

**GULSHAN SPINNING MILLS LIMITED**  
**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)**  
**FOR THE HALF YEAR ENDED DECEMBER 31, 2008**

**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 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 Accounting Standards (IAS)-34 "Interim Financial Reporting", as applicable in Pakistan. These condensed interim financial statements do not include all the information's and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements for the year ended June 30, 2008

**3 SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies adopted in the preparation of these condensed interim financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended June 30, 2008.

**4 PROPERTY, PLANT AND EQUIPMENT**

		<i>December 31, 2008</i>	<i>June 30, 2008</i>
	<i>Note</i>	<i>Unaudited</i>	<i>Audited</i>
		<i>( Rupees )</i>	
Operating fixed assets	4.1	<b>1,432,130,040</b>	1,436,202,499
Capital work in progress		<b>7,934,991</b>	6,876,281
		<b><u>1,440,065,031</u></b>	<u>1,443,078,780</u>
<b>4.1 Operating fixed assets</b>			
Book value at the beginning of the period / year		<b>1,436,202,499</b>	1,454,015,771
Additions during the period / year	4.2	<b>17,004,616</b>	67,738,324
Revaluation of free hold land during the period	4.3	<b>13,403,790</b>	-
		<b>1,466,610,905</b>	1,521,754,095
Less :			
Disposal during the period / year - at book value	4.4	<b>188,680</b>	16,895,305
Depreciation charged during the period / year		<b>34,292,185</b>	68,656,291
		<b>34,480,865</b>	85,551,596
		<b><u>1,432,130,040</u></b>	<u>1,436,202,499</u>

	<i>December 31, 2008</i>	<i>June 30, 2008</i>
	<i>Unaudited</i>	<i>Audited</i>
<i>Note</i>	<i>( Rupees )</i>	
<b>4.2 Additions during the period / year</b>		
<b>Owned</b>		
Building on leasehold land	-	6,012,448
Plant and machinery	3,751,714	29,744,918
Electric installations	1,699,053	4,798,734
Gas power generator	144,547	-
Mill equipments	2,947,107	5,108,645
Office equipment	48,000	378,736
Furniture and fixture	80,195	1,348,906
Vehicles	940,000	4,605,000
<b>Leased</b>		
Plant and machinery	-	10,815,937
Vehicles	7,394,000	4,925,000
	<b>17,004,616</b>	<b>67,738,324</b>

#### 4.3 Revaluation of free hold land

During the period the company has revalued its freehold land on the basis of present market value by an independent valuer M/s Consultancy Support and Services, which resulted revaluation surplus of Rs. 13,403,790. The surplus has been added to the value of such asset and corresponding increase has been credited to the surplus on revaluation of fixed asset account.

#### 4.3 Disposals during the period / year - at book value

Plant and machinery	-	11,478,122
Mill equipments	-	12,742
Vehicles	188,680	4,617,967
Leased vehicle	-	786,474
	<b>188,680</b>	<b>16,895,305</b>

## 5 LONG TERM INVESTMENTS

In associated undertaking	<b>5.01</b>	<b>108,530,412</b>	104,794,663
In joint venture	<b>5.02</b>	<b>73,226,480</b>	-
Others - Held to Maturity	<b>5.03</b>	<b>2,634,466</b>	2,698,796
		<b>184,391,358</b>	<b>107,493,459</b>

#### 5.01 Gulistan Textile Mills Limited - Associated undertaking

559,020 (2008: 508,200) ordinary shares of Rs. 10 each	<b>40,000,000</b>	40,000,000
Share of post acquisition profit less dividend received	<b>52,155,144</b>	51,970,608
Share of revaluation surplus of associate	<b>16,375,268</b>	12,824,055
	<b>108,530,412</b>	<b>104,794,663</b>

- Fair value of investment in associate Rs. 13,902,827 (June 30,2008 : 13,721,400).
- The percentage of equity held in associate is 3.166% (June 30, 2008 : 3.166%), but by virtue of common directorship, as it results significant influence, equity method have been applied.

<i>Note</i>	<i>December 31,</i>	<i>June 30,</i>
	<i>2008</i>	<i>2008</i>
	<i>Unaudited</i>	<i>Audited</i>
	<i>( Rupees )</i>	
<b>5.02 In joint venture</b>		
7,500,000 (2008: Nil) ordinary shares of Rs. 10 each	<b>75,000,000</b>	-
Share of post acquisition loss	<b>1,773,520</b>	-
	<b>73,226,480</b>	-

The company has invested 7,500,000 ordinary shares of Rs. 10 each (June 30, 2008 : Nil) representing 50% interest in Gujranwala Energy Limited, which is a public unlisted company. The company has been incorporated principally for setting up 200 MW independent power project.

