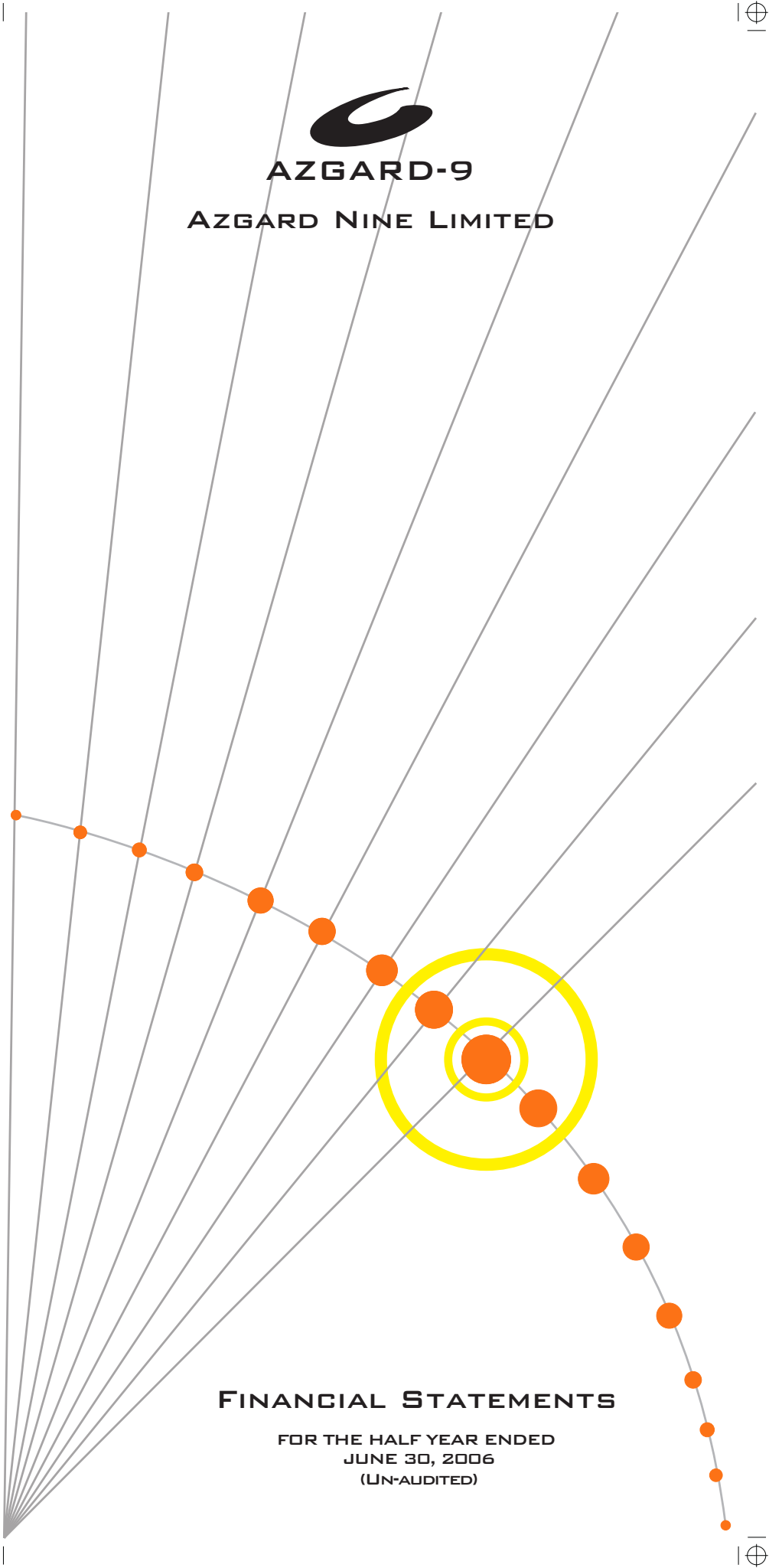




**AZGARD-9**

**AZGARD NINE LIMITED**



**FINANCIAL STATEMENTS**

**FOR THE HALF YEAR ENDED  
JUNE 30, 2006  
(UN-AUDITED)**

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## COMPANY INFORMATION

### BOARD OF DIRECTORS

Mr. Mueen Afzal  
Mr. Ahmed H. Shaikh  
Chief Justice (Retd.) Mian Mahboob Ahmad  
Mr. Aehsun M.H. Shaikh  
Mr. Ali Jehangir Siddiqui  
Mr. Khalid A.H. Al-Sagar  
Mr. Mohammed Khaishgi

Chairman  
Chief Executive

### COMPANY SECRETARY

Mr. Javaid Iqbal

### CHIEF FINANCIAL OFFICER

Ms. Bushra Naz Malik

### AUDIT COMMITTEE

Chief Justice (Retd.) 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. Umair Hameed  
Mr. Andrea Malfanti  
Mr. Per Fredriksson

### FINANCE COMMITTEE

Mr. Ahmed H. Shaikh  
Mr. Ali Jehangir Siddiqui  
Ms. Bushra Naz Malik

### HUMAN RESOURCE COMMITTEE

Mr. Ahmed H. Shaikh  
Mr. Aehsun M.H. Shaikh  
Mr. Salim Khan

### BANKERS

MCB Bank Limited  
Citibank N.A.  
ABN Amro Bank  
Faysal Bank Limited  
Habib Bank Limited  
Saudi Pak Industrial & Agricultural  
Investment Company (Private) Limited  
PICIC Commercial Bank Limited  
The Hong Kong and Shanghai  
Banking Corporation  
United Bank Limited  
Union Bank Limited  
Habib Bank AG Zurich  
NIB Bank Limited  
National Bank of Pakistan  
Allied Bank Limited

### LEGAL ADVISORS

Hamid Law Associates  
Hassan & Hassan  
Advocates

### AUDITORS

Rahman Sarfaraz & Co.  
Chartered Accountants

### TAX ADVISORS

Ford Rhodes Sidat Hyder & Co.  
Chartered Accountants

### REGISTERED OFFICE

Ismail Aiwane-e-Science  
Off Shahrah-e-Roomi  
Lahore, 54600  
Ph: +92 (0)42 111-786-645  
Fax: +92 (0)42 5761791

### PROJECT LOCATIONS

**Unit I**  
2.5 KM off Manga, Raiwind Road,  
District Kasur.  
Ph: +92 (0)42 5384081  
Fax: +92 (0)42 5384093

#### Unit II

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

#### Unit III

20 KM off Ferozepur Road,  
6 KM Badian Road on Ruhi Nala  
Der Khurd, Lahore.  
Ph: +92 (0)42 8460333, 8488862

By the grace of God, your Board of Directors feels pleasure in presenting the half yearly financial statements for the period ended June 30, 2006.

