

**GULSHAN SPINNING MILLS LIMITED**  
**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE HALF YEAR ENDED DECEMBER 31, 2009**

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**1 CORPORATE INFORMATION**

The company was incorporated as a Public Limited Company in Pakistan under the Companies Ordinance, 1984. Its main business is manufacture and sale of yarn. The shares of the company are listed on Karachi and Lahore Stock Exchanges in Pakistan. The registered office is located at 2nd Floor, Finlay House, I.I. Chundrigar Road, Karachi.

**2 BASIS OF PREPARATION**

These condensed interim financial statements are unaudited but subject to limited scope review by the external auditors. These are required to be presented to the shareholders under section 245 of the Companies Ordinance, 1984 and have been prepared in accordance with the requirements of the International Financial Reporting Standard (IFRS) IAS - 34 "Interim Financial Reporting", as applicable in Pakistan. These condensed interim financial statements do not include all the information and disclosures required in the annual financial statements for the year ended June 30, 2009.

**3 SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies adopted in the preparation of these condensed interim financial statements are the same as those applied in the preparation of the financial statements of the company for the year ended June 30, 2009, except as disclosed below.

IAS - 1 (Revised) 'Presentation of financial statements' , ( effective from January 1 , 2009) was issued in September 2007. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income).

The company has adopted IAS 1 (Revised) with effect from July 1, 2009 and accordingly, items of income and expense that are not recognized in profit or loss, and non-owner changes in equity have been presented in a separate 'statement of comprehensive income' in these condensed interim financial statements.

**4 ACCOUNTING ESTIMATES AND JUDGMENTS**

The preparation of condensed interim financial statement requires management to make judgments, estimates and assumptions that effect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. The significant judgments made by the management in applying the Company's accounting policies and the key sources of estimates were same as those applied to the financial statements for the year ended June 30, 2009

		<b>December 31, 2009 Un-audited</b>	<b>June 30, 2009 Audited</b>
<b>Rupees</b>			
<b>5 PROPERTY, PLANT AND EQUIPMENT</b>			
Operating fixed assets	5.1	<b>1,406,163,672</b>	1,416,972,164
Capital work in progress		<b>1,381,925</b>	1,789,505
		<b>1,407,545,597</b>	1,418,761,669
<b>5.1 Operating fixed assets</b>			
Opening net book value		<b>1,416,972,164</b>	1,436,202,499
Additions during the period / year	5.2	<b>22,063,928</b>	37,941,647
Revaluation of free hold land		-	13,403,790
Less:			
Disposal during the period / year - at book value	5.3	-	(437,016)
Depreciation charged during the period / year		<b>(32,872,420)</b>	(70,138,756)
		<b>1,406,163,672</b>	1,416,972,164
<b>5.2 Additions during the period / year</b>			
<b>Owned</b>			
Building-factory		<b>935,196</b>	3,937,484
Building-residential		-	2,426,307
Plant and machinery		<b>13,005,031</b>	8,163,712
Electric installations		<b>2,205,617</b>	6,835,064
Gas power generator		<b>874,164</b>	2,437,332
Mill equipments		<b>1,349,482</b>	4,088,578
Office equipments		<b>340,405</b>	368,505
Furniture and fixture		<b>2,115,033</b>	126,265
Vehicles		-	1,005,400
		<b>20,824,928</b>	29,388,647
<b>Leased</b>			
Vehicles		<b>1,239,000</b>	8,553,000
		<b>22,063,928</b>	37,941,647
<b>5.3 Disposals during the period / year - at book value</b>			
Vehicles		-	437,016
<b>6 LONG TERM INVESTMENTS</b>			
In associated undertaking	6.1	<b>110,847,882</b>	109,990,002
In joint venture	6.2	<b>66,169,285</b>	67,913,672
Others	6.3	<b>839,200</b>	811,000
		<b>177,856,367</b>	178,714,674

	<b>December 31, 2009 Un-audited</b>	June 30, 2009 Audited
	<b>Rupees</b>	
<b>6.1 In associated undertaking - equity basis</b>		
<b>Gulistan Textile Mills Limited</b>		
614,922 ordinary shares of Rs.10 each (June 30, 2009 : 559,020 ordinary shares)	<b>40,000,000</b>	40,000,000
Post acquisition profit less dividend received	<b>54,652,103</b>	53,794,223
Share of revaluation of surplus of associates	<b>16,195,779</b>	16,195,779
	<b>70,847,882</b>	69,990,002
	<b>110,847,882</b>	109,990,002