<b>5.03 Held to maturity</b>		
Bank Al Falah TFC's Nil (June 30, 2008 : 174)		
TFC's of Rs.Nil (2008: 2,495) each.	-	434,130
33,300 (June 30, 2008 : 33,300) US \$ Bonds Bearer (LIBOR+2%)	<b>2,634,466</b>	2,264,666
	<b>2,634,466</b>	<b>2,698,796</b>

## 6 SHARE CAPITAL

During the period the company issued 1,530,650 (June 30, 2008 : 1,391,500) ordinary shares of Rs. 10/- each as fully paid bonus shares. The authorised capital of the company was increased from 20,000,000 ordinary shares of Rs. 10 each to 100,000,000 ordinary shares of Rs. 10 each.

## 7 LONG TERM FINANCING

The company has obtained loan of Rs.75,000,000 (June 30, 2008 : Rs. Nil) from Premier (Private) Limited an associated company. This loan carries mark up at the rate of 6 months KIBOR + 1.75% (June 30, 2008 : Nil) and is repayable after three years from date of disbursement. Repayment of other bank loans amounting to Rs. 89,186,749 (June 30, 2008 : Rs. 325,332,995 ) were made in accordance with previous disclosed repayment terms.

## 8 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

State Bank of Pakistan vide it's SMFED circular No. 01 of 2009 allowed grace period of one year from January 01, 2009 to December 31, 2009 for deferred of principal amount for LTF - EOP loans, Debt Swap Facility and Long Term Financing Facility. Accordingly the company has not transferred principal amount in current maturity amounting to Rs. 9,492,183. Lender bank also approved and confirmed this scheme for the company.

## 9 CONTINGENCIES AND COMMITMENTS

### 9.1 Contingencies

There is no change in contingencies as reported in note 28.01 in the financial statements for the year ended June 30, 2008.

### 9.2 Guarantees

Collector of Customs and Excise & Land against deferred duties  
Sui Northern Gas Pipelines Limited for gas connection  
Miscellaneous guarantees

<b>30,318,223</b>	23,818,000
<b>49,341,000</b>	49,341,000
<b>659,800</b>	659,800
<b>80,319,023</b>	73,818,800

<i>December 31, 2008</i>	<i>June 30, 2008</i>
<i>Unaudited</i>	<i>Audited</i>
<i>( Rupees )</i>	

**9.3** Export bills negotiated at period end amounting to Rs. 175.389 Million (June 30, 2008 : Rs. 188.081)

#### **9.4 Commitments**

##### **Confirmed letters of credit relating to :**

Raw materials	<b>236,331,271</b>	242,033,548
Stores and spare parts	<b>16,974</b>	4,133,395
	<b>236,348,245</b>	246,166,943

<i>Quarter ended</i>		<i>Half year ended</i>	
<i>December 31, 2008</i>	<i>December 31, 2007</i>	<i>December 31, 2008</i>	<i>December 31, 2007</i>
<i>Unaudited</i>			
<i>( Rupees )</i>			

*Note*

## **10 COST OF SALES**

Opening stock	<b>403,763,353</b>	275,870,707	<b>259,737,608</b>	188,068,284
Cost of goods manufactured 10.1	<b>424,831,450</b>	420,038,273	<b>1,033,185,580</b>	889,021,895
Yarn purchased	<b>38,070,848</b>	24,686,111	<b>39,477,726</b>	35,066,127
	<b>866,665,651</b>	720,595,091	<b>1,332,400,914</b>	1,112,156,306
Closing stocks	<b>419,456,922</b>	361,218,402	<b>419,456,922</b>	361,218,402
	<b>447,208,729</b>	359,376,689	<b>912,943,992</b>	750,937,904

### **10.1 Cost of goods manufactured**

Work in process - at the beginning	<b>26,940,920</b>	31,612,474	<b>30,633,715</b>	34,676,521
Raw materials consumed	<b>274,207,225</b>	330,867,068	<b>742,762,779</b>	650,321,427
Overheads	<b>149,262,927</b>	97,024,916	<b>285,368,708</b>	243,490,132
	<b>450,411,072</b>	459,504,458	<b>1,058,765,202</b>	928,488,080
Work in process - at the end	<b>25,579,622</b>	39,466,185	<b>25,579,622</b>	39,466,185
	<b>424,831,450</b>	420,038,273	<b>1,033,185,580</b>	889,021,895