## GENERAL MARKET CONDITIONS

Following conditions prevailed in the global markets during the period:

- The market for denim fabrics has remained oversupplied.
- Yarn prices slightly declined during the period and the outlook is slightly mixed.
- The demand for garments is encouraging.

There has been pressure on margins across the board.

## OPERATING RESULTS OF THE COMPANY

### TURNOVER

The company's turnover has increased by 21% over the last corresponding period. This is due to sales increases in yarn and garments.

### PROFITABILITY

- The pre tax profit has increased by 6% over the last corresponding period.

## CORPORATE MANAGEMENT

The Company continues to strengthen its internal controls as well as its HR processes to ensure better governance.

## FUTURE OUTLOOK

There is an increasing pressure on margins. Interest rates and cotton prices are high. Further the denim fabrics market remains under pressure and this will affect earnings for the rest of the year.

In this challenging situation, there have been developments in international market like merger of Santista (a South American Denim manufacturer) and Tavex (a European denim manufacturer) and a 40% decline in the first quarter of year 2006 in imports to the EU of denim fabrics. Such developments indicate the tough market environment.

The company has focused on trying to convert more fabric into garments. The response has been encouraging so far.

The company has successfully acquired Pak American Fertilizers Limited ("PAFL"). As a result, we expect substantial gains in income to accrue to the company from the fertilizer business during the second half of the year.

The result of PAFL are not included in these financial statements as of June 30, 2006, will be included in the remaining period of this accounting year.

We would like to place on record deep appreciation for the dedication of all the staff members of the Company, shareholders, financial institutions, customers and suppliers whose worthy support has helped us to improve.

On behalf of the Board

Lahore: August 27, 2006

Ahmed H. Shaikh  
Chief Executive

# BALANCE SHEET (Unaudited)

as at June 30, 2006

	Note	June 30, 2006 Rupees	December 31, 2005 Rupees
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
Authorized capital			
15,000,000,000 (2005: 300,000,000)			
Ordinary and Preference shares of Rs. 10/- each		15,000,000,000	3,000,000,000
Issued, subscribed and paid up capital	4	3,789,146,500	1,737,308,680
Capital reserves		2,985,816,522	403,331,469
Unappropriated profits		1,100,694,078	952,462,490
		7,875,657,100	3,093,102,639
<b>SURPLUS ON REVALUATION OF FIXED ASSETS</b>			
		265,150,923	278,943,671
<b>NON CURRENT LIABILITIES</b>			
Long-term financing - secured	5	3,204,793,799	2,678,232,532
Liabilities against assets subject to finance lease	6	29,122,603	40,173,972
Long-term deposits (Nature)		1,317,827	2,907,643
		3,235,234,229	2,721,314,147
<b>CURRENT LIABILITIES</b>			
Trade and other payables		735,789,495	635,436,791
Interest and Mark-up accrued		176,642,217	156,204,381
Short-term financing	7	3,545,880,342	3,142,402,324
Current portion of long-term liabilities		337,645,760	433,780,774
Provision for taxation		103,279,935	79,679,935
Dividend		7,759,225	362,062
		4,906,996,973	4,447,866,267
<b>CONTINGENCIES AND COMMITMENTS</b>			
	8	-	-
		16,283,039,226	10,541,226,724
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
<b>FIXED ASSETS</b>			
Property, plant & equipment	9	3,355,085,103	3,113,043,032
Capital work in progress	10	3,526,931,543	2,459,655,906
		6,882,016,646	5,572,698,938
<b>INTANGIBLE ASSETS</b>		64,283,271	73,937,276
<b>LONG TERM INVESTMENTS</b>	11	1,351,050,155	93,517,562
<b>LONG-TERM DEPOSITS</b>		32,168,099	29,745,135
<b>CURRENT ASSETS</b>			
Stores, spares and loose tools		250,256,658	87,790,355
Stock in trade		2,331,562,097	2,034,180,550
Trade debtors		1,323,674,920	1,013,883,584
Derivative financial instrument		-	13,458,916
Loans and advances		201,917,886	409,929,174
Trade deposits and short-term prepayments		29,806,129	12,259,284
Other receivables		269,237,958	473,619,421
Current maturity of long term investments	12	-	9,637,121
Short term investments	13	3,473,197,030	670,927,050
Cash and bank balances		73,868,377	45,642,358
		7,953,521,055	4,771,327,813
		16,283,039,226	10,541,226,724

The annexed notes form an integral part of these financial statements.

Director

Chief Executive

# PROFIT AND LOSS ACCOUNT (Unaudited)

for the half year ended June 30, 2006

	Note	Half year ended		Quarter ended	
		June 30	June 30	June 30	June 30
		2006	2005	2006	2005
		Rupees		Rupees	
Sales		2,156,639,805	1,779,840,796	1,154,642,539	951,745,551
Cost of goods sold	14	1,602,930,854	1,245,689,553	884,525,634	669,043,959
<b>Gross profit</b>		<u>553,708,951</u>	<u>534,151,243</u>	<u>270,116,905</u>	<u>282,701,592</u>
Administrative and selling expenses		97,055,699	144,409,158	37,836,217	62,329,174
Other operating expenses		8,967,000	19,515,383	3,471,975	10,927,874
Finance cost	15	217,861,016	107,037,486	126,679,603	53,560,547
		<u>323,883,715</u>	<u>270,962,027</u>	<u>167,987,795</u>	<u>126,817,595</u>
		<u>229,825,236</u>	<u>263,189,216</u>	<u>102,129,110</u>	<u>155,883,997</u>
Other income	16	104,480,987	52,448,547	34,803,078	3,391,092
<b>Profit before taxation</b>		<u>334,306,223</u>	<u>315,637,763</u>	<u>136,932,188</u>	<u>159,275,089</u>
Provision for taxation		23,600,000	12,443,843	12,624,163	6,302,668
<b>Profit after taxation</b>		<u>310,706,223</u>	<u>303,193,920</u>	<u>124,308,025</u>	<u>152,972,421</u>
Earnings per share - Basic	17	1.77	3.05	0.89	1.54
- Diluted		1.53	2.70	0.77	1.36

The annexed notes form an integral part of these financial statements.

