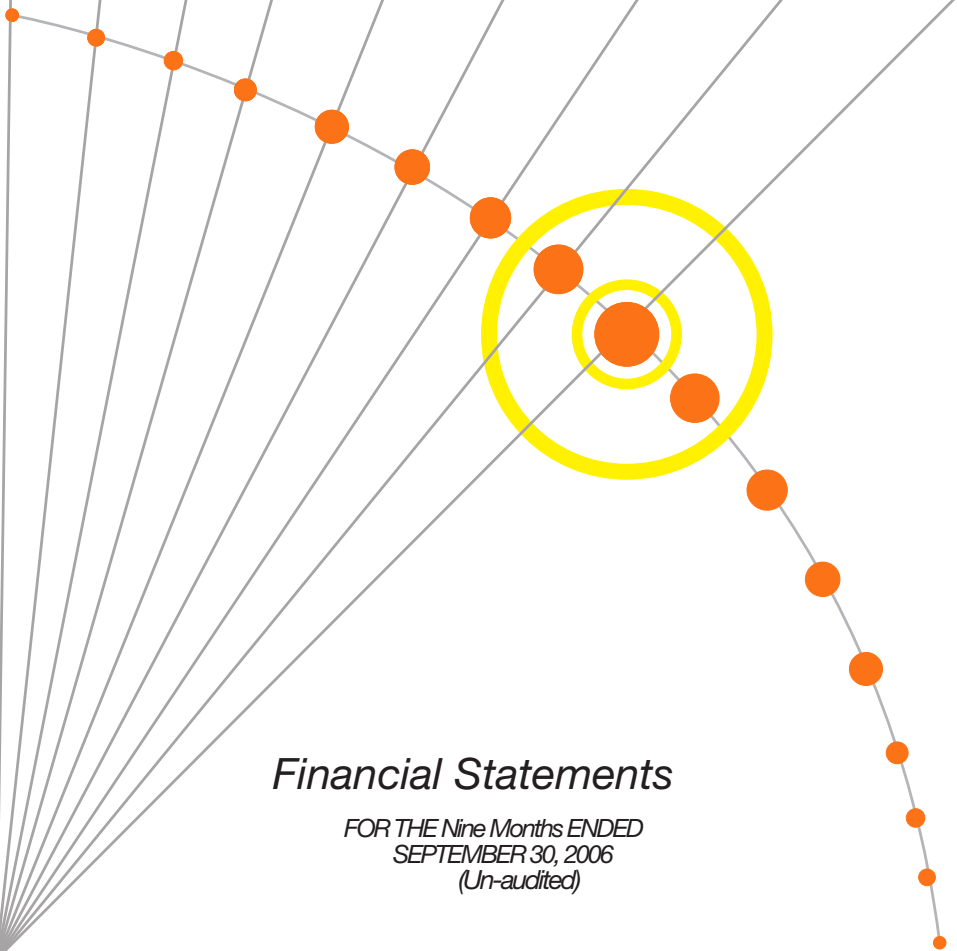




AZGARD-9

AZGARD NINE LIMITED



Financial Statements

*FOR THE Nine Months ENDED
SEPTEMBER 30, 2006
(Un-audited)*

CONTENTS

Company Information	02
Directors' Review	03
Balance Sheet	04
Profit & Loss Account	05
Cash Flow Statement	06
Statement of Changes in Equity	07
Notes to the Accounts	08
Consolidated Balance Sheet	13
Consolidated Profit & Loss Account	14
Consolidated Cash Flow Statement	15
Consolidated Statement of Changes in Equity	16
Consolidated Notes to the Accounts	17

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 Aiwan-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

It is a pleasure for the Board of Directors to present the quarterly un-audited financial statements for the period ending September 30, 2006. By the Grace of God, M/s Azgard Nine Limited (the "Company") has completed another quarter of successful business operations despite immense market pressures with various negative elements. Following is the quarterly review of the Company's operations:

GENERAL MARKET CONDITIONS

The Company, as a group, is involved in a number of businesses. The prevalent market condition of each is discussed below:

1. Yarn

Global market conditions for yarn have not been very promising. Margins have deteriorated and the entire yarn industry has been under a grave pressure.

2. Denim Fabric

Textiles, being part of fashion industry, have to compete with the rapidly and unpredictably changing fashion trends hence putting immense pressure upon the Denim manufacturers in the global markets. Due to improved manufacturing capacity to meet with most demanding years, Denim fabric remained oversupplied during this quarter. However, considering the market trends, it is foreseeable that 2007 will be a balanced year in terms of demand and supply and 2008 shall bring a positive market for Denim fabric.

3. Garments

Irrespective of increased demand for garments, the local industry is still stressed due to rapidly increasing competitors, Bangladesh and China being the foremost and India and Sri Lanka next in line. Due to additional and upcoming competitors, margins have gone down substantially thus affecting the manufacturers' business in the global market.

4. Fertilizer

Fertilizers business has added a new dimension to our group and has helped in mitigating the market risks inherent in the textile business.

Market for fertilizers is rapidly progressing due to enhanced demand for its products. Therefore, considering the dependency of our national economy upon agriculture, this sector presents promising market conditions for carrying out business and has proved to be a cushion for the Company's profitability in this last quarter.

