

**GULSHAN SPINNING MILLS LIMITED**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION**  
**FOR THE HALF YEAR ENDED DECEMBER 31, 2010**

**1 THE COMPANY AND ITS OPERATIONS**

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

**2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS**

This condensed interim financial information has been prepared in accordance with the requirements of the International Accounting Standard (IAS) 34, Interim Financial Reporting and provisions of and directives issued under the Companies Ordinance, 1984. In case where requirements differ, the provisions of or directives issued under the Companies Ordinance, 1984 have been followed. The condensed interim financial information are being submitted to the shareholders as required by section 245 of the Companies Ordinance, 1984 and the Listing Regulations of Karachi and Lahore Stock Exchanges.

The condensed interim financial information should be read in conjunction with the annual financial statements for the year ended June 30, 2010.

**3 SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies and method of computations adopted in the preparation of these condensed interim financial information are the same as those applied in the preparation of the financial statements of the Company for the year ended June 30, 2010.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**4 ACCOUNTING ESTIMATES AND JUDGMENTS**

The preparation of condensed interim financial information requires management to make judgments, estimates and assumption that effect the application of accounting policies and the reported amount of assets liabilities, income and expense. Actual result may differ from these estimates 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 information for the year ended June 30, 2010.

**5 PROPERTY, PLANT AND EQUIPMENT**

	Operating assets	Capital work in progress	(Un-audited) 31 December 2010	(Audited) 30 June 2010
----- ( Amount in Rupees ) -----				
<b>Cost</b>				
Opening balance	2,738,040,038	989,505	2,739,029,543	2,703,649,279
Additions / deletion-net	2,850,837	-	2,850,837	34,390,759
	<b>2,740,890,875</b>	<b>989,505</b>	<b>2,741,880,380</b>	<b>2,738,040,038</b>
<b>Less:</b>				
<b>Accumulated depreciation</b>				
Opening balance	1,353,093,615	-	1,353,093,615	1,286,677,115
For the period / disposal	33,069,884	-	33,069,884	66,416,500
	<b>1,386,163,499</b>	<b>-</b>	<b>1,386,163,499</b>	<b>1,353,093,615</b>
Written down value	<b>1,354,727,376</b>	<b>989,505</b>	<b>1,355,716,881</b>	<b>1,385,935,928</b>

	Note	(Un-audited) December-10	(Audited) June-10
( Amount in Rupees )			
<b>6 LONG TERM INVESTMENTS</b>			
In Associated Companies	6.1	118,629,950	114,225,803
In Joint Ventures	6.2	64,931,534	65,071,418
Others	6.3	-	854,000
Available for sale	6.4	53,859,137	44,917,989
		<b>237,420,621</b>	<b>225,069,210</b>

**6.1 Gulistan Textile Mills Limited**

600,946 (June 2010: 600,946) Ordinary shares of Rs.10 each		40,000,000	40,000,000
Share of post acquisition profits		62,255,421	58,030,024
Share of surplus of revaluation of land		16,975,475	16,195,779
Less: Dividend received		600,946	-
		<b>118,629,950</b>	<b>114,225,803</b>

6.1.1 Fair value of investments in associates is Rs.11.196 millions (June 2010: Rs. 13.319 millions)

6.1.2 The Company holds 3.166% (June 2010: 3.166%) of equity of Gulistan Textile Mills Limited. The investee Company is an associate of the Company by virtue of common directorship.

	(Un-audited) December-10	(Audited) June-10
( Amount in Rupees )		
<b>6.2 In Joint Venture</b>		
7,500,000 (June 30, 2010: 7,500,000) Ordinary shares of Rs.10/- each	75,000,000	75,000,000
Share of post acquisition loss	(10,068,466)	(9,928,582)

<b>64,931,534</b>	<b>65,071,418</b>
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**6.2.1** This represent 50% interest in 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.

In terms of clause 10.3 of the shareholders' agreement, the company, Gulshan Spinning Mills Limited, has entered into deed of accession so as to make it a party to and be by this agreement.

**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 GEL was assigned to achieve its Commercial Operation Date (COD) latest by March 31, 2009. Meanwhile, the GEL Tariff was also notified by National Electric Power Regulatory Authority (NEPRA) on April 19,2007. However, The GEL could not finalize certain related arrangements requisite for COD including availability of finance and engines on timely bases. Resultantly, the GEL got extension in achieving its COD from PPIB by December 2010 and June 2011. Simultaneously, the GEL also filed a petition for revised tariff, which was notified by NEPRA on July 8, 2008.

**6.2.3** The GEL in order to achieve the financial close, has mandated National Bank of Pakistan ( NBP ) to arrange PKR 14.135 millions. The aforesaid mandate was executed on April 14, 2008. However, due to deteriorating law and order situation, circular debt issue, tight liquidity position and ballooning exposure of banking sector towards the power projects, the financial close has not been achieved with in the envisaged time period. The GEL, 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 GEL request and as a consequence thereof the GEL has filed a petition in the Honorable Sindh High Court to protect itself from the repercussions of non achieving the financial close with in 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 ( GEL) to keep alive guarantee and have restricted PPIB from en-cashing guarantee till the adjudication of the application filed by the GEL. The stay order is still in filed and the case is pending for adjudication. Accordingly, no related adjustment has been made in financial statements of GEL.