Director

Chief Executive

# CASH FLOW STATEMENT (Unaudited)

for the half year ended June 30, 2006

	Half year ended June 30, 2006 Rupees	Half year ended June 30, 2005 Rupees
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	334,306,223	315,637,763
Items not involving movements of funds	227,329,215	205,968,126
Long term deposits and deferred cost	(2,422,964)	(2,206,322)
	<u>559,212,474</u>	<u>519,399,567</u>
Changes in working capital	(260,560,971)	127,870,773
Operating profit after changes in working capital	298,651,503	647,270,340
Financial charges paid	(196,327,221)	(71,025,915)
Expenses on issue of company's securities	(25,664,864)	-
Taxes paid	(15,041,532)	(18,558,045)
Dividend paid	-	(85,490,888)
<b>Net cash from operating activities</b>	<u>61,617,886</u>	<u>472,195,492</u>
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Fixed capital expenditures	(1,422,315,940)	(981,010,154)
Intangible assets	2,204,831	(5,590,459)
Sale proceeds of fixed assets	11,459,667	3,063,506
Dividend received	-	(22,732,500)
Long term investments	(1,247,895,472)	-
Long term investments in subsidiaries	-	(1,999,800)
Interest received	65,968	5,621,033
Dividend received	2,633,388	-
Long term deposit and deferred cost	-	(25,404,416)
Short term investments	(2,705,383,828)	(210,324,066)
<b>Net cash (used in) investing activities</b>	<u>(5,359,231,386)</u>	<u>(1,238,376,856)</u>
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Ordinary shares capital	2,051,837,820	-
Share premium	2,596,608,833	-
Long term deposits	(1,589,816)	6,726,875
Long term financing obtained	441,576,667	(50,000,000)
Dividend paid	(143,870,220)	-
Short term finances-net	403,478,018	809,554,022
Finance lease liabilities paid	(22,201,783)	(32,687,740)
<b>Net cash from financing activities</b>	<u>5,325,839,519</u>	<u>733,593,157</u>
<b>Net increase / (decrease) in cash and cash equivalents</b>	28,226,019	(32,588,207)
<b>Cash and cash equivalents at beginning of the period</b>	45,642,358	78,997,981
<b>Cash and cash equivalents at end of the period</b>	<u>73,868,377</u>	<u>46,409,774</u>

The annexed notes form an integral part of these financial statements.

Director

Chief Executive

# STATEMENT OF CHANGES IN EQUITY (Unaudited)

for the half year ended June 30, 2006

	Share Capital		Reserves					Unappropriated Profit/ (Accumulated Loss)	Total equity	Surplus on revaluation fixed assets
	Issued, subscribed and paid-up	Share premium	Hedging reserve	Reserve on merger	Preference share redemption reserve	Surplus on revaluation of investments	Total			
	R	U	P	E	E	S				
<b>Balance as at January 01, 2005</b>	1,737,308,680	101,063,705	-	105,152,005	162,500,000	556,868	369,272,578	530,284,041	2,636,865,299	301,081,720
Profit for the period							-	303,193,920	303,193,920	
Surplus on revaluation of fixed assets transferred to retained earnings during the period										
- relating to incremental depreciation										
Preference shares redemption reserve					25,000,000			5,329,661	5,329,661	(5,329,661)
Ordinary Share Dividend								(86,865,434)	(86,865,434)	
<b>Balance as at June 30, 2005</b>	1,737,308,680	101,063,705	-	105,152,005	187,500,000	556,868	394,272,578	726,942,188	2,858,523,446	295,752,059
<b>Balance as at January 01, 2006</b>	1,737,308,680	71,657,838	13,458,916	105,152,005	212,500,000	562,710	403,331,469	952,462,490	3,093,102,639	278,943,671
Further issued during the period	2,257,792,580	2,530,703,303					2,530,703,303	-	4,788,495,883	
Conversion of preference shares	(205,954,760)	65,905,530					65,905,530		(140,049,230)	
Profit for the period										
Surplus on revaluation of fixed assets transferred to retained earnings during the period										
- relating to incremental depreciation										
Preference shares redemption reserve					25,000,000			13,792,748	13,792,748	(13,792,748)
Expenses incurred on issue of company's securities		(25,664,864)					(25,664,864)	(25,000,000)	(25,664,864)	
Ordinary shares dividend								(151,267,383)	(151,267,383)	
Preference shares dividend										
Gain arising on foreign currency interest rate swap contract entered into by as part cash flow hedge.			(13,458,916)				(13,458,916)		(13,458,916)	
<b>Balance as at March 31, 2006</b>	3,789,146,500	2,642,601,807	-	105,152,005	237,500,000	562,710	2,985,816,522	1,100,694,078	7,875,657,100	265,150,923

The annexed notes form an integral part of these financial statements.

Director

Chief Executive

AZGARD NINE LIMITED

07



# NOTES TO THE ACCOUNTS (Un-audited)

for the quarter ended March 31, 2006

## 1 STATUS AND ACTIVITIES

The Company was incorporated in Pakistan as a public limited Company and its shares are quoted at Karachi Stock Exchange (Guarantee) Limited. The company is a composite spinning, weaving, dyeing and stitching unit engaged in the manufacturing of yarn, denim and denim products.

## 2 BASIS OF PREPARATION

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

These financial statements have been prepared under "Historical Cost Convention" except certain fixed assets that have been included at revalued amount, certain exchange differences which have been incorporated in the cost of relevant assets and staff retirement benefits.

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

## 3 ACCOUNTING POLICIES

The accounting policies adopted for the preparation of these interim financial statements are consistent with those applied in the preparation of the preceding annual published financial statements of the Company for the fifteen months ended December 31, 2005.

		<b>June 30</b>	<b>December 31</b>
		<b>2006</b>	<b>2005</b>
		<b>Rupees</b>	<b>Rupees</b>
<b>4 SHARE CAPITAL</b>			
Issued, subscribed and paid-up			
Number of Shares			
	<u>June 2006</u>	<u>December 2005</u>	
	312,644,692	86,865,434	ordinary shares
			of Rs.10 each
			fully paid
		3,126,446,920	868,654,340
	66,269,958	86,865,434	preference shares
			of Rs.10 each fully
			paid in cash
		662,699,580	868,654,340
	<u><b>378,914,650</b></u>	<u><b>173,730,868</b></u>	<u><b>3,789,146,500</b></u>
			<u><b>1,737,308,680</b></u>
<b>5 LONG TERM FINANCING - SECURED</b>			
Banking Companies	5.1	979,416,667	650,000,000
Others:			
Privately placed TFC's		362,160,000	250,000,000
Term finance certificates (TFC's)		2,143,670,000	2,143,670,000
		<u><b>3,485,246,667</b></u>	<u><b>3,043,670,000</b></u>
Less:			
Current portion		280,452,868	365,437,468
		<u><b>3,204,793,799</b></u>	<u><b>2,678,232,532</b></u>

**5.1** During the reporting period Company has obtained new finances from Faysal Bank Ltd. and NIB Bank Ltd. of Rs. 194 million and 218.75 million respectively. These are secured against assets of the Company and personal guarantees of the sponsor directors.