OPERATING RESULTS OF THE COMPANY

Turnover

The aggressive exploration of both local and international markets and successful sales has earned the Company an increased turnover of 11% over last year's corresponding period. Even with the current denim market slump, Company's stabilized existence in the top line can be attributed to the following:

- Well prepared sales network with foreign marketing offices;
- Continued market exploration;
- Vertical integration of the textile production chain.

Profitability

In spite of the tough market conditions and challenging business environment for the Textile sector, the Company still managed to remarkably increase its profitability by 97% over the last corresponding period. This achievement of the Company was made possible due to smart business strategy and timely diversification of its business by acquiring M/s Pak American Fertilizers Limited, a 100% owned subsidiary of the Company. The present boost in the profits is mainly attributable to the said subsidiary.

CORPORATE MANAGEMENT AND COMPLIANCE

The Company is aggressively and strategically strengthening its internal controls as well as its HR processes to ensure better governance. During the last quarter the Company, in order to ensure fortifying legal compliance of its corporate affairs and better governance conformity, has developed a new Legal Department by welcoming an in-house legal counsel on board. Another important feature worthy to be highlighted is the environment compliance of the Ferozpur Road Garments Unit for international markets. It has now installed an apt water treatment plant along with other requisite compliance requirements.

FUTURE MARKET OUTLOOK

In terms of Fertilizer business, the prevalent positive market conditions will bring good results in the next quarter as well. Fertilizer market is highly productive because of the national economy's dependency on agriculture and because of the easier availability of credit for marginal farmers.

However, next quarter we expect issues and market challenges for the Textile business. This concern is attributed to various factors including high interest rates, rigorous competition and reduced prices. While demand in international Denim market continues to grow, the coming on stream of additional production capacity in competitor countries has lowered margins in the business.

However, next year is anticipated to bring a more balanced year for demand and supply with a view of international fashion trends concerning Denim. Moreover, the Company has focused on garments production capacities keeping in view the very positive and encouraging response for its garments from the global market. Our key challenge is to effectively manage growth and progression and to face competition with better efficiency.

FUTURE STRATEGIES

It is important to highlight that the Company, with a track record of resilience in difficult conditions, is well prepared to combat future challenges. Although 2006 was not a good year for the Textile sector, the Company managed to run up profits and next year and it is quite confident to do better through its planning and sales strategies. There are various reasons for this confidence and for being able to maintain a stabilized existence in the ever increasing challenges of global business front. First, the Company is operating in global markets through foreign sales offices facilitating fast access to international markets and increased sales. Secondly, the Company's policies are always proactively formulated with a view to changing trends and demands of the fashion industry. It is well prepared to deal with such trends in advance. Finally, the Company is also diversifying its business into other sectors (like the recently acquired chemicals business), that complement the overall strengths of the group by bringing balancing forces into the company's business.

We would like to record our deep appreciation for the dedication of all the officers of the Company, its customers and suppliers whose consistent support has helped us to make continued improvements in our business practices.

On behalf of the Board

Lahore: October 21, 2006

Ahmed H. Shaikh
Chief Executive

BALANCE SHEET (Unaudited)

as at September 30, 2006

	Note	September 30, 2006 Rupees	December 31, 2005 Rupees
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
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	3,788,838,900	1,737,308,680
Capital reserves		3,024,288,986	403,331,469
Unappropriated profits		1,698,215,565	952,462,490
		8,511,343,451	3,093,102,639
SURPLUS ON REVALUATION OF FIXED ASSETS			
		260,254,327	278,943,671
NON CURRENT LIABILITIES			
Long-term financing - secured	5	5,818,284,690	2,678,232,532
Liabilities against assets subject to finance lease	6	26,822,158	40,173,972
Long-term payables	7	8,244,680,112	-
Long-term deposits		1,317,827	2,907,643
		14,091,104,787	2,721,314,147
CURRENT LIABILITIES			
Trade and other payables		560,011,957	635,436,791
Interest and mark-up accrued		133,091,509	156,204,381
Short-term financing	8	5,664,506,328	3,142,402,324
Current portion of long-term liabilities		3,402,792,026	433,780,774
Provision for taxation		116,098,344	79,679,935
Dividend		902,852	362,062
		9,877,403,016	4,447,866,267
CONTINGENCIES AND COMMITMENTS			
	9	32,740,105,581	10,541,226,724
ASSETS			
NON-CURRENT ASSETS			
FIXED ASSETS			
Property, plant & equipment	10	4,192,816,268	3,113,043,032
Capital work in progress	11	3,433,236,037	2,459,655,906
		7,626,052,305	5,572,698,938
INTANGIBLE ASSETS			
		63,038,148	73,937,276
LONG TERM INVESTMENTS			
	12	13,345,208,846	4,670,138
LONG-TERM DEPOSITS			
		32,644,100	29,745,135
CURRENT ASSETS			
Stores, spares and loose tools		92,619,399	87,790,355
Stock in trade		1,248,203,321	2,034,180,550
Trade debtors		1,029,028,717	1,013,883,584
Derivative financial instruments		-	13,458,916
Advances, deposits, prepayments and other receivables		990,710,571	895,807,879
Short term investments	13	8,226,639,754	769,411,595
Cash and bank balances		85,960,420	45,642,358
		11,673,162,182	4,860,175,237
		32,740,105,581	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 period of nine months ended September 30, 2006