- Fair value of investment in associate Rs. 13,282,315 (June 30, 2009 : Rs. 5,031,180).
- The percentage of equity held in associate is 3.166% (June 30, 2009 : 3.166%), but by virtue of common directorship, as it results significant influence, equity method have been applied.
- The summarized financial information based on the unaudited financial statements for the year ended December 31, 2009 is as follows:

	<b>December 31 2009 Un-audited</b>	June 30, 2009 Audited
	<b>Rupees</b>	
Assets	<b>9,484,064,025</b>	9,271,072,152
Liabilities	<b>6,915,732,200</b>	6,757,475,299
Net assets	<b>2,568,331,825</b>	2,513,596,853

	<b>December 31, Un-audited</b>	June 30, Audited
	<b>Rupees</b>	
<b>6.2 In joint venture</b>		
7,500,000 (June 30, 2009 : 7,500,000) Ordinary shares of Rs. 10 each.	<b>75,000,000</b>	75,000,000
Share of post acquisition loss	<b>8,830,715</b>	7,086,328
	<b>66,169,285</b>	67,913,672

**6.2.1** This represents 50% interest in Gujranwala Energy Limited (GEL), a joint venture between the company and Energy Infrastructure Holdings Limited for setting up 200 MW power project at Sungo-Wali Tehsil Wazirabad District Gujranwala.

**6.2.2** During financial year 2007, the proposed project of 200 MW of GEL was approved by Private Power & Infrastructure Board (PPIB) as a fast track project and the Company was assigned to achieve its Commercial Operation Date (COD) latest by March 31, 2009. Meanwhile, the

Company's Tariff was also notified by National Electric Power Regulatory Authority (NEPRA) on April 19, 2007. However, the Company could not finalize certain related arrangements requisite for COD including availability of finance and engines on timely basis. Resultantly, the Company got extension in achieving its COD from PPIB by December 2010 and June 2011. Simultaneously, the Company also filed a petition for revised tariff which was notified by NEPRA on July 8, 2008.

**6.2.3** The Company, in order to achieve the financial close, has mandated National Bank of Pakistan (NBP) to arrange PKR 14,135 million. The aforesaid mandate was executed on April 14, 2008. However, due to deteriorating law and order situation, circular debt issue, tight liquidity position ballooning exposure of banking sector towards the power projects, the financial close has not been achieved within the envisaged time period. The Company, as a result thereof, approached Private Power and Infrastructure Board (PPIB) with the request to make certain amendments in the power purchase agreement to facilitate the financial close but PPIB did not respond positively towards the Company's request and as consequence thereof the Company has filed petition in the Honorable Sindh High Court to protect itself from the repercussions of non achieving the financial close within stipulated time period including encashment of performance guarantee amounting to US \$ 1,000,000 extended to PPIB.

The Honorable High Court has ordered the plaintiff (the Company) to keep alive guarantee and have restricted PPIB from en-cashing the guarantee and have restricted PPIB from en-cashing the guarantee till the adjudication of the application filed by the Company. The stay order is still in filed and the case is pending for adjudication. Accordingly, no related adjustment has been made in the financial statements of GEL.

**6.2.4** With reference to Note 6.2.2 and 6.2.3, the Company has also extended commitment bank guarantee amounting to 3,000,000 Euro in favour of Wartsila Finland (supplier of engines). During the year, the Company could not raise the requisite funds and deposit initial mobilization advance with Wartsila and accordingly, Wartsila had approached the concerned bank for encashment of guarantee. However, the Company filed a petition in Honorable Sindh High Court to protect encashment of such guarantee. The Honorable High Court has restricted Wartsila from en-cashing the guarantee till the adjudication of the application filed by the Company. The case is pending for adjudication. Accordingly, no related adjustment has been made in the financial statements of GEL.

