Contents

Company Information ........................................... 02
Vision and Mission Statement .............................. 04
Financial Highlights ............................................ 05
Notice of the Meeting ......................................... 08
Chief Executive’s Review ...................................... 12
Directors’ Report ................................................ 14
Statement of Compliance with code of Corporate Governance .......... 19
Auditors’ Review Report on Compliance with the Code of Corporate Governance .......... 21
Auditors’ Report to the Members ......................... 22
Balance Sheet .................................................... 24
Profit and Loss Account ....................................... 26
Cash Flow Statement .......................................... 27
Statement of Changes in Equity ............................. 28
Notes to the Accounts ....................................... 29
CONSOLIDATED FINANCIAL STATEMENTS
Auditors’ Report to the members ......................... 54
Consolidated Balance Sheet ................................. 56
Consolidated Profit and Loss Accounts ............. 58
Consolidated Cash Flow Statement .................... 59
Consolidated Statement of Changes in Equity .... 60
Notes to the Consolidated Accounts ................. 61
Pattern of Shareholding (Ordinary) .................... 86
Pattern of Shareholding (Preference) ............... 89
Form of Proxy ..................................................
Company Information

Board of Directors
Mr. Mueen Afzal Chairman
Mr. Ahmed H. Shaikh Chief Executive
Chief Justice (R) Mian Mahboob Ahmad
Mr. Aehsun M.H. Shaikh
Mr. Ali Jehangir Siddiqui
Mr. Khalid A.H. Al-Sagar
Mr. Muhammad Mukarram

Company Secretary
Mr. Javaid Iqbal

Chief Financial Officer
Ms. Bushra Naz Malik

Audit Committee
Chief Justice (R) Mian Mahboob Ahmad Chairman
Mr. Mueen Afzal
Mr. Aehsun M.H. Shaikh
Mr. Ali Jehangir Siddiqui
Mr. Khalid A.H. Al-Sagar

Management Team
Mr. Ahmed H. Shaikh
Mr. Aehsun M.H. Shaikh
Ms. Bushra Naz Malik
Mr. Muhammad Talib
Mr. Aamir Usman
Mr. Mazhar Hussain Mirza
Mr. Irfan Nazir Ahmad
Mr. Per Fredriksson

Finance Committee
Mr. Ahmed H. Shaikh
Mr. Ali Jehangir Siddiqui
Ms. Bushra Naz Malik
**BANKERS**

Citibank N.A.
Faysal Bank Limited
Habib Bank Limited
Muslim Commercial Bank Limited
National Bank of Pakistan
PICIC Commercial Bank Limited
Saudi Pak Industrial & Agricultural Investment Company (Private) Limited
The Hong Kong and Shanghai Banking Corporation
Union Bank Limited
United Bank Limited
Habib Bank AG Zurich
NDLC-IFIC Bank Limited

**REGISTERED OFFICE**

Ismail Aiwan-i-Science
Off Shahrah-i-Roomi
Lahore, 54600
Ph: +92 (0)42 111-786-645
Fax: +92 (0)42 5761791
Website: www.azgard9.com

**PROJECT LOCATIONS**

Unit I
2.5 KM off Managa, Raiwind Road,
District Kasur.
Ph: +92 (0)4951 384081-2
Fax: +92 (0)4951 384093

Unit II
Alipur Road, Muzaffargarh.
Ph: +92 (0)661 422503, 422651
Fax: +92 (0)661 422652

**LEGAL ADVISORS**

Hamid Law Associates
Hassan & Hassan Advocates

**AUDITORS**

M.Yousaf Adil Saleem & Co.
Chartered Accountants

**TAX ADVISORS**

Ford Rhodes Sidat Hyder & Co.
Chartered Accountants
Hameed Chaudhri & Co.
Chartered Accountants
Vision & Mission Statement

Vision Statement
To become a Major Global Fashion Apparel Company

Mission Statement
To become a $300 Million International Branded Jeans Business by 2007

Cultural Pillar
The High Speed Passionate Pursuit of Progress through Team Work
## Financial Highlights