# NOTES TO THE ACCOUNTS (Un-audited)

for the half year ended June 30, 2006

	June 30, 2006 Rupees	December 31, 2005 Rupees
<b>6 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE</b>		
Present value of Minimum lease payment	86,315,495	108,517,278
Less:		
Current portion	57,192,892	68,343,306
	29,122,603	40,173,972

## 7 SHORT TERM FINANCING

Short term finances include aggregate funded and unfunded facilities available of Rs. 6,154 million (2005: 4,380 million). These have been obtained from banking companies and financial institutions at the mark-up ranging from 5.01 % to 13.44% and are secured against current assets of the Company and personal guarantees of the sponsor directors.

## 8 CONTINGENCIES AND COMMITMENTS

**8.1** The company imported textile machinery and accessories availing exemption from custom duty and sales tax on importation thereof under various SRO's. The claim subject to fulfilment of certain conditions aggregated Rs.68.156 million (December 31, 2005: Rs. 68.156 million).

**8.2** Commitments against irrevocable letters of credit outstanding as at June 30, 2006 were Rs.79.258 million (December 31, 2005: Rs. 126.89 million).

**8.3** All other contingencies and commitments status is same as disclosed in the latest annual financial statements, except paragraph 12.1 and 12.9 thereof.

		June 30, 2006 Rupees	December 31, 2005 Rupees
<b>9 PROPERTY, PLANT AND EQUIPMENT</b>			
Property, plant and equipment	<b>9.1</b>	<b>3,355,085,103</b>	<b>3,113,043,032</b>
<b>9.1</b> Opening balance		3,113,043,032	2,847,936,401
Additions during the period	<b>9.2</b>	354,661,644	594,996,884
Less:			
Book value of leased assets transferred to owned assets during the period/year		(213,645)	(53,545,285)
W.D.V. of assets disposed off		(20,691,039)	(12,314,603)
Depreciation charged during the period		(91,714,889)	(264,030,365)
		<b>3,355,085,103</b>	<b>3,113,043,032</b>

June 30, 2006 Rupees	December 31, 2005 Rupees
----------------------------	--------------------------------

## 9.2 ADDITIONS AND DISPOSALS - AT COST

	Additions	Disposal	Additions	Disposal
<b>Owned</b>				
Freehold land	563,010	-	23,374,593	-
Building on freehold land	235,309,132	-	76,827,978	-
Plant and Machinery:				
-additions	65,529,687	-	376,853,599	18,285,049
-transfers from leased assets			46,486,925	-
Furniture and fixtures	4,371,776	19,784	10,382,028	-
Vehicles:				
-additions	512,300	1,901,500	2,282,865	5,296,930
-transfers from leased assets	213,645	-	7,058,360	-
Tools and equipment	17,005,295	-	4,756,781	-
Office equipments	9,867,433	-	31,383,917	-
Electric installation	19,257,742	-	15,589,838	-
<b>Leased</b>				
Vehicles				
-additions	2,031,624	-	-	-
	<b>354,661,644</b>	<b>1,921,284</b>	<b>594,996,884</b>	<b>23,581,979</b>

# NOTES TO THE ACCOUNTS (Un-audited)

for the quarter ended March 31, 2006

	June 30, 2006 Rupees	December 31, 2005 Rupees
<b>10 CAPITAL WORK IN PROGRESS</b>		
Civil work	1,295,563,223	468,326,483
Plant and machinery	1,718,239,582	1,791,232,467
Electric installation	-	15,920,713
Office equipments and fittings	-	116,100
Un-Allocated capital and related expenditure	513,128,738	184,060,143
	<b>3,526,931,543</b>	<b>2,459,655,906</b>

## 11 LONG TERM INVESTMENTS

### Related parties

Investment in foreign subsidiary	1,650,720	1,650,720
Investment in local subsidiary	1,998,000	1,998,000
<b>Others</b>	-	1,021,418

<b>Held to maturity</b>	11.1 & 11.3	4,491,338,117	88,847,424
Less: transferred to short term investments	11.2	(3,143,936,682)	-
		1,347,401,435	88,847,424
		<b>1,351,050,155</b>	<b>93,517,562</b>

**11.1** The Company during the period has incurred expenses and made payments to Privatization Commission of Pakistan in connection with privatization and acquisition of Pak American Fertilizer Limited (PAFL). The Company is in the process of acquiring 100 % shares of PAFL.

**11.2** The Company intends to transfer 70% of the investment to the Dominion Fertilizer (Pvt.) Ltd. Therefore it is classified as short term investment.

**11.3** Transaction has been completed as of July 15, 2006.

## 12 CURRENT MATURITY OF LONG TERM INVESTMENTS

The comparative figures relates to current maturity of investments in Chanda Oil & Gas Securitization Co. Ltd., Niamat Baisal Oil Ltd. and Telecard Ltd. which are realized in the current reporting period.

## 13 SHORT TERM INVESTMENTS

### Held for trading

Quoted		88,190,759	454,124,227
<b>Available for sale</b>	11.2	3,143,936,682	-

### Held to maturity

Term deposit receipt		241,069,589	216,802,823
		<b>3,473,197,030</b>	<b>670,927,050</b>

Half Year Ended		Quarter Ended	
June 30, 2006	June 30, 2005	June 30, 2005	June 30, 2005
Rupees		Rupees	

