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Company Information

BOARD OF DIRECTORS	Mr. Sohail Maqsood (Chairman) Mr. Tanveer Ahmed (Chief Executive) Mr. Muhammad Yousaf Mr. Umer Hayat Gill Mr. Riaz Ahmed Mr. Muhammad Shafiq Mr. Iftikhar Ali
AUDIT COMMITTEE	Mr. Muhammad Shafiq (Chairman) Mr. Umer Hayat Gill Mr. Sohail Maqsood
HR & REMUNERATION COMMITTEE	Mr. Iftikhar Ali (Chairman) Mr. Tanveer Ahmed Mr. Sohail Maqsood
CHIEF FINANCIAL OFFICER	Mr. Muhammad Shahid
COMPANY SECRETARY	Mr. Javaid Iqbal
AUDITORS	M/s. Hameed Chaudhri & Company Chartered Accountants Karachi.
LEGAL ADVISOR	M/s. Akhtar Javed - Advocate
TAX CONSULTANT	M/s. Sharif & Company - Advocate
SHARE REGISTRAR OFFICE	M/s. Hameed Majeed Associates (Pvt) Ltd. Karachi Chamber Hasrat Mohani Road Karachi Ph. 32424826, 32412754, Fax. 32424835
REGISTERED OFFICE	2nd Floor Finlay House, I.I. Chundrigar Road, Karachi.
REGIONAL OFFICE	2nd Floor, Garden Heights, 8 Aibak Block, New Garden Town, Lahore.
MILLS	Unit I Tibba Sultan Pur, Distt. Vehari Unit II Jumber Khurd Tehsil Chunion Distt, Kasur Unit III Warburton Distt. Nankana Sahib

Director's Report to Shareholders

The Directors of your Company are pleased to present unaudited financial statements of the Company for the first quarter ended September 30, 2012.

Financial Results

Operating Indicators	Quarter Ended September 30, 2012 Rupees	Quarter Ended September 30, 2011 Rupees
Sales	404,752,485	944,507,724
Gross (loss)/Profit	(57,437,391)	144,781,289
Pre Tax (loss)/Profit	(96,275,372)	(11,658,557)
Provision for Taxation	800,151	5,085,636
Earnings/(loss) Per Share	(4.37)	0.23

The period under review has also been proved difficult period. The severe gas and electricity load shedding and rising trends of energy costs has further aggravated the position. Moreover, the condition has worsened when financial institutions withdrew their working capital and export discounting lines unilaterally resulting in loss of export business. Due to withdrawal of working capital and export discounting lines, timely purchase of cotton at cheaper rates could not be materialized. Due to the company's inability to purchase raw materials adequately it was unable to maximize production capacity which resulted in loss. These all matters elevated the entire conflict which even caused litigation and the Company filed a suit before Honorable Lahore High Court jointly against financial institutions under section 9 of the Financial Institutions (Recovery of Finances) Ordinance, 2001 for redemption / release of security, rendition of accounts, and recovery of damages, permanent injunction, ancillary reliefs. The banks in response also filed recovery suits before different Civil Courts, Banking Courts and High Courts. The Lahore High Court vide its order dated October 25, 2012 has ordered not to disturb the present position of current assets and fixed assets of the Company and no coercive action shall be taken against the Company. Since the matter is prejudice in the Honorable Lahore High Court, the company has not therefore acknowledged its liability relating to mark up until the amount of principal and mark up is reconciled with the financial institutions in accordance with the above mentioned suit.

The debt amortization profile, higher interest cost and associated liquidity problems have forced the company to initiate restructuring of its debt obligations subject to reconciliation of financial obligations to ensure continued timely discharge of its commitments to its lenders. The company has initiated the debt restructuring process with the help of the key lending financial institutions. In this regard leading law firm has been appointed as transaction lawyer and restructuring plan/terms are in process of finalization and majority of financial institutions has agreed in principle to the restructuring process. Once achieved it would improve the company's financial health and liquidity of the Company.

