

GULSHAN SPINNING MILLS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (UN AUDITED)
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

1 INTRODUCTION

Gulshan Spinning Mills Limited (the Company) was incorporated as a public limited company and its shares are listed on Karachi and Lahore stock exchanges in Pakistan. The company is principally engaged in manufacture and sale of yarn.

2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 and the International Financial Reporting Standard (IAS 34) " Interim Financial Reporting" as applicable in Pakistan. Wherever the requirements of the Companies Ordinance, 1984 or the directives issued by the Securities and Exchange Commission of Pakistan (SECP) differ with the requirements of this standard, the requirements of the Companies Ordinance, 1984 or the requirements of the said directives take the precedence.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted for the preparation of the financial statements for the half year ended 31 December 2005 are the same as those applied in the preparation of the annual audited financial statements for the year ended 30 June 2005 except as follows:-

- (i) Previously unrealised gains and losses arising from changes in the fair value of the available for sale investments were included in the profit and loss account for the period in which they arose. In accordance with the revised International Accounting Standard (IAS 39) "Financial Instruments: Recognition and Measurement" which is applicable for accounting years beginning on or after 1 January,2005,now the unrealised changes in fair value are recognised directly in equity. The change in accounting policy has been accounted for retrospectively and comparative financial statements have been restated in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". Had there been no change the net loss for the period would have been lower by Rs. 7,999,982 .However,there is no effect on the Shareholder's equity for the current or prior period.
- (ii) The company has changed its policy for accounting for investment in associated company which is now accounted for using the equity method, Previously investment in associated company was classified as "Available for Sale", unrealised gain or loss was included in the profit and loss account. Dividend income was also recognised in the Profit and loss account of the period in which right to receive was established. The change in accounting policy has been accounted for retrospectively in accordance with the International Accounting Standard (IAS 8) "Accounting Policies, Changes in Accounting Estimates and Errors". Had there been no change the net loss of period would have been higher by Rs. 2,044,960.
- (iii) During the period the company has revalued its freehold land which resulted in a surplus of Rs. 214,136,517. The revaluation was carried out by independent valuer Consultancy Support and Services, Karachi on present value basis.

4 FIXED ASSETS

		31 DECEMBER 2005	30 JUNE 2005
		Rupees	
Property, Plant and Equipment	4.1	1,360,898,014	1,081,851,684
Capital Work in Progress includes leased gas generators and allied equipments of Rs.48,531,938		105,392,065	124,997,997
		<u>1,466,290,079</u>	<u>1,206,849,681</u>

GULSHAN SPINNING MILLS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (UN AUDITED)
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

4.1 Includes revaluation surplus on land amounting to Rs. 214,136,517. The cost of the land was amounting to Rs.33,863,443.

	31 DECEMBER 2005	30 JUNE 2005
	Rupees	
4.2 Property, Plant and Equipment- Additions		
Owned:		
Land - Freehold	-	17,248,200
Building - Factory	101,800	5,219,558
Building - Residential	853,910	-
Electrical installation	1,981,886	2,885,854
Plant and machinery	102,702,203	131,233,598
Mill equipments	8,402,367	2,019,892
Vehicles	2,162,500	804,000
Furniture and fittings	989,821	1,065,892
Office equipment	760,380	459,930
Leased:		
Plant and Machinery	-	6,515,449
Vehicles	-	8,593,000
	<u>117,954,867</u>	<u>176,045,373</u>
4.3 Disposals - Owned		
Plant and machinery	-	19,212,323
Vehicles	2,391,555	1,939,739
	<u>2,391,555</u>	<u>21,152,062</u>
5 LONG TERM INVESTMENT		
Associated Company	55,317,780	48,531,104
Others	2,897,193	2,896,689
	<u>58,214,973</u>	<u>51,427,793</u>
6 SURPLUS ON REVALUATION OF LAND		
Surplus on revaluation of land	214,136,517	-
Share of Surplus on revaluation of land in Associated Company	5,841,716	-
	<u>219,978,233</u>	<u>-</u>
7 LIABILITIES AGAINST ASSET SUBJECT TO FINANCE LEASE		

The company has arranged lease finance from KASB Bank Limited amounting to Rs. 74,760,000 for gas generators and allied equipments. The lease amount is payable in 6 years including one year grace period. The mark up rate is 6months KIBOR+2% per annum with a 9% cap and floor. The repayment schedule is expected to be finalised on 28 February, 2006.

GULSHAN SPINNING MILLS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (UN AUDITED)
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

	31 DECEMBER 2005	30 JUNE 2005
	Rupees	
8 CONTINGENCIES & COMMITMENTS		
Confirmed letters of credit in respect of		
-raw materials	3,308,136	1,758,443
-store and spares	970,866	12,009,100
-machinery	36,607,900	72,044,820
Guarantees issued on behalf of the Company		
-in favour of Collector of Customs and Excise & Land against deferred	1,582,330	11,659,423
-Other guarantees	7,000,276	22,488,600
Forward Exchange Contracts	-	308,644,000
Commitments - building and other civil works	-	4,760,636

There is no change in contingencies as reported in note 26.1 in the financial statements for the period ended 01 October 2004 to 30 June 2005.