	Note	Period ended		Quarter ended	
		September 30	September 30	September 30	September 30
		2006	2005	2006	2005
		Rupees	Rupees	Rupees	Rupees
Sales		3,395,858,402	3,064,683,297	1,239,218,597	1,284,842,501
Cost of goods sold		2,640,965,688	2,265,212,526	1,038,034,834	1,019,604,873
Gross profit		754,892,714	799,470,771	201,183,763	265,237,628
Administrative and selling expenses		153,781,060	200,423,655	56,725,361	56,161,199
Other operating expenses		517,006	6,468,848	517,006	3,566,029
Finance cost		333,678,025	216,749,793	115,817,009	109,712,257
Workers' (Profit) Participation Fund		8,967,000	26,078,339	0	9,118,800
		496,943,092	449,720,635	173,059,377	178,558,285
		257,949,623	349,750,136	28,124,387	86,679,343
Other income	14	698,199,492	145,738,308	593,718,505	86,577,684
Profit before taxation		956,149,114	495,488,444	621,842,891	173,257,027
Provision for taxation		40,318,000	30,864,035	16,718,000	18,420,192
Profit after taxation		915,831,114	464,624,409	605,124,891	154,836,835
Earnings per share - Basic	15	5.05	4.68	3.28	1.56
- Diluted		4.59	3.61	3.06	1.38

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

Director

Chief Executive

CASH FLOW STATEMENT (Unaudited)

for the period of nine months ended September 30, 2006

	Period ended September 30, 2006 Rupees	Period ended September 30, 2005 Rupees
A. CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	956,149,114	495,488,444
Items not involving movements of funds	(198,936,979)	358,272,582
Long term deposits and deferred cost	(2,898,965)	(29,511,597)
	<u>754,313,170</u>	<u>824,249,429</u>
Changes in working capital	619,073,450	(589,910,427)
Operating profit after changes in working capital	<u>1,373,386,620</u>	<u>234,339,002</u>
Financial charges paid	(350,581,970)	(155,937,894)
Expenses on issue of company's securities	–	(5,369,663)
Taxes paid	(27,297,516)	(46,811,202)
Dividend paid	(150,726,593)	(86,865,434)
Net cash from / (used in) operating activities	<u>844,780,541</u>	<u>(60,645,191)</u>
B. CASH FLOWS FROM INVESTING ACTIVITIES		
Fixed capital expenditures	(2,255,926,532)	(2,168,336,194)
Intangible assets	(274,633)	(3,496,388)
Sale proceeds of fixed assets	42,369,883	1,621,222
Long term investments	(21,438,450,401)	–
Interest received	4,206,768	10,108,250
Dividend received	606,166,382	16,133,712
Short term investments	728,093,505	(554,664,619)
Net cash used in investing activities	<u>(22,313,815,028)</u>	<u>(2,698,634,017)</u>
C. CASH FLOWS FROM FINANCING ACTIVITIES		
Ordinary shares capital	4,648,446,653	–
Long term deposits	(1,589,816)	4,365,124
Long term financing obtained	3,234,662,958	1,708,212,442
Repayment of long term loans	(180,024,134)	(100,000,000)
Long-term payable	11,310,255,112	–
Short term finances-net	2,522,104,004	1,199,963,374
Finance lease liabilities paid / obtained	(24,502,228)	(102,763,060)
Net cash from financing activities	<u>21,509,352,549</u>	<u>2,709,777,880</u>
Net increase / (decrease) in cash and cash equivalents	<u>40,318,062</u>	<u>(51,501,128)</u>
Cash and cash equivalents at beginning of the period	<u>45,642,358</u>	<u>78,997,980</u>
Cash and cash equivalents at end of the period	<u>85,960,420</u>	<u>27,496,852</u>

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

Director

Chief Executive

STATEMENT OF CHANGES IN EQUITY (Unaudited)

for the period of nine months ended September 30, 2006

	Share Capital		Reserves				Total	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				
	R U P E S									
Balance as at January 1, 2005	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							-	464,624,409	464,624,409	Surplus on
revaluation of fixed assets, transferred to retained earnings during the year										Surplus on
Preference shares redemption reserve								15,013,022	15,013,022	(15,013,022)
Expenses incurred on issue of company's securities								(37,500,000)		
Ordinary shares dividend					37,500,000					
Preference shares dividend								(86,865,434)	(86,865,434)	
								(77,744,563)	(77,744,563)	
Balance as at September 30, 2005	1,737,308,680	101,063,705	-	105,152,005	200,000,000	556,868	406,772,578	807,811,475	2,951,892,733	286,068,698
Balance as at January 1, 2006	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	2,258,446,230	2,530,703,303					2,530,703,303	4,789,149,533	4,789,149,533	
Conversion of preference shares		66,213,130					66,213,130	(140,702,880)	(140,702,880)	
Profit for the period								915,831,114	915,831,114	
Surplus on revaluation of fixed assets transferred to retained earnings during the period relating to incremental depreciation and disposal										
Preference shares redemption reserve										(18,689,344)
Expenses incurred on issue of company's securities										
Ordinary shares dividend					37,500,000			(37,500,000)		
Preference shares dividend								(151,267,383)	(151,267,383)	
Preference shares dividend										
Gain arising on foreign currency interest rate swap contract entered into by a part cash flow hedge			(13,458,916)				(13,458,916)			
Balance as at September 30, 2006	3,788,838,900	2,668,574,271	-	105,152,005	250,000,000	562,710	3,024,288,986	1,698,215,565	8,511,343,451	260,254,327

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

Director

Chief Executive

AZGARD NINE LIMITED

NOTES TO THE ACCOUNTS (Un-audited)

for the period of nine months ended September 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.