Future Outlook:

The management of your company has adopted various approaches to diminish the financial impact caused by banks / financial institutions by freezing our short term financing facilities and blocking the export lines unilaterally. In this regard we made third party arrangements, whereby the company will process the cotton on agreed prices managing the cash flows to the best possible options available at this point of time. We have been conscious of the issues that are affecting our profitability and are committed to plans to turn Company into profit by implementing the restructuring process (which is at advance stage) for better financial position, strengthening our operations through proficient acumen, improving manufacturing processes and offering better service to our customers. Moreover, present trend of increase in inflation, unpredictable abnormal hike in power costs and load shedding are likely to continue. All these factors may affect the profitability for the next quarter. In spite of these circumstances, the Management would be putting its best efforts to ensure continued growth, operational efficiency and optimum results for the Company and its valued stakeholders

Acknowledgement:

We appreciate the efforts and with thanks place on record the continued support extended to us by our customers, suppliers and bankers. The valuable services rendered by our team of employees are gratefully acknowledged.

Balance Sheet as at September 30, 2012

		September 30 2012	June 30 2012
		Rupees	Rupees
		(Un-Audited)	(Audited)
ASSETS			
NON CURRENT ASSETS			
Property, plant and equipment	5	3,869,663,828	3,895,756,389
Long term investment	6	102,069,258	102,027,608
Long term deposits		8,650,608	8,650,608
		<u>3,980,383,694</u>	4,006,434,605
CURRENT ASSETS			
Stores, spares and loose tools		43,550,113	44,358,051
Stocks in trade		816,098,208	838,903,499
Trade debtors		484,632,717	527,477,129
Loans and advances		43,013,726	68,062,431
Deposit and prepayments		8,014,960	7,382,386
Accrued mark up / interest		776,788	1,081,782
Other Receivables		24,170,962	23,242,734
Cash and bank balances		48,125,042	22,551,549
		<u>1,468,382,516</u>	1,533,059,561
		<u>5,448,766,210</u>	<u>5,539,494,166</u>
EQUITY AND LIABILITIES			
Share capital		222,250,380	222,250,380
Reserves		272,000,000	272,000,000
Unappropriated profit		(2,168,690,852)	(2,085,160,651)
Shareholders' equity		<u>(1,674,440,472)</u>	<u>(1,590,910,271)</u>
SURPLUS ON REVALUATION OF LAND		2,481,090,218	2,494,635,540
SUBORDINATE LOAN		250,000,000	250,000,000
NON CURRENT LIABILITIES			
Long term loans		75,000,000	75,000,000
Long term finances	7	-	-
Liabilities against assets subject to finance lease	7	-	-
Deferred liabilities		629,825,654	633,596,425
		<u>704,825,654</u>	708,596,425
CURRENT LIABILITIES			
Trade and other payables	8	690,860,877	676,030,303
Accrued mark up / interest	9	26,044,327	28,903,387
Current portion of non-current liabilities		149,436,944	150,941,854
Short term borrowings	10	2,804,316,364	2,804,002,387
Provision for taxation		16,632,298	17,294,541
		<u>3,687,290,810</u>	3,677,172,472
CONTINGENCIES AND COMMITMENTS	11	-	-
		<u>5,448,766,210</u>	<u>5,539,494,166</u>

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.

Condensed Interim Profit and Loss Account (Un-audited) for the first quarter ended September 30, 2012

	For the first quarter ended	
	September 30 2012	September 30 2011
	Rupees	Rupees
Sales	404,752,485	944,507,724
Cost of Sales	462,189,876	799,726,435
Gross (loss) / Profit	(57,437,391)	144,781,289
Distribution Cost	16,218,756	27,992,841
Administrative Expenses	14,358,223	12,264,694
Other Operating Income	(8,765,102)	(357,216)
	21,811,877	39,900,320
(Loss) / Profit from Operations	(79,249,268)	104,880,970
Finance Cost	8,625,153	116,198,554
Share of (Loss) / profit of an Associated Company	(8,400,951)	345,100
Share of Loss from Joint Venture	-	(686,073)
	(8,400,951)	(340,973)
(Loss) / profit before taxation	(96,275,372)	(11,658,557)
TAXATION		
Current	800,151	8,653,226
Deffered	-	(25,397,419)
	800,151	(16,744,193)
(Loss) / profit after taxation	(97,075,523)	5,085,636
(Loss) earning per share	(4.37)	0.23

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.