**6.2.4** With reference to Note 6.2.2 & 6.2.3, GEL has also extended commitment bank guarantee amounting to 3,000,000 Euro in favour of Wartsila Finland (supplier of engines). During last year GEL 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 GEL 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 GEL. 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.

	Note	(Un-audited) December-10 ( Amount in Rupees )	(Audited) June-10
<b>6.3 Others</b>			
<b>Investment held to maturity</b>			
Nil (June 30, 2010: 10,000) US \$ Bonds bearer (LIBOR +2%)		-	854,000
<b>6.4 Available for Sale</b>			
Defense saving certificates	6.4.1	49,853,000	42,853,000
Accrued interest thereon		4,006,137	2,064,989
		<b>53,859,137</b>	<b>44,917,989</b>

**6.4.1** These are under lien with bank against guarantee to Rs. 49.82 (June 2010: Rs. 42.85 million).

**7 SHARE CAPITAL**

31-Dec-10	30-Jun-10		25,000,000	20,000,000	250,000,000	200,000,000
No. of shares		Authorized share capital				
		Ordinary shares of Rs. 10 each.				
		<b>Issued, subscribed and paid up capital</b>				
		Ordinary shares of Rs. 10 each issued as fully paid in cash	9,300,000	9,300,000	93,000,000	93,000,000
		Ordinary shares of Rs. 10 each issued as fully paid bonus shares	12,925,038	9,220,865	129,250,380	92,208,650
			<u>22,225,038</u>	<u>18,520,865</u>	<u>222,250,380</u>	<u>185,208,650</u>

**8 CONTINGENCIES AND COMMITMENTS****8.1 Contingencies**

There is no change in the contingencies as disclosed in Note 28.1 & 28.2 to the annual published financial information for the year ended June 30, 2010.

(Un-audited)	(Audited)
December-10	June-10
( Amount in Rupees )	

**8.2 Guarantees**

Collector of Customs, Excise and Land against deferred duties	48,000,000	41,000,000
Sui Northern Gas Pipelines Limited for gas connection	54,967,951	54,406,000
Miscellaneous guarantees	1,846,023	818,600
	<u>104,813,974</u>	<u>96,224,600</u>

**8.3** Export bills negotiated at year end amounting to Rs.616 million (June 30, 2010 : Rs. 632 million)

**8.4 Commitments****Confirmed letters of credit**

Stores and spare parts	2,900,000	15,413,874
Raw material	124,040,732	771,848,486
	<u>126,940,732</u>	<u>787,262,360</u>

**9 NET SALES**

	Quarter Ended		Half Year Ended	
	31 December, 2010	31 December 2009	31 December, 2010	31 December 2009
	----- (Rupees) -----			
Export sales	753,815,341	431,528,556	1,369,564,926	863,517,597
Local sales	663,794,980	304,092,703	965,468,911	552,789,021
Less: Sales tax	35,025	37,354	103,275	97,575
	<b>1,417,575,296</b>	<b>735,583,905</b>	<b>2,334,930,562</b>	<b>1,416,209,043</b>

**10 COST OF SALES**

Stock - opening	754,424,286	508,803,784	655,474,890	458,918,397
Cost of goods manufactured 10.1	<b>1,045,299,420</b>	581,900,327	<b>1,795,436,464</b>	1,147,901,068
Purchased of finished goods	<b>6,619,200</b>	2,973,750	<b>70,920,700</b>	41,484,764
	<b>1,051,918,620</b>	584,874,077	<b>1,866,357,164</b>	1,189,385,832
Stock - closing	<b>(856,726,153)</b>	(516,077,057)	<b>(856,726,153)</b>	(516,077,057)
	<b>949,616,753</b>	<b>577,600,804</b>	<b>1,665,105,901</b>	<b>1,132,227,172</b>

**10.1 Cost of goods manufactured**

Work in process- opening	41,441,863	37,693,607	42,066,908	28,603,576
Raw material & component consumed	<b>845,955,389</b>	425,778,921	<b>1,412,103,201</b>	853,729,752
Overheads	<b>204,628,526</b>	152,843,290	<b>387,992,713</b>	299,983,231
	<b>1,050,583,915</b>	578,622,211	<b>1,800,095,914</b>	1,153,712,983
Work in process- closing	<b>(46,726,358)</b>	(34,415,491)	<b>(46,726,358)</b>	(34,415,491)
	<b>1,045,299,420</b>	581,900,327	<b>1,795,436,464</b>	1,147,901,068

**11 EARNING PER SHARE - BASIC AND DILUTED**

	Quarter Ended		Half year ended	
	31 December, 2010	2009	31 December, 2010	2009
Profit after taxation for the period - Rupee	<b>265,860,420</b>	13,900,167	<b>303,482,643</b>	17,131,611
Average number of ordinary shares in issue during the period	<b>22,225,038</b>	22,225,038	<b>22,225,038</b>	22,225,038
Basic and diluted earnings per share - Rupee	<b>11.96</b>	0.63	<b>13.65</b>	0.77

During the period the Company issued 3,704,173 (Dec 2009: 1,683,715) ordinary shares of Rs. 10 each as bonus shares.