### Operating Performance (Rs. 000)

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales–Net</td>
<td>3,160,780</td>
<td>2,428,127</td>
<td>1,931,118</td>
<td>1,257,106</td>
<td>1,079,985</td>
<td>711,195</td>
</tr>
<tr>
<td>Export Sales–Gross</td>
<td>1,657,688</td>
<td>1,616,709</td>
<td>1,314,025</td>
<td>1,127,941</td>
<td>876,615</td>
<td>504,693</td>
</tr>
<tr>
<td>Local Sales–Gross</td>
<td>1,503,092</td>
<td>811,418</td>
<td>617,093</td>
<td>429,165</td>
<td>203,370</td>
<td>206,502</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>720,001</td>
<td>646,103</td>
<td>493,389</td>
<td>308,630</td>
<td>218,597</td>
<td>37,705</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>533,436</td>
<td>446,671</td>
<td>350,713</td>
<td>204,117</td>
<td>132,084</td>
<td>(23,506)</td>
</tr>
<tr>
<td>Profit before Tax</td>
<td>398,677</td>
<td>248,441</td>
<td>146,321</td>
<td>61,883</td>
<td>7,540</td>
<td>(157,426)</td>
</tr>
<tr>
<td>Profit after Tax but before minority interest</td>
<td>378,677</td>
<td>228,189</td>
<td>160,116</td>
<td>56,583</td>
<td>7,241</td>
<td>(158,820)</td>
</tr>
<tr>
<td>Profit after Tax but after minority interest</td>
<td>377,004</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

