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CORPORATE 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. AAMIR USMAN

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
CITI BANK 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 LTD.
UNITED BANK LIMITED
UNION BANK LIMITED
HABIB BANK AG ZURICH
NIB BANK LIMITED
NATIONAL BANK OF PAKISTAN
ALLIED BANK LTD.

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

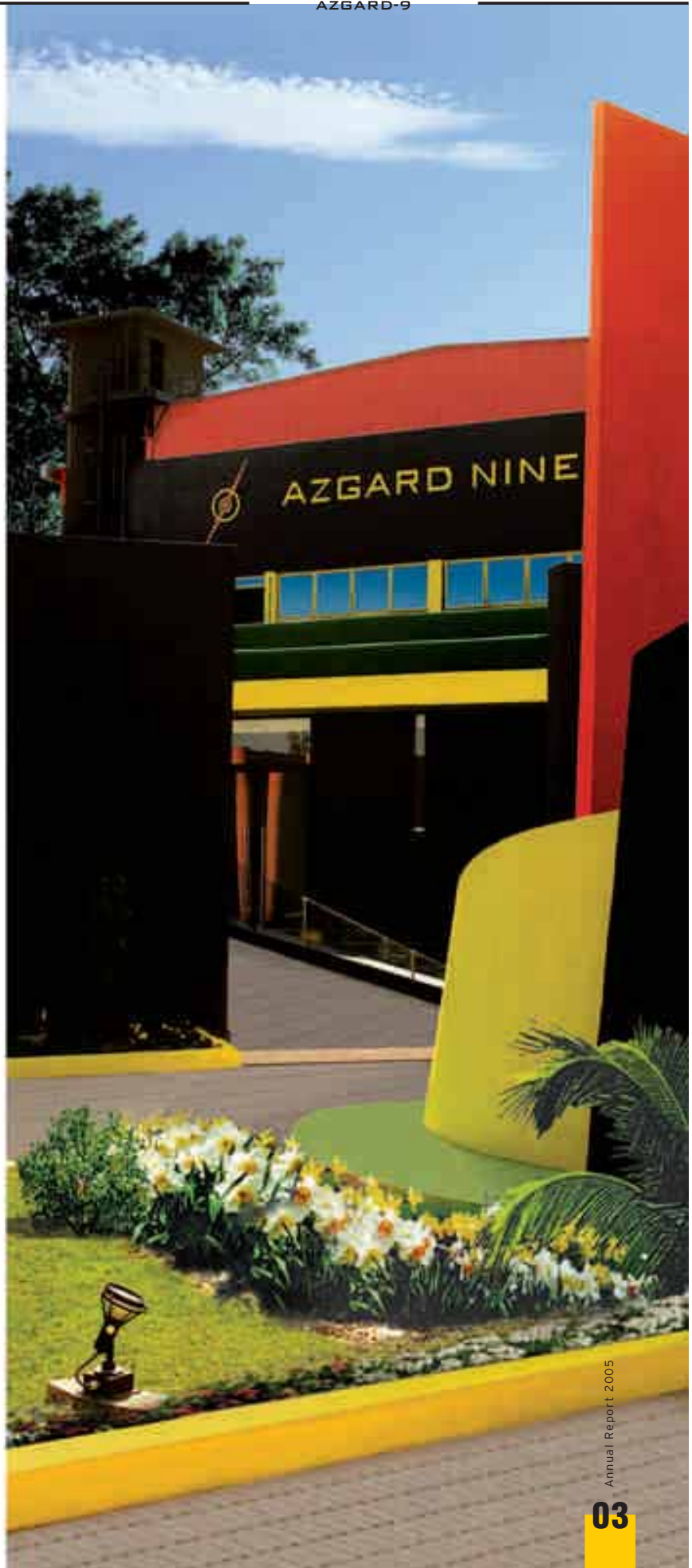
2.5 KM OFF MANGA, RAIWIND ROAD,
DISTRICT KASUR.
PH: +92 (0)42 5384081
FAX: +92 (0)42 5384093

UNIT II

ALIPUR ROAD, MUZAFFARGARH.
PH: +92 (0)661 422503, 422651
FAX: +92 (0)661 422652

UNIT III

20 KM OFF FERAZPUR ROAD,
6 KM BADIAN ROAD ON ROHI NALA
DER KHURD, LAHORE.
PH: +92 (0)42 8460333, 8488862



FINANCIAL HIGHLIGHTS



	2005	2004	2003	2002	2001	2000
OPERATING PERFORMANCE (Rs. 000)						
SALES-NET	4,460,829	3,160,780	2,428,127	1,931,118	1,257,106	1,079,985
EXPORT SALES-GROSS	3,870,557	1,657,688	1,616,709	1,314,025	1,127,941	876,615
LOCAL SALES-GROSS	791,645	1,646,344	1,072,293	754,073	178,412	219,100
GROSS PROFIT	1,138,481	720,001	646,103	493,389	308,630	218,597
OPERATING PROFIT	810,997	533,436	446,671	350,713	204,117	132,084
PROFIT BEFORE TAX	790,070	398,677	248,441	146,321	61,883	7,540
PROFIT AFTER TAX	739,212	378,677	228,188	160,116	56,583	7,241
FINANCIAL POSITION (Rs. 000)						
SHARE CAPITAL	1,737,309	1,737,309	868,654	868,654	319,057	251,557
SHARE PREMIUM	71,658	106,433	143,675	143,675	143,675	143,675
CAPITAL RESERVE	331,702	255,709	107,368	105,152	-	-
UNAPPROPRIATED PROFIT / (ACCUMULATED LOSS)	953,108	412,400	161,711	(92,057)	(310,468)	(367,050)
	3,093,776	2,511,851	1,281,408	1,025,424	152,265	28,182
MINORITY INTEREST	1,760	2,743	-	-	-	-
SHARES DEPOSIT MONEY	-	-	-	40,000	106,086	-
SURPLUS ON REVALUATION OF FIXED ASSETS	278,944	306,565	330,250	355,829	253,289	253,289
NON-PARTICIPATORY REDEEMABLE CAPITAL - Secured	2,678,233	750,000	650,000	2,798	4,042	5,286
LONG TERM LIABILITIES (LEASES & LT DEPOSITS)	43,082	117,652	150,093	384,649	377,478	519,935
DEFERRED LIABILITIES (STAFF GRATUITY)	-	-	25,513	19,808	13,578	10,334
CURRENT LIABILITIES						
CURRENT PORTION OF LONG TERM LIABILITIES	433,781	363,082	160,799	140,431	154,429	121,965
SHORT TERM FINANCES	3,142,402	1,492,910	1,428,656	995,880	557,810	421,774
CREDITORS, ACCRUALS & OTHER LIABILITIES	831,880	701,846	747,930	552,548	207,767	126,004
PROVISION FOR TAXATION	79,684	64,825	44,825	30,735	8,864	3,564
UNCLAIMED DIVIDENDS	362	95	96	116	-	-
	4,488,110	2,622,758	2,382,306	1,719,710	928,870	673,307
OPERATING FIXED ASSETS AND CAPITAL WORK IN PROGRESS	5,594,458	2,937,696	2,333,753	1,938,068	970,040	1,019,996
INTANGIBLE ASSETS	73,937	88,376	-	-	-	-
LONG TERM DEPOSITS & INVESTMENTS	119,614	19,533	6,315	19,761	17,805	14,896
	5,788,009	3,045,605	2,340,068	1,957,829	987,845	1,034,892
CURRENT ASSETS						
STORES, SPARES AND LOOSE TOOLS	87,790	72,609	45,778	21,689	9,229	12,972
STOCK IN TRADE	2,035,875	1,425,587	1,265,777	722,376	246,192	187,229
TRADE DEBTORS	1,034,669	924,208	536,616	533,468	337,303	239,568
SHORT TERM INVESTMENTS	670,927	109,149	-	-	-	-
OTHER CURRENT ASSETS	920,349	713,461	609,728	249,380	168,574	107,606
CASH & CASH EQUIVALENTS	46,283	20,949	21,602	23,477	20,380	14,152
	4,795,893	3,265,962	2,479,501	1,550,390	781,678	561,527
NET WORKING CAPITAL	307,783	643,205	97,195	(169,321)	(147,192)	(111,780)
TOTAL CAPITAL EMPLOYED	6,095,793	3,688,809	2,437,263	1,788,508	840,652	923,114
PROFITABILITY ANALYSIS						
GROSS PROFIT TO SALES (%)	25.52	22.78	26.61	25.55	24.55	20.24
OPERATING PROFIT TO SALES (%)	18.18	16.88	18.40	18.16	16.24	12.23
PROFIT BEFORE TAX TO SALES (%)	17.71	12.61	10.23	7.58	4.92	0.70
PROFIT AFTER TAX TO SALES (%)	16.57	11.98	9.40	8.29	4.50	0.67
RETURN ON CAPITAL EMPLOYED (%)	18.32	14.73	18.34	19.64	24.28	15.42
RETURN ON EQUITY (%)	21.92	13.44	14.16	11.59	13.95	1.87
EARNINGS PER SHARE (RS.) (PLEASE REFER TO NOTE 31)	7.40	4.33	2.63	2.64	2.08	0.29
FINANCIAL ANALYSIS						
FINANCE COST TO SALES (%)	6.51	3.91	7.65	10.21	10.75	12.44
CURRENT RATIO (TIMES) *	1.18	1.45	1.12	0.98	1.01	1.02
*(EXCLUDING CURRENT PORTION OF LT LIABILITIES)						
DEBT TO EQUITY (RATIO)	48 : 52	30 : 70	37 : 63	28 : 72	57 : 43	63 : 37
LEVERAGE RATIO (TIMES)	2.14	1.24	1.99	1.54	3.26	3.12
BREAK-UP VALUE PER SHARE (RS.)	19.41	16.22	18.55	15.90	13.96	15.41
INVENTORY TURNOVER (TIMES PER YEAR)	1.92	1.79	1.79	2.97	4.38	4.86
FIXED ASSETS TURNOVER (TIMES)	1.05	1.20	1.14	1.33	1.26	1.07
INTEREST COVER (RS.)	3.84	4.39	2.41	1.78	1.51	1.06

VISION & MISSION STATEMENT

VISION STATEMENT

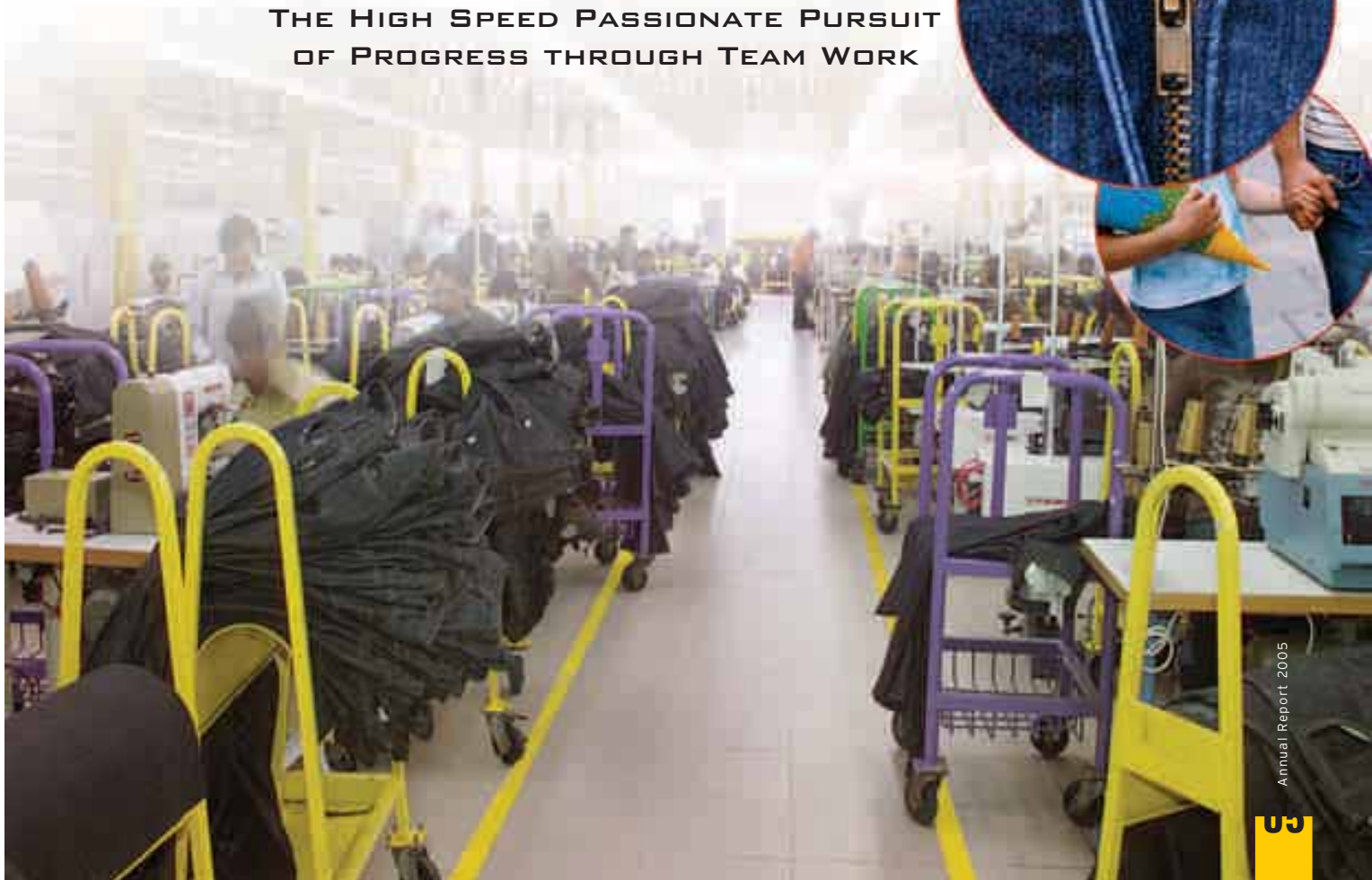
TO BECOME A MAJOR GLOBAL FASHION
APPAREL COMPANY

MISSION STATEMENT

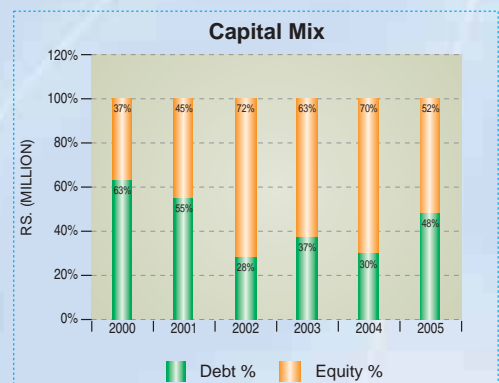
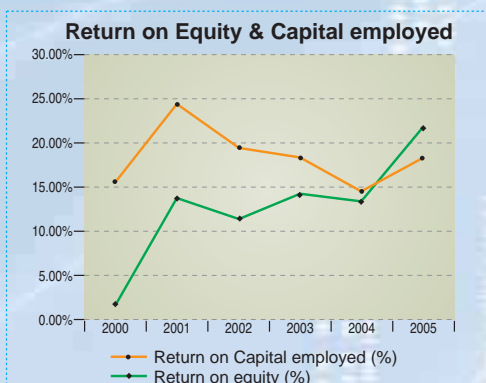
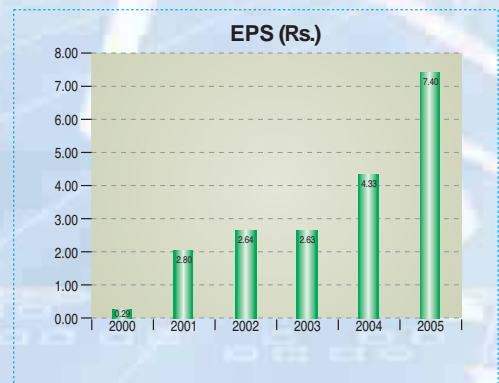
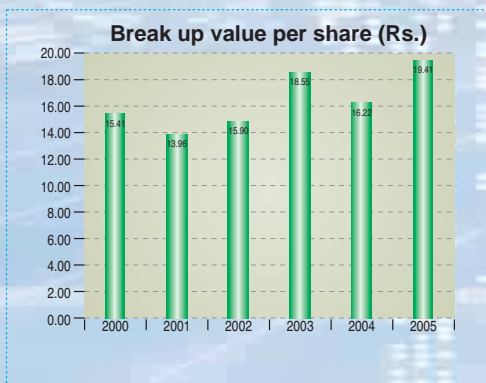
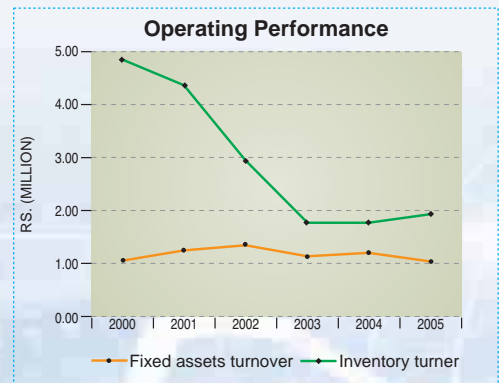
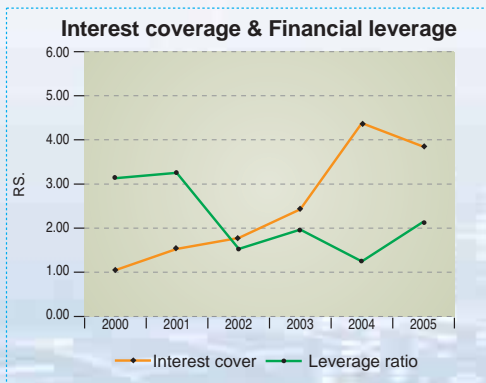
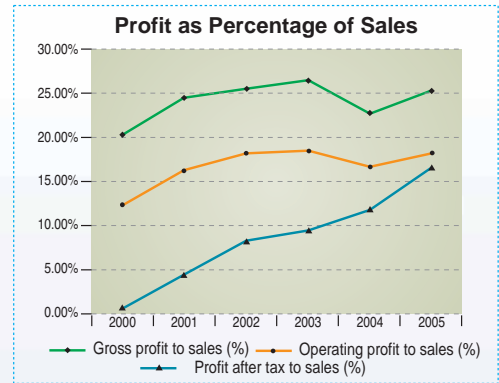
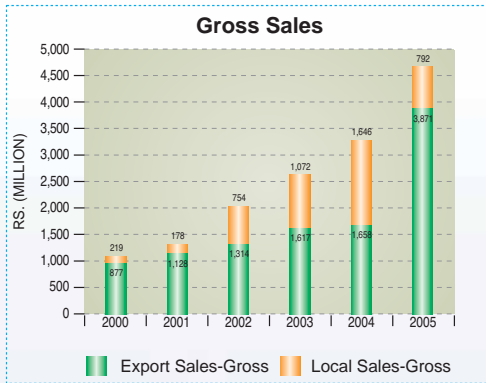
TO BECOME A \$300 MILLION
INTERNATIONAL BRANDED JEANS
BUSINESS BY 2007

CULTURAL PILLAR

THE HIGH SPEED PASSIONATE PURSUIT
OF PROGRESS THROUGH TEAM WORK

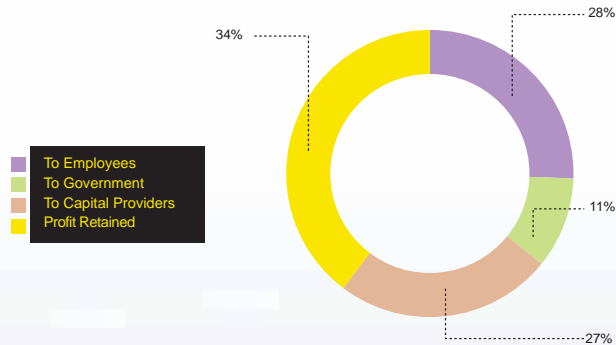


FINANCIAL HIGHLIGHTS



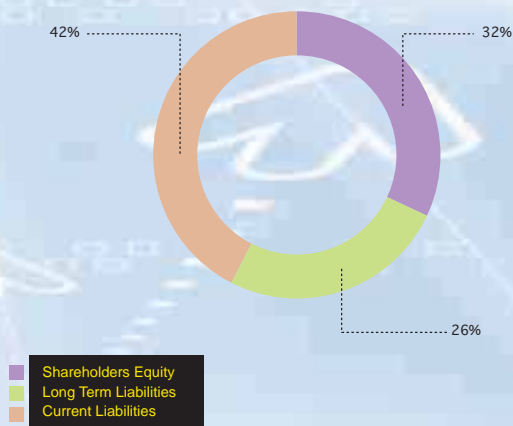
DISTRIBUTION OF REVENUE

Wealth Distribution / Allocation

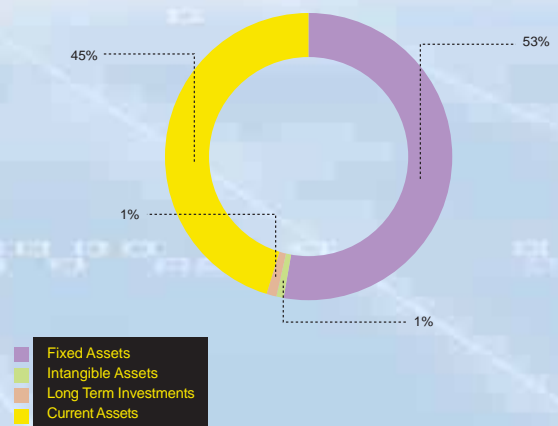


WEALTH GENERATED	RUPEES	% AGE
TOTAL REVENUE		
SALES - NET	4,460,828,929	
OTHER INCOME	305,852,832	
BOUGHT IN MATERIAL AND SERVICES	(3,065,734,096)	
	1,700,947,665	100%
WEALTH DISTRIBUTION/ALLOCATION		
TO EMPLOYEES		
SALARIES WAGES AND BENEFITS	483,226,644	28%
INCLUDING WORKERS (PROFIT) PARTICIPATION FUND		
TO GOVERNMENT		
INCOME TAX, SALES TAX, CUSTOM DUTY	187,588,950	11%
TO PROVIDERS OF CAPITAL		
CASH DIVIDEND FOR 2004	86,865,434	
DIVIDEND ON PREFERENCE SHARES	77,744,563	
CHARGES ON BORROWED FUNDS	290,509,378	
	455,119,375	27%
PROFIT RETAINED	575,012,696	34%
WEALTH GENERATED	1,700,947,665	

Shareholders' Equity and Liabilities



Total Assets



NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT THE 13TH ANNUAL GENERAL MEETING OF AZGARD NINE LIMITED WILL BE HELD ON 28TH APRIL 2006 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:

1. TO CONFIRM THE MINUTES OF THE LAST EXTRA ORDINARY GENERAL MEETING HELD ON MARCH 07, 2006.
2. TO RECEIVE, CONSIDER AND ADOPT THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED DECEMBER 31, 2005 (15 MONTHS) TOGETHER WITH DIRECTORS' AND AUDITORS' REPORTS THEREON.