## 14 COST OF GOODS SOLD

Raw materials and other direct materials consumed	735,069,739	638,392,562	355,941,718	324,551,379
Salaries, wages and benefits	234,806,335	157,457,419	141,679,845	80,049,527
Fuel and power	240,156,867	139,700,458	141,510,291	71,022,094
Stores and spares consumed	164,479,805	118,805,606	131,900,440	60,399,393
Travelling, conveyance and entertainment	29,480,006	11,213,775	19,354,713	5,700,953
Rent, rates and taxes	4,433,354	1,548,057	2,323,227	787,014
Insurance	4,611,372	6,083,304	2,640,159	3,092,681
Repair and maintenance	14,558,578	14,612,713	8,789,426	7,428,934
Processing charges	40,757,478	6,720,991	36,427,561	3,416,874
Depreciation	101,887,139	102,126,741	44,721,661	51,920,051
R & D amortization	7,449,174	10,083,750	3,724,587	5,126,462
Printing and stationery	3,299,823	3,593,394	2,441,423	1,826,840
Communications	2,044,655	1,004,872	1,557,561	510,865
Others	43,505,484	11,599,595	35,666,833	5,897,099
	1,626,539,809	1,222,943,237	928,679,445	621,730,166
Adjustment of work in process	(76,920,581)	(7,237,797)	(89,221,142)	14,420,635
	1,549,619,228	1,215,705,440	839,458,303	636,150,801
Adjustment of finished goods	53,311,626	29,984,113	45,067,331	32,893,158
	<b>1,602,930,854</b>	<b>1,245,689,553</b>	<b>884,525,634</b>	<b>669,043,959</b>

# NOTES TO THE ACCOUNTS (Un-audited)

for the half year ended June 30, 2006

	Half Year Ended		Quarter Ended	
	June 30, 2006	June 30 2005	June 30, 2005	June 30, 2005
	Rupees		Rupees	
<b>15 FINANCE COST</b>				
Interest on:				
Workers' Profit Participation Fund	-	1,087,582	(298,527)	1,087,582
Mark up on:				
Long term financing - Secured	82,031,002	12,543,247	48,931,848	7,741,936
Short term financing - Secured	116,852,259	87,468,316	64,807,603	41,224,527
Lease finance charges	7,032,390	1,599,289	5,826,057	1,756,896
Guarantee commission and bank charges	12,011,333	8,094,378	7,412,622	3,382,357
Less: Return on bank deposits	(65,968)	(3,755,327)	-	(1,632,751)
	<u>217,861,016</u>	<u>107,037,486</u>	<u>126,679,603</u>	<u>53,560,547</u>

**16** This includes gain on disposal of investments of Rs. 96,886,152/-

**17** The number of shares have increased by 225,779,028 including conversion of preference shares. These shares have been increased to purchase the Pak American Fertilizer Ltd. The results of the acquired company will be included in the subsequent accounting periods as the transaction was concluded on July 15, 2006.

## **18 TRANSACTIONS WITH RELATED PARTIES**

The related parties comprise of related group companies, staff retirement funds, directors and key management personnel. Transactions with related parties other than remuneration, gratuity and other benefits to key management personnel under the term of their employment are as under.

	Half Year Ended June 30, 2006 Rupees	December 31, 2005 Rupees
<b>Subsidiaries</b>		
Sales	-	13,180,001
<b>Associates</b>		
Brokerage	12,664,624	4,834,233
Mark-up	7,373,333	6,604,158
Purchases	20,365,013	48,617,868
Miscellaneous	-	731,800

The Company continues to have a policy whereby all transactions with related parties and associated undertakings are entered into at arm's length transaction.

## **19 DATE OF AUTHORIZATION FOR ISSUE**

These interim financial statements were authorized for issue on August 27, 2006 by the Board of Directors of the Company.

## **20 OTHERS**

**20.1** There are no other significant activities since December 31, 2005 affecting the financial statements other than disclosed in these financial statements.

**20.2** Deferred tax provision has not been recognized, as the Company is being assessed under the final tax regime and the Company's export sales for the foreseeable future is likely to remain above the present threshold point.

## **21 FIGURES**

- have been rearranged to facilitate comparison, however no material re-arrangement has been made in these financial statements.

- have been rounded off to the nearest rupee.

Director

Chief Executive



# CONSOLIDATED FINANCIAL STATEMENTS

# CONSOLIDATED BALANCE SHEET (Unaudited)

as at June 30, 2006

	Note	June 30, 2006 Rupees	December 31, 2005 Rupees
<b>EQUITY AND LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
Authorized capital			
15,000,000,000 (2005: 300,000,000)			
Ordinary and Preference shares of Rs. 10/- each			
		15,000,000,000	3,000,000,000
Issued, subscribed and paid up capital			
	5	3,789,146,500	1,737,308,680
Capital reserves			
		2,985,816,522	403,359,347
Unappropriated profits			
		1,100,553,706	953,107,592
		7,875,516,728	3,093,775,619
<b>MINORITY INTEREST</b>			
		1,859	1,759,518
<b>SURPLUS ON REVALUATION OF FIXED ASSETS</b>			
		265,150,923	278,943,671
<b>NON CURRENT LIABILITIES</b>			
Long-term financing - secured			
	6	3,204,793,799	2,678,232,532
Liabilities against assets subject to finance lease			
	7	29,122,603	40,173,972
Long-term deposits			
		1,317,827	2,907,643
		3,235,234,229	2,721,314,147
<b>CURRENT LIABILITIES</b>			
Trade and other payables			
		735,575,157	675,675,803
Interest and Mark-up accrued			
		176,642,217	156,204,381
Short-term financing			
	8	3,545,880,342	3,142,402,324
Current portion of long-term liabilities			
		337,645,760	433,780,774
Provision for taxation			
		103,288,903	79,684,435
Dividend			
		7,759,225	362,062
		4,906,791,604	4,488,109,779
<b>CONTINGENCIES AND COMMITMENTS</b>			
	9	-	-
		16,282,695,344	10,583,902,734
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
<b>FIXED ASSETS</b>			
Property, plant & equipment			
	10	3,356,517,046	3,114,554,527
Capital work in progress			
	11	3,526,931,543	2,479,903,660
		6,883,448,589	5,594,458,187
<b>INTANGIBLE ASSETS</b>			
		64,283,271	73,937,276
<b>LONG TERM INVESTMENTS</b>			
	12	1,349,052,155	89,868,842
<b>LONG-TERM DEPOSITS</b>			
		32,168,099	29,745,135
<b>CURRENT ASSETS</b>			
Stores, spares and loose tools			
		250,256,658	87,790,355
Stock in trade			
		2,331,562,097	2,035,875,069
Trade debtors			
		1,323,674,920	1,034,669,395
Derivative financial instruments			
		-	13,458,916
Loans and advances			
		201,917,892	438,690,548
Trade deposits and short-term prepayments			
		30,609,840	13,219,951
Other receivables			
		268,613,773	445,342,228
Current maturity of long term investments			
	13	-	9,637,121
Short term investments			
	14	3,473,197,030	670,927,050
Cash and bank balances			
		73,911,020	46,282,661
		7,953,743,230	4,795,893,294
		16,282,695,344	10,583,902,734

The annexed notes form an integral part of these financial statements.