### Financial Position (Rs. 000)

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Share capital</td>
<td>1,737,309</td>
<td>868,654</td>
<td>868,654</td>
<td>319,057</td>
<td>251,557</td>
<td>251,557</td>
</tr>
<tr>
<td>Share premium</td>
<td>106,433</td>
<td>143,675</td>
<td>143,675</td>
<td>143,675</td>
<td>143,675</td>
<td>143,675</td>
</tr>
<tr>
<td>Capital reserve</td>
<td>255,709</td>
<td>107,368</td>
<td>105,152</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Unappropriated profit / (accumulated loss)</td>
<td>412,400</td>
<td>161,711</td>
<td>(92,057)</td>
<td>(310,468)</td>
<td>(367,050)</td>
<td>(374,291)</td>
</tr>
<tr>
<td>Minority Interest</td>
<td>2,743</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Shares Deposit Money</td>
<td>–</td>
<td>40,000</td>
<td>106,086</td>
<td>45,939</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Surplus on revaluation of fixed assets</td>
<td>306,565</td>
<td>330,250</td>
<td>355,829</td>
<td>253,289</td>
<td>253,289</td>
<td>253,289</td>
</tr>
<tr>
<td>Non-Participatory Redeemable Capital – Secured</td>
<td>–</td>
<td>650,000</td>
<td>2,798</td>
<td>4,042</td>
<td>5,286</td>
<td>6,530</td>
</tr>
<tr>
<td>Long term liabilities</td>
<td>117,652</td>
<td>150,093</td>
<td>384,649</td>
<td>377,478</td>
<td>519,935</td>
<td>532,505</td>
</tr>
<tr>
<td>Deferred liabilities</td>
<td>–</td>
<td>25,513</td>
<td>19,808</td>
<td>13,578</td>
<td>10,334</td>
<td>8,309</td>
</tr>
<tr>
<td>Staff Gratuity</td>
<td>–</td>
<td>25,513</td>
<td>19,808</td>
<td>13,578</td>
<td>10,334</td>
<td>8,309</td>
</tr>
<tr>
<td>Current portion of Long term liabilities</td>
<td>363,082</td>
<td>160,799</td>
<td>140,431</td>
<td>154,429</td>
<td>121,965</td>
<td>104,975</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>2,622,758</td>
<td>2,382,306</td>
<td>1,719,710</td>
<td>987,880</td>
<td>673,307</td>
<td>570,493</td>
</tr>
<tr>
<td>Provision for taxation</td>
<td>64,825</td>
<td>44,825</td>
<td>30,735</td>
<td>8,864</td>
<td>3,564</td>
<td>–</td>
</tr>
<tr>
<td>Unclaimed dividends</td>
<td>95</td>
<td>96</td>
<td>116</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Stores, Spares &amp; loose tools</td>
<td>72,609</td>
<td>45,778</td>
<td>21,689</td>
<td>9,229</td>
<td>12,972</td>
<td>16,015</td>
</tr>
<tr>
<td>Stock in trade</td>
<td>1,425,587</td>
<td>1,265,777</td>
<td>722,376</td>
<td>246,192</td>
<td>187,767</td>
<td>126,004</td>
</tr>
<tr>
<td>Trade debtors</td>
<td>924,208</td>
<td>536,616</td>
<td>533,468</td>
<td>207,767</td>
<td>126,004</td>
<td>131,320</td>
</tr>
<tr>
<td>Current assets</td>
<td>3,265,962</td>
<td>2,479,501</td>
<td>1,957,829</td>
<td>987,845</td>
<td>1,015,161</td>
<td>867,515</td>
</tr>
<tr>
<td>Net working capital</td>
<td>643,205</td>
<td>97,195</td>
<td>(169,320)</td>
<td>(147,192)</td>
<td>(111,780)</td>
<td>(147,646)</td>
</tr>
<tr>
<td>Total capital employed</td>
<td>3,688,809</td>
<td>2,437,263</td>
<td>1,788,509</td>
<td>840,652</td>
<td>923,114</td>
<td>867,515</td>
</tr>
<tr>
<td>Gross profit to sales (%)</td>
<td>22.78</td>
<td>26.61</td>
<td>25.55</td>
<td>24.55</td>
<td>20.24</td>
<td>5.30</td>
</tr>
<tr>
<td>Operating profit to sales (%)</td>
<td>16.88</td>
<td>18.40</td>
<td>18.16</td>
<td>16.24</td>
<td>12.23</td>
<td>(3.31)</td>
</tr>
<tr>
<td>Profit before Tax to sales (%)</td>
<td>12.61</td>
<td>10.23</td>
<td>7.58</td>
<td>4.92</td>
<td>0.70</td>
<td>(22.14)</td>
</tr>
<tr>
<td>Profit after Tax to sales (%)</td>
<td>11.98</td>
<td>9.40</td>
<td>8.29</td>
<td>5.86</td>
<td>0.67</td>
<td>(22.33)</td>
</tr>
<tr>
<td>Return on Capital Employed (%)</td>
<td>14.46</td>
<td>14.16</td>
<td>11.59</td>
<td>12.70</td>
<td>1.97</td>
<td>(49.60)</td>
</tr>
<tr>
<td>Earnings per share (Rs.)</td>
<td>4.33</td>
<td>2.63</td>
<td>2.64</td>
<td>2.08</td>
<td>0.29</td>
<td>(6.31)</td>
</tr>
</tbody>
</table>

### Financial Analysis

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Financial charges to sales (%)</td>
<td>2.78</td>
<td>2.55</td>
<td>25.55</td>
<td>24.55</td>
<td>20.24</td>
<td>5.30</td>
</tr>
<tr>
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<td>2.08</td>
<td>0.29</td>
<td>(6.31)</td>
</tr>
</tbody>
</table>

### Notes

- *Excluding current portion of LT liabilities*
- *Debt to Equity Ratio* 
- *Leverage Ratio* 
- *Breakup Value per Share (Rs.)* 
- *Inventory Turnover (Times per Year)* 
- *Total Assets Turnover (Times)* 
- *Earnings per Share (Please refer to Note 31)* 

## ANNUAL REPORT 2004
Financial Highlights

Profit as Percentage of Sales

Operating Performance

Break up value per share (Rs.)