3. TO APPROVE CASH DIVIDEND @15% (I.E. RS.1.50 PER ORDINARY SHARE) AS RECOMMENDED BY THE BOARD AND TO APPROVE INTERIM DIVIDEND ALREADY PAID TO THE PREFERENCE SHAREHOLDERS @8.95% AS FINAL DIVIDEND FOR THE FIRST YEAR ENDING ON SEPTEMBER 24, 2005.
4. TO APPOINT AUDITORS FOR THE FINANCIAL YEAR ENDING DECEMBER 31, 2006 AND TO FIX THEIR REMUNERATION. THE PRESENT AUDITORS M/S RAHMAN SARFRAZ & COMPANY, CHARTERED ACCOUNTANTS, RETIRE AND BEING ELIGIBLE OFFER THEMSELVES FOR REAPPOINTMENT.
5. 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 APRIL 22, 2006 TO APRIL 28, 2006. (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

- I. IN CASE OF INDIVIDUALS, THE ACCOUNT HOLDER AND/OR SUB-ACCOUNT HOLDER 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.
- II. 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

- I. IN CASE OF INDIVIDUALS, THE ACCOUNT HOLDER AND/OR SUB-ACCOUNT HOLDER AND THEIR REGISTRATION DETAILS ARE UPLOADED AS PER THE CDC REGULATIONS, SHALL SUBMIT THE PROXY FORM AS PER THE ABOVE REQUIREMENTS.

- II. THE PROXY FORM SHALL BE WITNESSED BY TWO PERSONS WHOSE NAMES, ADDRESSES AND NIC NUMBERS SHALL BE MENTIONED ON THE FORM.
- III. ATTESTED COPIES OF NIC OR THE PASSPORT OF THE BENEFICIAL OWNERS AND THE PROXY SHALL BE FURNISHED WITH THE PROXY FORM.
- IV. THE PROXY SHALL PRODUCE HIS ORIGINAL NIC OR ORIGINAL PASSPORT AT THE TIME OF THE MEETING.
- V. 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.

WE PULL
TOGETHER TO
POOL OUR
RESOURCES AND
ADD OUR
EXPERIENCES.



CHIEF EXECUTIVE'S REVIEW

2005 HAS CERTAINLY BEEN A "CURVE BALL" OF A YEAR AS THE EXPRESSION GOES. CHINA, INDIA AND PAKISTAN WERE SUPPOSED TO BE THE MAJOR BENEFICIARIES POST THE REMOVAL OF QUOTAS UNDER THE WTO AGREEMENT.

EXPORTS FROM CHINA AND INDIA HAVE GROWN IN SOME GARMENT CATEGORIES BY OVER 400%. HOWEVER, THE OVERALL IMPACT OF THE REMOVAL OF QUOTAS FOR PAKISTAN HAS BEEN DISAPPOINTING. INFECT, EXPORTS FROM PAKISTAN HAVE ACTUALLY DECLINED IN SOME CATEGORIES. WHILE COUNTRIES SUCH AS BANGLADESH AND SRI LANKA HAVE REALLY BENEFITED FAR MORE THAN WAS EXPECTED. SRILANKA IS PARTICULARLY DOING BETTER THAN EXPECTED AFTER TARIFF BARRIERS WERE LOWERED POST TSUNAMI.

REGIONAL AND GLOBAL BUSINESS ENVIRONMENT:

AZGARD IS NOW FINALLY IN A WORLD OF GLOBAL COMPETITION.

THE OPPORTUNITIES ARE VAST BUT, THE CHALLENGES ARE EQUALLY DAUNTING.

WE HAVE CREATED A BASE FROM WHICH WE CAN GLOBALIZE THE BUSINESS. THE CHALLENGE NOW IS TO:

- MANAGE GROWTH.
- BECOME EFFICIENT BENCHMARKED AGAINST THE BEST IN THE WORLD.

NEW PROJECTS SUCH AS:

- | | | |
|---|---|---|
| <ul style="list-style-type: none"> • NEW SPINNING PLANT. • NEW DENIM PLANT • NEW GARMENT PLANT | } | <p>SHOULD ALL COME ON LINE THIS YEAR BOOSTING SALES AND EARNINGS.</p> |
|---|---|---|

OUR TEAM'S KEY CHALLENGE IS TO NOW EFFECTIVELY AND EFFICIENTLY MANAGE THIS GROWTH.



CHIEF EXECUTIVE'S REVIEW



FUTURE OUTLOOK

OUR FUTURE OUTLOOK REMAINS CAUTIOUSLY OPTIMISTIC. THE DENIM SECTOR IS IN ITS CYCLICAL DOWN CYCLE AND THIS WILL EFFECT EARNINGS GROWTH. INTEREST RATE AND COTTON PRICES ARE HIGH AND THIS WILL ALSO HAVE A DAMPENING EFFECT.

THE COMPANY HOWEVER, ENDEAVORS TO DIVERSIFY ITS BUSINESS IN LINE WITH ITS VISION AND MISSION. OUR OBJECTIVE WILL OFF COURSE REMAIN TO DELIVER MAXIMUM SHAREHOLDER VALUE.

APPRECIATION:

ONCE AGAIN I MUST THANK AND SUPPORT ALL OUR STAKE HOLDERS. IT IS THEIR DEDICATION AND HARD WORK DAY IN, DAY OUT, THAT MAKES HIGH PERFORMANCE POSSIBLE.

I WOULD LIKE TO THANK ALL MEMBERS OF AZGARD 9 SUPPLIERS, FINANCIERS, CUSTOMERS AND DIRECTORS AND PARTICULARLY OUR MILL WORKERS WHO WORK VERY HARD AND GET VERY LITTLE LIME LIGHT.

WE ARE A TEAM WE WIN TOGETHER SHOULD WE FORGET THIS THEN WE SHALL SINK TOGETHER. WITH BEST WISHES AND ALL OUR PRAYERS TO MAKE 2006 A MILESTONE YEAR FOR AZGARD 9 THROUGH TEAMWORK.

AHMED H. SHAIKH
CEO





WE ARE ALWAYS
BUILDING OUR
STRENGTHS BY
EFFICIENT
UTILIZATION OF
AVAILABLE
RESOURCES



DIRECTORS' REPORT



THE BOARD OF DIRECTORS OF AZGARD NINE LIMITED IS PLEASED TO PRESENT THE 13TH ANNUAL REPORT OF YOUR COMPANY'S PERFORMANCE DURING THE PERIOD ENDED DECEMBER 31, 2005.

CHANGE OF FINANCIAL YEAR

THE COMPANY HAS CHANGED ITS FINANCIAL YEAR FROM 1ST OCTOBER – 30TH SEPTEMBER TO 1ST JANUARY – 31ST DECEMBER KEEPING IN VIEW GLOBALIZATION OBJECTIVES. THIS HAS BEEN DONE WITH THE RESPECTIVE APPROVALS OF THE CBR AND THE SECP. THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1ST OCTOBER 2004 TO 31ST DECEMBER 2005 (15 MONTHS) HAVE BEEN PREPARED CONSEQUENT UPON THE ABOVE SAID CHANGE OF FINANCIAL YEAR. THUS THE COMPARATIVE FIGURES IN PROFIT & LOSS ACCOUNT, CASH FLOW STATEMENT, STATEMENT OF CHANGES IN EQUITY AND RELATED NOTES TO THE ACCOUNTS ARE NOT COMPARABLE TO THE CURRENT PERIOD.

FINANCIAL HIGHLIGHTS

THE BOARD OF DIRECTORS FEELS IMMENSE PLEASURE TO REPORT ANOTHER HALLMARK YEAR IN WHICH YOUR COMPANY HAS MAINTAINED CONSISTENT GROWTH. THE FINANCIAL RESULTS ARE AS FOLLOWS:

FINANCIAL RESULTS		
	2005 (15 MONTHS) RUPEES	2004 (12 MONTHS) RUPEES
SALES-NET	4,460,828,929	3,160,780,433
OPERATING PROFIT	810,997,218	533,435,665
FINANCIAL CHARGES	290,509,378	122,998,014
PROFIT BEFORE TAX	790,069,921	398,677,394
PROFIT AFTER TAX	739,212,044	377,004,016

ECONOMIC ENVIRONMENT

THE ECONOMIC ENVIRONMENT WAS CHALLENGING IN THE VIEW OF THE WTO AGREEMENTS BEING OPERATIVE. 2005 WAS THE FIRST YEAR FOR GLOBAL TRADE POST WTO AND QUOTAS. THE TEXTILE AND APPAREL INDUSTRIES HAVE BEEN UNDER PRESSURE TO REORGANIZE THEIR SUPPLY CHAINS. GLOBALLY ECONOMIES HAVE BEEN CHALLENGED BY HIGHER INTEREST RATES AND HIGH OIL PRICES. SPECIFIC TO PAKISTAN SPECIFIC IMPORT DUTIES WERE RE-IMPOSED ON GARMENTS IMPARTED INTO THE EUROPEAN UNION.

HIGHLIGHTS OF COMPANY PERFORMANCE

YOUR COMPANY HAS PERFORMED WELL. THE COMPANY'S TURNOVER HAS INCREASED BY 41.13%. NET MARGIN HAS INCREASED FROM 11.93% TO 16.57%. THE MAIN FACTOR HAS BEEN THE SUBSTANTIAL DECREASE IN COTTON PRICES.

EARNING PER SHARE

THE EARNING PER SHARE OF THE COMPANY FOR THE PERIOD ENDED DECEMBER 31, 2005 WAS RS 7.40 AS COMPARED TO THE PREVIOUS YEAR OF RS.4.33 SHOWING AN INCREASE OF



70.90%. THE SHARE PRICE HAS GONE TO OVER RS. 40. THIS HAS CONTRIBUTED TO SHAREHOLDER VALUE.

CORPORATE GOVERNANCE & FINANCIAL REPORTING FRAMEWORK

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 ACCOUNTS OF THE COMPANY HAVE BEEN MAINTAINED.
- APPROPRIATE ACCOUNTING POLICIES HAVE BEEN CONSISTENTLY APPLIED IN THE 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 THE PREPARATION OF FINANCIAL STATEMENTS.
- THE SYSTEM OF INTERNAL CONTROLS IS SOUND AND HAS BEEN EFFECTIVELY IMPLEMENTED AND MONITORED.
- THE BOARD IS SATISFIED THAT COMPANY IS PERFORMING WELL AS GOING CONCERN UNDER THE CODE OF CORPORATE GOVERNANCE.
- THERE HAS BEEN NO MATERIAL DEPARTURE FROM THE BEST PRACTICES OF CORPORATE GOVERNANCE AS DETAILED IN THE LISTING REGULATIONS OF THE STOCK EXCHANGE.
- 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 DECEMBER 31, 2005 EXCEPT FOR THOSE DISCLOSED IN THE FINANCIAL STATEMENTS.
- THE VALUE OF PROVIDENT FUND INVESTMENTS AS ON DECEMBER 31, 2005 WAS RS.33.547 MILLION (SEPTEMBER 30, 2004: 32.777 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.

DIRECTORS' REPORT



DIVIDEND

THE DIRECTORS ARE PLEASED TO RECOMMEND PAYMENT OF CASH DIVIDEND @15% (I.E. RS. 1.50 PER SHARE) TO THE ORDINARY SHAREHOLDERS OF THE COMPANY.

THE COMPANY HAS ALREADY PAID INTERIM PREFERRED DIVIDEND TO THE PREFERENCE SHAREHOLDERS FOR THE FIRST YEAR ENDING SEPTEMBER 24, 2005 @ 8.95% (I.E. RS.0.895 PER SHARE). THE SAID INTERIM DIVIDEND WILL BE RECOMMENDED AS FINAL DIVIDEND TO THE PREFERENCE SHAREHOLDERS FOR THE FIRST YEAR ENDING SEPTEMBER 24, 2005.

TERM FINANCE CERTIFICATES ISSUE

DURING THE PERIOD UNDER REVIEW THE COMPANY HAD ISSUED A PROSPECTUS FOR RATED, LISTED, SECURED AND CONVERTIBLE TERM FINANCE CERTIFICATES (TFCs) COMPRISING OF PRE-IPO OF RS. 1,600 MILLION, IPO OF RS 400 MILLION WITH A GREEN SHOE OPTION OF RS. 400 MILLION. THE INSTRUMENT WAS RATED "A+" (SINGLE A PLUS) BY THE PAKISTAN CREDIT RATING AGENCY LIMITED (PACRA) & JCR-VIS CREDIT RATING COMPANY LIMITED.

BY THE GRACE OF THE ALMIGHTY ALLAH THE SAID IPO WAS OVERSUBSCRIBED BY 36%. THE COMPANY HAS ENTERTAINED ALL THE APPLICATIONS BY OPTING FOR THE GREEN SHOE OPTION AND RESULTANTLY TFCs AMOUNTING TO RS. 2,143.67 MILLION WERE ISSUED ON OCTOBER 19, 2005.

BOARD OF DIRECTORS

THE BOARD OF DIRECTORS IS RESPONSIBLE FOR THE OVERALL GOVERNANCE AND ADMINISTRATION OF THE COMPANY AND ENCOURAGES THE SHAREHOLDERS TO APPOINT THE DIRECTORS AND AUDITORS TO SATISFY THEMSELVES THAT APPROPRIATE GOVERNANCE STRUCTURE IS IN PLACE. THE BOARD COMPRISES FIVE NON EXECUTIVE DIRECTORS INCLUDING THE CHAIRMAN WHILE THE CHIEF EXECUTIVE REPRESENTS EXECUTIVE DIRECTORSHIP ON THE BOARD.

SEVEN MEETINGS OF THE BOARD OF DIRECTORS WERE HELD DURING THE PERIOD UNDER REVIEW. ATTENDANCE BY EACH DIRECTOR IS AS FOLLOWS:

NAME OF DIRECTOR	ELIGIBILITY	ATTENDED
MR. MUEEN AFZAL	7	4
MR. AHMED H. SHAIKH	7	7
CHIEF JUSTICE (R)		
MIAN MAHBOOB AHMAD	7	7
MR. AEHSUN M. H. SHAIKH	7	5
MR. ALI JEHANGIR SIDDIQUI	7	5
MR. MUHAMMAD MUKARRAM*	5	4
MR. KHALID A.H. AL-SAGAR	7	1
MR. MOHAMMED KHAISHGI**	2	1

* RESIGNED ON SEPTEMBER 26, 2005

** APPOINTED ON SEPTEMBER 26, 2005

LEAVE OF ABSENCE WAS GRANTED TO THE MEMBERS WHO COULD NOT ATTEND THE MEETINGS.



AZGARD-9

ENTITY RATING FROM PACRA
(PAKISTAN CREDIT RATING AGENCY LTD.)

LONG TERM A (SINGLE A)
SHORT TERM A1 (SINGLE A ONE)

INSTRUMENT RATING
LISTED TFCS
FROM PACRA
AND
JCR-VIS CREDIT RATING COMPANY LIMITED.

A+ (SINGLE A PLUS)

DIRECTORS' REPORT



AUDIT COMMITTEE

THE AUDIT COMMITTEE'S ROLE FOCUSES ON MONITORING COMPLIANCE WITH THE BEST PRACTICES OF THE CODE OF CORPORATE GOVERNANCE AND RELEVANT STATUTORY REQUIREMENTS. ITS RESPONSIBILITIES INCLUDE MONITORING THE INTERNAL AUDIT FUNCTION, SAFEGUARDING COMPANY'S ASSETS THROUGH APPROPRIATE INTERNAL CONTROL SYSTEMS INCLUDING FINANCIAL AND OPERATIONAL CONTROLS, ACCOUNTING SYSTEM AND REPORTING STRUCTURE, PRELIMINARY REVIEW OF BUSINESS PLANS AND QUARTERLY, HALF-YEARLY AND ANNUAL RESULTS AND RECOMMENDATION RELATING TO THE APPOINTMENT OF EXTERNAL AUDITORS PRIOR TO APPROVAL BY THE BOARD.

THE AUDIT COMMITTEE COMPRISES OF FIVE MEMBERS AND FOUR MEMBERS OF COMMITTEE ARE NON-EXECUTIVE DIRECTORS INCLUDING ITS CHAIRMAN. THE COMMITTEE MET FIVE TIMES DURING THE PERIOD UNDER REVIEW. THE NAMES OF ITS MEMBERS ARE GIVEN IN THE COMPANY'S INFORMATION.

INTERNAL AUDIT FUNCTION

THE BOARD HAS IMPLEMENTED A SOUND AND EFFECTIVE INTERNAL CONTROL SYSTEM INCLUDING OPERATIONAL, FINANCIAL AND COMPLIANCE CONTROLS TO CARRY ON THE BUSINESS OF THE COMPANY IN A CONTROLLED ENVIRONMENT IN AN EFFICIENT MANNER TO ADDRESS THE COMPANY'S BASIC OBJECTIVES.

INTERNAL AUDIT FINDINGS ARE REVIEWED BY THE AUDIT COMMITTEE, WHERE NECESSARY, ACTION TAKEN ON THE BASIS OF RECOMMENDATIONS CONTAINED IN THE INTERNAL AUDIT REPORTS.

HUMAN CAPITAL

THE COMPANY RECOGNIZES THAT ITS HUMAN RESOURCE IS THE MOST VALUABLE ASSET FOR CREATING AND DELIVERING VALUE FOR ITS STAKEHOLDERS.

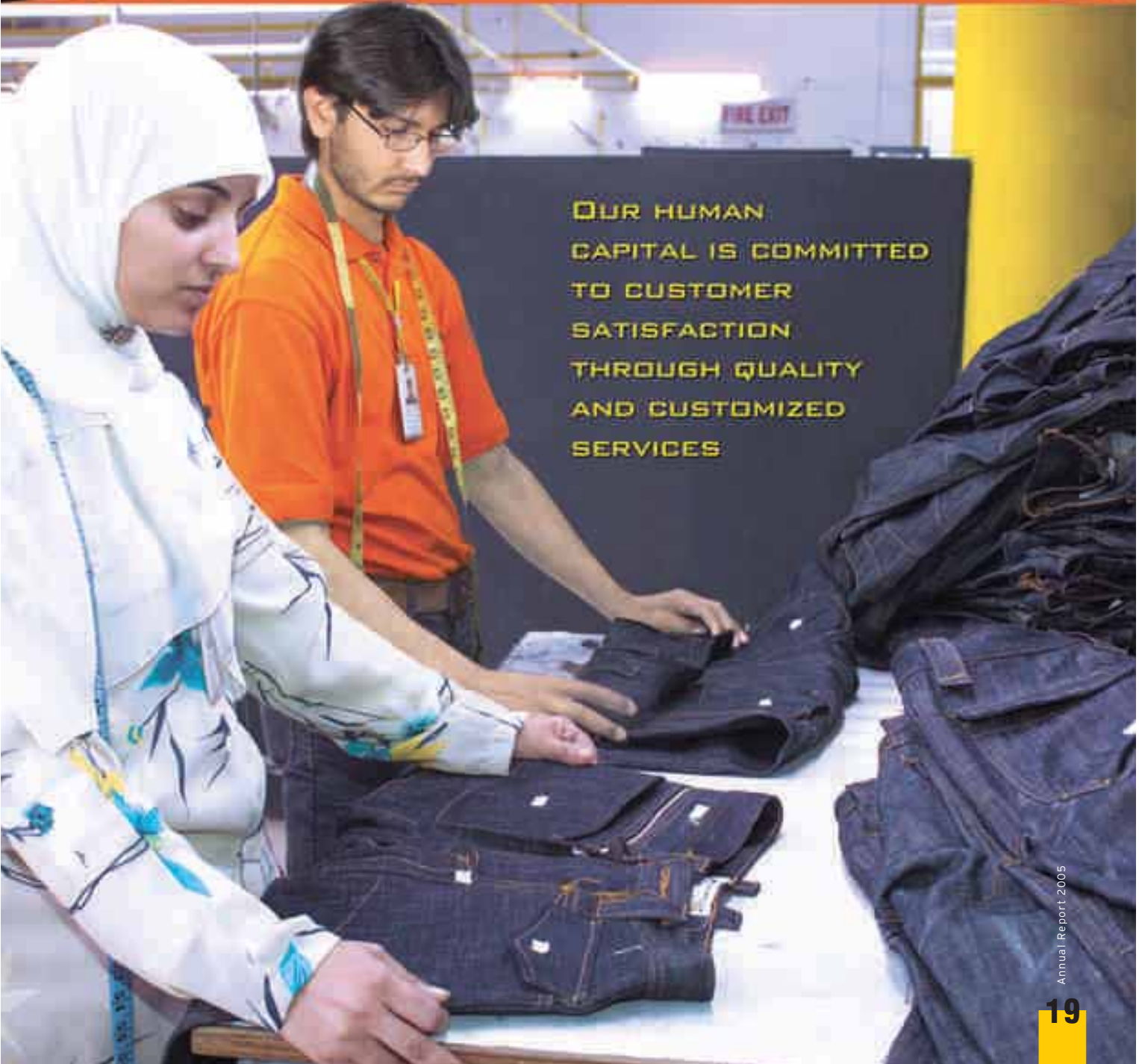
A SCHEME OF BALANCE SCORE CARD (PERFORMANCE BASED REWARD) HAS BEEN INTRODUCED. AZGARD 9'S INTRINSIC REWARD SYSTEM IS AN EXCELLENT MOTIVATIONAL FACTOR FOR ITS EMPLOYEES. TO MOTIVATE THE

EMPLOYEES, THE COMPENSATION AND BENEFITS ARE LINKED TO INDIVIDUAL AND GROUP PERFORMANCES, WHICH ARE NOW BEING EVALUATED THROUGH WELL IMPLEMENTED PERFORMANCE APPRAISAL SYSTEM

INFORMATION TECHNOLOGY

THE COMPANY IS IN PROCESS OF DEVELOPING AND UPGRADING ITS MANAGEMENT INFORMATION SYSTEMS. IT INFRASTRUCTURE HAS BEEN SET UP UTILIZING STATE OF THE ART EQUIPMENT AND HIGH SPEED RADIO LINK WITH THE HEAD OFFICE AND MANGA SITE.