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.

		September 30	December 31
		2006	2005
		Rupees	Rupees
4 SHARE CAPITAL			
Issued, subscribed and paid-up			
	Number of Shares		
	September	December	
	2006	2005	
	312,710,057	86,865,434	ordinary shares of Rs.10 each fully paid
	66,173,833	86,865,434	preference shares of Rs.10 each fully paid in cash
	<u>378,914,650</u>	<u>173,730,868</u>	<u>3,127,100,570</u> <u>868,654,340</u> <u>661,738,330</u> <u>868,654,340</u> <u>3,788,838,900</u> <u>1,737,308,680</u>
5 LONG TERM FINANCING -SECURED			
Banking Companies	5.1	3,767,996,292	650,000,000
Others:			
Privately placed TFC's		187,500,000	250,000,000
Term finance certificates (TFC's)		2,142,812,532	2,143,670,000
		<u>6,098,308,824</u>	<u>3,043,670,000</u>
Less:			
Current portion		280,024,134	365,437,468
		<u>5,818,284,690</u>	<u>2,678,232,532</u>

5.1 During the reporting period Company has obtained new finances from National Bank Ltd., Citi Bank N.A and Deutsche Investitions – UND MBH of Rs.1,500 million, Rs.600 million and Rs.1,135 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 period of nine months ended September 30, 2006

		September 30, 2006 Rupees	December 31, 2005 Rupees
6	LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE		
	Present value of Minimum lease payment	84,015,050	108,517,278
	Less:		
	Current portion	57,192,892	68,343,306
		<u>26,822,158</u>	<u>40,173,972</u>
7	LONG TERM PAYABLE		
	Due to Dominion Fertilizer (Pvt.) Ltd.		
	– a Subsidiary Company	11,310,255,112	–
	Less:		
	Current portion	3,065,575,000	–
		<u>8,244,680,112</u>	<u>–</u>
	<p>The Company has entered into Share Sale and Purchase Agreement, dated July 12, 2006, with Dominion Fertilizer (Private) Limited for the sale of up to 69.19% shares of Pak American Fertilizers Limited against the sale consideration of Rs. 11,146,473,401. The Company has acquired up to 100% shares of Pak American Fertilizers Limited through privatization process and under the said agreement, the Dominion Fertilizer (Private) Limited has sold all the shares of Pak American Fertilizers Limited back to the Company against the sale consideration of Rs. 15,773,182,403. The sale will occur gradually in a predetermined manner over a period of seven years. The amount to be payable to Dominion Fertilizer (Private) Limited is recognized using effective interest rate of 12.75% over the life of payable.”</p>		
8	Short term financing		
	<p>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.</p>		
9	CONTINGENCIES AND COMMITMENTS		
	9.1	<p>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 fulfillment of certain conditions aggregated Rs.68.156million (December 31, 2005: Rs. 68.156 million).</p>	
	9.2	<p>Commitments against irrevocable letters of credit outstanding as at June 30, 2006 were Rs.64.953 million (December 31, 2005: Rs. 126.89 million).</p>	
	9.3	<p>All other contingencies and commitments status is same as disclosed in latest annual financial statements, except paragraph 12.1 and 12.9 to that financial statements.</p>	
10	PROPERTY, PLANT AND EQUIPMENT		
	Property, plant and equipment	10.1 <u>4,192,816,268</u>	<u>3,113,043,032</u>
	10.1 Opening balance	3,113,043,032	2,847,936,401
	Addition during the period	10.2 1,282,346,401	594,996,884
	Less:		
	Book value of leased assets transferred to owned assets during the period/year	–	(53,545,285)
	W.D.V. of assets disposed off	(42,886,889)	(12,314,603)
	Depreciation charged during the period	(159,686,276)	(264,030,365)
		<u>4,192,816,268</u>	<u>3,113,043,032</u>

NOTES TO THE ACCOUNTS (Un-audited)

