

# GULISTAN SPINNING MILLS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE HALF YEAR ENDED DECEMBER 31, 2005 (UNAUDITED)

#### 1 STATUS AND ACTIVITIES

Gulistan Spinning Mills Limited ("the Company") was incorporated under the Companies Ordinance, 1984 as a public limited company and its shares are listed on Karachi and Lahore stock exchanges. The principal business of the Company is manufacturing and sale of yarn.

#### 2 BASIS OF PREPARATION

These interim financial statements ("the financial statements") have been prepared in accordance with the directives issued by the Securities and Exchange Commission of Pakistan and are in compliance with the International Accounting Standard 34 "Interim Financial Reporting" and being submitted to shareholders as required under section 245 of the Companies Ordinance, 1984.

These financial statements have been prepared under "Historical cost convention" except for land which is stated at revalued amount, certain financial assets which are stated at fair value and staff retirement benefits accounted for in accordance with International Accounting Standard 19 "Employee benefits".

These financial statements are unaudited. However, a limited scope review of these financial statements has been performed by the auditors of the Company in accordance with the clause (xxi) of the Code of Corporate Governance and they have issued their review report thereon.

**2.1** Owing to the change of financial year cycle from October - September to July - June for the textile sector by the Securities and Exchange Commission of Pakistan, the Company found it impracticable to arrange the reviewed financial statements for the comparable period ended December 31, 2004, as the half yearly review was carried out for the period ended March 31, 2005 which was not identical as of half year of the current year.

#### 2.2 ACCOUNTING POLICIES

The accounting policies adopted for the preparation of these financial statements are consistent with those applied in preparation of annual financial statements of the Company for the period ended June 30, 2005 with the exception of note 2.3.

#### 2.3 CHANGE IN ACCOUNTING POLICY

Consequent to the change in International Accounting Standard 28 "Investments in Associates" with effect from this financial year, the Company has changed its accounting policy in respect of investments in associates whereby the investments in associates are now accounted for using the equity method in financial statements of the Company as defined in the above International Accounting Standard.

#### 3 ISSUED, SUBSCRIBED AND PAID UP CAPITAL

	<b>December 31 2005</b>	<b>June 30 2005</b>
	.....Rupees.....	
6,838,330 (June 30, 2005: 6,838,330) Ordinary shares of Rs. 10 each fully paid in cash	<b>68,383,300</b>	68,383,300
3,161,670 (June 30, 2005: 3,161,670) Ordinary shares of Rs. 10 each issued as fully paid bonus shares	<b>31,616,700</b>	31,616,700
	<b>100,000,000</b>	100,000,000

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## 4 LONG-TERM FINANCING-SECURED

The Company has obtained a long-term finance from KASB Bank Limited amounting to Rs. 3.04 million. The loan is secured by way of first pari passu hypothecation charge on all present and future fixed assets of the Company amounting to Rs. 4.05 million with 25% margin. The loan carries mark-up at the rate of six months KIBOR plus 2% per annum with floor of 9% per annum and cap of 11% per annum and is repayable in six years from the date of disbursement including one year grace period.

## 5 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

During the period the Company acquired machinery on finance lease from Pak Oman Investment Company Limited amounting to Rs 12.5 million. The lease carries mark-up at the rate of six month KIBOR plus 2.75% per annum payable into quarterly installements. The effective discount rate used is 10.8% per annum.

	Note	December 31 2005	June 30 2005
		.....Rupees.....	
<b>6 LONG-TERM ADVANCES</b>			
Advances from leasing company	6.1	48,531,937	-
<b>6.1</b>			
This amount represents the proceeds received from KASB Bank Limited for the purpose of gas driven generators amounting to Rs. 48.5 million. The finance carries mark-up at the rate of six months KIBOR plus 2% per annum with floor of 9% per annum and is repayable in six year period from the date of disbursement with one year grace period.			
<b>7 CONTINGENCIES AND COMMITMENTS</b>			
<b>Contingencies</b>			
There are no material changes in contingencies as disclosed in the notes to the financial statements for the period ended June 30, 2005.			
<b>Commitments</b>			
For capital expenditure		37,905,442	70,705,772
<b>8 PROPERTY PLANT AND EQUIPMENT</b>	8.1	504,643,891	392,889,272
<b>8.1 Operating fixed assets-owned and leased</b>			
Opening written down value		376,414,069	280,327,252
Acquisitions / transfers during the period-at cost	8.1.1	11,739,206	121,891,098
Revaluation of freehold land	8.1.2	72,785,068	-
		460,938,343	402,218,350
Written down value of the assets disposed off		132,718	809,129
Depreciation charged for the period		17,901,151	24,995,152
		442,904,474	376,414,069
<b>Capital work in progress</b>		61,739,417	16,475,203
		504,643,891	392,889,272