THE COMPANY IS UTILIZING ORACLE FINANCIALS, WHICH IS A WELL KNOWN TOOL FOR FINANCIAL SYSTEMS. AT THE SAME TIME, SYSTEMS ARE BEING DEVELOPED IN HOUSE THAT WILL BE INTEGRATED WITH ORACLE FINANCIALS TO PROVIDE PROPER REPORTING AND PAPER FREE ENVIRONMENT WITH IN THE COMPANY.



OUR HUMAN
CAPITAL IS COMMITTED
TO CUSTOMER
SATISFACTION
THROUGH QUALITY
AND CUSTOMIZED
SERVICES



SAFETY, HEALTH AND ENVIRONMENT

THE COMPANY STRICTLY COMPLIES WITH THE STANDARDS AND FOLLOWS THE SAFETY RULES AND REGULATIONS. VARIOUS SESSIONS ON SAFETY AWARENESS WERE HELD AND NO MAJOR ACCIDENT WAS REPORTED DURING THE YEAR. MANAGEMENT HAS MAINTAINED ITS STRONG COMMITMENT TO A SAFE ENVIRONMENT IN ALL ITS OPERATIONS THROUGH OUT THE YEAR.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS OF THE COMPANY AND ITS FOLLOWING SUBSIDIARY COMPANIES ARE ALSO INCLUDED IN THIS REPORT.

- NAFEES INTERNATIONAL TEKSTIL SANAYS VE TICARET ANONIM SIRKET
- AZSOFT (PRIVATE) LIMITED

AUDITORS

MESSRS RAHMAN SARFRAZ & COMPANY, CHARTERED ACCOUNTANTS BEING ELIGIBLE HAVE OFFERED THEMSELVES FOR REAPPOINTMENT. THE AUDIT COMMITTEE HAS ALSO RECOMMENDED THEIR APPOINTMENT AS EXTERNAL AUDITORS OF THE COMPANY FOR THE NEXT FINANCIAL YEAR 2006.

PATTERN OF SHAREHOLDING

THE PATTERN OF SHAREHOLDING AS AT DECEMBER 31, 2005 INCLUDING THE INFORMATION UNDER THE CODE OF CORPORATE GOVERNANCE FOR ORDINARY AND PREFERENCE SHARES ARE ANNEXED

CHIEF EXECUTIVE'S REVIEW

THE DIRECTORS ENDORSE THE CONTENTS OF THE CHIEF EXECUTIVE'S REVIEW WHICH FORMS A PART OF THE DIRECTOR'S REPORT.

WEB PRESENCE

ANNUAL AND PERIODICAL FINANCIAL STATEMENTS OF THE COMPANY ARE ALSO AVAILABLE ON THE AZGARD-9 WEBSITE WWW.AZGARD9.COM FOR INFORMATION OF THE SHAREHOLDERS AND OTHERS.

ACKNOWLEDGEMENT

FINALLY, THE BOARD AVAIL THIS OPPORTUNITY TO THANK OUR VALUED CUSTOMERS AND FINANCIAL INSTITUTIONS WHOSE FAITH AND SUPPORT OVER THE YEARS HAS FOSTERED A MUTUALLY BENEFICIAL RELATIONSHIP WHICH PLAY A PIVOTAL ROLE IN IMPROVING OUR PRODUCTS SERVICES AND CONTRIBUTIONS TO THE ECONOMY.

THE BOARD ALSO WISHES TO PLACE ON RECORD ITS APPRECIATION FOR THE EMPLOYEES FOR THEIR UNSWERVING COMMITMENT AND HARD WORK AND TO THE SHAREHOLDERS FOR THE TRUST AND CONFIDENCE REPOSED IN US.

ON BEHALF OF THE BOARD

LAHORE
MARCH 28, 2006

CHAIRMAN



**WE ARE CONFIDENT THAT
CONTINUED DYNAMIC STRATEGIC
PLANNING AND INVESTMENT IN
STATE OF THE ART TECHNOLOGIES
WOULD ENABLE US TO ACHIEVE
OUR OBJECTIVES.**



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. THE COMPANY ENCOURAGES REPRESENTATION OF INDEPENDENT NON-EXECUTIVE DIRECTORS ON ITS BOARD OF DIRECTORS. AT PRESENT THE BOARD OF DIRECTORS INCLUDES FIVE (5) 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 NBFII OR, BEING A MEMBER OF A STOCK EXCHANGE, HAS BEEN DECLARED AS A DEFAULTER BY THAT STOCK EXCHANGE.
4. ONE CASUAL VACANCY OCCURRING IN THE BOARD WAS FILLED UP BY THE DIRECTORS WITH IN STIPULATED PERIOD 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 INCLUDING APPOINTMENT AND DETERMINATION OF REMUNERATION AND TERM AND CONDITIONS OF EMPLOYMENT OF THE CHIEF EXECUTIVE OFFICER AND EXECUTIVE DIRECTOR 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 MEETINGS OF THE AUDIT COMMITTEE WERE HELD AT LEAST ONCE EVERY QUARTER PRIOR TO THE APPROVAL OF INTERIM AND FINAL RESULTS OF THE COMPANY AND AS REQUIRED BY THE CODE. THE TERM OF REFERENCE OF THE COMMITTEE HAVE BEEN FORMED AND ADVISED TO THE COMMITTEE FOR COMPLIANCE.
18. THE BOARD HAS SET-UP AN EFFECTIVE INTERNAL AUDIT FUNCTION MANNED BY SUITABLY QUALIFIED AND EXPERIENCED PERSONNEL WHO ARE CONVERSANT WITH THE POLICIES AND PROCEDURES OF THE COMPANY AND ARE INVOLVED IN THE INTERNAL AUDIT FUNCTION ON A FULL TIME BASIS.
19. 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.
20. THE STATUTORY AUDITORS OR THE PERSONS ASSOCIATED WITH THEM HAVE NOT BEEN APPOINTED TO PROVIDE OTHER SERVICES EXCEPT IN ACCORDANCE WITH THE LISTING REGULATIONS AND THE AUDITORS HAVE CONFIRMED THAT THEY HAVE OBSERVED IFAC GUIDELINES IN THIS REGARD.
21. WE CONFIRM THAT ALL OTHER MATERIAL PRINCIPLES CONTAINED IN THE CODE HAVE BEEN COMPLIED WITH.

LAHORE
MARCH 28, 2006

CHIEF EXECUTIVE



AZGARD-9



POSITIONED FOR
THE FUTURE WITH
FOCUS ON GROWTH
AND EFFICIENCY

REVIEW REPORT TO THE MEMBERS

ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

WE HAVE REVIEWED THE STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES CONTAINED IN THE CODE OF CORPORATE GOVERNANCE PREPARED BY THE BOARD OF DIRECTORS OF AZGARD NINE LIMITED TO COMPLY WITH THE LISTING REGULATION NO. 37 OF THE KARACHI STOCK EXCHANGE (GUARANTEE) LIMITED WHERE THE COMPANY IS LISTED.

THE RESPONSIBILITY FOR COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE IS THAT OF THE BOARD OF DIRECTORS OF THE COMPANY. OUR RESPONSIBILITY IS TO REVIEW, TO THE EXTENT WHERE SUCH COMPLIANCE CAN BE OBJECTIVELY VERIFIED, WHETHER THE STATEMENT OF COMPLIANCE REFLECTS THE STATUS OF THE COMPANY'S COMPLIANCE WITH THE PROVISIONS OF THE CODE OF CORPORATE GOVERNANCE AND REPORT IF IT DOES NOT. A REVIEW IS LIMITED PRIMARILY TO THE INQUIRIES OF THE COMPANY PERSONNEL AND REVIEW OF VARIOUS DOCUMENTS PREPARED BY THE COMPANY TO COMPLY WITH THE CODE.

AS PART OF OUR AUDIT OF FINANCIAL STATEMENTS WE ARE REQUIRED TO OBTAIN AN UNDERSTANDING OF THE ACCOUNTING AND INTERNAL CONTROL SYSTEMS SUFFICIENT TO PLAN THE AUDIT AND DEVELOP AN EFFECTIVE AUDIT APPROACH. WE HAVE NOT CARRIED OUT ANY SPECIAL REVIEW OF THE INTERNAL CONTROL SYSTEM TO ENABLE US TO EXPRESS AN OPINION AS TO WHETHER THE BOARD'S STATEMENT ON INTERNAL CONTROL COVERS ALL CONTROLS AND THE EFFECTIVENESS OF SUCH INTERNAL CONTROLS.

BASED ON OUR REVIEW OF THE ASPECTS OF THE STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CORPORATE GOVERNANCE, NOTHING HAS COME TO OUR ATTENTION WHICH CAUSES US TO BELIEVE THAT THE STATEMENT OF COMPLIANCE DOES NOT APPROPRIATELY REFLECT THE COMPANY'S COMPLIANCE TO THE CODE OF CORPORATE GOVERNANCE TO THE EXTENT IT IS PRESENTLY APPLICABLE IN ALL MATERIAL RESPECTS, WITH THE BEST PRACTICES CONTAINED IN THE CODE OF CORPORATE GOVERNANCE.

LAHORE
MARCH 28, 2006

RAHMAN SARFRAZ & CO.
CHARTERED ACCOUNTANTS

AUDITORS' REPORT TO THE MEMBERS

WE HAVE AUDITED THE ANNEXED BALANCE SHEET OF AZGARD NINE LIMITED AS AT 31 DECEMBER, 2005, THE RELATED PROFIT AND LOSS ACCOUNT, CASH FLOW STATEMENT AND STATEMENT OF CHANGES IN EQUITY TOGETHER WITH THE NOTES FORMING PART THEREOF, FOR THE FIFTEEN MONTHS THEN ENDED AND WE STATE THAT WE HAVE OBTAINED ALL THE INFORMATION AND EXPLANATIONS WHICH, TO THE BEST OF OUR KNOWLEDGE AND BELIEF, WERE NECESSARY FOR THE PURPOSES OF OUR AUDIT.

IT IS THE RESPONSIBILITY OF THE COMPANY'S MANAGEMENT TO ESTABLISH AND MAINTAIN A SYSTEM OF INTERNAL CONTROL, AND PREPARE AND PRESENT THE ABOVE SAID STATEMENTS IN CONFORMITY WITH THE APPROVED ACCOUNTING STANDARDS AND THE REQUIREMENTS OF THE COMPANIES ORDINANCE, 1984. OUR RESPONSIBILITY IS TO EXPRESS AN OPINION ON THESE STATEMENTS BASED ON OUR AUDIT. THE FINANCIAL STATEMENTS OF THE COMPANY FOR THE YEAR ENDED 30 SEPTEMBER 2004 WERE AUDITED BY ANOTHER FIRM OF CHARTERED ACCOUNTANTS WHOSE REPORT DATED 28 DECEMBER 2004 EXPRESSED A MODIFIED OPINION REGARDING CHANGES IN ACCOUNTING POLICIES.

WE CONDUCTED OUR AUDIT IN ACCORDANCE WITH THE AUDITING STANDARDS AS APPLICABLE IN PAKISTAN. THESE STANDARDS REQUIRE THAT WE PLAN AND PERFORM THE AUDIT TO OBTAIN REASONABLE ASSURANCE ABOUT WHETHER THE ABOVE SAID STATEMENTS ARE FREE OF ANY MATERIAL MISSTATEMENT. AN AUDIT INCLUDES EXAMINING, ON A TEST BASIS, EVIDENCE SUPPORTING THE AMOUNTS AND DISCLOSURES IN THE ABOVE SAID STATEMENTS. AN AUDIT ALSO INCLUDES ASSESSING THE ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATES MADE BY MANAGEMENT, AS WELL AS, EVALUATING THE OVERALL PRESENTATION OF THE ABOVE SAID STATEMENTS. WE BELIEVE THAT OUR AUDIT PROVIDES A REASONABLE BASIS FOR OUR OPINION AND, AFTER DUE VERIFICATION, WE REPORT THAT:-

- A) IN OUR OPINION, PROPER BOOKS OF ACCOUNTS HAVE BEEN KEPT BY THE COMPANY AS REQUIRED BY THE COMPANIES ORDINANCE, 1984;
- B) IN OUR OPINION-
 - I. THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT TOGETHER WITH THE NOTES THEREON HAVE BEEN DRAWN UP IN CONFORMITY WITH THE COMPANIES ORDINANCE, 1984, AND ARE IN AGREEMENT WITH THE BOOKS OF ACCOUNT AND ARE FURTHER IN ACCORDANCE WITH ACCOUNTING POLICIES CONSISTENTLY APPLIED EXCEPT FOR THE CHANGES IN NOTE 1.1 WITH WHICH WE CONCUR;
 - II. THE EXPENDITURE INCURRED DURING THE FIFTEEN MONTHS WAS FOR THE PURPOSE OF THE COMPANY'S BUSINESS; AND
 - III. THE BUSINESS CONDUCTED, INVESTMENTS MADE AND THE EXPENDITURE INCURRED DURING THE FIFTEEN MONTHS WERE IN ACCORDANCE WITH THE OBJECTS OF THE COMPANY;

- C) IN OUR OPINION AND TO THE BEST OF OUR INFORMATION AND ACCORDING TO THE EXPLANATIONS GIVEN TO US, THE BALANCE SHEET, PROFIT AND LOSS ACCOUNT, CASH FLOW STATEMENT AND STATEMENT OF CHANGES IN EQUITY TOGETHER WITH THE NOTES FORMING PART THEREOF CONFORM WITH APPROVED ACCOUNTING STANDARDS AS APPLICABLE IN PAKISTAN, AND, GIVE THE INFORMATION REQUIRED BY THE COMPANIES ORDINANCE, 1984, IN THE MANNER SO REQUIRED AND RESPECTIVELY GIVE A TRUE AND FAIR VIEW OF THE STATE OF THE COMPANY'S AFFAIRS AS AT 31 DECEMBER, 2005 AND OF THE PROFIT, ITS CASH FLOWS AND CHANGES IN EQUITY FOR THE FIFTEEN MONTHS THEN ENDED; AND
- D) IN OUR OPINION, ZAKAT DEDUCTIBLE AT SOURCE UNDER THE ZAKAT AND USHR ORDINANCE, 1980 (XVIII OF 1980), WAS DEDUCTED BY THE COMPANY AND DEPOSITED IN THE CENTRAL ZAKAT FUND ESTABLISHED UNDER SECTION 7 OF THAT ORDINANCE.

LAHORE

DATE: MARCH 28, 2006

RAHMAN SARFRAZ & CO.
CHARTERED ACCOUNTANTS

BALANCE SHEET
AS AT 31 DECEMBER, 2005

	NOTE	31 DECEMBER, 2005 RUPEES	30 SEPTEMBER 2004 RUPEES
EQUITY & LIABILITIES			
SHARE CAPITAL AND RESERVES			
SHARE CAPITAL	3	1,737,308,680	1,737,308,680
RESERVES	4	403,331,469	362,142,241
UNAPPROPRIATED PROFIT		952,462,490	410,657,982
		3,093,102,639	2,510,108,903
SURPLUS ON REVALUATION OF FIXED ASSETS	5	278,943,671	306,564,511
NON-CURRENT LIABILITIES			
LONG TERM FINANCING – SECURED	6	2,678,232,532	750,000,000
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE	7	40,173,972	116,503,819
LONG TERM DEPOSITS	8	2,907,643	1,147,729
CURRENT LIABILITIES			
CURRENT PORTION OF:			
LONG TERM FINANCING – SECURED	6	365,437,468	300,000,000
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE	7	68,343,306	63,081,881
SHORT TERM BORROWINGS	9	3,142,402,324	1,492,909,892
CREDITORS, ACCRUED AND OTHER LIABILITIES	10	791,641,172	691,981,192
PROVISION FOR TAXATION	11	79,679,935	64,824,871
UNCLAIMED DIVIDENDS		362,062	95,414
		4,447,866,267	2,612,893,250
CONTINGENCIES AND COMMITMENTS	12	10,541,226,724	6,297,218,212

THE ANNEXED NOTES FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CHIEF EXECUTIVE

	NOTE	31 DECEMBER, 2005 RUPEES	30 SEPTEMBER 2004 RUPEES
ASSETS			
NON-CURRENT ASSETS			
OPERATING FIXED ASSETS	13	3,113,043,032	2,847,936,402
CAPITAL WORK IN PROGRESS	14	2,459,655,906	84,292,338
		5,572,698,938	2,932,228,740
INTANGIBLE ASSETS	15	73,937,276	88,375,589
LONG TERM INVESTMENTS	16	93,517,562	2,666,296
LONG TERM DEPOSITS	17	29,745,135	18,517,830
CURRENT ASSETS			
STORES, SPARES AND LOOSE TOOLS	18	87,790,355	72,608,693
STOCK IN TRADE	19	2,034,180,550	1,394,729,330
TRADE DEBTS	20	1,013,883,584	945,111,856
DERIVATIVE FINANCIAL INSTRUMENTS	21	13,458,916	-
ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES	22	895,807,879	712,923,170
CURRENT MATURITY OF LONG TERM INVESTMENTS	16.3	9,637,121	-
SHORT TERM INVESTMENTS	23	670,927,050	109,148,931
CASH AND BANK BALANCES	24	45,642,358	20,907,777
		4,771,327,813	3,255,429,757
		10,541,226,724	6,297,218,212

PROFIT AND LOSS ACCOUNT

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

	NOTE	01 OCTOBER, 04 TO 31 DECEMBER, 2005 RUPEES	01 OCTOBER, 03 TO 30 SEPTEMBER 2004 RUPEES
SALES - NET	25	4,422,472,357	3,155,912,427
COST OF SALES	26	3,288,786,063	2,440,779,273
GROSS PROFIT		1,133,686,294	715,133,154
ADMINISTRATIVE AND SELLING EXPENSES	27	320,622,883	185,112,548
OPERATING PROFIT		813,063,411	530,020,606
OTHER INCOME	29	305,852,832	9,154,424
OTHER CHARGES		1,118,916,243	539,175,030
FINANCE COST	30	290,508,556	122,998,014
WORKERS' PROFIT PARTICIPATION FUND	10.1	24,509,700	20,803,281
OTHERS	31	11,761,051	111,400
		326,779,307	143,912,695
PROFIT BEFORE TAXATION		792,136,936	395,262,335
PROVISION FOR TAXATION	11.1	50,843,271	20,000,000
PROFIT AFTER TAXATION		741,293,665	375,262,335
EARNINGS PER SHARE - BASIC	32	7.42	4.31
- DILUTED		6.47	4.30

THE ANNEXED NOTES FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CHIEF EXECUTIVE

DIRECTOR

CASH FLOW STATEMENT

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

	NOTE	01 OCTOBER, 04 TO 31 DECEMBER, 2005 RUPEES	01 OCTOBER, 03 TO 30 SEPTEMBER 2004 RUPEES
CASH FLOW FROM OPERATING ACTIVITIES			
PROFIT BEFORE TAXATION		792,136,936	395,262,335
ADJUSTMENT FOR:			
DEPRECIATION		264,030,365	170,505,791
AMORTIZATION OF INTANGIBLE ASSETS		40,530,337	22,964,732
GAIN ON SALE OF INVESTMENTS		(199,442,372)	(1,192,320)
UNREALISED GAIN ON INVESTMENTS		(35,039,438)	(6,951,688)
(GAIN)/LOSS ON DISPOSAL OF FIXED ASSETS		6,661,778	(266,005)
DIVIDEND INCOME		(38,934,462)	-
GRATUITY-NET		-	(25,512,837)
INTEREST INCOME		(17,966,099)	(710,367)
FINANCE COST		308,474,655	123,708,381
		328,314,764	282,545,687
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES		1,120,451,700	677,808,022
CHANGES IN WORKING CAPITAL	36	(937,900,310)	(715,135,831)
CASH FLOW FROM OPERATIONS		182,551,390	(37,327,809)
FINANCE COST PAID		(180,351,069)	(106,270,614)
EXPENSES ON ISSUE OF COMPANY'S SECURITIES		(34,775,530)	(37,241,757)
LONG TERM DEPOSITS		(11,227,305)	(14,868,110)
LONG TERM DEPOSITS PAYABLE		1,759,914	(5,240,773)
TAXES PAID		(57,758,405)	(25,275,947)
NET CASH OUT FLOW FROM OPERATING ACTIVITIES		(99,801,005)	(226,225,010)
CASH FLOW FROM INVESTING ACTIVITIES			
FIXED CAPITAL EXPENDITURE		(2,916,815,165)	(769,994,316)
INTANGIBLE ASSETS		(1,174,441)	(111,788,860)
SALE PROCEEDS OF FIXED ASSETS		5,652,825	1,278,805
SALE PROCEEDS OF SHORT TERM INVESTMENTS		-	1,192,320
LONG TERM INVESTMENTS		(100,482,545)	(1,660,264)
DIVIDEND INCOME		38,934,462	-
INTEREST RECEIVED		17,966,099	710,367
SHORT TERM INVESTMENTS		(327,296,310)	(102,197,243)
NET CASH USED IN INVESTING ACTIVITIES		(3,283,215,075)	(982,459,191)
CASH FLOW FROM FINANCING ACTIVITIES			
PREFERENCE SHARES ISSUED		-	868,654,340
LONG TERM FINANCING OBTAINED		2,143,670,000	650,000,000
REPAYMENT OF LONG TERM LOANS		(150,000,000)	(350,000,000)
DIVIDEND PAID		(164,343,349)	(269)
SHORT TERM FINANCES- NET		1,649,492,432	64,253,791
FINANCE LEASE LIABILITIES PAID		(71,068,422)	(24,917,634)
NET CASH INFLOW FROM FINANCING ACTIVITIES		3,407,750,661	1,207,990,228
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		24,734,581	(693,973)
CASH AND CASH EQUIVALENTS			
AT THE BEGINNING OF THE PERIOD		20,907,777	21,601,750
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		45,642,358	20,907,777