Return on Equity & Capital Employed

Shareholders' Equity and Liabilities

Capital Mix

Total Assets
# Distribution of Revenue

## Wealth Generated

<table>
<thead>
<tr>
<th>Description</th>
<th>Rupees</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>3,160,780,433</td>
<td></td>
</tr>
<tr>
<td>Sales Net</td>
<td>9,864,791</td>
<td></td>
</tr>
<tr>
<td>Other Income</td>
<td>9,864,791</td>
<td></td>
</tr>
<tr>
<td>Bought in Material &amp; Services</td>
<td>(2,170,015,229)</td>
<td></td>
</tr>
</tbody>
</table>

**Total Revenue:** 1,000,629,995

## Wealth Distribution/ Allocation

<table>
<thead>
<tr>
<th>Category</th>
<th>Rupees</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Employees</td>
<td>358,167,311</td>
<td></td>
</tr>
<tr>
<td>Salaries, Wages &amp; Benefits (Including WPPF)</td>
<td>358,167,311</td>
<td></td>
</tr>
<tr>
<td>To Government</td>
<td>141,750,287</td>
<td></td>
</tr>
<tr>
<td>Income Tax, Sales Tax, Custom Duty</td>
<td>141,750,287</td>
<td></td>
</tr>
<tr>
<td>To Providers of Capital</td>
<td>123,708,381</td>
<td></td>
</tr>
<tr>
<td>Charges on borrowed Fund</td>
<td>123,708,381</td>
<td></td>
</tr>
<tr>
<td>Profit Retained</td>
<td>377,004,016</td>
<td></td>
</tr>
</tbody>
</table>

**Total Profit Retained:** 377,004,016

**Total Allocation:** 1,000,629,995

### Wealth Distribution / Allocation

- **Profit Retained:** 38%
- **Government:** 36%
- **Providers of Capital:** 12%
- **Employees:** 14%

---

**ANNUAL REPORT 2004**

**Distribution of Revenue**

**Total Revenue:** 1,000,629,995

<table>
<thead>
<tr>
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<th>Rupees</th>
<th>%</th>
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<td>(2,170,015,229)</td>
<td></td>
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**Total Revenue:** 1,000,629,995

## Wealth Distribution/ Allocation

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<tr>
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<td></td>
</tr>
<tr>
<td>To Providers of Capital</td>
<td>123,708,381</td>
<td></td>
</tr>
<tr>
<td>Charges on borrowed Fund</td>
<td>123,708,381</td>
<td></td>
</tr>
<tr>
<td>Profit Retained</td>
<td>377,004,016</td>
<td></td>
</tr>
</tbody>
</table>

**Total Profit Retained:** 377,004,016

**Total Allocation:** 1,000,629,995

### Wealth Distribution / Allocation

- **Profit Retained:** 38%
- **Government:** 36%
- **Providers of Capital:** 12%
- **Employees:** 14%
Notice is hereby given that the 12th Annual General Meeting of AZGARD NINE LIMITED (formerly Legler-Nafees Denim Mills Limited) will be held on 31st January 2005 at 10.00 A.M at the Registered Office of the Company Aiwan-i-Science Off Shahrah-i-Roomi, Lahore to transact the following business:

ORDINARY BUSINESS

1. To confirm the minutes of the last Extra Ordinary General Meeting.
2. To receive, consider and adopt the financial statements for the year ended September 30, 2004 together with Directors’ and Auditors’ reports thereon.
3. To approve cash dividend @10% (i.e. Rs.1/- per ordinary share) as recommended by the Board.
4. To appoint auditors and fix their remuneration. M/s M. Yousaf Adil Saleem & Co. Chartered Accountants have completed their five years as Auditors of the Company in terms of clause XII of Code of Corporate Governance. The Board, on the recommendation of the Audit Committee of the Company has proposed the appointment of M/s Rahman Sarfraz & Company, Chartered Accountants as Auditors for the year 2004-2005.

A notice under section 253(1) of the Companies Ordinance, 1984 has also been received from a shareholder of the Company.

SPECIAL BUSINESS

5. To seek the consent of shareholders to place quarterly accounts of the Company on its website instead of circulating the same by post to the shareholders and, if thought fit, to pass the following resolution:

“RESOLVED THAT the Company be and is hereby authorized to place its quarterly accounts on its website instead of sending the same to the members by post, subject to compliance and approval of the Securities & Exchange Commission of Pakistan’s circular No. 19 of 2004 dated April 14, 2004.”

6. To consider and approve the amendments in the Memorandum of Association to enlarge the scope of activities of the Company and, if thought fit, to pass the following resolution as a special resolution, with or without modification:

“RESOLVED THAT the approval of the Company be and is hereby accorded to alter the Memorandum of Association as per the attached black-lined draft reflecting the proposed changes subject to the approval of SECP.

