

GULSHAN SPINNING MILLS LIMITED
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
FOR THE HALF YEAR ENDED DECEMBER 31, 2007

1 CORPORATE INFORMATION

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. The registered office is located at 2nd Floor, Finlay House, I.I. Chundrigar Road, Karachi.

2 BASIS OF PREPARATION

These condensed interim financial statements have been prepared in accordance with the requirements of International Accounting Standard (IAS 34) "Interim Financial Reporting" and are being submitted to the shareholders as required under section 245 of the Companies Ordinance, 1984 and the listing regulations of Karachi and Lahore Stock Exchanges. These condensed interim financial statements do not include all the information required for annual financial statements and should be read in conjunction with the published financial statements for the year ended June 30, 2007.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies and methods of computation except as described at Note 4, adopted for the preparation of these condensed interim financial statements for the half year ended December 31, 2007 are the same as those applied in the preparation of the preceding annual financial statements of the company for the year ended June 30, 2007.

4 CHANGE IN ACCOUNTING ESTIMATE

Effective from current period, the company has made a change in accounting estimate in respect of method of computation of depreciation on plant and machinery from 10% to 5%. The company has reassessed the remaining useful life of its plant and machinery and considers that its net book value as at June 30, 2007 will be more appropriately written off over the remaining useful lives of the assets.

The above change would result in more accurate allocation of depreciation expense to the accounting periods in which depreciable assets are utilized by the company. This change has been accounted for as a change in accounting estimate in accordance with International Accounting Standard (IAS 8) "Accounting Policies, Changes in Accounting Estimates and Errors" and the effect of change has been recognized in the profit and loss account for the current period. Had these estimates not been revised, the depreciation expense for the period would have been higher by and the carrying value of plant and machinery would have been lower by Rs. 22,275,662.

		<i>December 31, 2007</i>	<i>June 30, 2007</i>
		<i>Unaudited</i>	<i>Audited</i>
	<i>Note</i>	<i>(Rupees)</i>	
5 PROPERTY, PLANT AND EQUIPMENT			
Operating fixed assets	5.1	1,442,662,216	1,454,015,771
Capital work in progress		10,617,647	9,778,943
		1,453,279,863	1,463,794,714
5.1 Operating fixed assets			
Opening net book value		1,454,015,771	1,458,726,373
Additions during the period	5.2	31,252,024	188,447,434
Less :		1,485,267,795	1,647,173,807
Written down value of disposals	5.3	7,656,551	75,136,075
Depreciation		34,949,028	118,021,961
		42,605,579	193,158,036
		1,442,662,216	1,454,015,771

	<i>December 31, 2007</i>	<i>June 30, 2007</i>
	<i>Unaudited</i>	<i>Audited</i>
<i>Note</i>	<i>(Rupees)</i>	
5.2 Additions during the period		
Owned		
Building on leasehold land	613,311	4,565,975
Plant and machinery	10,518,144	47,043,736
Electric installations	4,255,677	10,763,747
Gas power generator	-	46,162,478
Mill equipments	1,863,723	4,248,816
Office equipment	205,114	876,130
Furniture and fixture	862,293	323,514
Vehicles	4,703,700	8,051,165
Leased		
Plant and machinery	7,225,062	56,947,729
Electricity installation	-	1,207,138
Vehicles	1,005,000	8,257,006
	31,252,024	188,447,434

5.3 Written down value of disposals

Land	-	1,736,500
Plant and machinery	7,643,809	63,682,976
Electric installation	-	1,187,019
Mill equipments	12,742	-
Vehicles	-	8,529,580
	7,656,551	75,136,075

6 ISSUED, SUBSCRIBED AND PAID UP CAPITAL

During the period the company issued 1,391,500 (June 30, 2007 : 1,265,000) ordinary shares of Rs. 10/- each as fully paid bonus shares.

7 LONG TERM FINANCING

The company has obtained a further loan of Rs. 60,000,000 (June 30, 2007 : Rs. 140,000,000) from Premier (Private) Limited an associated company for working capital management. This loan carries mark up at the rate of 6 months KIBOR + 1.25% (June 30, 2007 : 6 months KIBOR + 1.25%) and is repayable within five years from date of each disbursement. Repayment of other bank loans amounting to Rs. 89,067,745 (June 30, 2007 : Rs. 190,357,804) were made in accordance with previous disclosed repayment terms.

8 CONTINGENCIES AND COMMITMENTS

8.1 Contingencies

There is no change in contingencies as reported in note 27.01 in the financial statements for the period ended June 30, 2007.

8.2 Guarantees

Collector of Customs and Excise & Land against deferred duties	20,318,223	19,054,423
Sui Northern Gas Pipelines Limited for gas connection	49,341,000	49,841,000
Miscellaneous guarantees	659,800	723,600
	70,319,023	69,619,023

<i>December 31,</i> <i>2007</i>	<i>June 30,</i> <i>2007</i>
<i>Unaudited</i>	<i>Audited</i>
<i>(Rupees)</i>	

8.3 Export bills negotiated at period end amounting to Rs. 158.309 Million (June 30, 2007 : Rs. 383.842 Million).

8.4 Commitments

Building and civil works	450,210	698,657
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Confirmed letters of credit relating to :

Raw materials	169,298,598	288,741,145
Stores and spare parts	5,559,438	1,901,049
Machinery	217,434	5,440,784
	175,075,470	296,082,978