THE ANNEXED NOTES FROM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CHIEF EXECUTIVE

DIRECTOR

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

	RESERVES						UNAPPROPRIATED PROFIT / (ACCUMULATED Loss)	TOTAL EQUITY	SURPLUS ON REVALUATION OF FIXED ASSETS	
	SHARE CAPITAL 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										
BALANCE AS AT 30 SEPTEMBER, 2003	868,654,340	143,675,125	-	105,152,005	-	2,215,724	251,042,854	161,710,634	1,281,407,828	330,249,524
PROFIT FOR THE PERIOD	-	-	-	-	-	-	-	375,262,335	375,262,335	-
PREFERENCE SHARES ISSUED	868,654,340	-	-	-	-	-	-	-	868,654,340	-
SURPLUS ON REVALUATION OF FIXED ASSETS TRANSFERRED TO	-	-	-	-	-	-	-	-	-	-
RETAINED EARNINGS DURING THE PERIOD	-	-	-	-	-	-	-	23,685,013	23,685,013	(23,685,013)
PREFERENCE SHARES REDEMPTION RESERVE	-	-	-	-	150,000,000	-	150,000,000	(150,000,000)	-	-
EXPENSES INCURRED ON ISSUE OF COMPANY'S SECURITIES	-	(37,241,757)	-	-	-	-	(37,241,757)	-	(37,241,757)	-
REVALUATION OF INVESTMENTS	-	-	-	-	-	(1,658,856)	(1,658,856)	-	(1,658,856)	-
BALANCE AS AT 30 SEPTEMBER, 2004	1,737,308,680	106,433,368	-	105,152,005	150,000,000	556,868	362,142,241	410,657,982	2,510,108,903	306,564,511
PROFIT FOR THE PERIOD	-	-	-	-	-	-	-	741,293,665	741,293,665	-
SURPLUS ON REVALUATION OF FIXED ASSETS TRANSFERRED TO	-	-	-	-	-	-	-	-	-	-
RETAINED EARNINGS DURING THE PERIOD	-	-	-	-	-	-	-	27,392,552	27,392,552	(27,392,552)
- RELATING TO INCREMENTAL DEPRECIATION	-	-	-	-	-	-	-	228,288	228,288	(228,288)
- RELATING TO DISPOSAL OF REVALUED ASSETS	-	-	-	-	-	-	-	-	-	-
PREFERENCE SHARES REDEMPTION RESERVE	-	-	-	-	62,500,000	-	62,500,000	(62,500,000)	-	-
EXPENSES INCURRED ON ISSUE OF COMPANY'S SECURITIES	-	(34,775,530)	-	-	-	-	(34,775,530)	-	(34,775,530)	-
ORDINARY SHARE DIVIDEND	-	-	-	-	-	-	-	(86,865,434)	(86,865,434)	-
PREFERENCE SHARE DIVIDEND	-	-	-	-	-	-	-	(77,744,563)	(77,744,563)	-
INCREASE IN FAIR VALUE OF INTEREST RATE SWAP CONTRACTS	-	-	13,458,916	-	-	-	13,458,916	-	13,458,916	-
REVALUATION OF INVESTMENTS	-	-	-	-	-	5,842	5,842	-	5,842	-
BALANCE AS AT 31 DECEMBER, 2005	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

THE ANNEXED NOTES FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CHIEF EXECUTIVE

DIRECTOR

NOTES TO THE ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

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. THE REGISTERED OFFICE OF THE COMPANY IS SITUATED AT ISMAIL-AIWAN-E-SCIENCE, OFF SHAHRAH-E-ROOMI, LAHORE.

1.1 CHANGE IN FINANCIAL YEAR

THE COMPANY HAS BEEN ACCORDED APPROVAL BY COMMISSIONER OF INCOME TAX TO ADOPT CALENDAR YEAR AS FINANCIAL YEAR WITH EFFECT FROM JANUARY 01, 2006 AND ALSO OBTAINED SPECIAL PERMISSION FROM SECP TO PREPARE FINANCIAL STATEMENTS EXCEEDING TWELVE MONTHS. AS SUCH THESE FINANCIAL STATEMENTS ARE PREPARED FOR FIFTEEN MONTHS AND CORRESPONDING FIGURES OF PROFIT AND LOSS ACCOUNT, CASH FLOW STATEMENT, STATEMENT OF CHANGES IN EQUITY AND THE RELATED NOTES ARE FOR ONE YEAR.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 STATEMENT OF COMPLIANCE

THESE FINANCIAL STATEMENTS HAVE BEEN PREPARED IN ACCORDANCE WITH THE APPROVED ACCOUNTING STANDARDS AS APPLICABLE IN PAKISTAN AND THE REQUIREMENTS OF COMPANIES ORDINANCE, 1984 (THE ORDINANCE). APPROVED ACCOUNTING STANDARDS COMPRISE OF SUCH INTERNATIONAL ACCOUNTING STANDARDS AS NOTIFIED UNDER THE PROVISIONS OF THE ORDINANCE. WHERE THE REQUIREMENTS OF THE ORDINANCE OR DIRECTIVES ISSUED BY THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN DIFFER WITH THE REQUIREMENTS OF THESE STANDARDS, THE REQUIREMENTS OF THE ORDINANCE OR THE SAID DIRECTIVES TAKE PRECEDENCE.

2.2 ACCOUNTING CONVENTION

THESE ACCOUNTS HAVE BEEN PREPARED UNDER THE HISTORICAL COST CONVENTION EXCEPT AS STATED IN NOTES 2.5, 2.12 AND 2.13 RELATING TO CERTAIN FIXED ASSETS THAT HAVE BEEN INCLUDED AT REVALUED AMOUNTS, MONETARY ASSETS AND LIABILITIES IN FOREIGN CURRENCIES WHICH HAVE BEEN TRANSLATED AND CERTAIN FINANCIAL INSTRUMENTS WHICH ARE STATED AT FAIR VALUE.

2.3 STAFF RETIREMENT BENEFITS

THE COMPANY OPERATED AN UNFUNDED GRATUITY AND REPLACED IT WITH PROVIDENT FUND LAST YEAR. CURRENTLY THE COMPANY OPERATES AN APPROVED DEFINED CONTRIBUTORY PROVIDENT FUND FOR ITS EMPLOYEES. EQUAL CONTRIBUTIONS ARE MADE BY EMPLOYEE AND THE COMPANY @ 8.5 % PER MONTH OF THE BASIC PAY. INTEREST IS CHARGED @ 8.25% ON THE OUTSTANDING FUND BALANCE AND IS CHARGED TO PROFIT AND LOSS ACCOUNT.

2.4 TAXATION

CURRENT

INCOME TAX EXPENSE REPRESENTS THE SUM OF CURRENT TAX PAYABLE, AND ADJUSTMENTS, IF ANY, TO PROVISION FOR TAX MADE IN PRIOR YEARS ARISING FROM ASSESSMENTS COMPLETED DURING THE PERIOD FOR SUCH YEARS.

DEFERRED

DEFERRED TAX IS PROVIDED USING THE LIABILITY METHOD ON ALL TEMPORARY TIMING DIFFERENCES AT THE BALANCE SHEET DATE BETWEEN THE TAX BASE OF ASSETS AND LIABILITIES AND THEIR CARRYING AMOUNTS FOR FINANCIAL STATEMENTS¹ REPORTING PURPOSES TAKING INTO CONSIDERATION THE IMPLICATIONS OF TAXES PAYABLE UNDER PRESUMPTIVE TAX REGIME, IF ANY.

NOTES TO THE ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

DEFERRED TAX ASSETS ARE RECOGNISED ONLY TO THE EXTENT THAT IT IS PROBABLE THAT FUTURE TAXABLE PROFITS WILL BE AVAILABLE AGAINST WHICH THESE ASSETS CAN BE UTILISED.

2.5 OPERATING FIXED ASSETS, DEPRECIATION AND CAPITAL WORK IN PROGRESS

OPERATING FIXED ASSETS, EXCEPT FREEHOLD LAND, ARE STATED AT COST OR REVALUED AMOUNTS LESS ACCUMULATED DEPRECIATION. FREEHOLD LAND IS STATED AT REVALUED AMOUNT.

DEPRECIATION IS CHARGED TO INCOME FOR THE PERIOD APPLYING THE REDUCING BALANCE METHOD. AMOUNT EQUAL TO INCREMENTAL DEPRECIATION CHARGED DURING THE PERIOD ON REVALUED AMOUNT OF ASSETS IS TRANSFERRED FROM SURPLUS ON REVALUATION OF FIXED ASSETS TO UNAPPROPRIATED PROFIT/ACCUMULATED LOSS THROUGH STATEMENT OF CHANGES IN EQUITY. THE ADJUSTMENTS MADE IN THIS CONTEXT AND THE AMOUNTS INVOLVED HAVE BEEN DISCLOSED IN NOTE 5 (SURPLUS ON REVALUATION OF FIXED ASSETS).

THE USEFUL LIFE AND DEPRECIATION METHOD ARE REVIEWED PERIODICALLY TO ENSURE THAT THE METHOD AND PERIOD OF DEPRECIATION ARE CONSISTENT WITH THE EXPECTED PATTERN OF ECONOMIC BENEFITS FROM ITEMS OF FIXED ASSETS. RATES OF DEPRECIATION ARE STATED IN NOTE 13. NO DEPRECIATION IS PROVIDED ON ASSETS DISPOSED OF DURING THE PERIOD. ADDITIONS OR EXTENSIONS TO PRODUCTION FACILITIES ARE DEPRECIATED FROM THE MONTH THE ASSETS ARE PUT IN USE.

GAIN OR LOSS ON DISPOSAL OF OPERATING FIXED ASSETS IS INCLUDED IN CURRENT PERIOD INCOME. NORMAL MAINTENANCE AND REPAIRS ARE CHARGED TO CURRENT PERIOD INCOME AS AND WHEN INCURRED. MAJOR RENEWALS, IMPROVEMENTS AND REPLACEMENTS ARE CAPITALISED AND ASSETS SO REPLACED, IF NOT KEPT AS STAND BY, ARE RETIRED.

CAPITAL WORK IN PROGRESS AND STORES HELD FOR CAPITAL EXPENDITURE ARE STATED AT COST AND REPRESENTS EXPENDITURE INCURRED ON PROPERTY, PLANT AND EQUIPMENT DURING THE CONSTRUCTION AND INSTALLATION. COST ALSO INCLUDES APPLICABLE BORROWING COSTS. TRANSFERS ARE MADE TO RELEVANT PROPERTY, PLANT AND EQUIPMENT CATEGORY AS AND WHEN ASSETS ARE AVAILABLE FOR USE.

2.6 ACCOUNTING FOR FINANCE LEASE

LEASES ARE CLASSIFIED AS FINANCE LEASES WHENEVER THE TERMS OF THE LEASE TRANSFER SUBSTANTIALLY ALL THE RISKS AND REWARDS OF OWNERSHIP TO THE LESSEE. THE ASSETS SUBJECT TO FINANCE LEASE RECOGNISED AS ASSETS OF THE COMPANY AT LOWER OF PRESENT VALUE OF MINIMUM LEASE PAYMENTS, EACH DETERMINED AT THE INCEPTION OF THE LEASE AND THE FAIR VALUE OF THE LEASED ASSETS AT THE DATE OF ACQUISITION. THESE ARE STATED AT COST LESS ACCUMULATED DEPRECIATION.

DEPRECIATION IS CHARGED AT THE RATE SPECIFIED IN NOTE 13, TO WRITE OFF THE ASSETS OVER THE ESTIMATED USEFUL LIFE IN VIEW OF THE CERTAINTY OF THE OWNERSHIP OF THE ASSETS AT THE END OF LEASE PERIOD. THE CORRESPONDING LIABILITIES TO THE LESSOR ARE INCLUDED IN THE BALANCE SHEET AS LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE. LEASE PAYMENTS ARE APPORTIONED BETWEEN FINANCE CHARGES AND REDUCTION OF THE LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE SO AS TO ACHIEVE A CONSTANT RATE OF INTEREST ON THE REMAINING BALANCE OF THE LIABILITY. FINANCE CHARGES ARE CHARGED DIRECTLY AGAINST INCOME UNLESS THESE ARE DIRECTLY ATTRIBUTABLE TO QUALIFYING ASSETS, IN WHICH CASE THESE ARE CAPITALISED IN ACCORDANCE WITH THE COMPANY'S GENERAL POLICY ON BORROWING COSTS.

NOTES TO THE ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

2.7 BORROWING COSTS

BORROWING COSTS DIRECTLY ATTRIBUTABLE TO THE ACQUISITION, CONSTRUCTION OR PRODUCTION OF QUALIFYING ASSETS, WHICH ARE ASSETS THAT NECESSARILY TAKE A SUBSTANTIAL PERIOD OF TIME TO GET READY FOR THEIR INTENDED USE OR SALE, ARE ADDED TO THE COST OF THOSE ASSETS UNTIL SUCH TIME AS THE ASSETS ARE SUBSTANTIALLY READY FOR THEIR INTENDED USE OR SALE.

ALL OTHER BORROWING COSTS ARE RECOGNIZED AS AN EXPENSE IN THE PERIOD IN WHICH THESE ARE INCURRED.

2.8 INTANGIBLE ASSETS

2.8.1 RESEARCH AND DEVELOPMENT

EXPENDITURE ON RESEARCH ACTIVITIES IS RECOGNISED AS AN EXPENSE IN THE PERIOD IN WHICH IT IS INCURRED. COSTS INCURRED ON DEVELOPMENT PROJECTS (RELATING TO DESIGN AND TESTING OF NEW OR IMPROVED PRODUCTS) ARE RECOGNISED AS INTANGIBLE ASSETS ONLY IF ALL OF THE FOLLOWING CONDITIONS ARE MET;

- AN ASSET IS CREATED THAT CAN BE IDENTIFIED
- IT IS PROBABLE THAT THE ASSET CREATED WILL GENERATE FUTURE ECONOMIC BENEFITS; AND
- THE DEVELOPMENT COST OF THE ASSET CAN BE MEASURED RELIABLY.

ALL OTHER DEVELOPMENT EXPENDITURES ARE RECOGNISED AS AN EXPENSE WHEN INCURRED. DEVELOPMENT COSTS PREVIOUSLY RECOGNISED AS AN EXPENSE ARE NOT RECOGNISED AS AN ASSET IN THE SUBSEQUENT PERIOD. DEVELOPMENT COSTS THAT HAVE BEEN CAPITALIZED ARE AMORTIZED FROM THE COMMENCEMENT OF THE COMMERCIAL PRODUCTION OF THE PRODUCT ON A STRAIGHT LINE BASIS OVER THE PERIOD OF ITS EXPECTED BENEFITS. THE AMORTIZATION PERIOD ADOPTED DOES NOT EXCEED FIVE YEARS.

2.8.2 OTHERS

OTHER INTANGIBLE ASSETS ARE AMORTISED OVER THE PERIOD OF THEIR EXPECTED BENEFITS. THE AMORTISATION PERIOD ADOPTED DOES NOT EXCEED FIVE YEARS.

2.9 INVESTMENTS

2.9.1 INVESTMENT IN SUBSIDIARIES

INVESTMENTS ARE INITIALLY MEASURED AT COST, COST IN RELATION OF INVESTMENT MADE IN FOREIGN CURRENCY IS DETERMINED BY TRANSLATING THE CONSIDERATION PAID IN FOREIGN CURRENCY AT THE EXCHANGE RATES PREVAILING ON THE DATE OF TRANSACTIONS.

2.9.2 OTHER INVESTMENTS

ALL INVESTMENTS ARE INITIALLY RECOGNIZED AT COST, BEING FAIR VALUE OF THE CONSIDERATION GIVEN AND INCLUDING ACQUISITION CHARGES ASSOCIATED WITH INVESTMENTS AND CLASSIFIED AS WHETHER HELD TO MATURITY, HELD FOR TRADING OR AVAILABLE FOR SALE.

SUBSEQUENT TO INITIAL RECOGNITION, INVESTMENTS WHICH ARE CLASSIFIED AS HELD FOR TRADING AND AVAILABLE FOR SALE ARE MEASURED AT FAIR VALUE UNLESS FAIR VALUE CANNOT BE MEASURED RELIABLY. INVESTMENTS HELD FOR TRADING ARE THOSE WHICH ARE EITHER ACQUIRED FOR GENERATING A PROFIT FROM SHORT TERM FLUCTUATION IN PRICES OR DEALER'S MARGIN, OR ARE SECURITIES INCLUDED IN A PORTFOLIO IN WHICH A PATTERN OF SHORT TERM PROFIT TAKING EXISTS. INVESTMENTS INTENDED TO BE HELD FOR AN INDEFINITE PERIOD OF TIME, WHICH MAY BE SOLD IN RESPONSE TO NEEDS FOR LIQUIDITY OR CHANGE IN INTEREST

NOTES TO THE ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

RATES ARE CLASSIFIED AS AVAILABLE FOR SALE. THE INVESTMENTS ARE CLASSIFIED AS NON CURRENT UNLESS MANAGEMENT HAS INTENTION OF HOLDING THESE FOR LESS THAN TWELVE MONTHS FROM THE BALANCE SHEET DATE, IN WHICH CASE THEY ARE INCLUDED AS CURRENT ASSETS.

SUBSEQUENT TO INITIAL RECOGNITION, INVESTMENTS WHICH ARE CLASSIFIED AS HELD TO MATURITY ARE MEASURED AT AMORTIZED COST USING EFFECTIVE INTEREST METHOD.

GAINS AND LOSSES ON INVESTMENTS HELD FOR TRADING ARE RECOGNIZED IN INCOME. GAINS AND LOSSES ON INVESTMENTS AVAILABLE FOR SALE ARE RECOGNIZED AS SEPARATE COMPONENT OF EQUITY UNTIL INVESTMENTS ARE SOLD, DISPOSED-OFF OR UNTIL THE INVESTMENTS ARE DETERMINED TO BE IMPAIRED, AT WHICH TIME ACCUMULATED GAIN/LOSS PREVIOUSLY REPORTED IN EQUITY IS INCLUDED IN PROFIT AND LOSS ACCOUNT.

ALL PURCHASES AND SALES OF INVESTMENTS ARE RECOGNIZED ON THE TRADE DATE, WHICH IS THE DATE THAT THE COMPANY COMMITS TO PURCHASE OR SELL THE INVESTMENTS.

THE FAIR VALUE OF PUBLICLY TRADED INVESTMENT IS BASED ON QUOTED MARKET PRICES AT THE BALANCE SHEET DATE.

2.10 STORES, SPARES AND LOOSE TOOLS

THESE ARE VALUED AT COST DETERMINED USING FIRST IN FIRST OUT (FIFO) METHOD EXCEPT ITEMS IN TRANSIT WHICH ARE VALUED AT COST COMPRISING INVOICE VALUE PLUS OTHER CHARGES PAID THEREON.

2.11 STOCK IN TRADE

BASIS OF VALUATION ARE AS FOLLOWS:

RAW MATERIALS

AT MILLS	- AT LOWER OF FIRST IN FIRST OUT COST AND NET REALISABLE VALUE
IN-TRANSIT	- AT COST ACCUMULATED TO THE BALANCE SHEET DATE
WORK IN PROCESS	- AT LOWER OF MANUFACTURING COST AND NET REALISABLE VALUE
FINISHED GOODS	- AT LOWER OF MANUFACTURING COST AND NET REALISABLE VALUE
WASTE	- AT NET REALISABLE VALUE

AVERAGE MANUFACTURING COST IN RELATION TO WORK IN PROCESS AND FINISHED GOODS INCLUDES PRIME COST AND PROPORTION OF PRODUCTION OVERHEADS.

NET REALISABLE VALUE SIGNIFIES THE ESTIMATED SELLING PRICE IN ORDINARY COURSE OF BUSINESS LESS COST NECESSARY TO BE INCURRED IN ORDER TO MAKE THE SALES.

2.12 FOREIGN CURRENCY TRANSLATIONS

MONETARY ASSETS AND LIABILITIES IN FOREIGN CURRENCIES ARE TRANSLATED INTO PAK RUPEES AT THE RATES OF EXCHANGE PREVAILING AT THE BALANCE SHEET DATE, EXCEPT THOSE COVERED UNDER FORWARD EXCHANGE CONTRACTS WHICH ARE STATED AT CONTRACTED RATE. FOREIGN CURRENCY TRANSACTIONS ARE TRANSLATED INTO PAK RUPEES PREVAILING AT THE DATE OF TRANSACTION EXCEPT FOR THOSE COVERED BY FORWARD CONTRACTS, WHICH ARE TRANSLATED AT CONTRACTED RATES. EXCHANGE DIFFERENCES ARE INCLUDED IN PROFIT AND LOSS ACCOUNT CURRENTLY.

NOTES TO THE ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

2.13 FINANCIAL INSTRUMENTS

2.13.1 FINANCIAL ASSETS

ALL FINANCIAL ASSETS HAVE BEEN STATED IN ACCORDANCE WITH THE REQUIREMENTS OF IAS-39 (FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT). FINANCIAL ASSETS ARE INITIALLY RECOGNISED AT COST WHICH IS THE FAIR VALUE OF THE CONSIDERATION GIVEN AT INITIAL RECOGNITION. SUBSEQUENT TO INITIAL RECOGNITION, FINANCIAL ASSETS ARE CARRIED AT FAIR VALUE EXCEPT ANY FINANCIAL ASSETS WHOSE FAIR VALUE CANNOT BE ESTIMATED RELIABLY.

A 'REGULAR WAY' PURCHASE OR SALE OF FINANCIAL ASSETS ARE RECOGNISED USING TRADE DATE ACCOUNTING.

2.13.2 FINANCIAL LIABILITIES

ALL FINANCIAL LIABILITIES ARE INITIALLY RECOGNISED AT COST, WHICH IS THE FAIR VALUE OF THE CONSIDERATION RECEIVED AT INITIAL RECOGNITION. SUBSEQUENT TO INITIAL RECOGNITION FINANCIAL LIABILITIES ARE CARRIED AT FAIR VALUE, AMORTISED COST OR COST AS THE CASE MAY BE.

2.13.3 DE-RECOGNITION

FINANCIAL ASSETS ARE DE-RECOGNISED WHEN THE COMPANY LOOSES CONTROL OF THE CONTRACTUAL RIGHTS THAT COMPRISE THE FINANCIAL ASSETS.