Director

Chief Executive

# CONSOLIDATED PROFIT AND LOSS ACCOUNT (Unaudited)

for the half year ended June 30, 2006

	Note	Half year ended		Quarter ended	
		June 30	June 30	June 30	June 30
		2006	2005	2006	2005
		Rupees		Rupees	
Sales		2,156,639,805	1,808,511,226	1,154,642,539	977,356,990
Cost of goods sold	15	1,602,052,503	1,274,564,380	883,647,283	695,266,415
<b>Gross profit</b>		<b>554,587,302</b>	<b>533,946,846</b>	<b>270,995,257</b>	<b>282,090,575</b>
Administrative and selling expenses		97,998,618	146,153,413	38,201,285	62,981,425
Other operating expenses		8,967,000	19,515,383	3,471,975	10,927,874
Finance cost	16	217,861,016	107,037,486	126,679,603	53,560,547
		324,826,634	272,706,282	168,352,863	127,469,846
		229,760,668	261,240,564	102,642,394	154,620,729
Other income	17	104,480,987	52,448,547	34,803,078	3,391,092
<b>Profit before taxation</b>		<b>334,241,655</b>	<b>313,689,111</b>	<b>137,445,472</b>	<b>158,011,821</b>
Provision for taxation		23,604,468	12,443,843	12,628,631	6,302,668
<b>Profit after taxation</b>		<b>310,637,187</b>	<b>301,245,268</b>	<b>124,816,841</b>	<b>151,709,153</b>
Minority Interest		(69)	(954,840)	(34.50)	(601,325)
<b>Profit attributable to holding company</b>		<b>310,637,256</b>	<b>302,200,108</b>	<b>124,816,876</b>	<b>152,310,478</b>
<b>Earnings per share - Basic</b>	18	1.77	3.04	0.89	1.54
<b>-Diluted</b>		1.53	2.69	0.77	1.36

The annexed notes form an integral part of these financial statements.

Director

Chief Executive

# CONSOLIDATED CASH FLOW STATEMENT (Unaudited)

for the half year ended June 30, 2006

	Half Year ended June 30, 2006 Rupees	Half Year ended June 30, 2005 Rupees
<b>A. CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before taxation	334,241,655	313,689,111
Items not involving movement of funds	227,408,918	206,199,608
Long term deposits and deferred cost	(2,422,964)	(27,188,700)
	<u>559,227,609</u>	<u>492,700,019</u>
Changes in working capital	(260,566,661)	128,321,098
Operating profit after changes in working capital	298,660,948	621,021,117
Financial charges paid	(196,327,371)	(71,025,915)
Expenses on issue of company's securities	(25,664,864)	-
Taxes paid	(15,041,532)	(18,558,045)
Dividend paid	-	(85,490,888)
<b>Net cash from operating activities</b>	<u>61,627,181</u>	<u>445,946,269</u>
<b>B. CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Fixed capital expenditures	(1,422,315,940)	(997,588,619)
Intangible assets	2,204,831	(5,590,459)
Sale proceeds of fixed assets	11,459,667	3,063,506
Dividend received	-	(22,732,500)
Long term investments	(1,247,895,472)	-
Interest received	65,968	5,621,033
Dividend received	2,633,388	-
Short term investments	(2,705,383,828)	(210,324,066)
<b>Net cash (used in) investing activities</b>	<u>(5,359,231,386)</u>	<u>(1,227,551,105)</u>
<b>C. CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Ordinary shares capital	2,051,837,820	-
Share premium	2,596,608,833	-
Long term deposits	(1,589,816)	6,726,875
Long term financing obtained	441,576,667	(50,000,000)
Dividend paid	(143,870,220)	-
Short term finances-net	403,478,018	809,554,018
Finance lease liabilities paid	(22,201,783)	(32,687,740)
<b>Net cash from financing activities</b>	<u>5,325,839,519</u>	<u>733,593,153</u>
<b>Net increase / (decrease) in cash and cash equivalents</b>	28,235,314	(48,011,683)
<b>Cash and cash equivalents at beginning of the period</b>	45,675,706	95,304,986
<b>Cash and cash equivalents at end of the period</b>	<u>73,911,020</u>	<u>47,293,303</u>

The annexed notes form an integral part of these financial statements.

Director

Chief Executive



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)

for the half year ended June 30, 2006

	Share Capital			Reserves				Unappropriated Profit/(Accumulated Loss)	Total equity	Surplus on revaluation fixed assets	
	Issued, subscribed and paid-up	Share premium	Exchange difference on translation of Foreign subsidiary	Heading reserve	Reserve on merger	Preference share redemption reserve	Surplus on revaluation of investments				Total
	<b>R U P E S</b>										
<b>Balance as at January 1, 2005</b>	1,737,308,680	101,063,705	-	-	105,152,005	187,500,000	556,868	369,272,578	530,284,041	2,636,865,299	301,081,720
Profit for the period									301,245,268	301,245,268	301,245,268
Surplus on revaluation of fixed assets transferred to retained earnings during the year									5,329,661	5,329,661	(5,329,661)
Preference shares redemption reserve						25,000,000		25,000,000	-	25,000,000	
Expenses incurred on issue of company's securities									(86,865,434)	(86,865,434)	(86,865,434)
Ordinary shares dividend											
<b>Balance as at June 30, 2005</b>	1,737,308,680	101,063,705	-	-	105,152,005	187,500,000	556,868	394,272,578	749,993,536	2,881,574,794	295,752,059
<b>Balance as at January 1, 2006</b>	1,737,308,680	71,657,838	27,878	13,458,916	105,152,005	212,500,000	562,710	403,359,347	953,107,592	3,093,775,619	278,943,671
Further issued during the period	2,257,792,580	2,530,703,303					2,530,703,303		-	4,788,495,883	
Conversion of preference shares	(205,954,760)	65,905,530					65,905,530		(140,049,230)	(140,049,230)	
Profit for the period									310,637,256	310,637,256	310,637,256
Surplus on revaluation of fixed assets transferred to retained earnings during the period relating to incremental depreciation											
Preference shares redemption reserve						25,000,000		25,000,000	13,792,748	13,792,748	(13,792,748)
Expenses incurred on issue of company's securities								(25,664,864)	(25,000,000)	(25,664,864)	
Ordinary shares dividend									(151,267,383)	(151,267,383)	
Preference shares dividend									(27,878)	(27,878)	
Movement in foreign subsidiary reserves									(716,507)	(716,507)	
Gain arising on foreign currency interest rate swap contract entered into by a part cash flow hedge									(13,458,916)	(13,458,916)	
<b>Balance as at June 30, 2006</b>	3,789,146,500	2,642,601,807	-	-	105,152,005	237,500,000	562,710	2,985,816,522	1,100,553,706	7,875,516,728	265,150,923

Director

Chief Executive

AZGARD NINE LIMITED

# CONSOLIDATED NOTES TO THE ACCOUNTS (Un-audited)

for the half year ended June 30, 2006

## 1 STATUS AND ACTIVITIES

The Company was incorporated in Pakistan as a public limited Company and its shares are quoted at Karachi Stock Exchange (Guarantee) Limited. The company is a composite spinning, weaving, dyeing and stitching unit engaged in the manufacturing of yarn, denim and denim products.

