

**Gulshan Spinning Mills Limited**  
**Directors Report**  
**For the 1st quarter ended**  
**30<sup>th</sup> September 2008**

Dear Shareholders  
Assalam o Alaikum

Your Directors are pleased to present financial statements for the first quarter ended on 30<sup>th</sup> September 2008.

**Economic and Sector Environment**

The Economic and sector environment during the quarter under review has been very tough. Economy remained under pressure on account of global economic slow down and deteriorating economic and law and order situation at home. In Textile Sector, Cost of doing business has been consistently rising on account of increase in input cost due to rupees devaluation, extra-ordinary increase in fuel cost and interest rates, abnormal volatility in cotton and yarn market, spiraling inflation and continuous power load shedding.

**Operating and Financial Performance**

The Company despite difficult sector fundamentals has been successful in registering growth of 23% in sales and 27% in gross profit over same period last year. The gross profit margin slightly improved to 18% from 17.5%. Due to strict control on operating expenses, the said expenses reduced from 3.7% of sales in first quarter last year to 3.4% of sales in quarter under review. The improved gross profit and control on operating expenses led to 31.1% rise in operating profit. The Company suffered other operating loss of Rs 1.98 million during the quarter mainly on account of exchange loss whereas in the same quarter last year other operating profit was Rs 16.89 million mainly attributed to Rs 14.3 million gain from sale of shares held for trading investment. The Financial cost has shown substantial rise of 38% mainly attributed to huge rise in 6M KIBOR over corresponding period last year. Net profit dropped by 75.8% from Rs 25 million to Rs 6.05 million due to aforesaid other operating loss and rise in financial cost.

**Future Out look**

Although your company has withstand all economic challenges and achieve reasonable profits so far, however in view of deteriorating economic and industry conditions such as rising interest rates, liquidity crunch, production loss due to massive electricity and gas load shedding, dropping export orders due to global economic slowdown, it becomes really difficult to maintain profitability in Textile business. Your management is seriously considering different diversification options in order to generate relatively certain streams of income.

Under these adverse circumstances your management is making its best efforts to keep the company profitable through exercising better control on input costs and improvement in operating efficiencies.

We would like to thank our customers, suppliers and bankers for their continued support and would like to place on record appreciation for the valuable services of our employees.

For and On behalf of Board of Directors

(Tanveer Ahmed)  
Chief Executive

Karachi  
31-10-08