FINANCIAL LIABILITIES ARE DE-RECOGNISED WHEN THEY ARE EXTINGUISHED, THAT IS, WHEN THE OBLIGATION SPECIFIED IN THE CONTRACT IS DISCHARGED, CANCELLED OR EXPIRES.

GAIN OR LOSS, IF ANY, ON DE-RECOGNITION AND SETTLEMENT OF FINANCIAL ASSETS AND LIABILITIES IS INCLUDED IN NET PROFIT OR LOSS IN THE PERIOD IN WHICH IT ARISES.

2.13.4 TRADE DEBTORS

TRADE DEBTORS ARE STATED AT THEIR NOMINAL VALUE AS REDUCED BY APPROPRIATE ALLOWANCES FOR ESTIMATED IRRECOVERABLE AMOUNTS, IF ANY.

2.13.5 PROVISIONS

PROVISIONS ARE RECOGNISED WHEN THE COMPANY HAS A LEGAL OR CONSTRUCTIVE OBLIGATION AS A RESULT OF PAST EVENTS AND IT IS PROBABLE THAT AN OUTFLOW OF RESOURCES EMBODYING ECONOMIC BENEFITS WILL BE REQUIRED TO SETTLE THE OBLIGATION AND A RELIABLE ESTIMATE OF THE AMOUNT CAN BE MADE.

2.13.6 OFF SETTING

FINANCIAL ASSETS AND FINANCIAL LIABILITIES ARE SET-OFF AND THE NET AMOUNT IS REPORTED IN THE FINANCIAL STATEMENTS WHEN THERE IS A LEGALLY ENFORCEABLE RIGHT TO SET OFF AND THE COMPANY INTENDS EITHER TO SETTLE ON A NET BASIS, OR TO REALISE THE ASSETS AND TO SETTLE THE LIABILITIES SIMULTANEOUSLY.

2.13.7 CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS CONSIST OF CASH-IN-HAND AND BALANCES WITH BANKS.

2.13.8 DERIVATIVE FINANCIAL INSTRUMENTS

THESE ARE INTIALLY RECORDED AT COST BEING THE FAIR VALUE ON THE DATE A DERIVATIVE CONTRACT IS ENTERED INTO AND ARE REMEASURED TO FAIR VALUE AT SUSEQUENT REPORTING

NOTES TO THE ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

DATES. THE METHOD OF RECOGNISING THE RESULTING GAIN OR LOSS DEPENDS ON WHETHER THE DERIVATIVE IS DESIGNATED AS A HEDGING INSTRUMENT, AND IF SO, THE NATURE OF THE ITEM BEING HEDGED. THE COMPANY DESIGNATES CERTAIN DERIVATIVES AS CASH FLOW HEDGES.

THE COMPANY DOCUMENTS AT THE INCEPTION OF THE TRANSACTION THE RELATIONSHIP BETWEEN THE HEDGING INSTRUMENTS AND HEDGED ITEMS, AS WELL AS ITS RISK MANAGEMENT OBJECTIVE AND STRATEGY FOR UNDERTAKING VARIOUS HEDGE TRANSACTIONS. THE COMPANY ALSO DOCUMENTS ITS ASSESSMENT, BOTH AT HEDGE INCEPTION AND ON AN ONGOING BASIS, OF WHETHER THE DERIVATIVES THAT ARE USED IN HEDGING TRANSACTIONS ARE HIGHLY EFFECTIVE IN OFFSETTING CHANGES IN CASH FLOW OF HEDGED ITEMS.

THE EFFECTIVE PORTION OF CHANGES IN THE FAIR VALUE OF DERIVATIVES THAT ARE DESIGNATED AND QUALIFY AS CASH FLOW HEDGES ARE RECOGNISED IN EQUITY. THE GAIN OR LOSS RELATING TO THE INEFFECTIVE PORTION IS RECOGNISED IMMEDIATELY IN THE PROFIT AND LOSS ACCOUNT.

AMOUNTS ACCUMULATED IN EQUITY ARE RECOGNISED IN PROFIT AND LOSS ACCOUNT IN THE PERIODS WHEN THE HEDGED ITEM WILL EFFECT PROFIT OR LOSS. HOWEVER, WHEN THE FORECAST HEDGED TRANSACTION RESULTS IN THE RECOGNITION OF A NON-FINANCIAL ASSET OR A LIABILITY, THE GAINS AND LOSSES PREVIOUSLY DEFERRED IN EQUITY ARE TRANSFERRED FROM EQUITY AND INCLUDED IN THE INITIAL MEASUREMENT OF THE COST OF THE ASSET OR LIABILITY.

2.14 CREDITORS, ACCRUED AND OTHER LIABILITIES

LIABILITIES FOR TRADE AND OTHER AMOUNTS PAYABLE ARE CARRIED AT COST WHICH IS THE FAIR VALUE OF THE CONSIDERATION TO BE PAID IN FUTURE FOR GOODS AND SERVICES.

2.15 DIVIDEND

DIVIDEND ON ORDINARY SHARES IS RECOGNISED IN EQUITY IN THE PERIOD IN WHICH IT IS DECLARED/PAID.

2.16 REVENUE RECOGNITION

- REVENUE FROM LOCAL SALES IS RECOGNISED ON DISPATCH OF GOODS TO CUSTOMERS.
- REVENUE FROM EXPORT SALES IS RECOGNISED ON SHIPMENT BASIS.
- EXPORT REBATE IS RECOGNISED WHEN ENTITLEMENT IS ESTABLISHED.
- DIVIDEND INCOME IS RECOGNISED WHEN THE COMPANY'S RIGHT TO RECEIVE PAYMENT IS ESTABLISHED.

2.17 GOVERNEMENT GRANTS

THE COMPANY HAS OPTED FOR THE METHOD OF OFFSETTING THE GOVERNMENT GRANT AGAINST THE RELATED EXPENSES IN ACCORDANCE WITH THE REQUIREMENTS OF IAS 20 ACCOUNTING FOR GOVERNMENT GRANTS AND DISCLOSURE OF GOVT ASSISTANCE BY GIVING A SEPARATE DISCLOSURE OF NATURE AND EXTENT OF GOVERNMENT GRANT IN NOTE 28.

2.18 RELATED PARTY TRANSACTIONS

ALL TRANSACTIONS INVOLVING RELATED PARTIES ARISING IN THE NORMAL COURSE OF BUSINESS ARE CONDUCTED AT ARM'S LENGTH USING VALUATION MODES, AS ADMISSIBLE. PARTIES ARE SAID TO BE RELATED WHEN THEY MEET THE DEFINITION AS PROVIDED IN THE COMPANIES ORDINANCE, 1984.

2.19 IMPAIRMENT

THE CARRYING AMOUNT OF THE COMPANY'S ASSETS ARE REVIEWED AT EACH BALANCE SHEET DATE TO DETERMINE WHETHER THERE IS ANY INDICATION OF IMPAIRMENT LOSS. IF ANY SUCH INDICATION EXISTS, THE ASSETS ARE WRITTEN DOWN TO THEIR ESTIMATED RECOVERABLE AMOUNT AND IMPAIRMENT LOSSES ARE RECOGNISED IN THE PROFIT AND LOSS ACCOUNT. CONSEQUENTLY, THE DEPRECIATION CHARGE IS ADJUSTED IN THE FUTURE PERIOD TO ALLOCATE ASSET'S REVISED CARRYING AMOUNT OVER ITS ESTIMATED USEFUL LIFE.

NOTES TO THE ACCOUNTS
FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

3	SHARE CAPITAL	NOTE	31 DECEMBER, 05 RUPEES	30 SEPTEMBER, 04 RUPEES
3.1	AUTHORISED CAPITAL			
	300,000,000 (2004: 300,000,000)			
	ORDINARY AND PREFERENCE SHARES OF Rs. 10/- EACH		3,000,000,000	3,000,000,000

THE COMPANY INTRODUCED A NEW CLASS OF ORDINARY SHARES (NON-VOTING) HAVING NO RIGHT TO RECEIVE NOTICE OF, ATTEND, OR VOTE AT ANY GENERAL MEETING EXCEPT AS OTHERWISE PROVIDED IN THE ORDINANCE, BY PASSING A SPECIAL RESOLUTION IN EXTRA ORDINARY GENERAL MEETING HELD ON MAY 12, 2005. AUTHORISED CAPITAL OF THE COMPANY IS Rs. 3,000,000,000 DIVIDED INTO 153,000,000 (2004: 213,000,000) ORDINARY SHARES OF Rs.10 EACH, 60,000,000 (2004: NIL) ORDINARY SHARES (NON-VOTING) OF Rs.10 EACH AND 87,000,000 (2004 : 87,000,000) PREFERENCE SHARES OF Rs.10 EACH.

AUTHORISED CAPITAL OF THE COMPANY HAS BEEN INCREASED TO Rs. 15,000,000,000 BY PASSING OF RESOLUTION IN THE EXTRA ORDINARY GENERAL MEETING HELD ON MARCH 7, 2006 DIVIDED INTO 900,000,000 ORDINARY SHARES OF Rs.10 EACH, 300,000,000 ORDINARY SHARES (NON-VOTING) OF Rs.10 EACH AND 300,000,000 PREFERENCE SHARES OF Rs.10 EACH.

3.2 ISSUED, SUBSCRIBED AND PAID UP CAPITAL:

23,777,369	ORDINARY SHARES OF Rs.10/- EACH FULLY PAID IN CASH	237,773,690	237,773,690
12,276,073	ISSUED AS CONSIDERATION FOR MACHINERY	122,760,730	122,760,730
50,811,992	ISSUED AS CONSIDERATION FOR MERGER	508,119,920	508,119,920
<u>86,865,434</u>		<u>868,654,340</u>	<u>868,654,340</u>
86,865,434	PREFERENCE SHARES OF Rs.10/- EACH FULLY PAID IN CASH	868,654,340	868,654,340
<u>173,730,868</u>	3.3	<u>1,737,308,680</u>	<u>1,737,308,680</u>

3.3 THE COMPANY ISSUED CUMMULATIVE PREFERENCE SHARES DURING THE PRECEEDING YEAR. THESE ARE NON-VOTING, NON-PARTICIPATORY, PARTLY CONVERTIBLE AND ARE REDEEMABLE IN 6 YEARS FROM THE DATE OF ISSUANCE. THESE ARE LISTED ON KARACHI STOCK EXCHANGE (GUARANTEE) LIMITED. THE TERMS & CONDITIONS OF ISSUE ARE AS FOLLOWS:

RATE OF DIVIDEND

ANNUALISED FIXED DIVIDEND
@ 8.95% PER ANNUM TO BE PAID.

IN CASE OF DEFAULT IN PAYMENT OF DIVIDEND:

DEFAULT IN PAYMENT DURING FIRST YEAR AND PAID REGULARLY DURING SUBSEQUENT YEARS.

RATE OF DIVIDEND WILL BE 9.75 % FOR FIRST YEAR, TOTAL DIVIDEND FOR THE YEAR WILL BE Rs. 1.87 PER SHARE INCLUDING 8.95% FOR SECOND YEAR.

DEFAULT IN PAYMENT DURING SECOND YEAR AND PAID REGULARLY DURING SUBSEQUENT YEARS.

RATE OF DIVIDEND WILL BE 20.73 % FOR SECOND YEAR, TOTAL DIVIDEND FOR THE YEAR WILL BE Rs. 2.93 PER SHARE INCLUDING 8.95% FOR THIRD YEAR.

DEFAULT IN PAYMENT DURING THIRD YEAR AND PAID REGULARLY DURING SUBSEQUENT YEARS.

RATE OF DIVIDEND WILL BE 31.95 % FOR THIRD YEAR, TOTAL DIVIDEND FOR THE YEAR WILL BE Rs. 4.09 PER SHARE INCLUDING 8.95% FOR FOURTH YEAR.

DEFAULT IN PAYMENT DURING FOURTH YEAR AND PAID REGULARLY DURING SUBSEQUENT YEARS.

RATE OF DIVIDEND WILL BE 44.56 % FOR FOURTH YEAR, TOTAL DIVIDEND FOR THE YEAR WILL BE Rs. 5.35 PER SHARE INCLUDING 8.95% FOR FIFTH YEAR.

DEFAULT IN PAYMENT DURING FIFTH YEAR AND PAID REGULARLY DURING SUBSEQUENT YEARS.

RATE OF DIVIDEND WILL BE 58.30 % FOR FIFTH YEAR, TOTAL DIVIDEND FOR THE YEAR WILL BE Rs. 6.73 PER SHARE INCLUDING 8.95% FOR SIXTH YEAR.

AT THE END OF YEAR SIX, IF THE COMPANY FAILS TO PAY DIVIDEND AND/OR REDEEM THE PRINCIPAL IN THE MANNER MENTIONED BELOW, THE ENTIRE AMOUNT OF THE ACCRUED DIVIDEND PLUS THE FACE VALUE OF THE OUTSTANDING PREFERENCE SHARE WILL BE CONVERTED, AT THE OPTION OF PREFERENCE SHAREHOLDER, INTO ORDINARY SHARES AT BREAK-UP VALUE OF THE COMPANY TO BE DETERMINED AT THAT TIME.

NOTES TO THE ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

REDEMPTION OPTION AND TIMING

REDEMPTION WILL BE ALLOWED AS FOLLOWS SUBJECT TO THE PROVISIONS OF SECTION 85 OF THE COMPANIES ORDINANCE, 1984, AS FOLLOWS:

50% OF THE ISSUED AMOUNT AT THE END OF FIFTH (5TH) YEAR OF ISSUANCE/ALLOTMENT;

50% OF THE ISSUED AMOUNT AT THE END OF SIXTH (6TH) YEAR OF ISSUANCE/ALLOTMENT;

CONVERSION/ SWAP

THE PREFERENCE SHAREHOLDERS MAY AT THEIR OPTION CONVERT UP TO 25% OF THE VALUE OF THEIR RESPECTIVE PREFERENCE SHARES INTO ORDINARY SHARES BETWEEN EIGHTEEN AND FORTY TWO MONTHS FROM THE ISSUE/ ALLOTMENT AT THE CONVERSION RATIO OF TEN PREFERENCE SHARES FOR 6.8 ORDINARY SHARES. PREFERENCE SHARE-HOLDERS EXERCISING THEIR RIGHT OF CONVERSION WILL NOT RECEIVE ANY OF REMAINING FIXED COUPON AMOUNTS ON THE CONVERTED AMOUNT.

REDEMPTION RESERVE

THE COMPANY WILL CREATE A REDEMPTION RESERVES OF AT LEAST UP TO THE AMOUNT OF REDEMPTION OF PREFERENCE SHARES I.E. AT LEAST UP TO THE AMOUNT OF OUTSTANDING PREFERENCE SHARES SUBMITTED FOR REDEMPTION BY:

- ALLOCATING RS.150 MILLION OF THE RESERVES AS AT 30TH SEPTEMBER, 2004;
- APPROPRIATING PROFITS OF AT LEAST RS 50 MILLION EACH SUBSEQUENT YEAR TO BUILD UP REDEMPTION RESERVE;
- CREATING ADDITIONAL RESERVES TO MATCH THE AMOUNT REQUIRED FOR REDEMPTION.

3.4 AS A CONDITION OF APPROVAL OF THE SCHEME OF ARRANGEMENT, THE COMPANY HAD GIVEN AN UNDERTAKING TO THE SECURITIES & EXCHANGE COMMISSION OF PAKISTAN TO PAY DIVIDENDS OF 25% OVER A PERIOD OF THREE YEARS BEFORE SEPTEMBER 30, 2005.

4 RESERVES	31 DECEMBER, 05 RUPEES	30 SEPTEMBER, 04 RUPEES
CAPITAL RESERVES		
SHARE PREMIUM ON ORDINARY SHARES	71,657,838	106,433,368
PREFERENCE SHARES REDEMPTION RESERVE	212,500,000	150,000,000
RESERVE ON MERGER	105,152,005	105,152,005
	389,309,843	361,585,373
SURPLUS ON REVALUATION OF INVESTMENTS	562,710	556,868
HEDGING RESERVE		
AT THE BEGINNING OF THE YEAR	-	-
INCREASE IN THE FAIR VALUE OF CASH FLOW HEADING DERIVATIVES	13,458,916	-
	13,458,916	-
	403,331,469	362,142,241

NOTES TO THE ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

	NOTE	31 DECEMBER, 05 RUPEES	30 SEPTEMBER, 04 RUPEES
5	SURPLUS ON REVALUATION OF FIXED ASSETS		
	OPENING BALANCE	306,564,511	414,123,474
	SURPLUS TRANSFERRED TO UNAPPROPRIATED PROFIT RELATING TO:		
	- PRIOR YEARS	-	83,873,950
	- CURRENT PERIOD	27,392,552	23,685,013
	- DISPOSAL OF REVALUED FIXED ASSETS	228,288	-
		27,620,840	107,558,963
		278,943,671	306,564,511

THE COMPANY REVALUED LAND, BUILDING AND PLANT AND MACHINERY DURING 1999 AND 2002 WHICH PRODUCED REVALUATION SURPLUS OF Rs. 253.29 MILLION AND Rs. 160.83 MILLION RESPECTIVELY. THE TOTAL SURPLUS OF Rs. 414.123 MILLION HAD BEEN ADDED TO THE BOOK VALUE OF THE ASSETS AND THE CORRESPONDING AMOUNT HAD BEEN CREDITED TO THE SURPLUS ON REVALUATION OF FIXED ASSETS.

6. LONG TERM FINANCING - SECURED

BANKING COMPANIES:

HABIB BANK LIMITED (HBL)	6.1	250,000,000	400,000,000
UNITED BANK LIMITED (UBL)	6.2	200,000,000	200,000,000
CITI BANK N.A	6.3	200,000,000	200,000,000

OTHERS:

PRIVATELY PLACED TFC'S	6.4	250,000,000	250,000,000
TERM FINANCE CERTIFICATES (TFCs)	6.5	2,143,670,000	-

		3,043,670,000	1,050,000,000
LESS: CURRENT MATURITY GROUPED UNDER CURRENT LIABILITIES		365,437,468	300,000,000
		2,678,232,532	750,000,000

6.1 THE COMPANY OBTAINED THIS FINANCE FROM CONSORTIUM OF BANKS LEAD BY HBL WHICH IS REPAYABLE IN 10 EQUAL HALF YEARLY INSTALLMENTS COMMENCING FROM DECEMBER, 2003.

THE FINANCE CARRIES MARK-UP BASED ON 6 MONTHS OFFER RATE OF KIBOR - 280 BPS WITH NO FLOOR NO CAP. IT IS SECURED BY WAY OF FIRST PARI PASSU CHARGE ON THE PROJECT THROUGH AN EQUITABLE MORTGAGE ON LAND AND BUILDING AND HYPOTHECATION OF PLANT AND MACHINERY AND PERSONAL GUARANTEES OF SOME OF THE DIRECTORS OF THE COMPANY.

6.2 THE COMPANY OBTAINED A BRIDGE FINANCE FACILITY OF Rs. 250 MILLION FROM UBL AGAINST WHICH THE BANK DISBURSED Rs. 200 MILLION UP TO SEPTEMBER 30, 2004. IT WAS REPAYABLE WITHIN TWO MONTHS FROM THE DATE OF DISBURSEMENT. HOWEVER THE COMPANY ENTERED INTO AN AGREEMENT WITH THE BANK FOR CONVERSION OF THIS FACILITY INTO A TERM FINANCE FOR A PERIOD OF 5 YEARS. THE COMPANY SOLD ITS ASSETS FOR A CONSIDERATION OF Rs.200 MILLION AND PURCHASED BACK FOR A CONSIDERATION OF Rs. 309.269 MILLION. THE FINANCE IS REPAYABLE IN 8 EQUAL SEMI ANNUAL INSTALLMENTS COMMENCING FROM DECEMBER 2006 WITH MARK-UP BEING PAYABLE ON QUARTERLY BASIS COMMENCING SEPTEMBER 2005.

THE FACILITY CARRIES MARK-UP AT THE RATE OF KIBOR AT THE BEGINNING OF EACH CALENDAR QUARTER PLUS 1.75%. IF THE COMPANY FAILS TO MAKE PAYMENTS ON DUE DATES MARK-UP IS PAYABLE AT THE RATE OF 20% FOR THE PERIOD OF DEFAULT.

THE FACILITY IS SECURED AGAINST 1ST PARI PASSU CHARGE ON ASSETS, PERSONAL GUARANTEES AND DEMAND PROMISSORY NOTES.

6.3 THE COMPANY HAS EXECUTED AN AGREEMENT WITH CITI BANK FOR SALE OF ASSETS AT Rs. 200 MILLION AND PURCHASE BACK THE SAME AT A PURCHASE PRICE OF Rs. 322.792 MILLION. THE LOAN IS REPAYABLE IN 6 EQUAL HALF YEARLY INSTALLMENTS COMMENCING FROM FEBRUARY 2006.

THIS FACILITY CARRIES MARK-UP @ 8% PER ANNUM. MARK-UP @ 22% PER ANNUM IS CHARGEABLE, IF THE COMPANY FAILS TO MAKE PAYMENT ON DUE DATE. IT IS SECURED BY WAY OF HYPOTHECATION AND/OR HYPOTHECATION OVER THE PRESENT AND FUTURE FIXED ASSETS OF THE COMPANY AND DEMAND PROMISSORY NOTES.

6.4 TFCs HAVE BEEN ISSUED BY WAY OF PRIVATE PLACEMENTS WITH A CONSORTIUM OF INSTITUTIONAL INVESTORS. THE TOTAL ISSUE COMPRISES OF 250 TFCs HAVING FACE VALE OF Rs. 100,000 AND 45,000 TFCs HAVING FACE VALUE OF Rs. 5,000.

NOTES TO THE ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

TERMS OF REPAYMENT

CALL OPTION/ PARTIAL CALL OPTION

THE COMPANY MAY REDEEM THE TFCs BY WAY OF EXERCISE OF THE CALL/PARTIAL CALL OPTION BY GIVING WRITTEN NOTICE TO THE TFC HOLDERS AND THE TRUSTEE OF NOT LESS THAN NINETY DAYS. IN CASE OF EXERCISE OF CALL/PARTIAL CALL OPTION WITHIN THIRTY MONTHS FROM THE ISSUE DATE, THE COMPANY IS LIABLE TO PAY PREMIUM @ 0.1% OF THE CALL/PARTIAL REDEMPTION AMOUNT.