	<i>Half year ended</i>	
	<i>December 31,</i>	<i>December 31,</i>
	<i>2008</i>	<i>2007</i>
	<i>Unaudited</i>	
	<i>( Rupees )</i>	
<b>11 CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net profit before taxation	<b>6,491,028</b>	37,971,791
Adjustments for :		
Depreciation	<b>34,292,185</b>	34,949,028
Provision for gratuity	<b>4,174,029</b>	3,820,200
Finance cost	<b>173,476,838</b>	113,538,328
Workers' profit participation fund	<b>425,264</b>	1,935,881
Profit on sale of fixed assets	<b>(11,320)</b>	(150,088)
Loss on sale and lease back	<b>-</b>	409,577
Loss on remeasurement of investment	<b>315,678</b>	88,613
Deferred income	<b>(128,830)</b>	(128,830)
Gain on sale of investment	<b>-</b>	(14,305,698)
Amortization	<b>76,707</b>	76,707
Share of loss/ (profit) from associates	<b>1,588,984</b>	(1,190,051)
Amortization of discount	<b>65,044</b>	79,839
Interest income	<b>(3,484,871)</b>	(2,558,065)
Dividend income	<b>(397)</b>	(138)
	<b>210,789,311</b>	136,565,303
Operating profit before working capital changes	<b>217,280,339</b>	174,537,094
<b>Working capital changes:</b>		
(Increase) / decrease in current assets		
Stores, spare parts and loose tools	<b>(5,689,685)</b>	(6,600,202)
Stock in trade	<b>(836,232,193)</b>	(325,296,579)
Trade debts	<b>(12,011,512)</b>	(77,708,199)
Loans and advances	<b>15,182,730</b>	(7,350,362)
Deposits and prepayments	<b>3,376,214</b>	2,856,921
Other receivables	<b>(3,282,852)</b>	(979,990)
	<b>(838,657,298)</b>	(415,078,411)
(Decrease) / increase in current liabilities		
Trade and other payables	<b>88,065,526</b>	(200,163,759)
Working capital changes	<b>(750,591,772)</b>	(615,242,170)
<b>Net cash used in operations</b>	<b>(533,311,433)</b>	(440,705,076)
Interest received	<b>3,616,361</b>	1,449,010
Dividend received	<b>397</b>	138
Interest paid	<b>(153,749,038)</b>	(94,298,356)
Dividend paid	<b>(822)</b>	(850)
Tax paid	<b>(10,838,234)</b>	(10,416,239)
Gratuity paid	<b>(8,510,904)</b>	(3,099,188)
	<b>(169,482,240)</b>	(106,365,485)
Net cash used in operating activities	<b>(702,793,673)</b>	(547,070,561)

Note

## 12 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, 2008</i>	<i>December 31, 2007</i>
		<i>Unaudited</i>	
		<i>( Rupees )</i>	
<b>Transactions</b>	<b>Relationship</b>		
Purchase of yarn	Associated companies	<b>19,477,726</b>	45,687,303
Purchase of waste	"	-	60,016
Purchase of polyester	"	-	144,000
Dying and doubling charges	"	<b>104,722</b>	438,625
Purchase of electricity	"	<b>687,527</b>	2,825,858
Sale of yarn	"	<b>75,525,220</b>	126,010,200
Sale of stores	"	<b>317,500</b>	967,351
Sale of waste	"	<b>59,045,859</b>	38,231,838
Sale of cotton	"	-	58,422,399
Sale of Lycra/ Viscose	"	<b>67,540</b>	-
Sale of machinery	"	-	22,000
Sale of scrape	"	<b>8,544</b>	-
Processing charges	"	<b>84,719,723</b>	76,892,366
Long term financing	"	<b>75,000,000</b>	60,000,000
Provision for gratuity	Defined benefit plan	<b>4,174,029</b>	3,820,200
Salaries and benefits	Key management personnel	<b>600,000</b>	900,000
Purchase of shares in joint venture	Associated company	<b>75,000,000</b>	-
		<i>December 31, 2008</i>	<i>June 30, 2008</i>
		<i>Unaudited</i>	<i>Audited</i>
		<i>( Rupees )</i>	
<b>Balances</b>	<b>Relationship</b>		
Long term investments	Associated companies / Related party	<b>108,530,412</b>	104,794,663
Trade debts	Associated companies	<b>72,049,222</b>	68,631,984
Loans and advances	Key management personnel	-	3,310,800
Deposits and prepayments	Associated companies	<b>689,644</b>	2,488,709
Long term financing	Associated companies	<b>75,000,000</b>	-
Loan from director	Related party	<b>280,000,000</b>	280,000,000
Trade and other payables	Associated companies	<b>725,578</b>	-
Accrued mark up / interest	Associated companies	<b>3,631,479</b>	-
Staff retirement benefits	Defined benefit plan	<b>27,928,490</b>	32,265,365

### **13 DATE OF AUTHORIZATION FOR ISSUE**

These condensed interim financial statements were authorised for issue on February 28, 2009 by the Board of Directors of the company.

### **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 GENERAL**

Figures have been rounded off to the nearest rupees.

CHIEF EXECUTIVE

DIRECTOR