for the period of nine months ended September 30, 2006

	September 30, 2006 Rupees		December 31, 2005 Rupees
10.2 ACQUISITIONS AND DISPOSALS – AT COST			
	Additions	Disposal	Additions
			Disposal
Owned			
Freehold land	246,120	–	23,374,593
Building on freehold land	213,061,212		76,827,978
Plant and Machinery:		63,225,386	
-additions	1,000,367,199		376,853,599
-transfers from leased assets	42,900,000	–	46,486,925
Furniture and fixtures	6,853,432	818,492	10,382,028
Vehicles:			
-additions	2,413,800	1,901,500	2,282,865
-transfers from leased assets	523,000	–	7,058,360
Tools and equipment	31,955,117	–	4,756,781
Office equipments	14,631,231	–	31,383,917
Electric installation	9,810,190	–	15,589,838
Leased			
Plant and machinery	–	–	–
-additions	80,000		
-transfers to owned assets	(42,900,000)		
Vehicles			
-additions	2,928,100	3,802,466	–
-transfers to owned assets	(523,000)		–
	1,282,346,401	69,747,844	594,996,884
			23,581,979
		September 30, 2006 Rupees	December 31, 2005 Rupees
11 CAPITAL WORK IN PROGRESS			
Civil work		951,703,078	468,326,483
Plant and machinery		1,611,822,383	1,791,232,467
Electric installation		16,003,541	15,920,713
Tools and equipment		6,449,031	–
Office equipment and fittings		2,257,228	116,100
Un-Allocated capital and related expenditure		845,000,776	184,060,143
		3,433,236,037	2,459,655,906
12 LONG TERM INVESTMENTS			
Investment in Equity Securities			
Related parties			
Investment in foreign associate			
– Nafees International Tekstil Sanays ve Ticaret ANONIM SIRKET		1,650,720	1,650,720
Investment in local subsidiaries			
– Azsoft (Private) Ltd.		1,998,000	1,998,000
– Pak-American Fertilizers Ltd.		17,338,450,401	–
Less: The portion of the shares of PAFL available for sale has been classified in short term investment		(8,097,911,693)	–
		9,240,538,708	–
– Dominion Fertilizer (Private) Ltd.		2,000,000,000	–
Others		1,021,418	1,021,418
Investment in Debt Securities			
Dominion Fertilizer (Private) Ltd. – PPTFCs		2,100,000,000	–
		13,345,208,846	4,670,138

12.1 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 has acquired 100 % shares of PAFL with effect from 15 July, 2006.

NOTES TO THE ACCOUNTS (Un-audited)

for the period of nine months ended September 30, 2006

		September 30, 2006 Rupees	December 31, 2005 Rupees
13 SHORT TERM INVESTMENTS			
Held for trading			
Quoted		98,158,473	454,124,227
Available for sale			
Term finance certificates	13.1	–	98,484,545
Pak-American Fertilizers Ltd.		8,097,911,693	–
Held to maturity			
Term deposit receipt		30,569,589	216,802,823
		8,226,639,754	769,411,595

13.1 The comparative figures relates to investments in Chanda Oil & Gas Securitization Co. Ltd., Niamat Baisal Oil Ltd. and Telecard Ltd. which were previously classified as held to maturity investment have been realized in the current reporting period and reclassified as available for sale investments.

14 This include gain on disposal of investments of Rs. 87,409,972/-

15 The number of shares have increased by 225,844,623 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.

16 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.

	Period ended	
	September 30, 2006 Rupees	December 31, 2005 Rupees
Subsidiaries		
Sales	–	13,180,001
Dividend income	597,473,684	–
Associates		
Brokerage	12,664,624	4,834,233
Mark-up	12,155,374	6,604,158
Purchases	60,153,227	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 transactions.

17 DATE OF AUTHORIZATION FOR ISSUE

These interim financial statements were authorized for issue on 28 October, 2006 by the Board of Directors of the Company.

18 OTHERS

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

18.2 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.

19 FIGURES

- have been rearranged to facilitate comparison, however no material re-arrangement has been made in these financial statements except for the changes stated in note 13.1.
- have been rounded off to the nearest rupee.

Director

Chief Executive



CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET (Unaudited)

as at September 30, 2006

	Note	September 30, 2006 Rupees	December 31, 2005 Rupees
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
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	3,788,838,900	1,737,308,680
Reserves		3,024,288,986	403,359,347
Unappropriated profits		994,977,468	953,107,592
		7,808,105,354	3,093,775,619
MINORITY INTEREST			
		1,834	1,759,518
SURPLUS ON REVALUATION OF FIXED ASSETS			
		260,254,327	278,943,671
NON CURRENT LIABILITIES			
Long-term financing – secured	6	10,618,284,690	2,678,232,532
Liabilities against assets subject to finance lease	7	30,039,932	40,173,972
Long-term deposits		1,317,827	2,907,643
		10,649,642,449	2,721,314,147
CURRENT LIABILITIES			
Trade and other payables		1,073,883,792	675,675,803
Interest and Mark-up accrued		375,419,178	156,204,381
Short-term financing	8	5,664,506,328	3,142,402,324
Short term redeemable capital – secured	9	1,890,425,000	–
Short term loan		295,575,000	–
Current portion of long-term liabilities		337,968,022	433,780,774
Provision for taxation		116,098,344	79,684,435
Dividend		902,852	362,062
		9,754,778,516	4,488,109,779
CONTINGENCIES AND COMMITMENTS			
	10	28,472,782,480	10,583,902,734
ASSETS			
NON-CURRENT ASSETS			
FIXED ASSETS			
Property, plant & equipment	11	9,091,974,422	3,114,554,527
Non-operating assets	12	41,737,969	–
Capital work in progress	13	3,479,331,551	2,479,903,660
		12,613,043,942	5,594,458,187
GOODWILL			
		9,363,868,410	–
INTANGIBLE ASSETS			
		283,967,723	73,937,276
LONG TERM INVESTMENTS			
	14	2,672,138	1,021,418
LONG TERM LOANS AND ADVANCES			
		9,685,693	–
LONG-TERM DEPOSITS			
		36,283,643	29,745,135
DEFERRED TAX ASSET			
		375,347,375	–
CURRENT ASSETS			
Stores, spares and loose tools		730,170,916	87,790,355
Stock in trade		1,374,023,364	2,035,875,069
Trade debtors		1,139,174,375	1,034,669,395
Derivative financial instruments		–	13,458,916
Advances, deposits, prepayments and other receivables		1,271,442,295	897,252,727
Short term investments	15	128,728,062	769,411,595
Cash and bank balances		1,144,374,544	46,282,661
		5,787,913,556	4,884,740,718
		28,472,782,480	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 period of nine months ended September 30, 2006