RATE OF RETURN

THE RETURN ON TFCs IS PAYABLE SEMI ANNUALLY. THIS IS CALCULATED AT SIX MONTHS KIBOR PREVAILING TWO DAYS PRIOR TO THE ISSUE DATE AND SUBSEQUENTLY TWO DAYS PRIOR TO START OF EACH SEMI ANNUAL PERIOD IN RESPECT OF WHICH PROFIT PAYMENT DUE AT THE END OF THAT PERIOD PLUS MARGIN OF 1.75%.

TRUSTEE

IN ORDER TO PROTECT THE INTEREST OF TFC HOLDERS, NIB BANK LIMITED HAS BEEN APPOINTED AS TRUSTEE UNDER A TRUST DEED DATED 2ND AUGUST, 2004.

IN CASE THE COMPANY DEFAULTS IN ANY OF ITS OBLIGATIONS, THE TRUSTEE MAY ENFORCE THE COMPANY'S OBLIGATIONS IN ACCORDANCE WITH THE TERMS OF TRUST DEED. THE PROCEEDS OF ANY SUCH ENFORCEMENTS SHALL BE DISTRIBUTED TO THE TFC HOLDERS AT THAT TIME ON PARI PASSU BASIS IN PROPORTION TO THE AMOUNTS OWED TO THEM IN PURSUANT TO THE TFCs.

SECURITY

THIS FINANCE IS SECURED BY FIRST PARI PASSU CHARGE OVER PRESENT AND FUTURE FIXED ASSETS EXCLUDING IMMOVABLE PROPERTY AND MORTGAGE OF IMMOVABLE PROPERTIES.

- 6.5 THESE HAVE BEEN ISSUED BY WAY OF PRIVATE PLACEMENT AND PUBLIC SUBSCRIPTION AND ARE LISTED ON THE KARACHI STOCK EXCHANGE. TOTAL ISSUE COMPRISES OF 428,734 CERTIFICATES OF Rs. 5,000 EACH.

TERMS OF REPAYMENT

THE PRINCIPAL REDEMPTION OF TFCs ARE STRUCTURED TO BE IN TEN UNEQUAL SEMI-ANNUAL INSTALLMENT STARTING FROM MARCH 2008.

PROFIT RATE AND PAYMENT

6 MONTH KIBOR PLUS 240 BASIS POINTS, WITHOUT ANY FLOOR OR CAP AND IS PAYABLE SEMI-ANNUALLY IN ARREARS.

CONVERSION OPTION

TFC HOLDERS WILL HAVE THE RIGHT OF CONVERSION OF 25 % OF THE VALUE INTO ORDINARY (NON-VOTING) SHARES, ROUNDED OFF TO THE NEAREST WHOLE NUMBER, AT A 30 % DISCOUNT TO THE PRECEDING THREE MONTHS AVERAGE SHARE PRICE OF ORDINARY SHARES PREVAILING AT THE TIME OF CONVERSION, AT ANY TIME BETWEEN JANUARY 01, 2008 TO MARCH 31, 2008 AFTER GIVING 30 DAYS ADVANCE NOTICE TO THE ISSUER AND TRUSTEE. INCASE OF EXISTENT ESTABLISHED MARKET FOR THE COMPANY'S ORDINARY (NON VOTING) SHARES AT THE TIME OF CONVERSION, TFC HOLDERS WILL HAVE THE RIGHT FOR CONVERSION INTO ORDINARY (NON VOTING) SHARES, ROUNDED OFF TO THE NEAREST WHOLE NUMBER, AT A 15 % DISCOUNT TO THE PRECEDING THREE MONTHS AVERAGE SHARE PRICE OF ORDINARY SHARE (NON-VOTING).

SECURITY

FIRST PARI PASSU CHARGE ON THE PRESENT AND FUTURE FIXED ASSETS OF THE COMPANY (EXCLUDING LAND AND BUILDING) WITH 25 % MARGIN IN FAVOR OF THE TRUSTEE.

TRUSTEE

IN ORDER TO SAFE-GUARD THE INTEREST OF THE TFC HOLDERS, FIRST DAWOOD INVESTMENT BANK LTD. HAS BEEN APPOINTED TO AS TRUSTEE FOR THE ISSUE.

IN CASE THE COMPANY DEFAULTS IN ANY OF ITS OBLIGATIONS, THE TRUSTEE MAY ENFORCE THE COMPANY'S OBLIGATION IN ACCORDANCE WITH THE TERMS OF THE TRUST DEED. THE PROCEED OF ANY SUCH ENFORCEMENT SHALL BE DISTRIBUTED TO THE TFC HOLDERS AT THE TIME ON A PARI PASSU BASIS IN PROPORTION TO THE AMOUNTS OWED TO THEM PURSUANT TO THE TFCs, SUBJECT TO THE PRIORITY RIGHTS OF ALL OTHER CREDITORS AND DEPOSITORS OF THE COMPANY.

NOTES TO THE ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

7 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE - SECURED

NOTE	31 DECEMBER, 05 RUPEES	30 SEPTEMBER, 04 RUPEES
GROSS MINIMUM LEASE PAYMENTS		
NOT LATER THAN ONE YEAR	81,542,809	76,494,987
LATER THAN ONE YEAR BUT NOT LATER THAN FIVE YEARS	48,714,073	146,218,007
	130,256,882	222,712,994
LESS: FINANCIAL CHARGES ALLOCATED TO FUTURE PERIODS	10,097,006	26,050,646
	120,159,876	196,662,348
LESS: SECURITY DEPOSITS ADJUSTABLE ON EXPIRY OF LEASE TERMS	11,642,598	17,076,648
	108,517,278	179,585,700
LESS: CURRENT MATURITY GROUPED UNDER CURRENT LIABILITIES	68,343,306	63,081,881
	40,173,972	116,503,819
PRESENT VALUE OF MINIMUM LEASE PAYMENTS		
NOT LATER THAN ONE YEAR	68,343,306	63,081,881
LATER THAN ONE YEAR BUT NOT LATER THAN FIVE YEARS	40,173,972	116,503,819
	108,517,278	179,585,700

THE COMPANY HAS ACQUIRED PLANT AND MACHINERY AND VEHICLES FROM VARIOUS LEASING COMPANIES. RENTALS ARE PAYABLE IN MONTHLY/QUARTERLY INSTALMENTS UPTO NOVEMBER, 2008. THE DISCOUNT FACTORS APPLIED RANGE BETWEEN 5.50% TO 16.50% PER ANNUM. THE COMPANY INTENDS TO EXERCISE ITS OPTION TO PURCHASE THE LEASED ASSETS UPON PAYMENT OF LIABILITY OVER THE LEASE TERM AND SURRENDER OF DEPOSIT AT THE END OF LEASE TERM. TAXES, REPAIRS AND INSURANCE COSTS ARE TO BE BORNE BY LESSEE. IN CASE OF TERMINATION OF THE AGREEMENT, THE LESSEE IS TO PAY THE ENTIRE RENT OF UN-EXPIRED PERIOD. THESE ARE SECURED AGAINST DEMAND PROMISSORY NOTES.

8 LONG TERM DEPOSITS - UNSECURED

THIS REPRESENTS INTEREST FREE DEPOSITS RECEIVED FROM COMPANY'S EMPLOYEES UNDER THE COMPANY'S CAR SCHEME. VEHICLES HAVE BEEN PROVIDED TO THE EMPLOYEES AGAINST THESE DEPOSITS. THESE ARE ADJUSTABLE AFTER SPECIFIED PERIODS BY TRANSFER OF VEHICLE TO THE RESPECTIVE EMPLOYEE.

9 SHORT TERM BORROWING

SHORT TERM FINANCES	- SECURED	9.1	2,395,697,717	1,414,826,753
SHORT TERM RUNNING FINANCES	- SECURED	9.2	702,820,703	67,756,639
TEMPORARY OVER DRAFT	- UNSECURED	9.3	43,883,904	10,326,500
			3,142,402,324	1,492,909,892

9.1 THESE REPRESENT SHORT-TERM FINANCING FACILITIES AVAILABLE FROM VARIOUS BANKS AMOUNTING TO Rs.4,380.29 MILLION (2004: Rs.3,116.08 MILLION) INCLUDING US \$ 15.83 MILLION (2004: US \$ 10.5 MILLION). THESE FACILITIES CARRIES MARK-UP AT THE RATES RANGING BETWEEN RE. 0.06 TO RE. 0.19 PER Rs. 1,000 PER DAY.

L/C LIMITS AVAILABLE FOR OPENING LETTERS OF CREDIT/GUARANTEE AGGREGATE Rs. 2,369.48 MILLION (2004: Rs. 1,040.25 MILLION) OF WHICH THE AMOUNT REMAINING UN-UTILISED AT THE YEAR END WAS Rs.1,586.81 MILLION (2004: Rs. 510.38 MILLION).

THESE FINANCES ARE SECURED BY 1ST PARI PASSU CHARGE OVER CURRENT ASSETS, HYPOTHECATION OF STOCKS OF RAW MATERIALS, WORK-IN-PROCESS AND FINISHED GOODS, PLEDGE OF RAW MATERIALS, GOODS IMPORTED THROUGH BANKS, EXPORT BILLS DRAWN UNDER CONFIRMED L/C'S OR CONTRACTS, LIEN ON DOCUMENTS OF THE TITLE OF GOODS AND PERSONAL GUARANTEES OF SOME OF THE DIRECTORS OF THE COMPANY.

THESE INCLUDE FOREIGN CURRENCY LOAN OF U.S.\$ 4.13 MILLION (2004: US \$ 6.99 MILLION) WHICH HAVE BEEN CONVERTED INTO PAK RUPEES AT THE EXCHANGE RATE PREVAILING ON THE BALANCE SHEET DATE I.E. U.S. \$1 = Rs. 59.93 (2004: U.S.\$ 1 = Rs. 59.37).

THE FACILITIES ARE GENERALLY AVAILABLE FOR A PERIOD OF TWELVE MONTHS AND ARE RENEWABLE ON EXPIRY, HOWEVER, PURCHASE PRICES ARE REPAYABLE ON VARIOUS DATES, LATEST BY DECEMBER 31, 2006.

9.2 SHORT TERM RUNNING FINANCE FACILITIES AVAILABLE FROM VARIOUS BANKS UNDER MARK-UP ARRANGEMENTS AMOUNT TO Rs. 912.50 MILLION (2004: Rs. 762.50 MILLION).

9.3 IT REPRESENTS CHEQUES ISSUED BY THE COMPANY IN EXCESS OF BALANCE AT BANKS WHICH HAVE BEEN PRESENTED FOR PAYMENT IN THE SUBSEQUENT PERIOD.

9.4 FINANCES UNDER MARK UP ARRANGEMENTS INCLUDE Rs.198 MILLION (2004: Rs.58.78 MILLION) OBTAINED IN NORMAL COURSE OF BUSINESS AT ARM'S LENGTH FROM UNION BANK LTD, A RELATED PARTY.

NOTES TO THE ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

	NOTE	31 DECEMBER, 05 RUPEES	30 SEPTEMBER, 04 RUPEES
10	CREDITORS, ACCRUED AND OTHER LIABILITIES		
	CREDITORS	104,837,013	195,881,907
	BILLS PAYABLE – SECURED	394,601,913	316,801,324
	ACCRUED LIABILITIES	76,380,977	54,792,260
	WORKERS' WELFARE FUND	20,000	20,000
	ADVANCES FROM CUSTOMERS	15,045,683	59,877,980
	MARK-UP ACCRUED ON:		
	LONG TERM FINANCES INCLUDING TFCs	96,071,732	–
	SHORT TERM BORROWINGS	58,717,720	26,687,284
	LEASE FINANCE CHARGES	1,414,929	1,393,512
	WORKER'S PROFIT PARTICIPATION FUND	24,509,700	20,803,281
	CUSTOMS DUTY, SURCHARGE	–	800,301
	TAX DEDUCTED AT SOURCE	15,470,450	9,064,521
	OTHER LIABILITIES	4,571,055	5,858,822
		791,641,172	691,981,192
10.1	WORKERS' PROFIT PARTICIPATION FUND		
	OPENING BALANCE	20,803,281	13,075,810
	ADD: INTEREST ON FUNDS UTILISED BY THE COMPANY	326,582	818,980
		21,129,863	13,894,790
	LESS: PAYMENTS MADE DURING THE YEAR	21,127,936	13,894,247
	DEPOSITED IN GOVERNMENT TREASURY	1,927	543
		21,129,863	13,894,790
		–	–
	ADD: CONTRIBUTION FOR THE PERIOD	24,509,700	20,803,281
		24,509,700	20,803,281
11	PROVISION FOR TAXATION		
11.1	CURRENT		
	OPENING BALANCE	64,824,871	44,824,871
	ADD: PROVISION MADE DURING THE PERIOD		
	– CURRENT PERIOD	47,843,698	20,000,000
	– PRIOR YEARS	2,999,573	–
		50,843,271	20,000,000
	LESS: ADJUSTED AGAINST COMPLETED ASSESSMENTS	35,988,207	–
		79,679,935	64,824,871
11.2	CURRENT STATUS OF PENDING TAX ASSESSMENTS		
11.2.1	INCOME TAX ASSESSMENTS OF AZGARD NINE LIMITED HAVE BEEN COMPLETED UP TO TAX YEAR 2005. THE COMPANY'S APPEALS FOR ASSESSMENT YEARS 1996–1997, 1998–1999, 1999–2000, 2000–2001 & 2001–2002 BEFORE THE LAHORE HIGH COURT ARE PENDING FOR ADJUDICATION AND ASSESSMENT YEAR 2002–03 IS PENDING BEFORE CIT (APPEAL).		
11.2.2	THE COMPANY HAS FILED APPEALS PERTAINING TO CASES OF NAFEEs COTTON MILLS (NOW MERGED INTO COMPANY) BEFORE THE INCOME TAX APPELATE TRIBUNAL FOR THE ASSESSMENT YEARS 1999–2000, 2000–2001, 2001–2002, 2002–2003 WHICH ARE PENDING FOR ADJUDICATION. THE COMPANY HAS ALSO FILED APPEAL BEFORE THE COMMISSIONER OF INCOME TAX (APPEALS) FOR THE TAX YEAR 2003, WHICH IS PENDING FOR ADJUDICATION.		
11.2.3	PROVISION FOR CURRENT PERIOD TAXATION REPRESENTS TAX PAYABLE UNDER SECTION 154 OF THE INCOME TAX ORDINANCE, 2001 (THE ORDINANCE), KEEPING IN VIEW THE PROVISIONS OF CIRCULAR No.5 OF 2000 READ WITH RULE 216 OF INCOME TAX RULES 1982 FOR EXPORT SALES.		
11.3	DEFERRED TAX THE EXPORT SALES (INCLUDING INDIRECT EXPORTS) DURING THE PERIOD ENDED DECEMBER 31, 2005 ACHIEVED THE THRESHOLD OF PRESUMPTIVE TAX AND THE TREND IS EXPECTED TO CONTINUE IN FORESEEABLE FUTURE. ACCORDINGLY, NO PROVISION FOR DEFERRED TAX HAS BEEN MADE.		
11.4	SINCE THE COMPANY'S PROFITS ARE SUBJECT TO TAXATION UNDER PRESUMPTIVE TAX REGIME, NO NUMERICAL RECONCILIATION OF THE TAX RATE HAS BEEN GIVEN.		

NOTES TO THE ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

12 CONTINGENCIES AND COMMITMENTS

CONTINGENCIES

- 12.1 THE COMPANY WAS DENIED EXEMPTION BY THE CUSTOMS DEPARTMENT UNDER SRO 484(I)/92 FROM LEVY OF CUSTOMS DUTY AND SALES TAX ON CERTAIN PLANT AND MACHINERY. THE COMPANY FILED AN APPEAL IN THE HIGH COURT, WHICH WAS DECIDED IN ITS FAVOUR. THE DEPARTMENT HAS FILED AN APPEAL AGAINST THE SAME IN THE SUPREME COURT. IN CASE OF ADVERSE DECISION THE MAXIMUM LIABILITY IS LIKELY TO RISE TO Rs.9.40 MILLION APPROXIMATELY. NO PROVISION HAS BEEN MADE IN THESE ACCOUNTS SINCE THE COMPANY EXPECTS A FAVOURABLE OUTCOME.
- 12.2 THE COMPANY FILED A CONSTITUTIONAL PETITION IN THE SINDH HIGH COURT AGAINST THE CUSTOMS AUTHORITIES. THE CASE HAD BEEN REFERRED BACK TO THE COLLECTOR OF CUSTOMS THROUGH CENTRAL BOARD OF REVENUE AND IS STILL PENDING. THE DISPUTED AMOUNT OF Rs.1,293,061 HAS ALREADY BEEN DEPOSITED WITH THE SINDH HIGH COURT HENCE NO ADDITIONAL LIABILITY IS EXPECTED TO ARISE.
- 12.3 THE COMPANY IMPORTED TEXTILE MACHINERY AVAILING EXEMPTION FROM CUSTOMS DUTY AND SALES TAX ON IMPORTATION THEREOF UNDER VARIOUS SROs. THE CLAIM SUBJECT TO FULFILMENT OF CERTAIN CONDITIONS AGGREGATES Rs.68.156 MILLION (2004: Rs. 68.156 MILLION).
- 12.4 THE COMPANY HAS FILED AN APPEAL BEFORE THE LAHORE HIGH COURT FOR RECOVERY OF ITS CLAIM FROM THE INSURANCE COMPANIES AMOUNTING TO Rs.2.46 MILLION (2004: Rs. 2.46 MILLION). THE APPEAL IS PENDING FOR ADJUDICATION.
- 12.5 REFER CONTENTS OF NOTE 3.3 AND 3.4 REGARDING DIVIDENDS.

COMMITMENTS

- 12.6 COUNTER GUARANTEES GIVEN BY THE COMPANY TO ITS BANKERS OUTSTANDING AS AT 31 DECEMBER, 2005 WERE FOR Rs. 24.00 MILLION (2004: Rs. 0.102 MILLION).
- 12.7 COMMITMENTS AGAINST IRREVOCABLE LETTERS OF CREDIT OUTSTANDING AS AT 31 DECEMBER, 2005 AMOUNT TO Rs.126.89 MILLION (2004:Rs.300 MILLION).
- 12.8 THE COMPANY DURING THE PERIOD ENTERED INTO A FINANCING AGREEMENT TO THE TUNE OF EURO 15 MILLION WITH DEUTSCHE INVESTITIONS - UND MBH, A FINANCIAL INSTITUTION INCORPORATED UNDER THE LAWS OF GERMANY. THE LOAN WILL BE EXCLUSIVELY USED TO FINANCE THE INSTALLATION OF NEW SPINNING, DENIM AND GARMENT PROJECTS. THE FIRST DISBURSEMENT OF THE LOAN HAS BEEN RECEIVED SUBSEQUENT TO THE BALANCE SHEET DATE. THE LOAN IS REPAYABLE IN 10 EQUAL HALF YEARLY INSTALMENTS COMMENCING AUGUST 15, 2008. THE FACILITY CARRIES INTEREST AT SIX MONTHS EURIBOR RATE PLUS 3.25% PER ANNUM. IN CASE OF DELAYED PAYMENT 2% ADDITIONAL INTEREST WILL BE PAYABLE FOR THE PERIOD OF DEFAULT.
- THIS LOAN IS SECURED BY FIRST PARI PASSU CHARGE OVER LAND, BUILDINGS AND ALL MOVABLE ASSETS, AND PROMISSORY NOTE.
- 12.9 THE COMPANY DURING THE PERIOD ENTERED INTO AN AGREEMENT WITH M/S ALI MURTAZA ASSOCIATES (PVT) LTD. FOR THE PURCHASE OF A GARMENT STITCHING UNIT LOCATED AT FEROZEPUR ROAD LAHORE AT PURCHASE PRICE OF Rs.530 MILLION AGAINST WHICH 10% ADVANCE PAYMENT HAS BEEN MADE AS PER AGREEMENT WHICH HAS BEEN GROUPED UNDER CAPITAL WORK IN PROGRESS, Rs.347 MILLION WILL BE PAID ON EXECUTION OF SALE DEED AND THE BALANCE WILL BE PAID WITHIN ONE YEAR OF EXECUTION OF SALE DEED AND DELIVERY OF POSSESSION OF THE PROPERTY.