	QUARTER ENDED OCTOBER TO DECEMBER		HALF YEAR ENDED JULY TO DECEMBER	
	2005	2004	2005	2004
	Rupees			
9 SALES				
Local	282,347,289	221,152,315	547,182,266	532,382,219
Export	217,050,232	241,815,856	453,894,274	472,709,345
	499,397,521	462,968,171	1,001,076,540	1,005,091,564
Local				
Yarn/Waste	284,100,427	257,475,708	549,697,081	609,911,291
Less:				
Commission	1,705,596	3,064,028	2,392,133	1,126,066
Sale Tax	47,542	33,259,365	122,682	76,403,006
	1,753,138	36,323,393	2,514,815	77,529,072
	282,347,289	221,152,315	547,182,266	532,382,219
Export				
Yarn	216,206,631	243,917,973	455,120,843	474,263,718
Rebate	343,582	-	712,312	366,951
Exchange gain	4,978,480	(706,184)	6,257,857	1,295,786
	221,528,693	243,211,789	462,091,012	475,926,455
Less:				
Commission	4,478,461	1,395,933	8,196,738	3,217,110
	217,050,232	241,815,856	453,894,274	472,709,345

GULSHAN SPINNING MILLS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (UN AUDITED)
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

	QUARTER ENDED		HALF YEAR ENDED	
	OCTOBER TO DECEMBER	2004	JULY TO DECEMBER	2004
	2005	2004	2005	2004
	Rupees			
10 COST OF SALES				
Stocks at beginning	312,347,106	289,802,673	286,380,177	361,716,970
Cost of goods manufactured	10.1			
	506,592,140	435,093,430	965,032,101	884,325,421
	506,592,140	435,093,430	965,032,101	884,325,421
	818,939,246	724,896,103	1,251,412,278	1,246,042,391
Stocks at end	390,824,892	318,551,960	390,824,892	318,551,960
	428,114,354	406,344,143	860,587,386	927,490,431
10.1 Cost of goods manufactured				
Work in process at beginning	29,891,640	37,608,084	34,597,851	29,149,504
Raw material & components consumed	393,166,319	329,468,149	740,631,233	690,356,640
Overheads	112,141,676	101,317,136	218,410,512	198,119,216
	505,307,995	430,785,285	959,041,745	888,475,856
	535,199,635	468,393,369	993,639,596	917,625,360
Work in process at end	28,607,495	33,299,939	28,607,495	33,299,939
	506,592,140	435,093,430	965,032,101	884,325,421
11 OTHER CHARGES				
Workers profit participation fund	714,501	741,573	1,009,953	(215,873)
Exchange gain	394	93,534	394	1,943,989
	714,895	835,107	1,010,347	1,728,116
12 CASH FLOW FROM OPERATING ACTIVITIES				
Net Profit/(loss) before taxation			19,188,717	(7,549,425)
Adjustments				
Depreciation			52,672,356	47,506,361
Provision of gratuity			2,413,483	1,254,100
Finance cost			82,014,315	53,855,326
Profit on sale of fixed assets			(512,299)	(403,576)
Amortization of discount			-	632,664
Interest income			(1,168,806)	(151,205)
Dividend income			(39,911)	(25,525)
			135,379,138	102,668,145
Cash flow from operation before working capital changes			154,567,855	95,118,720

GULSHAN SPINNING MILLS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (UN AUDITED)
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

	HALF YEAR ENDED	
	JULY TO DECEMBER	
	2005	2004
	Rupees	
Change in Current assets		
Stores , Spares & Loose tools	1,666,192	(7,737,272)
Stocks in trade	(320,506,127)	(265,958,255)
Trade debts	26,237,260	(5,265,358)
Loans and advances	8,089,856	17,292,496
Deposits & Prepayments	(98,756)	7,212,481
Other receivable	(15,304,744)	8,307,950
	<u>(299,916,319)</u>	<u>(246,147,958)</u>
Change in Current liabilities		
Trade and other payables	40,381,008	1,300,493
Change in Working Capital	(259,535,311)	(244,847,465)
Receipts/Payments for		
Interest received	1,223,353	110,083
Dividend received	39,911	25,525
Interest paid	(71,325,665)	(50,057,008)
Tax paid	(6,561,595)	(2,177,447)
Tax refund	13,693,455	-
Gratuity paid	(1,312,907)	(2,615,330)
	<u>(64,243,448)</u>	<u>(54,714,177)</u>
Net cash used in operating activities	<u>(169,210,904)</u>	<u>(204,442,922)</u>

13 TRANSACTION WITH ASSOCIATED COMPANIES

Purchase of Yarn	16,716,600	5,617,750
Store	1,577,987	492,219
Waste	40,326,258	35,963,687
Cotton	10,110,730	16,015,264
Viscose	99,225	-
Electricity	36,980,227	39,774,456
Dyeing and Doubling charges	549,079	279,056
Sale of Yarn	76,991,941	73,296,316
Store	306,906	198,637
Waste	43,512,436	55,086,573
Cotton	-	598,733
Scrap	-	32,341
Dyeing and Doubling charges	920,175	6,771,779

GULSHAN SPINNING MILLS LIMITED
NOTES TO THE FINANCIAL STATEMENTS (UN AUDITED)
FOR THE HALF YEAR ENDED 31 DECEMBER 2005

	31 DECEMBER	30 JUNE
	2005	2005
	Rupees	
14 PERIOD END BALANCES - ASSOCIATED COMPANIES		
Receivable from Associated Companies		
Trade debtors	74,898,779	39,258,601
Deposit and prepayments	2,187,323	2,061,677
Payable to Associated Companies		
Trade and other payables	6,715,253	21,197,223

15 PRESENTATION

All amounts have been rounded off to the nearest rupee.

All figures appearing the financial statements except 30 June 2005 figures are un audited.

16 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were authorized for issue on 28 February 2006 by the Board of Directors of the

CHIEF EXECUTIVE

DIRECTOR