

**GULSHAN SPINNING MILLS LIMITED
DIRECTOR'S REVIEW TO THE SHAREHOLDERS
FOR THE QUARTER ENDED 31 MARCH, 2006**

Dear Shareholders,

Assalam-o-Alaikum

Your Directors are pleased to place before you the un audited financial statements for the third quarter ended 31 March 2006

Operating and Financial Results:

During the nine months ended on March 31, 2006, your company earned a gross profit of Rs. 219.552 million on sales of Rs. 1,589.291 million as compared to gross profit of Rs. 153.796 million on sales of Rs. 1,523.551 for the corresponding period of the previous financial year. The Company made operating profit of Rs. 157.237 million and pre tax profit of Rs. 26.226 million as compared to operating profit of Rs. 99.692 million and pre tax profit of Rs. 4.859 during the corresponding period of last year.

The cotton crop of current year as per Cotton Ginners Association announcement is only 12.388 million bales which is 14% less than the cotton production of 14.347 million bales of the preceding year. While the cotton production has reduced, the demand has increased due to enhanced capacity utilization and commissioning of expansion in the spinning capacity during the current financial year. As a result of this low supply and higher demand scenario, the average cost of cotton has substantially increased. The tight monetary strategy by the State Bank of Pakistan in order to counter inflationary pressure resulted into rising interest rates and consequently higher financial cost. The increase in our cost of production can mainly be attributed to the above mentioned macro level developments.

We would like to mention here that the cost of gas at the time of our decision to import Gas Engines as a cost saving purpose was only Rs. 182.09 per mm Btu which has increased by 32% to Rs. 240.91 per mm Btu prior to the installation and operation of these Engines. We are foreseeing further rise in the Gas tariff.

Due to continuous rise in markup rates and energy cost, we foresee a serious strain on our profitability during the last quarter of current financial year. However, your management is constantly reviewing product-mix of the yarns to arrest erosion in the profitability.

Your Company is constantly making investment in balancing and modernization of the existing machinery, which is indispensable to maintain the quality of the products and consequently to retain and attract new customers.

The Management places on record the appreciation for the services of our employees and assistance extended from time to time by our financiers.

Karachi
28-04-2006

Naseer Ahmed
Chief Executive