	<i>Quarter ended</i>		<i>Half year ended</i>	
	<i>December 31,</i> <i>2007</i>	<i>December 31,</i> <i>2006</i>	<i>December 31,</i> <i>2007</i>	<i>December 31,</i> <i>2006</i>
<i>Note</i>	<i>Unaudited</i> <i>(Rupees)</i>			

9 COST OF SALES

Opening stocks - at the beginning	275,870,707	328,839,015	188,068,284	251,354,853
Cost of goods manufactured 9.1	420,038,273	392,585,998	889,021,895	784,734,305
Yarn purchased	24,686,111	20,506,052	35,066,127	39,373,198
	720,595,091	741,931,065	1,112,156,306	1,075,462,356
Closing stocks - at the end	(361,218,402)	(363,747,914)	(361,218,402)	(363,747,914)
	359,376,689	378,183,151	750,937,904	711,714,442

9.1 Cost of goods manufactured

Work in process - at the beginning	31,612,474	32,285,870	34,676,521	39,090,138
Raw materials consumed	330,867,068	271,637,045	650,321,427	541,862,601
Overheads	97,024,916	123,175,981	243,490,132	238,294,464
	459,504,458	427,098,896	928,488,080	819,247,203
Work in process - at the end	(39,466,185)	(34,512,898)	(39,466,185)	(34,512,898)
	420,038,273	392,585,998	889,021,895	784,734,305

	<i>Half year ended</i>	
	<i>December 31,</i>	<i>December 31,</i>
	<i>2007</i>	<i>2006</i>
	<i>Unaudited</i>	
	<i>(Rupees)</i>	
10 NET CASH USED IN OPERATIONS		
Profit before taxation	37,971,791	3,958,244
Adjustments for :		
Depreciation	34,949,028	56,624,394
Provision for gratuity	3,820,200	2,361,000
Finance cost	113,538,328	99,233,495
Workers' profit participation fund	1,935,881	-
Profit on sale of fixed assets	(150,088)	(778,999)
Loss on sale and lease back	409,577	-
Loss on remeasurement of investment	88,613	-
Gain on remeasurement of investment	-	(1,786,156)
Deferred income	(128,830)	(1,058,037)
Gain on sale of investment	(14,305,698)	(985,160)
Amortization	76,707	113,376
Share of profit from associates	(1,190,051)	(341,714)
Amortization of discount	79,839	-
Interest income	(2,558,065)	(1,942,419)
Dividend income	(138)	(52,264)
	136,565,303	151,387,516
Operating profit before working capital changes	174,537,094	155,345,760
(Increase) / decrease in current assets		
Stores, spares parts and loose tools	(6,600,202)	(13,646,658)
Stock in trade	(325,296,579)	(468,347,394)
Trade debts	(77,708,199)	(13,470,044)
Loan and advances	(7,350,362)	13,551,620
Trade deposits and prepayments	2,856,921	(4,844,458)
Other receivables	(979,990)	(1,582,054)
	(415,078,411)	(488,338,988)
(Decrease) / increase in current liabilities		
Trade and other payables	(200,163,759)	7,126,100
Working capital changes	(615,242,170)	(481,212,888)
Net cash used in operations	(440,705,076)	(325,867,128)

Note

11 TRANSACTIONS WITH RELATED PARTIES

Related parties comprise of associated companies, companies in which directors are interested, post employment benefits, directors, key management personnel and close members of all the aforementioned related parties. Transactions with related parties are executed on same terms as those prevailing at the time for comparable transactions with unrelated parties. There are no transactions with key management personnel other than under the terms of employment.

		<i>Half year ended</i>	
		<i>December 31, 2007</i>	<i>December 31, 2006</i>
		<i>Unaudited</i>	
		<i>(Rupees)</i>	
Transactions	Relationship		
Purchase of yarn	Associated companies	45,687,303	10,094,179
Purchase of stores	"	-	3,543,105
Purchase of waste	"	60,016	-
Purchase of cotton	"	-	8,079,102
Purchase of polyester	"	144,000	-
Purchase of flex	"	-	213,157
Dying and doubling charges	"	438,625	3,440,146
Purchase of electricity	"	2,825,858	11,131,433
Sale of yarn	"	126,010,200	49,228,806
Sale of stores	"	967,351	679,208
Sale of waste	"	38,231,838	39,048,747
Sale of cotton	"	58,422,399	14,435
Sale of machinery	"	22,000	6,500,000
Dying and doubling charges	"	-	969,780
Processing charges	"	76,892,366	60,723,171
Long term financing	"	60,000,000	-
Provision for gratuity	Defined benefit plan	3,820,200	2,361,000
Salaries and benefits	Key management personnel	900,000	900,000
		<i>December 31, 2007</i>	<i>June 30, 2007</i>
		<i>Unaudited</i>	<i>Audited</i>
		<i>(Rupees)</i>	
Balances	Relationship		
Long term investments	Associated companies	104,313,334	103,123,283
Trade debts	"	80,818,899	61,258,053
Loans and advances	Key management personnel	2,690,000	1,785,000
Deposits and prepayments	Associated companies	4,494,831	4,997,637
Long term financing	"	200,000,000	140,000,000
Trade and other payables	"	1,705,337	1,834,841
Accrued mark up / interest	"	8,933,310	710,774
Staff retirement benefits	Defined benefit plan	30,629,252	29,908,240

12 DATE OF AUTHORIZATION FOR ISSUE

These condensed interim financial statements were authorized for issue on February 29, 2008 by the Board of Directors of the company.

13 GENERAL

Figures have been rounded off to the nearest rupees.

DIRECTOR

CHIEF EXECUTIVE