7. To approve amendments in the Articles of Association and in this connection to consider and, if thought fit, to pass the following resolution as a special resolution, with or without modification:

“RESOLVED THAT the approval of the Company be and is hereby accorded to alter the Articles of Association as per the attached black-lined Articles of Association reflecting the proposed changes.
RESOLVED FURTHER THAT the Chief Executive of the Company and Company Secretary be and are hereby authorized jointly or severally to do all acts, deeds or things and to complete all legal formalities on behalf of the Company in connection with obtaining of respective approvals of SECP, and Company Registration office, Lahore.

RESOLVED FURTHER THAT the Chief Executive of the Company and Company Secretary be and are hereby authorized jointly or severally to make necessary amendments/modifications in the Memorandum and Articles of Association, if any, pointed out or desired by SECP or Company Registration office, Lahore on behalf of the Company."

8. To transact any other business with the permission of the Chair.

By Order of the Board

Javaid Iqbal  
(Company Secretary)

NOTES:

1. The share transfer books of the Company will remain closed from January 25, 2005 to January 31, 2005. (both days inclusive).

2. The Preference Shareholders are not entitled to attend the meeting.

3. A member entitled to attend and vote at the meeting may appoint another member as his/her proxy to attend and vote in his/her place. Proxies, complete in every respect, in order to be effective, must be received at the Registered Office of the Company not less than 48 hours before the time of the meeting.

4. Members who have not yet submitted photocopy of computerized National Identity Card (NIC) to the Company are requested to send the same at the earliest.

5. CDC Account Holders will further have to follow the under mentioned guidelines as laid down by the Securities and Exchange Commission of Pakistan:
A. For Attending the Meeting

1) In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per the CDC Regulations, shall authenticate his identity by showing his original NIC or original Passport at the time of attending the Meeting.

2) In case of corporate entity, the Board of Directors’ resolution / power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the Meeting.

B. For Appointing Proxies

1) In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per the CDC Regulations, shall submit the proxy form as per the above requirements.

2) The proxy form shall be witnessed by two persons whose names, addresses and NIC numbers shall be mentioned on the form.

3) Attested copies of NIC or the passport of the beneficial owners and the proxy shall be furnished with the proxy form.

4) The proxy shall produce his original NIC or original Passport at the time of the Meeting.

5) In case of corporate entity, the Board of Directors’ resolution/power of attorney with specimen signature shall be submitted (unless it has been provided earlier) along with proxy form to the Company.

Statement under section 160 of the Companies Ordinance 1984 in respect of the special business to be considered at the meeting together with copy of black lined Memorandum and Articles of Association are being sent to the Members.

Statement under Section 160 of the Companies Ordinance, 1984

Placement of Quarterly Accounts on Website

Securities and Exchange Commission of Pakistan (SECP) has vide its Circular No. 19 of 2004 dated April 14, 2004 allowed the listed companies to place the quarterly accounts on its website subject to its approval instead of transmitting the same to the shareholders by post which will be treated compliance of the provision of Section 245 of the Companies Ordinance, 1984 subject to fulfillment of certain conditions including seeking prior consent of the shareholders in general meeting.

In order to avoid cumbersome exercise and save cost of printing and dispatching the quarterly accounts, the Board of Directors of the Company in their meeting held on December 28, 2004 has recommended to the shareholders of the Company to allow placement of quarterly accounts on its website i.e. www.azgard9.com instead of circulating the same by post to the shareholders subject to the approval from SECP. The Company after obtaining requisite permission from the SECP will inform shareholders through advertisement in the newspapers. The Company shall also supply the copies of the Quarterly Accounts to the shareholders, on demand, at their registered address, free of cost within one week of such demand.
Amendment in Memorandum and Articles of Association

At the time of incorporation, the Company had registered existing Memorandum of Association with exclusive object to avail the tax exemption as envisaged under the clause 118 of Second Schedule of repealed Income Tax Ordinance, 1979. The Board of Directors in their meeting held on December 28, 2004 has proposed a multi purpose object clause of the Memorandum of Association to enlarge and extend the scope of activities of the Company for more profitable purposes keeping in view the post quota regime and globalization objective.