Note	Period ended		Quarter ended		
	September 30	September 30	September 30	September 30	
	2006	2005	2006	2005	
	Rupees		Rupees		
Sales	4,079,755,708	3,105,787,937	1,923,115,903	1,284,842,501	
Cost of goods sold	3,007,729,568	2,303,263,089	1,404,798,714	1,019,604,873	
Gross profit	1,072,026,141	802,524,848	518,317,190	265,237,628	
Administrative and selling expenses	241,054,645	205,868,973	143,998,946	56,161,199	
Other operating expenses	517,006	6,468,848	517,006	3,566,029	
Finance cost	587,132,054	216,749,791	369,271,038	109,712,257	
Workers' (Profit) Participation Fund	8,967,000	26,078,339	0	9,118,800	
	837,670,706	455,165,951	271,459,322	178,558,285	
	234,355,435	347,358,897	4,530,199	86,679,343	
Other income	16	109,269,899	145,738,308	4,788,912	86,577,684
Profit before taxation		343,625,334	493,097,205	9,319,111	173,257,027
Provision for taxation		131,471,034	30,864,035	107,871,034	18,420,192
		212,154,299	462,233,170	(98,551,924)	154,836,835
Minority Interests		(159)	(1,177,239)	(159)	(222,399)
Profit after taxation		212,154,459	463,410,409	(98,551,765)	155,059,234
Earnings per share - Basic	17	0.97	4.66	0.80	1.56
- Diluted		0.97	3.60	0.80	1.38

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

Director

Chief Executive

CONSOLIDATED CASH FLOW STATEMENT (Unaudited)

for the period of nine months ended September 30, 2006

	Period ended September 30, 2006 Rupees	Period ended September 30, 2005 Rupees
A. CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	343,625,334	493,097,205
Items not involving movements of funds	533,262,129	357,934,995
Long term loans and advances	33,606,468	–
Long term deposits and deferred cost	(2,756,711)	(29,089,559)
	907,737,219	821,942,641
Changes in working capital	577,443,793	(605,127,459)
Operating profit after changes in working capital	1,485,181,012	216,815,182
Financial charges paid	(118,541,568)	(155,937,894)
Expenses on issue of company's securities	–	(5,369,663)
Taxes paid	(27,150,614)	(46,811,202)
Dividend paid	(150,726,593)	(86,865,434)
	1,188,762,238	(78,169,011)
Net cash from / (used in) operating activities	1,188,762,238	(78,169,011)
B. CASH FLOWS FROM INVESTING ACTIVITIES		
Fixed capital expenditures	(2,260,647,738)	(2,184,639,848)
Acquisition of subsidiary net of cash acquired	(15,558,459,688)	–
Intangible assets	(240,955,449)	(3,496,388)
Sale proceeds of fixed assets	42,369,893	3,063,306
Long term investments	(1,650,720)	(1,442,084)
Interest received	4,206,768	10,108,250
Dividend received	8,692,698	16,133,712
Short term investments	728,093,502	(554,664,619)
	(17,278,350,734)	(2,714,937,671)
Net cash used in investing activities	(17,278,350,734)	(2,714,937,671)
C. CASH FLOWS FROM FINANCING ACTIVITIES		
Ordinary shares capital	4,648,418,775	–
Long term deposits	(1,589,816)	21,279,870
Long term financing obtained	8,034,662,958	1,708,212,442
Repayment of long term loans	(180,024,134)	(100,000,000)
Short term finances-net	2,522,104,004	1,199,963,374
Short term redeemable capital	1,890,425,000	–
Short term loan	295,575,000	–
Finance lease liabilities paid / obtained	(21,284,454)	(102,763,060)
	17,188,287,333	2,726,692,626
Net cash from financing activities	17,188,287,333	2,726,692,626
Net increase / (decrease) in cash and cash equivalents	1,098,698,838	(66,414,056)
Cash and cash equivalents at beginning of the period	46,282,661	95,304,986
Cash and cash equivalents on:		
– Discontinuance of consolidation of foreign subsidiary	(606,955)	–
	1,144,374,544	28,890,930
Cash and cash equivalents at end of the period	1,144,374,544	28,890,930

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

Director

Chief Executive

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited)