Condensed Interim Cash Flow Statement (Un-audited) for the first quarter ended September 30, 2012

	NOTE	September 30 2012 Rupees	September 30 2011 Rupees
CASH USED IN OPERATIONS	12	27,641,484	(98,340,938)
Cash flows from investing activities:			
Addition to operating fixed assets		(877,058)	(7,662,148)
Net cash used in investing activities:		(877,058)	(7,662,148)
Cash flows from financing activities:			
Payments made under finance lease		(1,504,910)	(7,101,666)
Term finance - Faysal Bank Limited		-	50,000,000
Term finance from banks		-	(1,472,319)
LTF - EOP loans		-	(2,641,275)
Short term borrowings		313,977	87,453,661
Net cash from financing activities		(1,190,933)	126,238,401
Net increase in cash and Cash equivalents		25,573,493	20,235,315
Cash and cash equivalents at beginning of the year		22,551,549	67,150,496
Cash and cash equivalents at end of the year		48,125,042	87,385,811

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.

Condensed Interim Statement of Changes in Equity (Un-audited) for the first quarter ended September 30, 2012

	Share Capital Issued, subscribed and paid-up	Reserves		Unappropriated Profit	Total
		Share Premium	General Reserve		
	Rupees	Rupees	Rupees	Rupees	Rupees
Balance as at July 1, 2011	222,250,380	66,000,000	206,000,000	515,232,911	1,009,483,291
Total comprehensive income for the year ended September 30, 2011	-	-	-	5,085,636	5,085,636
Balance as at September 30, 2011	222,250,380	66,000,000	206,000,000	520,318,547	1,014,568,927
Balance as at July 1, 2012	222,250,380	66,000,000	206,000,000	(2,085,160,651)	(1,590,910,271)
Total comprehensive income for the period ended September 30, 2012	-	-	-	(97,075,523)	(97,075,523)
Incremental depreciation on revalued assets				13,545,322	13,545,322
BALANCE AS AT SEPTEMBER 30, 2012	222,250,380	66,000,000	206,000,000	(2,168,690,852)	(1,674,440,472)

The annexed notes 1 to 15 form an integral part of this condensed interim financial information.

Notes to the Condensed Interim Financial Information (Un-audited) for the first quarter ended September 30, 2012

1. THE COMPANY AND ITS OPERATIONS

- 1.1 Gulshan Spinning Mills Limited ("the Company") was incorporated as a Public Limited Company in Pakistan under the Companies Ordinance, 1984. Its main business is manufacturing and sales of yarn. The shares of the Company are listed on Karachi and Lahore Stock Exchanges in Pakistan. The address of its registered office is 2nd Floor, Finlay House, I.I. Chundrigar Road, Karachi.
- 1.2 The Board of Directors of the Company in its meeting held on April 05, 2011 approved the scheme of merger by amalgamation of the Company and Gulistan Spinning Mills Limited with and into Paramount Spinning Mills Limited along with the approval of the share swap ratio in relation thereto. The Company on orders of Honourable Sindh High Court called Extra Ordinary General Meeting on August 1, 2011 in which the above said scheme was approved by the shareholders of the Company. The Company is in the process of obtaining No Objection Certificates from its creditors and lenders.

2. BASIS OF PRESENTATION

This condensed interim financial information is un-audited and is being submitted to the members in accordance with section 245 of the Companies Ordinance, 1984. It has been prepared in accordance with the requirements of the International Accounting Standard 34 - 'Interim Financial Reporting' and provisions of and directives issued under the Companies Ordinance, 1984. In case where requirements differ, the provisions of or directives issued under the Companies Ordinance, 1984 have been followed. This condensed interim financial information does not include all the information required for annual financial statements and therefore, should be read in conjunction with the audited annual financial statements of the Company for the year ended June 30, 2012.

3. ACCOUNTING POLICIES

The accounting policies adopted for the preparation of this condensed interim financial information are same as those applied in the preparation of preceding audited annual financial statements of the Company for the year ended June 30, 2012.

4. ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of this condensed interim financial information in conformity with the approved accounting standards requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. However, actual results may differ from these estimates.