## 2 BASIS OF PREPARATION

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

These financial statements have been prepared under "Historical Cost Convention" except certain fixed assets that have been included at revalued amount, certain exchange differences which have been incorporated in the cost of relevant assets and staff retirement benefits.

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

## 3 ACCOUNTING POLICIES

**3.1** The accounting policies adopted for the preparation of these interim financial statements are consistent with those applied in the preparation of the preceding annual published financial statements of the Company for the fifteen months ended December 31, 2005.

**3.2** The consolidated interim financial statements include the accounts of Azgard Nine Ltd and Azsoft (Pvt.) Ltd. The financial statements of the subsidiary company has been consolidated on line by line basis from the date control commenced.

**3.3** All material inter-company balances, transactions and resulting unrealised profits/ losses have been eliminated.

## 4 PRINCIPLES OF CONSOLIDATION

These consolidated interim financial statements include Azgard Nine Ltd. (The Company) and Azsoft (Pvt.) Ltd. (The Subsidiary) in which the company holds 99.9% holding. Companies are consolidated from the date control commenced. These consolidated financial statements does not include Nafees International Taksil Sanays Ve Ticaret Anonim Sirket (foreign subsidiary) due to losing control as per management opinion, however comparative figures include the figures relating to foreign subsidiary.

	June 30, 2006 Rupees	December 31, 2005 Rupees
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## 5 SHARE CAPITAL

### Issued, subscribed and paid-up Number of Shares

June 2006	December 2005		June 30, 2006 Rupees	December 31, 2005 Rupees
312,644,692	86,865,434	ordinary shares of Rs.10 each fully paid	3,126,446,920	868,654,340
66,269,958	86,865,434	preference shares of Rs.10 each fully paid in cash	662,699,580	868,654,340
<u>378,914,650</u>	<u>173,730,868</u>		<u>3,789,146,500</u>	<u>1,737,308,680</u>

# CONSOLIDATED NOTES TO THE ACCOUNTS (Un-audited)

for the half year ended June 30, 2006

		June 30, 2006 Rupees	December 31, 2005 Rupees
<b>6</b>	<b>LONG TERM FINANCING - SECURED</b>		
	Banking Companies	6.1 979,416,667	650,000,000
	Others:		
	Privately placed TFC's	362,160,000	250,000,000
	Term finance certificates (TFC's)	2,143,670,000	2,143,670,000
		<u>3,485,246,667</u>	<u>3,043,670,000</u>
	Less:		
	Current portion	280,452,868	365,437,468
		<u>3,204,793,799</u>	<u>2,678,232,532</u>

**6.1** During the reporting period The Holding Company has obtained new finances from Faysal Bank Ltd. and NIB Bank Ltd. of Rs. 194 million and 218.75 million respectively. These are secured against assets of the Holding Company and personal guarantees of sponsor directors.

## 7 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

Present value of Minimum lease payments	86,315,495	108,517,278
Less:		
Current portion	57,192,892	68,343,306
	<u>29,122,603</u>	<u>40,173,972</u>

## 8 Short term financing

Short term finances include aggregate funded and unfunded facilities available of Rs. 6,154 million (2005: 4,380 million). These have been obtained from banking companies and financial institutions at the mark-up ranging from 5.01 % to 13.44 % and are secured against current assets of the Holding Company and personal guarantees of sponsor directors.

## 9 CONTINGENCIES AND COMMITMENTS

**9.1** The Holding Company imported textile machinery and accessories availing exemption from custom duty and sales tax on importation thereof under various SRO's. The claim subject to fulfilment of certain conditions aggregated Rs.68.156 million (December 31, 2005: Rs. 68.156 million).

**9.2** Commitments against irrevocable letters of credit outstanding as at June 30, 2006 were Rs.79.258 million (December 31, 2005: Rs. 126.89 million).

**9.3** All other contingencies and commitments status are same as disclosed in latest annual financial statements, except paragraph 12.1 and 12.9 thereof.

## 10 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment	10.1	<u>3,356,517,046</u>	<u>3,114,554,527</u>
<b>10.1</b> Opening balance		3,114,634,080	2,847,936,401
Additions during the period	10.2	354,661,644	596,762,049
Less:			
Book value of leased assets transferred to owned assets during the period/year		(213,645)	(53,545,285)
W.D.V. of assets disposed off		(20,691,039)	(12,314,603)
Depreciation charged during the period		(91,873,994)	(264,284,035)
		<u>3,356,517,046</u>	<u>3,114,554,527</u>
		<u>3,526,931,543</u>	<u>2,479,903,660</u>