The Board has also considered that due to the recent amendments in the Companies Ordinance, 1984 (the “Ordinance”) through the Companies (Amendment) Ordinance, 2002, and the introduction of new corporate laws, including but not limited to the Central Depositories Act, 1997 and the rules made thereunder, the Code of Corporate Governance, Listing Regulations, The Electronic Transactions Ordinance, 2002, the Companies (Buy-Back of Shares) Rules, 1999, and the Companies Share Capital (Variation in Rights and Privileges) Rules, 2002, certain clauses of the Articles of Association of the Company need to be altered.

A black lined draft reflecting the proposed amendments in Memorandum and Articles of Association of the Company are annexed hereto.

A copy of the existing as well as proposed Memorandum and Articles of Association may be inspected by the members during business hours at the Registered Office of the Company up till the convening of Annual General Meeting.

The Directors of the Company have no interest in these special resolutions except in their capacity as Shareholders of ordinary shares of the Company to the extent of their respective shareholding.
Chief Executive's Review

It is with a tremendous amount of pride that I am writing this review.

Our numbers continue to improve. Sales have grown by 30% and profits by 65%.

However, the greatest change has taken place within the organization and is currently not reflected in the numbers. In fact, change has been the buzz word for 2004. The focus has been to develop the organization in order for the company to be ready to make maximum use of the “once in a lifetime” opportunity that will be available post the removal of quotas in 2005.

A great deal of emphasis has been placed on “cultural change”, greater responsibility and ownership at all levels of the organization. We have launched a process that I hope will gain momentum and will be the engine that will drive the Company to new unscaled heights in times to come.

I am proud that our management team who has championed and lead such a process. I hope that we shall continue down this road with the same vigour, zeal and enthusiasm with which we have started it.

I would like to congratulate all the employees of Azgard-9. You have learnt and proven that by working together you are unbeatable. I hope it is a lesson we have all learnt well and pray for our continued future success together.

REGIONAL AND GLOBAL BUSINESS ENVIRONMENT

This was a year that felt like a dress rehearsal. Everyone was preparing for 2005 when the curtain would finally go up. Demand was fairly robust. The expectation for 2005 is generally positive after a cautious start. In the first half of the year buyers will slowly test new waters and change their buying patterns based on new opportunities presented by a world based on “Free Trade”.

Our Business Strategy

We remain committed to globalize Azgard-9.

As such we have evolved from a Pakistan only manufacturing business to an international business. The Company now has a direct presence in Five Countries. “A journey of a thousand miles begins with the first step.”

The Company within the Sector

- The company’s margin is near the top end of the Denim Sector in South Asia.
- Its rating by PACRA of “A” in the long term and “A1” in the short term is at par with the highest in the Textile Sector in Pakistan.

Future Outlook

The outlook is optimistic in the long term and continuous for the short term. The October-December and the January-March quarters are typically lean. Moreover, it will take time for things to really settle down after the removal of quotas. In fact, I believe it will be the second half of the year before we really see the positive effects of this trickle down to our numbers.

The Company has aggressive expansion plans during 2005.

- A new denim mill is planned which will take Fabric capacity to 26 million meters.
- Spinning capacity is planned to increase by 51% to 51,000 spindles.
- Garments capacity to be 5 million units by the end of 2005.
- Power generation capacity to increase from 3 mega watts to 10 mega watts by the end of the year.

Appreciation

I would like to thank all stakeholders in Azgard-9 for their support hard work and trust.

Our suppliers, financiers, customers, our Board of Directors and our greatest asset, our people.

It is through the team work between all of these that such success has been possible.

I thank you all and pray for a prosperous 2005.

Lahore	 Chief Executive
December 28, 2004
Directors’ Report

The Board of Directors of Azgard Nine Limited is pleased to present the 12th Annual Report with audited financial statements for the year ended September 30, 2004 of the Company along with consolidated financial statements of the group including its foreign subsidiary’s results.