Estimation and judgements made by the management in the preparation of this condensed interim financial information were the same as those that were applied to the audited annual financial statements for the year ended June 30, 2012 except for the following:

4.1 Change in estimates

The management, during the current period, has engaged M/s Maricon Consultants (Pvt.) Ltd., Engineers, Authorized Valuers of Pakistan Banking Association and Leasing Association of Pakistan to ascertain the useful life and assess the remaining useful life of following depreciable assets. Keeping in consideration the assessed useful life of these assets, the depreciation rates of depreciable assets were found excessive and consequently depreciation rates have been reduced as follows:

Asset category	Depreciation rates (%)	
	Revised	Previous
Factory buildings	2.5	5
Residential buildings	2.5	5
Plant and machinery - leased and owned	2.5	5
Electric Installations	2.5	10
Gas power generators	4	5

The change in accounting estimate has been accounted for prospectively in accordance with the requirements of International Accounting Standard 8 - 'Accounting Policies, Changes in Accounting Estimates and Errors' by adjusting the depreciation charge for current period. The change in accounting estimate has resulted in decrease in depreciation charge for the period by Rs.22.878 million with corresponding increase in carrying value of operating fixed assets and decrease in current year's loss before taxation by the same amount.

		September 30 2012	June 30 2012
		Rupees	Rupees
	Note	Un-audited	Audited
5. PROPERTY, PLANT AND EQUIPMENT			
Operating fixed assets	5.1	3,869,663,828	3,895,756,389
Capital work-in-progress			
- advance for land		989,505	989,505
- impairment allowance		(989,505)	(989,505)
		-	-
		<u>3,869,663,828</u>	<u>3,895,756,389</u>
5.1 Operating fixed assets			
Book value at beginning of the period / year		3,895,756,389	1,339,944,440
Additions during the period / year		877,058	21,863,868
Transfer in from leased vehicles to owned vehicles - at book value		-	760,859
Transfer out from leased vehicles to owned vehicles - at book value		-	(760,859)
Surplus on revaluation carried-out during the preceding year		-	2,597,577,002
Depreciation charge for the period / year		(26,969,619)	(63,628,921)
Book value at end of the period / year		<u>3,869,663,828</u>	<u>3,895,756,389</u>
5.2 There has been no change in the status of matter as detailed in note 5.3 to the Company's published annual financial statements for the year ended June 30, 2012.			
		September 30 2012	June 30 2012
		Rupees	Rupees
		Un-audited	Audited
6. LONG TERM INVESTMENTS			
In Associated Company		11,417,974	12,373,478
In Joint Venture		60,581,403	60,581,403
Available for sale		30,069,881	29,072,727
		<u>102,069,258</u>	<u>102,027,608</u>

7 LONG TERM FINANCES AND LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE - Secured

Due to the pending litigations as detailed in note 11.1.1 to this condensed interim financial information, the Company's financial arrangements with the banking companies and financial institutions have been disputed and the Company will only make payments / adjustments of all the finances after the amounts are reconciled with these banks and financial institutions in accordance with the above mentioned suit. In terms of provisions of International Accounting Standard 1 - 'Presentation of Financial Statements', all liabilities under these finance agreements should be classified as current liabilities. Based on the above, instalments due after the twelve months period ending September 30, 2013 under long term finance agreements and lease finance agreements have been grouped under current portion of non-current liabilities.

8 TRADE AND OTHER PAYABLES

Trade and other payables include bills payable / letters of credit payable, which represent payable to various financial institutions in respect of letters of credit (LCs) issued by the financial institutions in favour of various local and imported raw material suppliers. The Company is in litigation with banks and financial institutions as detailed in note 11.1.1 and payments / adjustments will be made upon the outcome of final decision of the litigation.

9 ACCRUED MARK-UP / INTEREST

During the quarter ended September 30, 2012, the Company has not provided mark-up / interest on its long term finances, lease finances and short term borrowings to the extent of Rs.0.511 million, Rs.0.214 million and Rs.96.550 million respectively due to pending litigations with the financial institutions. Un-provided mark-up / interest upto the balance sheet date aggregated Rs.238.296 million.

10 SHORT TERM BORROWINGS - Secured

10.1 These balances are against various finance facilities, which had expired during the preceding financial year and were not renewed by the respective banks / financial institutions as at the reporting date. The Company has not acknowledged the above mentioned financial liabilities and filed a suit in the Lahore High Court for redemption / release of security, rendition of accounts, recovery of damages, permanent injunction and ancillary reliefs.