for the period of nine months ended September 30, 2006

	R E S E R V E S						U n a p p r o p r i a t e d		S u r p l u s o n r e v a l u a t i o n f i x e d a s s e t s		
	Share Capital Issued, subscribed and paid-up	Share premium	Exchange difference on translation of Foreign subsidiary	Hedging reserve	Reserve on merger	Preference share redemption reserve	Surplus on revaluation of investments	Total		Profit / (Accumulated Loss)	Total equity
Balance as at January 1, 2005	1,737,308,680	101,063,705	-	-	105,152,005	152,500,000	556,868	369,272,578	532,507,952	2,639,089,210	301,081,720
Profit for the period	-	-	-	-	-	-	-	-	463,410,410	463,410,410	-
Surplus on revaluation of fixed assets transferred to retained earnings during the year	-	-	-	-	-	37,500,000	37,500,000	37,500,000	(37,500,000)	-	(15,013,022)
Preference shares redemption reserve	-	-	-	-	-	-	-	-	(86,865,434)	(86,865,434)	-
Expenses incurred on issue of company's securities	-	-	-	-	-	-	-	-	(77,744,563)	(77,744,563)	-
Ordinary shares dividend	-	-	-	-	-	-	-	-	-	-	-
Balance as at September 30, 2005	1,737,308,680	101,063,705	-	-	105,152,005	200,000,000	556,868	406,772,578	808,821,387	2,952,902,545	286,068,698
Balance as at January 1, 2006	1,737,308,680	71,657,838	13,458,916	27,878	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	2,258,446,230	2,530,703,303	-	-	-	-	-	2,530,703,303	-	4,789,149,533	-
Conversion of preference shares	(206,916,010)	66,213,130	-	-	-	-	-	66,213,130	-	(140,702,880)	-
Profit for the period	-	-	-	-	-	-	-	-	212,154,459	212,154,459	-
Surplus on revaluation of fixed assets transferred to retained earnings during the period relating to incremental depreciation and disposal	-	-	-	-	-	-	-	-	-	-	-
Preference shares redemption reserve	-	-	-	-	-	37,500,000	-	-	18,689,344	18,689,344	(18,689,344)
Expenses incurred on issue of company's securities	-	-	-	-	-	-	-	-	(37,500,000)	-	-
Ordinary shares dividend	-	-	-	-	-	-	-	-	(151,267,383)	(151,267,383)	-
Preference shares dividend	-	-	-	-	-	-	-	-	-	-	-
Gain arising on foreign currency interest rate swap contract entered into by a part cash flow hedge	-	-	-	-	-	-	-	-	-	-	-
Discontinuation of consolidation of Foreign subsidiary	-	-	(13,458,916)	(27,878)	-	-	-	(13,458,916)	(206,544)	(13,458,916)	-
Balance as at September 30, 2006	3,786,838,900	2,668,574,271	-	-	105,152,005	250,000,000	562,710	3,024,288,966	994,977,468	7,808,105,354	280,254,327

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

Director

Chief Executive

CONSOLIDATED NOTES TO THE ACCOUNTS (Un-audited)

for the period of nine months ended September 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.

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 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), Pak-American Fertilizers Ltd. and Dominion Fertilizer (Private) Ltd. Companies are consolidated from the date control commenced. These consolidated financial statement does not include Nafees International Taksil Sanays Ve Ticaret Anonim Sirket (foreign subsidiary) due to losing control as per management opinion, however comparative figures includes the figures relating to foreign subsidiary.

			September 30, 2006 Rupees	December 31, 2005 Rupees
5 SHARE CAPITAL				
Issued, subscribed and paid-up Number of Shares				
	September 2006	December 2005		
	312,710,057	86,865,434	ordinary shares of Rs.10 each fully paid	3,127,100,570
	66,173,833	86,865,434	preference shares of Rs.10 each fully paid in cash	868,654,340
	<u>378,914,650</u>	<u>173,730,868</u>		<u>3,788,838,900</u>
				<u>1,737,308,680</u>

6 LONG TERM FINANCING - SECURED

Liabilities of the holding company:				
		5.1	3,767,996,292	650,000,000
			187,500,000	250,000,000
			2,142,812,532	2,143,670,000
Liabilities of a subsidiary company:				
			4,800,000,000	-
			<u>10,898,308,824</u>	<u>3,043,670,000</u>
Less:				
Current portion			280,024,134	365,437,468
			<u>10,618,284,690</u>	<u>2,678,232,532</u>

6.1 During the reporting period Company has obtained new finances from National Bank Ltd., Citi Bank N.A and Deutsche Investitions - UND MBH of Rs.1,500 million, Rs.600 million and Rs.1,135 million respectively. These are secured against assets of the Company and personal guarantees of the sponsor directors.

CONSOLIDATED NOTES TO THE ACCOUNTS (Un-audited)

for the period of nine months ended September 30, 2006

	September 30, 2006 Rupees	December 31, 2005 Rupees
7 LIABILITIES AGAINST ASSETS		
SUBJECT TO FINANCE LEASE		
Present value of Minimum lease payment	87,232,824	108,517,278
Less: Current portion	57,192,892	68,343,306
	30,039,932	40,173,972

8 SHORT TERM FINANCES

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.

9 SHORT TERM REDEEMABLE CAPITAL - SECURED

It represent term finance certificates. These have been issued by way of private placements, the total issue comprises of 3,205 TFCs having face value of Rs. 1,000,000 each. The profit on these secured TFCs is payable on quarterly basis, based on the six months KIBOR plus 3.25 percent per annum. The profit rate will be fixed after every six months for next two quarters from the date of disbursement. The TFCs have a maturity period upto one year with a call option exercisable any time after disbursement. The principal amount will be redeemed at maturity. These are secured against First Charge on receivables and personal guarantees of directors of holding company.

10 CONTINGENCIES AND COMMITMENTS

10.1 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 fulfillment of certain conditions aggregated Rs.68.156million (December 31, 2005: Rs. 68.156 million).

10.2 Commitments against irrevocable letters of credit outstanding as at June 30, 2006 were Rs.64.953 million (December 31, 2005: Rs. 126.89 million).