NOTES TO THE ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

13. OPERATING FIXED ASSETS

PARTICULARS	COST / REVALUATION				AS AT 31 DECEMBER, 2005	RATE %	DEPRECIATION				NET BOOK VALUE AS AT 31 DECEMBER, 2005
	AS AT 30 SEPTEMBER, 2004	ADDITIONS DURING THE PERIOD	LEASED ASSETS TRANSFERS	DISPOSALS			TO 30 SEPTEMBER 2004	FOR THE PERIOD	ON DISPOSALS/ TRANSFERS	TO 31 DECEMBER, 2005	
OWNED:											
FREEHOLD LAND											
- COST	337,637,648	23,374,593	-	-	361,012,241	-	-	-	-	-	361,012,241
- REVALUATION	8,442,352	-	-	-	8,442,352	-	-	-	-	-	8,442,352
	346,080,000	23,374,593	-	-	369,454,593	-	-	-	-	-	369,454,593
BUILDINGS ON FREEHOLD LAND											
- COST	313,393,182	76,827,978	-	-	390,221,160	5.0	88,930,334	18,633,575	-	107,563,909	282,657,251
- REVALUATION	19,455,864	-	-	-	19,455,864	5.0	2,335,920	1,069,996	-	3,405,916	16,049,948
	332,849,046	76,827,978	-	-	409,677,024		91,266,254	19,703,571	-	110,969,825	298,707,199
PLANT AND MACHINERY											
- COST	2,423,842,646	376,853,599	46,486,925	17,971,277	2,829,211,893	7.5	775,914,849	177,399,812	(9,040,434)	953,387,168	1,875,824,725
- REVALUATION	386,225,258	-	-	313,772	385,911,486	7.5	105,223,043	26,322,556	9,112,941 (85,484)	131,460,115	254,451,371
	2,810,067,904	376,853,599	46,486,925	18,285,049	3,215,123,379		881,137,892	203,722,368	(12,927)	1,084,847,283	2,130,276,096
FURNITURE AND FITTINGS	12,559,256	10,382,028	-	-	22,941,284	10.0	5,594,515	2,168,346	(2,141,458)	7,762,861	15,178,423
VEHICLES	21,348,845	1,379,565	7,058,360	5,296,930	24,489,840	20.0	14,051,806	2,438,290	2,826,333	17,174,971	7,314,869
TOOLS AND EQUIPMENT	6,414,208	4,756,781	-	-	11,170,989	10.0	3,507,445	957,943	-	4,465,388	6,705,601
OFFICE EQUIPMENTS	39,923,367	31,383,917	-	-	71,307,284	10.0	10,210,920	7,637,046	-	17,847,966	53,459,318
ELECTRICAL INSTALLATIONS	59,799,469	15,589,838	-	-	75,389,307	10.0	17,433,099	7,244,526	-	24,677,625	50,711,682
	3,629,042,095	540,548,299	53,545,285	23,581,979	4,199,553,700		1,023,201,931	243,872,090	671,898	1,267,745,919	2,931,807,781
LEASED:											
PLANT AND MACHINERY											
VEHICLES	266,252,068	-	(46,486,925)	-	219,765,143	7.5	35,661,410	18,114,062	(9,112,941)	44,662,531	175,102,612
	18,506,559	903,300	(7,058,360)	-	12,351,499	20.0	7,000,980	2,044,213	(2,826,333)	6,218,860	6,132,639
	284,758,627	903,300	(53,545,285)	-	232,116,642		42,662,390	20,158,275	(11,939,274)	50,881,391	181,235,251
2005 RUPEES	3,913,800,722	541,451,599	-	23,581,979	4,431,670,342		1,065,864,321	264,030,365	(11,267,376)	1,318,627,310	3,113,043,032
2004 RUPEES	2,835,124,658	775,515,435	-	1,690,500	3,608,949,593		583,786,667	177,904,224	(677,700)	761,013,191	2,847,936,402

13.1 LAND, BUILDING AND PLANT AND MACHINERY HAVE BEEN REVALUED IN 2002 BY AN INDEPENDENT VALUER M/S. BLUE FEATHERS AFFILIATIONS. THESE ASSETS WERE REVALUED ON THE BASIS OF PRESENT REPLACEMENT DEPRECIATED VALUES.

13.2 DISPOSAL OF OPERATING OF FIXED ASSETS.

PARTICULARS	COST	ACCUMULATED DEPRECIATION	BOOK VALUE	SALE PROCEEDS	GAIN	MODE OF DISPOSAL	PARTICULARS OF PURCHASER
VEHICLES							
CULTUS	655,000	235,800	419,200	568,598	149,398	COMPANY'S CAR SCHEME	MR. AHSAN RIAZ KHAN
CULTUS	669,000	326,472	342,528	474,806	132,278	COMPANY'S CAR SCHEME	MR. AHMAD IMRAN
TOYOTA COROLLA	1,379,580	496,649	882,931	941,323	58,392	COMPANY'S CAR SCHEME	MR. AAMIR USMAN
TOYOTA COROLLA	1,368,580	492,689	875,891	940,924	65,033	COMPANY'S CAR SCHEME	MR. MUHAMMAD HUSSAIN
HONDA CIVIC	1,224,770	589,848	634,922	634,922	-	COMPANY'S CAR SCHEME	MR. IRFAN NAZIR
MACHINERY							
06 RING FRAMES	5,307,360	4,058,844	1,248,516	840,000	(408,516)	NEGOTIATION	INTNL TEXTILE MACHINERY ENTERPRISES, KARACHI
WASHING MACHINES	4,323,231	1,371,627	2,951,604	961,435	(1,990,169)	NEGOTIATION	MASTER IJAZ & MASTER KHALIL
STITCHING MACHINES	8,654,458	3,695,447	4,959,011	290,817	(4,668,194)	NEGOTIATION	BRAVO INTERNATIONAL
RUPEES	23,581,979	11,267,376	12,314,603	5,652,825	(6,661,778)		

13.3 DEPRECIATION FOR THE PERIOD HAS BEEN APPORTIONED AS UNDER:

	2005 RUPEES	2004 RUPEES
COST OF SALES	253,998,842	164,167,467
ADMINISTRATIVE AND SELLING EXPENSES CAPITALISED DURING THE YEAR	10,031,523	6,338,324
	-	7,398,434
	264,030,365	177,904,225

13.4 FIGURES OF BOTH THE COST OF FIXED ASSETS AND RELATED ACCUMULATED DEPRECIATION HAVE BEEN INCREASED BY THE AMOUNT OF Rs.304,851,129 WHICH REPRESENTS BALANCE OF ACCUMULATED DEPRECIATION OF NAFEEES COTTON MILLS LTD. AT THE TIME OF MERGER AS AT 31 MARCH, 2002 WHICH WAS ADJUSTED AGAINST COST AT THAT TIME. THESE RE-ARRANGEMENT OF FIGURES HAVE NO EFFECT ON THE AMOUNT OF DEPRECIATION CALCULATED FOR THE CURRENT PERIOD AND PREVIOUS YEARS.

13.5 FIGURES OF TOOLS & EQUIPMENT AND OFFICE EQUIPMENT ARE RE-CLASSIFIED IN THE CURRENT PERIOD HAVING NO CURRENT OR RETROSPECTIVE EFFECT ON THE AMOUNT OF DEPRECIATION.

NOTES TO THE ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

	NOTE	31 DECEMBER, 05 RUPEES	30 SEPTEMBER, 04 RUPEES
14 CAPITAL WORK IN PROGRESS			
BUILDINGS ON FREEHOLD LAND			
- COST AND EXPENSES		314,410,766	-
- ADVANCE PAYMENTS		153,915,717	22,060,697
		468,326,483	22,060,697
PLANT AND MACHINERY			
- COST AND EXPENSES	14.1	1,975,292,610	62,231,641
ELECTRIC INSTALLATION		15,920,713	-
OFFICE EQUIPMENT AND FITTINGS		116,100	-
		<u>2,459,655,906</u>	<u>84,292,338</u>
14.1 THIS INCLUDES PURCHASE PRICE, IMPORT DUTIES AND THE COST DIRECTLY ATTRIBUTABLE TO BRINGING THE ASSETS TO THE CONDITION OF OPERATING IN THE MANNER INTENDED BY THE MANAGEMENT. THE BREAK UP IS AS FOLLOWS:			
- PURCHASE PRICE INCLUDING IMPORT DUTIES		1,699,063,205	
- BORROWING COST		92,169,262	
- OTHER ATTRIBUTABLE COSTS			
RAW MATERIAL CONSUMED		196,287,304	
SALARIES, WAGES AND OTHER BENEFITS		81,523,102	
POWER AND FUEL		36,750,368	
STORES CONSUMED		27,040,824	
OTHER COSTS		20,500,102	
PROCEEDS FROM SAMPLES SOLD		(144,322,226)	
REALISABLE VALUE OF CLOSING FINISHED GOODS		(23,446,575)	
REALISABLE VALUE OF CLOSING WORK IN PROCESS		(10,272,756)	
		184,060,143	
		<u>1,975,292,610</u>	
15 INTANGIBLE ASSETS			
DEVELOPMENT COSTS	15.1	64,221,974	81,187,908
TEXTILE QUOTA	15.2	-	-
		64,221,974	81,187,908
ERP - ORACLE FINANCIAL	15.3	9,715,302	7,187,681
		<u>73,937,276</u>	<u>88,375,589</u>
15.1 THIS RELATES TO EXPENDITURE ON DEVELOPMENT OF NEW PRODUCTS TO GAIN COMPETITIVE ADVANTAGE IN THE NATIONAL AND INTERNATIONAL MARKET. THE MANAGEMENT PLANS TO CONTINUE THIS POLICY AND INCREASE RESEARCH AND DEVELOPMENT SPENDING IN THE TIMES TO COME.			
OPENING BALANCE		81,187,908	-
COST INCURRED DURING THE PERIOD		-	81,187,908
		81,187,908	81,187,908
LESS: AMORTISATION		16,965,934	-
		<u>64,221,974</u>	<u>81,187,908</u>
15.2 TEXTILE QUOTA			
OPENING BALANCE		24,917,583	24,469,044
PURCHASES/SALES DURING THE PERIOD		(1,353,180)	23,413,271
		23,564,403	47,882,315
LESS: AMORTISATION OF TEXTILE QUOTA		23,564,403	22,964,732
		-	24,917,583
LESS: CURRENT PORTION GROUPED UNDER CURRENT ASSETS		-	24,917,583
		-	-
15.3 THIS REPRESENTS COST RELATING TO IMPLEMENTATION OF ORACLE FINANCIAL, WHICH IS UNDER PROCESS AS AT BALANCE SHEET DATE.			

NOTES TO THE ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

	NOTE	31 DECEMBER, 05 RUPEES	30 SEPTEMBER, 04 RUPEES
16	LONG TERM INVESTMENTS		
16.1	RELATED PARTIES		
	INVESTMENT IN FOREIGN SUBSIDIARY NAFEES INTERNATIONAL TEKSTIL SANAYS VE TIGARET ANONIM SIRKET 10 BILLION FULLY PAID ORDINARY SHARES OF TURKISH LIRA 1 MILLION EACH EQUITY HELD 51% VALUE OF INVESTMENT IS BASED ON THE NET ASSETS SHOWN IN THE AUDITED ACCOUNTS AS AT DECEMBER 31, 2005 IS Rs 1.832 MILLION (2004: Rs 2.855 MILLION)	1,650,720	1,650,720
	INVESTMENT IN LOCAL SUBSIDIARY AZSOFT (PVT.) LTD. 19,980 FULLY PAID ORDINARY SHARES OF Rs.10/- EACH EQUITY HELD 99.90% VALUE OF INVESTMENT BASED ON THE NET ASSETS SHOWN IN THE AUDITED ACCOUNTS AS AT DECEMBER 31, 2005 Rs. 1.995 MILLION	1,998,000	-
16.2	OTHERS		
	AVAILABLE FOR SALE:		
	QUOTED		
	COLONY TEXTILE MILLS LTD.		
	456 (2004: 456) ORDINARY SHARES OF Rs.10 EACH	8,664	8,664
	APPRECIATION/DIMUNITION IN VALUE OF INVESTMENT	2,736	(456)
	MARKET VALUE Rs. 25 PER SHARE (2004: Rs.18)	11,400	8,208
	BSJS BALANCED FUND LTD.		
	1,000 ORDINARY SHARES OF Rs. 10 EACH.	10,000	10,000
	APPRECIATION IN VALUE OF INVESTMENT	3,250	600
	MARKET VALUE Rs. 13.25 PER SHARE (2004: Rs. 10.60)	13,250	10,600
	UNQUOTED		
	NATIONAL SECURITY INSURANCE CO. LTD.		
	221,504 (2004:221,504) ORDINARY SHARES OF Rs.10 EACH	996,768	996,768
16.3	HELD TO MATURITY (TERM FINANCE CERTIFICATE)		
	CHANDA OIL & GAS SECURITIZATION CO. LTD		
	12,895 SCRIPS OF Rs. 5,000 EACH 16.3.1	61,638,100	-
	CURRENT MATURITY GROUPED UNDER CURRENT ASSETS	(4,255,350)	-
		57,382,750	-
	NIAMAT BASAL OIL		
	3,913 SCRIPS OF Rs. 5,000 EACH 16.3.2	18,275,160	-
	CURRENT MATURITY GROUPED UNDER CURRENT ASSETS	(4,217,118)	-
		14,058,042	-
	TELECARD LIMITED - TFC		
	3,715 SCRIPS OF Rs. 5,000 EACH 16.3.3	18,571,285	-
	CURRENT MATURITY GROUPED UNDER CURRENT ASSETS	(1,164,653)	-
		17,406,632	-
		93,517,562	2,666,296

NOTES TO THE ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

16.3.1 THESE TFC'S ARE REDEEMABLE IN 7 YEARS STARTING FROM SIX MONTHS AFTER THE DATE OF CLOSING OF SUBSCRIPTION DATE AND THEREAFTER QUARTERLY. IT CARRIES INTEREST PAYABLE QUARTERLY AT BASE RATE PLUS 3.25% WHERE BASE RATE IS A SIMPLE AVERAGE OF THE LAST 7 DAYS OF ASK SIDE OF THREE MONTHS DAILY AVERAGE KIBOR RATES WITH A FLOOR OF 8.95% AND CAP OF 13.0% PER ANNUM. THESE ARE PLEDGED AS SECURITIES AGAINST DIFFERENT FINANCE FACILITIES AVAILABLE.

16.3.2 THESE TFC'S ARE REDEEMABLE BY MONTHLY INSTALLMENTS IN FIVE YEARS. IT CARRIES INTEREST AT BASE RATE PLUS 2.5% WHERE BASE RATE IS AVERAGE OF THE SIX MONTH DAILY AVERAGE RATE CALCULATED ON KIBOR ON THE LAST WORKING DAY PRIOR TO START OF EACH MONTHLY PERIOD FOR WHICH PROFIT DUE WITH A FLOOR OF 7.5% AND CAP OF 13.0% PER ANNUM. THESE ARE PLEDGED AS SECURITIES AGAINST DIFFERENT FINANCE FACILITIES AVAILABLE.

16.3.3 THESE TFC'S ARE REDEEMABLE IN 6 YEARS BY SEMI-ANNUAL INSTALLMENTS. IT CARRIES INTEREST AT 3.75% PLUS BASE RATE WHERE BASE RATE IS SIMPLE AVERAGE OF THE SIX MONTH AVERAGE KIBOR RATE CALCULATED ON THE FIRST WORKING DAY OF THE START OF EACH SEMI-ANNUAL PERIOD FOR WHICH PROFIT IS DUE.

17	NOTE	31 DECEMBER, 05 RUPEES	30 SEPTEMBER, 04 RUPEES
LONG TERM DEPOSITS			
	OPENING BALANCE	18,517,830	3,649,720
	COST INCURRED DURING THE PERIOD	11,227,305	14,868,110
		29,745,135	18,517,830

THESE INCLUDE SECURITY DEPOSITS FOR ELECTRICITY Rs. 5,327,400 AND WITH SUI NORTHERN GAS PIPELINE LTD. Rs. 15,265,300.

18	STORES, SPARES AND LOOSE TOOLS		
	STORE	60,280,813	50,503,425
	SPARES	27,069,375	21,443,068
	LOOSE TOOLS	440,167	662,200
		87,790,355	72,608,693

18.1 INCLUDED IN STORES AND SPARES ARE ITEMS IN TRANSIT VALUING Rs. 0.662 MILLION (2004: Rs.0.750 MILLION).

18.2 THE COMPANY DOES NOT HOLD ANY STORES AND SPARES FOR SPECIFIC CAPITALISATION.

19	STOCK IN TRADE		
	RAW MATERIALS	1,507,912,595	636,338,989
	WORK IN PROCESS	227,469,465	220,379,606
	WORK IN PROCESS-TRIAL RUN	10,272,756	-
	FINISHED GOODS	264,903,136	537,888,016
	FINISHED GOODS - TRIAL RUN	23,446,575	-
	WASTE	176,023	122,719
		2,034,180,550	1,394,729,330

19.1 INCLUDED IN RAW MATERIALS ARE STOCKS IN TRANSIT VALUING Rs. 62.030 MILLION (2004:Rs.75 MILLION) AND STOCKS IN CUSTOMS BOND Rs.7.293 MILLION (2004:Rs.NIL).

19.2 STOCKS AMOUNTING TO Rs.1,044.249 MILLION (2004: 160.146 MILLION) HAVE BEEN PLEDGED AS SECURITY WITH VARIOUS BANKS AGAINST FINANCING FACILITIES.

19.3 TRAIL RUN STOCKS ARE VALUED AT NRV.

NOTES TO THE ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

	NOTE	31 DECEMBER, 05 RUPEES	30 SEPTEMBER, 04 RUPEES
20 TRADE DEBTS			
CONSIDERED GOOD:			
SECURED	20.1	498,892,591	631,503,900
UN-SECURED		514,990,993	313,607,956
CONSIDERED DOUBTFUL		4,249,348	4,249,348
		<u>1,018,132,932</u>	<u>949,361,204</u>
LESS: PROVISION FOR DOUBTFUL DEBTS		(4,249,348)	(4,249,348)
		<u>1,013,883,584</u>	<u>945,111,856</u>

20.1 THESE ARE SECURED BY LETTER OF CREDIT AND INCLUDES RECEIVABLE FROM NAFEEES INTERNATIONAL TEKSTIL SANAYS VE TICARET ANONIM SIRKET (SUBSIDIARY COMPANY) AMOUNTING TO Rs.75,889,879 (2004: Rs.102,891,846).

21 DERIVATIVES FINANCIAL INSTRUMENTS

THE COMPANY DURING THE CURRENT FINANCIAL PERIOD HAS ENTERED INTO LOCAL AND FOREIGN CURRENCY INTEREST RATE SWAP CONTRACT TO HEDGE THE POSSIBLE ADVERSE MOVEMENTS IN INTEREST RATES. AS THE HEDGING RELATIONSHIP IS EFFECTIVE & MEETS THE CRITERIA OF CASH FLOW HEDGE, THIS ARRANGEMENT QUALIFIES FOR HEDGE ACCOUNTING AS PER SPECIFICATION IAS 39: FINANCIAL INSTRUMENTS RECOGNITION AND MEASUREMENT.

THE INCREASE IN FAIR VALUE OF INTEREST RATE SWAP RESULT IN GAIN AMOUNTING Rs.13.458 MILLION WHICH HAS BEEN RECOGNISED IN THE STATEMENT OF CHANGES IN THE EQUITY AS HEDGING RESERVE.

22 ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

ADVANCES - UNSECURED CONSIDERED GOOD			
TO EMPLOYEES	22.1 & 22.2	31,059,330	19,357,526
TO SUPPLIERS, CONTRACTORS AND OTHERS		407,631,218	158,543,173
SECURITY DEPOSIT		3,115,165	9,314,906
MARGIN DEPOSITS	22.3	2,297,956	201,562,598
PREPAYMENTS		9,144,119	8,873,451
EXPORT REBATE RECEIVABLE INCL. SBP 6%		56,947,188	26,624,906
SALES TAX RECOVERABLE		81,783,885	141,957,831
TEXTILE QUOTA		-	24,917,583
LETTERS OF CREDIT		175,710,254	26,571,132
TAX DEDUCTED AT SOURCE / TAX REFUNDABLE		107,676,585	85,906,387
OCTROI REFUNDABLE		-	2,778,781
INSURANCE CLAIM	12.4	14,462,187	2,462,187
OTHER RECEIVABLES - UNSECURED, CONSIDERED GOOD		5,979,992	4,052,709
		<u>895,807,879</u>	<u>712,923,170</u>

22.1 ADVANCES TO EMPLOYEES ARE AGAINST PURCHASE AND OTHER EXPENSES ON COMPANY'S BEHALF .

22.2 NO ADVANCES HAVE BEEN GIVE TO CHIEF EXECUTIVE / DIRECTORS DURING THE PERIOD.

22.3 IT REPRESENTS DEPOSITS AGAINST LETTERS OF CREDIT AND OTHER WORKING CAPITAL UTILISED.

NOTES TO THE ACCOUNTS
FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

23	SHORT TERM INVESTMENTS	31 DECEMBER, 05 RUPEES	30 SEPTEMBER, 04 RUPEES
	HELD FOR TRADING QUOTED		
	BANK OF PUNJAB		
	13,000 (2004: 3,895,100) ORDINARY SHARES OF Rs.10 EACH	1,358,399	29,355,786
	DIMINUTION/APPRECIATION IN VALUE OF INVESTMENT MARKET VALUE Rs.102.45 PER SHARE (2004: Rs 66.27)	(26,549)	995,875
		1,331,850	30,351,661
	NATIONAL BANK OF PAKISTAN		
	160,100 (2004: 400,000) ORDINARY SHARES OF Rs.10 EACH	32,242,667	29,152,758
	DIMINUTION/APPRECIATION IN VALUE OF INVESTMENT MARKET VALUE Rs.199.45 PER SHARE (2004: Rs 69.13)	(310,722)	849,662
		31,931,945	30,002,420
	PAKISTAN TELECOMMUNICATION CO. LTD		
	NIL (2004: 1,111,500) ORDINARY SHARES OF Rs.10 EACH	-	43,688,699
	APPRECIATION IN VALUE OF INVESTMENT	-	5,106,151
	MARKET VALUE Rs.NIL PER SHARE (2004: Rs 43.90)	-	48,794,850
	MUSLIM COMMERCIAL BANK LTD.		
	30,000 ORDINARY SHARES OF Rs.10 EACH	5,428,051	-
	DIMINUTION IN VALUE OF INVESTMENT	(394,051)	-
	MARKET VALUE Rs.167.80 PER SHARE	5,034,000	-
	ABAMCO CAPITAL FUND		
	4,897,000 ORDINARY SHARES OF Rs.10 EACH	39,910,550	-
	APPRECIATION IN VALUE OF INVESTMENT	26,198,950	-
	MARKET VALUE Rs.13.50 PER SHARE	66,109,500	-
	ASKARI COMMERCIAL BANK LIMITED		
	189,500 ORDINARY SHARES OF Rs.10 EACH	24,089,087	-
	DIMINUTION IN VALUE OF INVESTMENT	(60,487)	-
	MARKET VALUE Rs.126.80 PER SHARE	24,028,600	-
	FAUJI FERTILIZERS LTD.		
	65,100 ORDINARY SHARES OF Rs.10 EACH	8,260,593	-
	APPRECIATION IN VALUE OF INVESTMENT	658,107	-
	MARKET VALUE Rs.137 PER SHARE	8,918,700	-

NOTES TO THE ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

	NOTE	31 DECEMBER, 05 RUPEES	30 SEPTEMBER, 04 RUPEES
ATTOCK REFINERY LIMITED			
46,000 ORDINARY SHARES OF RS.10 EACH		8,054,170	-
APPRECIATION IN VALUE OF INVESTMENT		1,513,830	-
MARKET VALUE RS.208.00 PER SHARE		9,568,000	-
FAYSAL BANK LTD			
540,525 ORDINARY SHARES OF RS.10 EACH		35,425,806	-
APPRECIATION IN VALUE OF INVESTMENT		4,627,097	-
MARKET VALUE RS.74.10 PER SHARE		40,052,903	-
ADAMJEE INSURANCE CO. LTD.			
183,800 ORDINARY SHARES OF RS.10 EACH		22,375,803	-
APPRECIATION IN VALUE OF INVESTMENT		2,804,797	-
MARKET VALUE RS 137 PER SHARE		25,180,600	-
LUCKY CEMENT			
20,000 ORDINARY SHARES OF RS.10 EACH		1,584,958	-
APPRECIATION IN VALUE OF INVESTMENT		3,042	-
MARKET VALUE RS.83.90 PER SHARE		1,678,000	-
PAKISTAN STATE OIL COMPANY LTD.			
6,500 ORDINARY SHARES OF RS.10 EACH		2,761,576	-
DIMINUTION IN VALUE OF INVESTMENT		(52,051)	-
MARKET VALUE RS.416.85 PER SHARE		2,709,525	-
PAKISTAN INDUSTRIAL CREDIT AND INVESTMENT CORPORATION			
4,000 ORDINARY SHARES OF RS.10 EACH		271,724	-
DIMINUTION IN VALUE OF INVESTMENT		(12,524)	-
MARKET VALUE RS.64.80 PER SHARE		259,200	-
HELD TO MATURITY			
TERM DEPOSIT RECEIPT	23.2	454,124,227	-
		670,927,050	109,148,931

23.1 INVESTMENTS IN SHARES/ CERTIFICATES OF ABAMCO CAPITAL FUND, ADAMJEE INSURANCE Co. LTD., FAYSAL BANK LTD., FAUJI FERTILIZER Co. LTD. AND NATIONAL BANK OF PAKISTAN ARE PLEDGED AS SECURITIES AGAINST VARIOUS FINANCE FACILITIES AVAILABLE.