11. CONTINGENCIES AND COMMITMENTS**11.1 Contingencies****11.1.1 Liabilities towards banks and financial institutions**

- (a) The Company has filed a global suit in the Lahore High Court against all banks / financial institutions under Section 9 of the Financial Institutions (Recovery of Finances) Ordinance, 2001 for redemption / release of security, rendition of accounts, recovery of damages, permanent injunction and ancillary reliefs. The Lahore High Court, vide its order dated October 25, 2012, has ordered not to disturb the present position of current assets and fixed assets of the Company and no coercive action shall be taken against the Company.
- (b) Various Banks and Financial Institutions have also filed suits before different Civil Courts, Banking Courts and High Courts for recovery of their long term and short term liabilities through attachment and sale of Company's hypothecated / mortgaged / charged stocks and properties. The aggregate amount of these claims is Rs.2,958.844 million.

Since the matters are pending before various courts, the Company has not acknowledged its financial liabilities towards these banks / financial institutions until the amounts of principal and mark-up / interest are reconciled with these financial institutions in accordance with the abovementioned suits. However, the liability in respect of principal outstanding has been accounted for to the full extent where as mark-up / interest to the extent of Rs.238.296 million has not been accounted upto to the reporting date.

The management is strongly contesting the abovementioned cases and is hopeful for a favourable decision. Since all the cases are pending before various Courts therefore the ultimate outcome can not be established.

11.1.2 There has been no change in the matter as detailed in note 27.1.2 to the Company's published annual financial statements for the year ended June 30, 2012.

11.1.3 Refer contents of note 6.2.5. to the Company's published annual financial statements for the year ended June 30, 2012.

11.1.4 Counter guarantees aggregating Rs.78.518 million (June 30, 2012: Rs.78.518 million) given by the Company to various banks outstanding as at September 30, 2012 in respect of guarantees issued in favour of various Government Departments / Institutions and Sui Northern Gas Pipelines Limited.

11.2 Commitments

11.2.1 Commitment against confirmed letters of credit outstanding at the period end was for Rs.Nil (June 30, 2012: Rs.36.741 million).

	For the nine months ended	
	September 30 2012	September 30 2011
	Rupees	Rupees
12. Cash flows from operating activities		
Profit before taxation	(96,275,372)	(11,658,557)
Adjustments for ;		
Depreciation	26,969,619	15,684,965
Provision of gratuity	2,606,769	1,936,239
Finance cost	8,625,153	116,198,554
Share of profit from associate	8,400,951	(345,100)
Share of loss from joint venture	-	686,073
Interest income	(1,319,655)	(154,963)
Reversal of impairment loss equity investments	(7,445,447)	-
	37,837,390	134,005,768
Movement in working capital		
Stores, spare parts and loose tools	807,939	(1,736,726)
Stocks in trade	22,805,290	7,923,948
Trade debts	42,844,412	(27,522,678)
Loans and advances	25,048,705	(11,157,510)
Deposits and prepayments	(632,574)	(6,114,717)
Other receivables	(928,229)	2,275,315
Trade and other payables	14,830,575	(52,655,564)
Change in working capital	104,776,118	(88,987,932)
Net cash generated from operations	46,338,136	33,359,279
Interest received	627,495	110,449
Interest paid	(11,484,213)	(121,680,942)
Tax paid	(1,462,394)	(7,770,308)
Gratuity paid	(6,377,540)	(2,359,416)
	(12,319,112)	(129,340,800)
Net cash used in operating activities	27,641,484	(98,340,938)

13. TRANSACTIONS WITH RELATED PARTIES

The related parties comprises associated companies, directors and key management personnel. Transaction with related parties are carried out on arm's length basis. Aggregate transactions and balances with associated companies during the period were as follow.

		September 30	September 30
		2012	2011
		Rupees	Rupees
Nature of transaction	Nature of relationship		
Purchases	Associated Company	36,977,474	69,736,662
Sales	Associated Company	44,801,998	140,823,157
Processing income	Associated Company	29,537,578	37,203,130
Gratuity	Defined benefit plan	2,606,769	1,936,239

14. OPERATING SEGMENT

This interim financial information has been prepared on the basis of a single reportable segment.

- (a) 21% (September 2011:48%) of sales of the Company are made to customers located outside Pakistan.
 (b) All non-current assets of the Company at September 30, 2012 and September 30, 2011 are located in Pakistan.

15. GENERAL

- 15.1. Figures have been rounded off to the nearest rupee except stated otherwise.
 15.2. This condensed interim financial information has been authorized for issue by the Board of Directors of the Company on August 15, 2013.