	Note	(Un-audited)	
		December-10	December-09
		( Amount in Rupees )	
<b>12 Cash flows from operating activities</b>			
Profit before taxation		343,968,027	35,405,068
Adjustments for :			
Depreciation		34,029,455	32,872,420
Provision for gratuity		4,969,752	4,622,910
Finance cost		230,629,754	187,207,870
Workers' profit participation fund		18,788,380	1,953,087
Workers' welfare fund		6,948,642	-
Profit on sale of operating fixed assets		(481,772)	-
Deferred income		(128,830)	(128,830)
Loss on remeasurment of investments		-	(28,200)
Share of profit from associates		(4,225,397)	(857,880)
Share of loss from joint venture		139,885	1,744,387
Unrealised exchange gain		-	(604,778)
Loss / (gain) on sale of investment		1,000	(98,639)
Interest income		(3,017,170)	(2,012,600)
Dividend income		-	(311)
		<b>287,653,699</b>	<b>224,669,436</b>
<b>Movement in working capital</b>			
Stores, spares and loose tools		(12,594,320)	(8,175,572)
Stock-in-trade		(450,246,878)	(107,978,296)
Trade debts		12,492,839	55,058,147
Loan and advances		31,064,881	82,281,871
Trade deposits and prepayments		3,160,498	2,975,784
Other receivables		(5,893,106)	(6,144,710)
Trade and other payables		(30,824,591)	(101,210,411)
Change in working capital		(452,840,677)	(83,193,187)
<b>Net cash generated from operations</b>		<b>178,781,049</b>	<b>176,881,317</b>
Interest recieved		1,144,184	7,487,329
Dividend recieved		600,946	311
Interest paid		(209,899,147)	(182,256,940)
Dividend paid		(11,991,045)	-
Taxes paid		(23,746,947)	(20,380,504)
WPPF paid		(2,603,598)	(2,337,685)
Gratuity paid		(3,288,747)	(4,926,034)
		<b>(249,784,354)</b>	<b>(202,413,523)</b>
<b>Net cash used in operating activities</b>		<b>(71,003,305)</b>	<b>(25,532,206)</b>



**13 SEGMENT INFORMATION**

This interim financial information has been prepared on the basis of a single reportable segment.

59% (2009: 61%) of gross sales of the Company are made to customers located outside Pakistan.

All non-current assets of the Company at 31 December 2010 are located in Pakistan.

There is no customer of Company to whom 10% (2009: 10%) or more sale is made during the period.

**14 TRANSACTIONS WITH RELATED PARTIES**

The related parties comprises associated Companies, directors and key management personnel. Transaction with related parties are carried out on arm's length basis. Aggregate transactions and balances with associated companies during the period were as follow.

Nature of transaction	Nature of relationship	(Un-audited)	
		December-10	December-09
		( Amount in Rupees )	
Purchases	Associated Company	99,850,003	52,902,617
Doubling / dyeing charges	Associated Company	20,564,374	8,691,947
Purchase of electricity	Associated Company	17,758,949	2,471,754
Sales	Associated Company	241,375,507	145,483,400
Processing income	Associated Company	95,223,129	102,752,057
Gratuity	Defined benefit plan	4,969,752	4,622,910
Remuneration	Key management personnel	3,162,643	2,278,430
		(Un-audited)	(Audited)
		December-10	June-10
		( Amount in Rupees )	
Balances	Nature		
Trade debts	Associated Company	93,315,751	168,909,766
Trade deposits & prepayment	Associated Company	-	1,009,194
Long term financing	Associated Company	75,000,000	75,000,000
Accrued mark-up	Associated Company	17,110,095	1,643,274
Staff retirement benefits	Defined benefit plan	27,797,376	26,116,371

- 15** Sponsor Directors, spouses and their family members have waived their right to receive 10 % cash dividend amounting to Rs.4.354 million as approved in the Annual General Meeting by the shareholders held on October 29, 2010.

**16 DATE OF AUTHORISATION FOR ISSUE**

This condensed interim financial information was authorized for issue by the Board of Directors on February 28, 2011.

**17 COMPARATIVES**

Previous figures have been rearranged and reclassified wherever necessary for better presentation in the condensed interim financial information. There is no major reclassification made in this condensed interim financial information.

**18 GENERAL**

Figures have been rounded off to the nearest rupees.

This condensed interim financial information is not signed by the Chief Executive as he is out of country. This information is disclosed as required under Section 241(2) of the Companies Ordinance, 1984.

**Director**

**Director**