Board of Directors feels immense pleasure to announce another year of record results and consistent growth. The operating and financial decisions undertaken during the year allowed the company to maintain the financial strength and flexibility necessary to operate in a capital intensive, cyclical business.

<table>
<thead>
<tr>
<th>Financial Results</th>
<th>2004 Rupees</th>
<th>2003 Rupees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Profit</td>
<td>533,435,665</td>
<td>446,671,058</td>
</tr>
<tr>
<td>Financial Charges</td>
<td>123,708,381</td>
<td>185,641,156</td>
</tr>
<tr>
<td>Profit before Tax</td>
<td>398,677,394</td>
<td>248,440,384</td>
</tr>
<tr>
<td>Profit after Tax</td>
<td>377,004,016</td>
<td>228,188,046</td>
</tr>
</tbody>
</table>

Economic Environment

Year 2003-2004, remained the most challenging year for textile industry due to following reasons:

- Low cotton production all over the world causes cotton prices to jump up to record of Rs. 3,600 per maund.
- Sales rates remained under pressure and not enough to absorb the increased cost of cotton.
- International economic scenario remained under depression in the aftermath of Iraq war and due to higher oil prices. Moreover, some of the factors like imposition of antidumping duty from EU, increase in prices of polyester fiber, high quota costs effected sales and profit margin.

Highlights of Company Performance

Your Company has performed remarkably well, despite of the above mentioned challenges. Summarize the key achievement which contributed to our success in 2003-2004.

The company’s turnover has increased by 30% due to exploring new markets and increased plant capacity. Moreover profit after tax has been increased from 9.40% to 11.93% of net sales. The contributory factors are decrease in financial charges from 7.65% to 3.91% of net sales and tax rate from 0.83% to 0.63 % of net sales. Consequently the EPS has improved from Rs. 2.63 to Rs 4.33. The market capitalization has strengthened and share price has gone to over Rs. 26.
As required by the code of corporate governance, directors are pleased to report that:

- The financial statements prepared by the management of the Company present fairly its true state of affairs, the results of its operations, cash flows and changes in equity.
- Proper books of account of the Company have been maintained.
- Appropriate accounting policies have been consistently applied except for changes in accounting policies as disclosed in note No. 2.19 in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International accounting standards, as applicable in Pakistan have been followed in preparation of financial statements.
- The system of internal control is sound and has been effectively implemented and monitored.
- The Board is satisfied that company is doing well and there is no concern as regard to going concern under the Code.
- There has been no material departure from the best practices of corporate governance as detailed in the listing regulations of the stock exchanges.
- Key operating and financial data for the last six years is annexed.
- There are no statutory payments on account of taxes, duties, levies and charges which are outstanding as on September 30, 2004 except for those disclosed in the financial statements.
- The value of provident fund investments as on September 30, 2004 was Rs. 32.777 million (September 30, 2003: Rs.6.179 million)
- No material changes and commitments affecting the financial position of your Company have occurred between the end of the financial year to which this Balance Sheet relates and the date of the Directors’ Report.
Dividend

The Directors are pleased to recommend payment of cash dividend @ 10% (i.e. Rs. 1.00 per share) to the ordinary shareholders of the Company.

Preference Shares

During the period under review the Company has issued 86,865,434 (8.95% cumulative (non voting)) preference shares.

Placement of quarterly Financial Statements on Company’s website

In pursuance of circular No. 19 dated April 14, 2004 of Securities and Exchange Commission of Pakistan (SECP), the directors have proposed, subject to the approval of SECP, to place the quarterly financial statements on Company’s website www.azgard9.com instead of transmitting the same to the shareholders by post.

Audit Committee

The Board of Directors in compliance with the code of corporate governance has established an Audit Committee comprising of five members. Four members of the Audit Committee including chairman are non executive directors. The names of its members are given in the Company’s information.