10.3 All other contingencies and commitments status is same as disclosed in latest annual financial statements, except paragraph 12.1 and 12.9 to that financial statement.

11 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment	11.1	9,091,974,422	3,114,554,527
11.1 Opening balance		3,114,554,527	2,847,936,401
Addition during the period	11.2	1,320,850,130	584,822,775
W.D.V. of assets of a subsidiary acquired during the period		4,989,101,651	-
Less:			
Book value of leased assets transferred to owned assets during the period/year		(31,307,199)	(41,606,011)
W.D.V. of assets disposed off		(42,886,899)	(12,314,603)
Depreciation charged during the period		(258,337,788)	(264,284,035)
		9,091,974,422	3,114,554,527

CONSOLIDATED NOTES TO THE ACCOUNTS (Un-audited)

for the period of nine months ended September 30, 2006

	WDV of assets of a subsidiary acquired during the period	June 30, 2006 Rupees		December 31, 2005 Rupees	
10.2 ADDITIONS AND DISPOSALS – AT COST					
	Acquisition	Acquisition	Disposal	Acquisition	Disposal
Owned					
Freehold land	3,611,584	246,120	-	23,374,593	-
Building on freehold land	299,491,936	215,409,287		76,827,978	-
Plant and Machinery:			63,225,386		
-additions	3,872,688,404	1,000,367,199		376,853,599	18,285,049
-transfers from leased assets		42,900,000	-	46,486,925	-
Furniture and fixtures	10,890,052	7,334,262	818,492	10,382,028	-
Vehicles:					
-additions	12,693,485	2,413,800	2,413,500	2,282,865	5,296,930
-transfers from leased assets		523,000	-	7,058,360	-
Tools and equipment	55,242,703	31,955,117	-	4,756,781	-
Office equipments		14,631,231	-	31,383,917	-
Electric installation	677,230,004	9,810,190	-	15,589,838	-
Roads, bridges and culverts	10,140,760				
Drainage and sewerage	13,067,368				
Sui gas installations	6,631,583	31,625			
Water supply pipeline	10,984,797				
Others	16,428,975				
Leased					
Plant and machinery			-	-	-
-additions	-	4,416,000			
-transfers to owned assets	-	(42,900,000)			
Vehicles					
-additions	-	2,928,100	3,802,466	-	-
-transfers to owned assets	-	(523,000)			
	4,989,101,651	1,289,542,931	70,259,844	594,996,884	23,581,979
			September 30, 2006	December 31, 2005	
			Rupees	Rupees	
12 NON-OPERATING ASSETS					
Opening balance			-	-	
Add:					
Assets of a subsidiary acquired during the period					
Land		25,920,000		-	
Building		13,067,969		-	
Plant & machinery		2,750,000		-	
		41,737,969		-	
13 CAPITAL WORK IN PROGRESS					
Civil work		952,003,518		488,574,237	
Plant and machinery		1,654,198,803		1,791,232,467	
Electric installation		19,422,195		15,920,713	
Tools and equipment		6,449,031		-	
Office equipment and fittings		2,257,228		116,100	
Un-Allocated capital and related expenditure		845,000,776		184,060,143	
		3,479,331,551		2,479,903,660	
14 LONG TERM INVESTMENTS					
Investment in Equity Securities					
Related parties					
Investment in foreign associate					
– Nafees International Tekstil Sanays ve					
Ticaret ANONIM SIRKET		1,650,720		-	
Others		1,021,418		1,021,418	
		2,672,138		1,021,418	

CONSOLIDATED NOTES TO THE ACCOUNTS (Un-audited)

for the period of nine months ended September 30, 2006

		September 30, 2006 Rupees	December 31, 2005 Rupees
15	SHORT TERM INVESTMENTS		
	Held for trading		
	Quoted	98,158,473	454,124,227
	Available for sale	15.1	98,484,545
	Held to maturity		
	Term deposit receipt	30,569,589	216,802,823
		<u>128,728,062</u>	<u>769,411,595</u>

15.1 The comparative figures relates to investments in Chanda Oil & Gas Securitization Co. Ltd., Niamat Balsal Oil Ltd. and Telecard Ltd. which were previously classified as held to maturity investment have been realized in the current reporting period and reclassified as available for sale investments.

16 This include gain on disposal of investments of Rs. 87,409,972/-

17 The number of shares have increased by 225,844,623 including conversion of preference shares.

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.

	Period ended	
	September 30, 2006 Rupees	December 31, 2005 Rupees
Subsidiaries		
Sales	-	13,180,001
Associates		
Brokerage	12,664,624	4,834,233
Mark-up	12,155,374	6,604,158
Purchases	60,153,227	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 transactions.

19 DATE OF AUTHORIZATION FOR ISSUE

These interim financial statements were authorized for issue on 28 October, 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 except for the changes stated in note 15.1.
- have been rounded off to the nearest rupee.

Director

Chief Executive

BOOK POST (PRINTED MATTER)

IF UNDELIVERED, PLEASE RETURN TO:



AZGARD-9

AZGARD NINE LIMITED

**ISMAL AIWAN-E-SCIENCE, OFF SHAHRAH-E-ROOMI,
LAHORE-54600, TEL: +92 (0)42 111-786-645**

WWW.AZGARD9.COM