11,302 |
| | Joint Venture - receivable | 14,550 | 1,480 |
| | Key management personnel - payable | 975 | 5,464 |
| | Other related parties | | |
| | - Receivable | 14 | 1,741 |
| | - Payable | 2,636 | 1,383 |

11. SUBSEQUENT EVENTS

The Board of Directors of the Company at their meeting held on January 28, 2013 decided to distribute specie dividend of 1,626,633/= ordinary shares of Sunrays Textile Mills Limited (SUTM, the associated Company) having face value of Rs. 10/- each, out of 1,695,290/= ordinary shares, to the shareholders of Indus Dyeing & Manufacturing Company Limited (IDYM) in the ratio of 100:09 i.e., for every 100 shares of Indus Dyeing & Manufacturing Company, shareholders will get 9 shares of Sunrays Textile Mills Limited.

The carrying value and fair value of the aforesaid ordinary shares as of December 31, 2012 was Rs. 319.29 million and Rs. 260.30 million respectively. Fair value has been determined based on quoted market price of shares.

12. Allocation to taxation and WPPF is provisional. Final liability will be determined on the basis of annual results.

13. DATE OF AUTHORISATION FOR ISSUE

This condensed interim financial information was authorized for issue on 28th February, 2013 by the Board of Directors of the Company.

14. GENERAL

Figures have been rounded off to the nearest thousand of Rupee.

CHIEF EXECUTIVE OFFICER

DIRECTOR