### 8.1.1 Acquisitions / transfers and disposals-at cost

	December 31, 2005		June 30, 2005	
	Acquisitions / transfers	Disposals	Acquisitions / transfers	Disposals
.....Rupees.....				
<b>Company owned</b>				
Freehold land		-	2,034,900	-
Plant and machinery	10,241,665	-	108,840,545	800,000
Electric installations	1,265,445	-	245,790	-
Factory equipments	100,000	-	8,100,496	-
Office equipments	3,700	-	643,017	-
Furniture and fixtures	128,396	-	257,350	-
Vehicles	-	476,500	-	425,000
<b>Assets subject to finance lease</b>				
Vehicles	-	-	1,769,000	-
	11,739,206	476,500	121,891,098	1,225,000

**8.1.2** The latest revaluation of land was carried out by Consultancy Support & Services (valuers) as at December 20, 2005 and incorporated in the accounts in the half yearly period ended December 31, 2005. The basis used for revaluation of land was as follows:-

**Freehold land:** The value of land is ascertained according to the local market value as assessed by the valuers.

The cost of freehold land includes revaluation surplus of Rs. 72,785,068 arising from revaluation of freehold land on December 20, 2005.

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		December 31 2005	June 30 2005
	Note	.....Rupees.....	
<b>9 LONG-TERM INVESTMENTS</b>			
Investments in associates	<b>9.1</b>	<b>18,847,848</b>	19,895,939
Other investments		<b>2,373,752</b>	1,569,479
		<b>21,221,600</b>	<b>21,465,418</b>
<b>9.1 Investments in associates - at equity</b>			
<b>Listed Companies</b>			
<b>Gulistan Textile Mills Limited</b>		<b>793,796</b>	20,825
700 shares (June 30, 2005: 700 shares)			
holding 0.0055% (June 30, 2005: 0.0055% holding)			
Add: reversal of provision for diminution in value of investment due to the change in accounting policy		-	97,315
Add: gain in associates due to the change in accounting policy	<b>2.3</b>	-	675,656
Less: provision for diminution in value of investment		<b>774,896</b>	-
Market value Rs. 27 per share (June 30, 2005: Rs. 168.77 per share)		<b>18,900</b>	793,796
<b>Gulshan Spinning Mills Limited</b>		<b>372,900</b>	105,570
5,856 shares (June 30, 2005: 5865 shares)			
holding 0.0464% (June 30, 2005: 0.0464% holding)			
Add: reversal of provision for diminution in value of investment due to the change in accounting policy		-	157,355
Add: gain in associates due to the change in accounting policy	<b>2.3</b>	-	109,975
Less: provision for diminution in value of investment		<b>273,195</b>	-
Market value Rs.17 per share (June 30, 2005: Rs. 44.83 per share)		<b>99,705</b>	372,900
<b>Unlisted Companies</b>			
<b>Gulshan Weaving Mills Limited</b>		<b>14,988,000</b>	7,789,000
778,900 shares (June 30, 2005: 778,900)			
5.8% holding (June 30, 2005: 5.8% holding)			
Add: gain in associates due to the change in accounting policy	<b>2.3</b>	-	7,199,000
		<b>14,988,000</b>	14,988,000
<b>Gulistan Power Generation Limited</b>		<b>3,741,243</b>	1,000,000
110,000 shares (June 30, 2005: 111,000 shares)			
1.51% holding (June 30, 2005: 1.51% holding)			
Add: gain in associates due to the change in accounting policy	<b>2.3</b>	-	2,741,243
		<b>3,741,243</b>	3,741,243
		<b>18,847,848</b>	<b>19,895,939</b>
<b>9.2</b>			
The investments in associates represents the net assets acquired in the financial statements of the associates up to June 30, 2005. The net cumulative effect of the results in associates during the half year to be accounted for at the financial year ending on June 30, 2006.			