# CONSOLIDATED NOTES TO THE ACCOUNTS (Un-audited)

for the half year ended June 30, 2006

	June 30, 2006 Rupees		December 31, 2005 Rupees
<b>10.2 ADDITIONS AND DISPOSALS – AT COST</b>			
	<b>Additions</b>	<b>Disposal</b>	<b>Additions</b>
			<b>Disposal</b>
<b>Owned</b>			
Freehold land	563,010	–	23,374,593
Building on freehold land	235,309,132		76,827,978
Plant and Machinery:			
-additions	65,529,687	–	376,853,599
-transfers from leased assets		–	46,486,925
Furniture and fixtures	4,371,776	19,784	10,890,323
Vehicles:			
-additions	512,300	1,901,500	1,379,565
-transfers from leased assets	213,645	–	7,058,360
Tools and equipment	17,005,295	–	4,756,781
Office equipments	9,867,433	–	31,919,387
Electric installation	19,257,742	–	16,311,238
<b>Leased</b>			
<b>Vehicles</b>			
-additions	2,031,624	–	903,300
-transfers to leased assets	(213,645)		(7,058,360)
	<u>354,447,999</u>	<u>1,921,284</u>	<u>543,216,764</u>
		June 30, 2006	December 31, 2005
		Rupees	Rupees
<b>11 CAPITAL WORK IN PROGRESS</b>			
Civil work		1,295,563,223	488,574,237
Plant and machinery		1,718,239,582	1,791,232,467
Electric installation		–	15,920,713
Office equipments and fittings		–	116,100
Un-Allocated capital and related expenditure		513,128,738	184,060,143
		<u>3,526,931,543</u>	<u>2,479,903,660</u>
<b>12 LONG TERM INVESTMENTS</b>			
<b>Related parties</b>			
Investment in foreign associates		1,650,720	–
<b>Others</b>		–	1,021,418
<b>Held to maturity</b>	12.1 & 12.3	4,491,338,117	88,847,424
Less: transferred to short term investments	12.2	(3,143,936,682)	–
		<u>1,347,401,435</u>	<u>88,847,424</u>
		<b>1,349,052,155</b>	<b>93,517,562</b>
<b>12.1</b>	The Holding Company during the period has incurred expenses and made payments to Privatization Commission of Pakistan in connection with privatization and acquisition of Pak American Fertilizer Limited (PAFL). The Holding Company is in the process of acquiring 100 % shares of PAFL.		
<b>12.2</b>	The Holding Company intends to transfer 70% of the investment to the Dominion Fertilizer (Pvt.) Ltd. Therefore it is classified as short term investment.		
<b>12.3</b>	Transaction has been completed as of July 15, 2006.		
<b>13 CURRENT MATURITY OF LONG TERM INVESTMENTS</b>			
The comparative figures relates to current maturity of investments in Chanda Oil & Gas Securitization Co. Ltd., Niamat Baisal Oil Ltd. and Telecard Ltd. which are realized in the current reporting period.			
<b>14 SHORT TERM INVESTMENTS</b>			
<b>Held for trading</b>			
Quoted		88,190,759	454,124,227
<b>Available for sale</b>	12.2	3,143,936,682	–
<b>Held to maturity</b>			
Term deposit receipt		241,069,589	216,802,823
		<u>3,473,197,030</u>	<u>670,927,050</u>

# CONSOLIDATED NOTES TO THE ACCOUNTS (Un-audited)

for the half year ended June 30, 2006

	Half Year Ended		Quarter Ended	
	June 30, 2006	June 30 2005	June 30, 2005	June 30, 2005
	Rupees		Rupees	
<b>15 COST OF GOODS SOLD</b>				
Raw materials and other direct materials consumed	734,191,388	667,267,389	355,941,718	350,773,835
Salaries, wages and benefits	234,806,335	157,457,419	141,679,845	80,049,527
Fuel and power	240,156,867	139,700,458	141,510,291	71,022,094
Stores and spares consumed	164,479,805	118,805,606	131,900,440	60,399,393
Travelling, conveyance and entertainment	29,480,006	11,213,775	19,354,713	5,700,953
Rent, rates and taxes	4,433,354	1,548,057	2,323,227	787,014
Insurance	4,611,372	6,083,304	2,640,159	3,092,681
Repair and maintenance	14,558,578	14,612,713	8,789,426	7,428,934
Processing charges	40,757,478	6,720,991	36,427,561	3,416,874
Depreciation	101,887,139	102,126,741	44,721,661	51,920,051
R & D amortization	7,449,174	10,083,750	3,724,587	5,126,462
Printing and stationery	3,299,823	3,593,394	2,441,423	1,826,840
Communications	2,044,655	1,004,872	1,557,561	510,865
Others	43,505,484	11,599,595	35,666,833	5,897,099
	<u>1,625,661,458</u>	<u>1,251,818,064</u>	<u>928,679,445</u>	<u>647,952,622</u>
Adjustment of work in process	(76,920,581)	(7,237,797)	(89,221,142)	14,420,635
	<u>1,548,740,877</u>	<u>1,244,580,267</u>	<u>839,458,303</u>	<u>662,373,257</u>
Adjustment of finished goods	53,311,626	29,984,113	44,188,980	32,893,158
	<u>1,602,052,503</u>	<u>1,274,564,380</u>	<u>883,647,283</u>	<u>695,266,415</u>
<b>16 FINANCE COST</b>				
Interest on:				
Workers' Profit Participation Fund	-	1,087,582	(298,527)	1,087,582
Mark up on:				
Long term financing				
- Secured	82,031,002	12,543,247	48,931,848	7,741,936
Short term financing				
-Secured	116,852,259	87,468,316	64,807,603	41,224,527
Lease finance charges	7,032,390	1,599,289	5,826,057	1,756,896
Guarantee commission and bank charges	12,011,333	8,094,378	7,412,622	3,382,357
Less: Return on bank deposits	(65,968)	(3,755,327)	-	(1,632,751)
	<u>217,861,016</u>	<u>107,037,486</u>	<u>126,679,603</u>	<u>53,560,547</u>

17 This includes gain on disposal of investments of Rs. 96,886,152/-

18 The Holding Company's number of shares have increased by 225,779,028 including conversion of preference shares. These shares have been increased to purchase the Pak American Fertilizer Ltd. The results of the acquired company will be included in the subsequent accounting periods as the transaction was concluded on July 15, 2006.

## 19 TRANSACTIONS WITH RELATED PARTIES

The related parties comprise of related group companies, staff retirement funds, directors and key management personnel. Transactions with related parties other than remuneration, gratuity and other benefits to key management personnel under the term of their employment are as under.

	Half Year Ended June 30, 2006 Rupees	December 31, 2005 Rupees
<b>Associates</b>		
Brokerage	12,664,624	4,834,233
Mark-up	7,373,333	6,604,158
Purchases	20,365,013	48,617,868
Miscellaneous	-	731,800
The Company continues to have a policy whereby all transaction with related parties and associated undertakings are entered into at arm's length transactions.		

## 19 DATE OF AUTHORIZATION FOR ISSUE

These interim financial statements were authorized for issue on August 27, 2006 by the Board of Directors of the Company.

## 20 OTHERS

20.1 There are no other significant activities since December 31, 2005 affecting the financial statements other than disclosed in these financial statements.

20.2 Deferred tax provision has not been recognized, as the Company is being assessed under the final tax regime and the Company's export sales for the foreseeable future is likely to remain above the present threshold point.

## 21 FIGURES

- have been rearranged to facilitate comparison, however no material re-arrangement has been made in these financial statements.

- have been rounded off to the nearest rupee.

Director

Chief Executive

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