**6.3 Others**

	<b>December 31, Un-audited</b>	June 30, Audited
	<b>Rupees</b>	
Investment - held to maturity		
10,000 (June 30, 2009 : 10,000) US \$ Bonds Bearer (LIBOR +2%)	<b>839,200</b>	811,000
	<b>839,200</b>	811,000

		NOTE	December 31, 2009 Un-audited	June 30, 2009 Audited
			Rupees	
<b>7 SHARE CAPITAL</b>				
<b>December 31,</b>	<b>June 30,</b>			
<b>No. of shares</b>		<b>Authorized share capital</b>		
<b>100,000,000</b>	100,000,000	Ordinary shares of Rs. 10 each.	<b>1,000,000,000</b>	1,000,000,000
		<b>Issued, subscribed and paid up capital</b>		
		Ordinary shares of Rs. 10 each issued as fully paid in cash	<b>93,000,000</b>	93,000,000
<b>9,300,000</b>	9,300,000			
		Ordinary shares of Rs. 10 each issued as fully paid bonus shares	<b>92,208,650</b>	75,371,500
<b>9,220,865</b>	7,537,150			
<b>18,520,865</b>	16,837,150		<b>185,208,650</b>	168,371,500
<b>8 DEFERRED LIABILITIES</b>				
Deferred taxation			<b>42,089,573</b>	35,268,712
Staff retirement benefits			<b>24,620,801</b>	24,923,925
Deferred income			<b>386,488</b>	515,318
			<b>67,096,862</b>	60,707,955
<b>9 CONTINGENCIES AND COMMITMENTS</b>				
<b>9.1 Contingencies</b>				
There is no change in contingent liabilities as reported in Note 26 to the financial statements for the year ended June 30, 2009.				
<b>9.2 Guarantees</b>				
Collector of Customs, Excise and Land			<b>33,659,423</b>	31,559,423
Sui Northern Gas Pipelines Limited for gas connection			<b>54,406,000</b>	49,841,000
Miscellaneous guarantees			<b>818,600</b>	818,600
			<b>88,884,023</b>	82,219,023
<b>9.3 Export bills negotiated at year end amounting to Rs.390 million (June 30, 2009: Rs. 492 million)</b>				
<b>9.4 Confirmed letters of credit in respect of</b>				
Raw materials			<b>204,602,397</b>	178,641,641
Store and spares			<b>26,223,439</b>	10,975,005
			<b>230,825,836</b>	189,616,646

Note	Quarter ended		Half year ended	
	December 31,		December 31,	
	2009	2008	2009	2008

-----Rupees-----

## 10 COST OF SALES

Stock at beginning	<b>508,803,784</b>	403,763,353	<b>458,918,397</b>	259,737,608
Cost of goods manufactured	<b>581,900,327</b>	424,831,450	<b>1,147,901,068</b>	1,033,185,580
Yarn purchased	<b>2,973,750</b>	38,070,848	<b>41,484,764</b>	39,477,727
	<b>584,874,077</b>	462,902,298	<b>1,189,385,832</b>	1,072,663,307
Stock at end	<b>1,093,677,861</b>	866,665,651	<b>1,648,304,229</b>	1,332,400,915
	<b>516,077,057</b>	419,456,922	<b>516,077,057</b>	419,456,922
	<b>577,600,804</b>	447,208,729	<b>1,132,227,172</b>	912,943,993

### 10.1 Cost of goods manufactured

Work in process at beginning	<b>37,693,607</b>	26,940,920	<b>28,603,576</b>	30,633,715
Raw materials consumed	<b>425,778,921</b>	274,207,225	<b>853,729,752</b>	742,762,779
Direct labour and overheads	<b>152,843,290</b>	149,262,927	<b>299,983,231</b>	285,368,708
	<b>578,622,211</b>	423,470,152	<b>1,153,712,983</b>	1,028,131,487
Work in process at end	<b>616,315,818</b>	450,411,072	<b>1,182,316,559</b>	1,058,765,202
	<b>34,415,491</b>	25,579,622	<b>34,415,491</b>	25,579,622
	<b>581,900,327</b>	424,831,450	<b>1,147,901,068</b>	1,033,185,580