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10 SALES		Note	Half year ended		Quarter ended	
			December 31 2005	December 31 2004	December 31 2005	December 31 2004
			.....Rupees.....			
	Local		<b>113,165,574</b>	108,397,994	<b>49,851,325</b>	45,804,515
	Export		<b>295,895,507</b>	247,339,247	<b>165,361,003</b>	104,830,286
			<b>409,061,081</b>	355,737,241	<b>215,212,328</b>	150,634,801
	Less:					
	Commission		<b>6,373,388</b>	5,583,491	<b>1,370,841</b>	3,019,549
	Export rebate		<b>3,330</b>	-	-	-
			<b>402,684,363</b>	350,153,750	<b>213,841,487</b>	147,615,252
<b>11 COST OF GOODS SOLD</b>						
	Stock at the beginning		<b>63,318,665</b>	88,298,633	<b>72,837,013</b>	76,119,091
	Purchases		-	3,679,000	-	3,679,000
	Cost of goods manufactured	<b>11.1</b>	<b>356,775,242</b>	329,503,731	<b>187,044,653</b>	154,008,381
			<b>420,093,907</b>	421,481,364	<b>259,881,666</b>	233,806,472
	Stock at the end		<b>73,168,480</b>	108,405,378	<b>73,168,480</b>	108,405,378
			<b>346,925,427</b>	313,075,986	<b>186,713,186</b>	125,401,094
<b>11.1 Cost of goods manufactured</b>						
	Work in process at the beginning		<b>8,514,401</b>	12,554,574	<b>8,086,266</b>	14,614,011
	Raw material consumed		<b>265,705,048</b>	241,430,794	<b>143,134,585</b>	104,937,849
	Overheads		<b>91,824,769</b>	83,969,167	<b>45,092,778</b>	42,907,325
			<b>366,044,218</b>	337,954,535	<b>196,313,629</b>	162,459,185
	Work in process at the end		<b>9,268,976</b>	8,450,804	<b>9,268,976</b>	8,450,804
			<b>356,775,242</b>	329,503,731	<b>187,044,653</b>	154,008,381
<b>12 PROVISION FOR TAXATION</b>						
	Current taxation		<b>3,595,371</b>	3,881,040	<b>2,067,094</b>	1,238,443
	Deferred taxation (income) / expense		<b>(2,943,286)</b>	(38,130)	<b>(2,943,286)</b>	-
			<b>652,085</b>	3,842,910	<b>(876,192)</b>	1,238,443
<b>12.1 Deferred taxation</b>					<b>December 31</b>	<b>June 30</b>
					<b>2005</b>	<b>2005</b>
	Opening balance				<b>2,209,893</b>	(600,208)
	(Reversed) / provided during the period				<b>(2,943,286)</b>	2,810,101
					<b>(733,393)</b>	<b>2,209,893</b>

**12.2** The principal temporary difference arise from profits of associates accounted for on equity basis and depreciation on assets.

## 13 EARNINGS PER SHARE - BASIC AND DILUTED

There is no dilutive effect on basic earnings per share of the Company.

## 14 TRANSACTIONS AND BALANCES WITH RELATED PARTIES

The related parties comprise associated companies, staff retirement benefit plans, directors and key management personnel. The transactions with related parties during the current period generally consists of sales and purchases. Nature and description of significant related party transactions along with monetary values are as follows:

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			<b>Half year ended</b>	
			<b>December 31</b>	<b>December 31</b>
			<b>2005</b>	<b>2004</b>
			<b>.....Rupees.....</b>	
<b>14.1 Transactions</b>				
<b>Category</b>	<b>Relationship</b>	<b>Nature of transactions</b>		
Associated Companies	Common directorship	Purchase of:		
		Stores	<b>230,000</b>	114,720
		Yarn	-	2,051,484
		Cotton	-	29,689,440
		Electricity	<b>22,263,576</b>	28,787,976
		Scrap	<b>21,600</b>	-
		Services received	<b>818,175</b>	5,466,695
		Mark-up earned	<b>1,738,911</b>	2,393,840
		Sale of:		
		Yarn	<b>18,020,100</b>	27,119,235
		Cotton	-	37,708,121
		Stores	<b>357,214</b>	969,183
		Waste	<b>23,989,297</b>	15,650,090
		Services paid	<b>525,580</b>	166,500
Employee benefits	Defined benefit plan-staff gratuity	Provision	<b>1,287,000</b>	1,636,658

			<b>December 31</b>	<b>June 30</b>
			<b>2005</b>	<b>2005</b>
			<b>.....Rupees.....</b>	
<b>14.2 Outstanding balances</b>				
<b>Category</b>	<b>Relationship</b>	<b>Nature of balance</b>		
Associated Companies	Common directorship	Payables	<b>480,299</b>	1,615,187
		Receivables	<b>32,588,289</b>	32,588,289
Employee benefits	Defined benefit plan-staff gratuity	Payables	<b>7,540,379</b>	7,222,403

## 15 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on \_\_\_\_\_ by the Board of Directors of the Company.

## 16 RECLASSIFICATION

**16.1** Corresponding figures have been rearranged and reclassified wherever necessary to reflect more appropriate presentation of events and transactions for the purpose of comparison.

**16.2** Significant reclassifications made are as follows :

- Freight and handling charges amounting to Rs.10,972,861 are reclassified from deduction in gross sales to distribution cost.
- Export development surcharge amounting to Rs. 988,173 are reclassified from deduction in gross sales to distribution cost.

## 17 OTHERS

- Figures have been rounded off to the nearest rupee.
- There are no other significant activities since June 30, 2005 affecting the financial statements.

**CHIEF EXECUTIVE**

**DIRECTOR**