Auditors

The present auditors M/S M. Yousaf Adil Saleem & Co., Chartered Accountants will retire. They have completed their five years and in terms of Clause No. (xii) of the Code of Corporate Governance, are not eligible for reappointment. The Board of Directors places its appreciations for their services. The Audit committee has recommended the appointment of M/S Rahman Sarfraz & Company, Chartered Accountants as external auditors of the Company for the next financial year 2004-05.
Change of Financial Year

Pursuant to the SRO 684(1)/2004 dated August 10, 2004 of Central Board of Revenue, Government of Pakistan (CBR) read with circular No. 29 of 2004 dated November 5, 2004 of Securities and Exchange Commission of Pakistan, the financial year of the Company is changed as starting from 1st July and ending on 30th June every year. However, the Company intends to have calendar year as its financial year keeping in view its globalization objective subject to the respective approvals of CBR and SECP. Consequent upon the above said approval the financial statements for the period ended 1st October 2004 to 31st December 2005 (15 months) shall be placed before the shareholders in next Annual General Meeting.

Board Meetings

During the year under review nine meetings were held. Attendance by each director is as follows:

<table>
<thead>
<tr>
<th>Name of Director</th>
<th>Eligibility</th>
<th>Attended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr. Humayun N. Shaikh*</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Mr. Ahmed H. Shaikh</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Mr. Ahsun M. H. Shaikh</td>
<td>9</td>
<td>6</td>
</tr>
<tr>
<td>Ms. Bushra Naz. Malik*</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Mr. Muhammad Shah Chishti*</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Mr. Muhammad Talib*</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Mr. Khalid A.H. Al-Sagar</td>
<td>9</td>
<td>1</td>
</tr>
<tr>
<td>Mr. Mueen Afzal**</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>Chief Justice (R) Mian Mahboob Ahmad**</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Mr. Christopher William Knight**</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Mr. Ajay Prasad Khaitan**</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Mr. Abdul Rasheed Zahid Grewal**</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Mr. Muhammad Mukarram***</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Mr. Ali Jehangir Siddiqui****</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

* Resigned on March 18, 2004
** Appointed on March 18, 2004
*** Appointed on May 30, 2004 to fill up casual vacancies created due to resignations of Mr. Christopher William Knight and Mr. Ajay Prasad Khaitan.
Appointed on August 16, 2004 to fill up casual vacancy created due to resignation of Mr. Abdul Rasheed Zahid Grewal.

Leaves of absence were granted to the members who could not attend the meeting.

**Pattern of Shareholding**

The pattern of shareholding as at September 30, 2004 including the information under the code of corporate governance for ordinary and preference shares are annexed.

**Acknowledgment**

The Board of Directors places on record its appreciation of the support of the shareholders, Government agencies, financial institutions and customers, who enabled the Company to achieve good results.

The Board would also like to express their appreciation for the services, loyalty and efforts being continuously rendered by the executives, staff members and the workers of the Company and hope that they will continue with these efforts.

On behalf of the Board

Lahore
December 28, 2004

Chief Executive
Statement of Compliance with best practices of code of corporate governance

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 37 of listing regulations of Karachi stock exchange for the purpose of establishing a framework of good governance, whereby the Company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the Code in the following manner:

1. At present the Board of directors includes four (4) non-executive directors.

2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.

3. All the resident directors are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. Seven Casual vacancies occurring in the Board were filled up by the Directors with in fourteen days thereof.

5. The Company has prepared a “Statement of Ethics and Business Practices”, which has been signed by all the directors and employees of the Company.

6. The business operations of the Company are carried out in accordance with the Company’s Vision/Mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions have been taken by the Board.

8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. The Board arranged orientation courses from time to time for its directors during the year to apprise them of their duties and responsibilities.

10. Chief Financial Officer, Company Secretary and Head of Internal Audit executed their responsibilities in accordance with the appointments approved by the Board including their remuneration and terms and conditions of employment, as determined by the Chief Executive.

11. The Directors are well conversant with the listing regulations, legal requirements and operational imperatives of the company, and as
such fully aware of their duties and responsibilities.

12. The directors’ report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

13. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.

14. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

15. The Company has complied with all the corporate and financial reporting requirements of the Code.

16. The Board has formed an audit committee. It comprises five members, of whom four are non-executive directors including the chairman of the committee.

17. The Board has setup an effective internal audit function.

18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

19. We confirm that all other material principles contained in the Code have been complied with.

Lahore
December 28, 2004

Chief Executive