Half Year ended	
December 31,	
2009	2008
Un-audited	
Rupees	

## 11 CASH FLOW FROM OPERATING ACTIVITIES

<b>Profit before taxation</b>	<b>35,405,068</b>	6,491,028
<b>Adjustments</b>		
Depreciation	(32,872,420)	34,292,185
Amortization	-	76,707
Provision of gratuity	4,622,910	4,174,029
Finance cost	187,207,870	173,476,838
Worker's profit participation fund	1,953,087	425,264
Profit on sale of operating fixed assets	-	(11,320)
Deferred income	(128,830)	(128,830)
(Profit)/Loss on remeasurment of investments	(28,200)	315,678
Share of profit from associate	(857,880)	(184,536)
Share of loss from joint venture	1,744,387	1,773,520
Unrealized exchange gain	(604,778)	(829,295)
Gain on sale of investments	(98,639)	-
Amortization of discount	-	65,044
Interest income	(2,012,600)	(3,484,871)
Dividend income	(311)	(397)
	<b>158,924,596</b>	209,960,016
<b>Cash flow from operation before working capital changes</b>	<b>194,329,664</b>	216,451,044
<b>Movement in working capital</b>		
<b>Change in current assets</b>		
Stores, spare parts and loose tools	(8,175,572)	(5,689,685)
Stocks in trade	(107,978,296)	(836,232,193)
Trade debts	55,058,147	(12,011,512)
Loans and advances	82,281,871	15,182,730
Deposits and prepayments	2,975,784	3,376,214
Other receivables	(6,144,710)	(3,282,852)
	<b>18,017,224</b>	(838,657,298)
<b>Change in current liabilities</b>		
Trade and other payables	(101,210,411)	88,894,821
<b>Cash used in operating activities</b>	<b>(83,193,188)</b>	(749,762,477)

Half Year ended

	<b>December 31,</b>	
	<b>2009</b>	<b>2008</b>
	<b>Un-audited</b>	
	<b>Rupees</b>	
<b>Receipts/Payments for</b>		
Interest received	<b>7,487,329</b>	3,616,361
Dividend received	<b>311</b>	397
Interest paid	<b>(182,256,940)</b>	(153,749,038)
Dividend paid	<b>-</b>	(822)
Tax paid	<b>(20,380,504)</b>	(10,838,234)
Workers Profit Participation Fund paid	<b>(2,337,685)</b>	-
Gratuity paid	<b>(4,926,034)</b>	(8,510,904)
	<b>(202,413,523)</b>	(169,482,240)
<b>Net cash used in operating activities</b>	<b>(91,277,047)</b>	(702,793,673)

## 12 RELATED PARTY TRANSACTIONS

Related parties comprise of associated undertakings, staff retirement funds, directors and key management personnel. The company in the normal course of business carries out transactions with various related parties. All transactions with related parties have been carried out on commercial terms and conditions.

		<b>Half Year ended</b>	
		<b>December 31,</b>	
		<b>2009</b>	<b>2008</b>
		<b>Rupees</b>	
<b>Nature of Transaction</b>	<b>Nature</b>		
Purchases	Associated company	<b>52,902,617</b>	41,350,764
Doubling / dyeing charges	"	<b>8,691,947</b>	104,722
Purchase of electricity	"	<b>2,471,754</b>	687,527
Sales	"	<b>145,483,400</b>	133,173,449
Processing income	"	<b>102,752,057</b>	84,719,723
Long term financing	"	<b>-</b>	75,000,000
Gratuity	Defined benefit plan	<b>4,622,910</b>	4,174,029
Remuneration	Key management personnel	<b>-</b>	600,000
Purchase of shares-Joint Venture	Associated company	<b>-</b>	75,000,000

		<b>December 31, 2009</b>	June 30, 2009
		<b>Un-audited</b>	Audited
		<b>Rupees</b>	
<b>Balances</b>	<b>Nature</b>		
Trade debts	Associated company	<b>41,841,713</b>	52,979,233
Deposits and prepayments	Associated company	<b>284,725</b>	1,755,274
Long term financing	Associated company	<b>75,000,000</b>	75,000,000
Accrued markup	Associated company	<b>959,000</b>	959,000
Staff retirement benefits	Defined benefit plan	<b>24,620,801</b>	24,923,925

### 13 APPROVAL OF FINANCIAL STATEMENTS

These interim condensed financial statements were approved by the Board of Directors and authorised for issue on March 01, 2010.

### 14 COMPARATIVES

Previous figures have been rearranged and reclassified wherever necessary for better presentation in the condensed interim financial statements. There were no major reclassifications or rearrangements for the period.

### 15 PRESENTATION

Figures have been rounded off to the nearest rupees.

**Chief Executive**

**Director**