23.2 THE BALANCE REPRESENT INVESTMENT IN TDRs OF ABN AMRO BANK AMOUNTING TO US \$ 500,000/- FOR A PERIOD OF ONE MONTH AT THE RATE OF 2.60% AND IN TDRs OF NIB BANK AMOUNTING RS.423.943 MILLION FOR A PERIOD OF ONE MONTH AT THE RATE OF 9.00%.

24 CASH AND BANK BALANCES

CASH IN HAND	1,497,894	2,556,878
CASH WITH BANKS IN:		
CURRENT ACCOUNTS	34,116,304	9,563,317
SAVING ACCOUNTS	10,028,160	8,787,582
	44,144,464	18,350,899
	45,642,358	20,907,777

24.1 CASH AT BANKS ON CURRENT AND SAVING ACCOUNTS INCLUDE FOREIGN CURRENCY BALANCES OF US \$ 158,205.83 (2004: US \$ 132,764) & EURO 35,396.97 (2004: NIL) WHICH HAVE BEEN CONVERTED INTO PAK RUPEES AT THE EXCHANGE RATE PREVAILING ON THE BALANCE SHEET DATE I.E. US \$ 1 = Rs. 59.73 (2004:US \$ 1=Rs. 59.35) AND EURO 1 = Rs.70.71.

NOTES TO THE ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

		31 DECEMBER, 05 RUPEES	30 SEPTEMBER, 04 RUPEES
25	SALES -NET		
	NOTE		
	LOCAL	750,216,920	1,613,246,671
	EXPORT - (INCLUDING INDIRECT EXPORT) - NET OF EXPORT DEVELOPMENT SURCHARGE AMOUNTING TO Rs.5,730,404 TO (2004: Rs. 3,484,649) AND EXCHANGE GAIN OF Rs. 14,794,775 (2004:Rs. 13,221,017)	3,832,200,523	1,652,820,064
	WASTE	41,428,012	33,097,303
		4,623,845,455	3,299,164,038
	LESS: COMMISSION TO SELLING AGENTS - LOCAL	34,860,167	3,501,456
	- EXPORT	19,377,300	34,874,588
	SALES TAX	136,731,073	94,596,501
	BROKERAGE AND DISCOUNTS	10,404,558	10,279,066
		201,373,098	143,251,611
		4,422,472,357	3,155,912,427
26	COST OF SALES		
	RAW MATERIALS AND OTHER DIRECT MATERIALS CONSUMED	1,820,580,742	1,748,032,339
	SALARIES, WAGES AND BENEFITS	354,746,907	283,661,014
	FUEL AND POWER	333,090,255	189,237,711
	STORE AND SPARES CONSUMED	152,724,507	48,628,540
	TRAVELLING ,CONVEYANCE AND ENTERTAINMENT	9,220,631	16,704,076
	RENT, RATES AND TAXES	5,141,456	2,070,589
	INSURANCE	8,064,020	6,792,699
	REPAIR AND MAINTENANCE	22,665,131	10,793,306
	PROCESSING CHARGES	22,330,528	17,529,443
	DEPRECIATION	253,998,842	164,167,467
	R & D AMORTIZATION	16,965,934	-
	PRINTING & STATIONERY	3,797,218	710,526
	COMMUNICATIONS	1,872,407	2,530,894
	OTHERS	17,745,768	6,921,232
		3,022,944,346	2,497,779,836
	ADJUSTMENT OF WORK IN PROCESS		
	OPENING	220,379,606	172,868,794
	CLOSING	(227,469,465)	(220,379,606)
		(7,089,859)	(47,510,812)
	COST OF GOODS MANUFACTURED	3,015,854,487	2,450,269,024
	ADJUSTMENT OF FINISHED GOODS		
	OPENING	538,010,735	472,496,892
	PURCHASES	-	56,024,092
	CLOSING	(265,079,159)	(538,010,735)
		272,931,576	(9,489,751)
		3,288,786,063	2,440,779,273

26.1 SALARIES, WAGES AND BENEFITS INCLUDE CONTRIBUTION IN RESPECT OF STAFF RETIREMENT BENEFITS AMOUNTING TO Rs. 21,439,024 (2004; 14,531,265).

NOTES TO THE ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

	NOTE	31 DECEMBER, 05 RUPEES	30 SEPTEMBER, 04 RUPEES	
27	ADMINISTRATIVE AND SELLING EXPENSES			
	SALARIES AND BENEFITS	27.1	97,413,171	52,250,069
	TRAVELLING AND CONVEYANCE INCLUDING CHIEF EXECUTIVE/DIRECTORS ¹			
	TRAVELLING Rs. 22,367,701 (2004:Rs.9,887,430)		54,340,963	16,005,579
	POWER AND FUEL		3,303,763	1,580,446
	REPAIR AND MAINTENANCE		3,581,988	2,514,315
	RENT, RATES AND TAXES		760,014	1,247,250
	INSURANCE		1,764,074	450,145
	FREIGHT AND CLEARING CHARGES		80,684,019	48,598,511
	PRINTING AND STATIONERY		3,449,924	2,114,502
	COMMUNICATIONS		19,112,928	11,295,398
	ADVERTISEMENT AND SALES PROMOTION		4,501,610	6,829,196
	LEGAL AND PROFESSIONAL CHARGES	27.2	6,452,585	2,127,432
	DEPRECIATION	13.3	10,031,523	6,338,324
	AMORTISATION OF TEXTILE QUOTA		23,564,403	22,964,732
	FEES AND SUBSCRIPTION		3,441,908	2,636,288
	OTHERS		8,220,010	8,160,361
			320,622,883	185,112,548
27.1	SALARIES, WAGES AND BENEFITS INCLUDES CONTRIBUTIONS IN RESPECT OF STAFF RETIREMENT BENEFITS AMOUNTING TO Rs. 2,886,353/- (2004: 2,804,677).			
27.2	LEGAL AND PROFESSIONAL CHARGES THE CHARGES FOR PROFESSIONAL SERVICES INCLUDE THE FOLLOWING IN RESPECT OF AUDITOR'S SERVICES FOR:			
	AUDIT		185,000	185,000
	CERTIFICATION AND OTHER SERVICES		161,250	30,000
			346,250	215,000
28	GOVERNMENTS GRANTS			
	THE COMPANY DURING THE PERIOD HAS LODGED CLAIMS AMOUNTING FOR Rs. 53,036,367 AS RESEARCH & DEVELOPMENT REBATE WHICH HAS BEEN TREATED AS GOVERNMENT GRANT IN ACCORDANCE WITH IAS-20, "GOVERNMENT GRANT" ¹ AND IT HAS BEEN DEDUCTED IN REPORTING EXPENSES RELATING TO HIRING THE CONSULTANTS FOR ADOPTION OF NEW TECHNOLOGIES, INNOVATION AND SALES PROMOTION.			
29	OTHER INCOME			
	FINANCIAL ASSETS			
	GAIN ON SALE OF INVESTMENTS		199,442,372	1,192,320
	UNREALISED GAIN ON INVESTMENTS HELD FOR TRADING		35,039,438	6,951,688
	MARK-UP ON TFC'S		29,038,697	-
	DIVIDEND INCOME		38,934,462	-
	OTHERS			
	GAIN ON SALE OF FIXED ASSETS		405,101	266,005
	MISCELLANEOUS		2,992,762	744,411
			305,852,832	9,154,424
30	FINANCE COST			
	INTEREST ON:			
	WORKERS' PROFIT PARTICIPATION FUND		326,582	818,980
	MARK UP ON:			
	LONG TERM FINANCING - SECURED		93,647,624	23,198,011
	SHORT TERM BORROWINGS -SECURED	9.4	176,264,632	74,804,694
	LEASE FINANCE CHARGES		9,724,293	16,644,210
	GUARANTEE COMMISSION AND BANK CHARGES		28,511,524	8,242,486
	LESS: RETURN ON BANK DEPOSITS		(17,966,099)	(710,367)
			290,508,556	122,998,014

THESE INCLUDE MAKR-UP PAID TO RELATED PARTIES TO THE TUNE OF Rs. 6,604,158 (2004: 833,912).

NOTES TO THE ACCOUNTS
FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

	NOTE	31 DECEMBER, 05 RUPEES	30 SEPTEMBER, 04 RUPEES
31 OTHER CHARGES			
LOSS ON DISPOSAL OF FIXED ASSETS		7,066,879	-
DONATIONS	31.1	4,694,172	110,944
PROVISION FOR DIMINUTION IN VALUE OF INVESTMENTS		-	456
		11,761,051	111,400

31.1 RECIPIENTS OF DONATIONS DO NOT INCLUDE ANY DONEE IN WHOM ANY DIRECTOR OR HIS / HER SPOUSE HAS ANY INTEREST.

32 EARNINGS PER SHARE (EPS)

BASIC			
NET PROFIT AFTER TAX ATTRIBUTABLE TO ORDINARY SHAREHOLDERS		644,112,961	373,984,342
		NO. OF SHARES	NO. OF SHARES
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES		86,865,434	86,865,434
		RUPEES	RUPEES
EPS		7.42	4.31
DILUTED			
NET PROFIT AFTER TAX ATTRIBUTABLE TO ORDINARY SHAREHOLDERS		644,112,961	373,984,342
EFFECT OF DILUTIVE POTENTIAL ORDINARY SHARES:			
INTEREST ON CONVERTIBLE TFCs		16,478,929	-
PREFERENCE DIVIDEND		24,295,176	319,498
EARNINGS FOR THE PURPOSES OF DILUTED EARNING PER SHARE		684,887,066	374,303,840
		NO. OF SHARES	NO. OF SHARES
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES FOR BASIC EPS		86,865,434	86,865,434
EFFECT OF DILUTIVE POTENTIAL ORDINARY SHARES:			
CONVERTIBLE TFCs		4,203,110	-
PREFERENCE SHARES		14,767,124	242,747
WEIGHTED AVERAGE NO. OF ORDINARY SHARES FOR THE PURPOSES OF DILUTED EARNING PER SHARE		105,835,668	87,108,181
		RUPEES	RUPEES
EPS		6.47	4.30

33 REMUNERATION OF CHIEF EXECUTIVE AND EXECUTIVES

THE AGGREGATE AMOUNT CHARGED IN THE ACCOUNTS FOR REMUNERATION, INCLUDING ALL BENEFITS, TO THE CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES OF THE COMPANY IS AS FOLLOWS:

	CHIEF EXECUTIVE		DIRECTORS		EXECUTIVES	
	2005 RUPEES	2004 RUPEES	2005 RUPEES	2004 RUPEES	2005 RUPEES	2004 RUPEES
MANAGERIAL REMUNERATION						
BASIC SALARY	2,400,000	1,799,604	3,625,005	1,379,340	8,869,326	6,192,766
HOUSE RENT	960,000	240,000	1,450,050	551,726	3,570,688	2,115,980
UTILITIES	240,000	60,000	362,505	137,938	853,851	564,793
LEAVE ENCASHMENT	-	60,000	-	-	-	19,911
RETIREMENT BENEFITS	102,000	-	-	-	697,790	714,689
BONUS	-	-	-	-	185,396	1,388,518
	3,702,000	2,159,604	5,437,560	2,069,004	14,177,051	10,996,657
NUMBER OF PERSONS	1	1	5	4	11	9

33.1 IN ADDITION TO ABOVE THE CHIEF EXECUTIVE HAS BEEN PROVIDED WITH FREE USE OF THE COMPANY MAINTAINED CAR. NONE (2004: NONE) OF THE DIRECTORS/EXECUTIVES HAVE BEEN PROVIDED WITH THE COMPANY MAINTAINED CARS.

33.2 NO FEE HAS BEEN PAID TO THE DIRECTORS DURING THE YEAR (2004: NIL).

NOTES TO THE ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

	NOTE	31 DECEMBER, 05 RUPEES	30 SEPTEMBER, 04 RUPEES
34	TRANSACTIONS WITH RELATED PARTIES		
	SUBSIDIARIES		
	SALES	13,180,001	118,284,677
	ASSOCIATES		
	RETAINER SHIP FEE	-	1,189,718
	UNDERWRITING FEE	-	26,059,631
	BROKERAGE	4,834,233	230,975
	MARK-UP PAID	6,604,158	833,912
	PURCHASES	48,617,868	-
	MISC. EXPENSES	731,800	445,818

THERE WERE NO RECEIVABLES OR PAYABLES TO RELATED PARTIES OTHER THAN THOSE REFERRED IN NOTES 9.4 AND 20.1.

35	CAPACITY AND PRODUCTION		
	SPINNING		
	NO. OF ROTORS INSTALLED	1,290	1,272
	PLANT CAPACITY ON THE BASIS OF UTILIZATION CONVERTED INTO 6.5s COUNT -Kgs. (BASED ON 3 SHIFTS PER DAY)	9,331,418	6,382,842
	ACTUAL PRODUCTION CONVERTED INTO 6.5s COUNT 35.1 -Kgs.	7,566,724	5,145,768
	NO. OF SPINDLES INSTALLED	40,776	39,024
	PLANT CAPACITY ON THE BASIS OF UTILIZATION CONVERTED INTO 20s COUNT -Kgs. (BASED ON 3 SHIFTS PER DAY)	14,777,085	10,570,050
	ACTUAL PRODUCTION CONVERTED INTO 20s COUNT 34.2 -Kgs.	12,136,950	9,561,801
	WEAVING		
	NO. OF LOOMS INSTALLED	102	93
	ANNUAL RATED CAPACITY ON THE BASIS OF UTILIZATION - AT 38 PICKS -MTRS. (BASED ON 3 SHIFTS PER DAY)	21,433,949	15,222,452
	ACTUAL PRODUCTION - AT 38 PICKS MTRS.	15,951,677	13,871,935
	GARMENTS		
	NO. OF STITCHING MACHINES INSTALLED	537	287
	ANNUAL CAPACITY ON THE BASIS OF UTILIZATION -Pcs. (BASED ON 2 SHIFTS PER DAY)	4,150,000	2,400,000
	ACTUAL PRODUCTION -Pcs.	2,261,959	1,583,414

35.1 REDUCED REQUIREMENT OF OPEN END YARN IN THE FABRIC PRODUCED DURING THE PERIOD RESULTED IN UNDER UTILISATION OF PRODUCTION CAPACITY.

35.2 IT IS DIFFICULT TO DESCRIBE PRECISELY THE PRODUCTION CAPACITY IN THE TEXTILE INDUSTRY SINCE IT FLUCTUATES WIDELY DEPENDING ON VARIOUS FACTORS SUCH AS COUNT OF YARN SPUN, SPINDLES SPEED, TWIST AND RAW MATERIALS USED ETC. IT ALSO VARIES ACCORDING TO THE PATTERN OF PRODUCTION ADOPTED IN PARTICULAR PERIOD.

NOTES TO THE ACCOUNTS
FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

	31 DECEMBER, 05 RUPEES	30 SEPTEMBER, 04 RUPEES
36 CHANGES IN WORKING CAPITAL		
(INCREASE) IN CURRENT ASSETS		
STORES, SPARES AND LOOSE TOOLS	(15,181,662)	(26,830,897)
STOCK IN TRADE	(639,451,220)	(128,952,229)
TRADE DEBTS	(68,771,728)	(408,495,772)
ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (EXCLUDING INCOME TAX)	(186,032,094)	(77,470,517)
(DECREASE)/INCREASE IN CURRENT LIABILITIES		
CREDITORS, ACCRUED AND OTHER LIABILITIES (EXCLUDING ACCRUED FINANCIAL CHARGES)	(28,463,606)	(73,386,416)
	(937,900,310)	(715,135,831)

37 FINANCIAL INSTRUMENTS

37.1 FAIR VALUE IS THE AMOUNT FOR WHICH AN ASSET COULD BE EXCHANGED, OR A LIABILITY SETTLED BETWEEN KNOWLEDGEABLE WILLING PARTIES IN AN ARM'S LENGTH TRANSACTION. AS AT 31 DECEMBER 2005 THE NET FAIR VALUE OF ALL FINANCIAL INSTRUMENTS HAS BEEN BASED ON THE VALUATION METHODOLOGY OUTLINED BELOW:

LONG-TERM DEPOSITS

LONG TERM DEPOSITS DOES NOT CARRY ANY RATE OF RETURN. THEIR FAIR VALUE HAS BEEN TAKEN AT BOOK VALUE AS IT IS NOT CONSIDERED MATERIALLY DIFFERENT AND READILY EXCHANGEABLE.

NON-CURRENT LIABILITIES

FOR ALL NON-CURRENT LIABILITIES THE FAIR VALUES HAVE BEEN TAKEN AT BOOK VALUES AS THESE ARE NOT CONSIDERED MATERIALLY DIFFERENT BASED ON THE CURRENT MARKET RATES OF RETURN AND REPRICING PROFILES OF SIMILAR NON-CURRENT LIABILITIES.

OTHER FINANCIAL INSTRUMENTS

THE FAIR VALUES OF ALL OTHER FINANCIAL INSTRUMENTS ARE CONSIDERED TO APPROXIMATE THEIR BOOK VALUES AS THEY ARE SHORT TERM IN NATURE.

37.2 FINANCIAL ASSETS AND LIABILITIES

	INTEREST/ MARK-UP RATES RANGE % PER ANNUM	INTEREST / MARK-UP BEARING			NON INTEREST / MARK-UP BEARING			TOTAL
		MATURITY UPTO ONE YEAR	MATURITY AFTER ONE YEAR	SUB-TOTAL	MATURITY UPTO ONE YEAR	MATURITY AFTER ONE YEAR	SUB-TOTAL	
(R U P E E S)								
FINANCIAL ASSETS:								
LONG TERM INVESTMENTS	6 MONTH KIBOR -2.5% TO 3.75%	9,637,121	88,847,424	98,484,545	-	4,670,138	4,670,138	103,154,683
LONG TERM DEPOSITS				-	29,745,135	29,745,135	29,745,135	29,745,135
TRADE DEBTORS				-	1,013,883,584	1,013,883,584	1,013,883,584	1,013,883,584
DERIVATIVE FINANCIAL INSTRUMENT					13,458,916	13,458,916	13,458,916	13,458,916
ADVANCES, DEPOSITS AND OTHER RECEIVABLES				-	79,687,323	79,687,323	79,687,323	79,687,323
SHORT TERM INVESTMENTS	2.60% TO 9.00%	454,124,227		454,124,227	216,802,823	216,802,823	670,927,050	670,927,050
CASH AND BANK BALANCES	1% TO 3.5%	10,028,160		10,028,160	35,614,198	35,614,198	45,642,358	45,642,358
2005		473,789,508	88,847,424	562,636,932	1,359,446,844	34,415,273	1,393,862,117	1,956,499,049
2004		8,787,582	-	8,787,582	1,121,657,091	2,666,296	1,124,323,387	1,133,110,969
FINANCIAL LIABILITIES:								
PREFERENCE SHARE	8.95%	-	868,654,340	868,654,340				868,654,340
LONG TERM FINANCING	5.00% TO 12.65%	365,437,468	2,678,232,532	3,043,670,000				3,043,670,000
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE	5.50% TO 16.50%	68,343,306	40,173,972	108,517,278				108,517,278
LONG TERM DEPOSITS AND PAYABLES					2,907,643	2,907,643	2,907,643	2,907,643
SHORT TERM BORROWINGS	3.20% TO 11.20%			-	3,142,402,324	3,142,402,324	3,142,402,324	3,142,402,324
CREDITORS, ACCRUED AND OTHER LIABILITIES	8.64%	24,509,700	-	24,509,700	767,131,472	767,131,472	791,641,172	791,641,172
UNCLAIMED DIVIDEND				-	362,062	362,062	362,062	362,062
2005		458,290,474	3,587,060,844	4,045,351,318	3,912,803,501	-	3,912,803,501	7,958,154,819
2004		363,081,881	866,503,819	1,229,585,700	2,095,474,103	-	2,095,474,103	3,325,059,803
OFF BALANCE SHEET ITEMS:								
COMMITMENTS		-	-	-	603,890,777	-	603,890,777	603,890,777
GUARANTEE		-	-	-	24,000,000	-	24,000,000	24,000,000
2005		-	-	-	627,890,777	-	627,890,777	627,890,777
2004		-	-	-	300,102,000	-	300,102,000	300,102,000

NOTES TO THE ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

37.3 FOREIGN EXCHANGE RISK MANAGEMENT

FOREIGN CURRENCY RISK ARISES MAINLY WHERE RECEIVABLES AND PAYABLES EXISTS DUE TO TRANSACTIONS ENTERED INTO FOREIGN CURRENCY. THE COMPANY INCURS FOREIGN CURRENCY RISK ON SALES, PURCHASES AND BORROWINGS THAT ARE ENTERED IN A CURRENCY OTHER THAN PAK RUPEES. THE COMPANY ENTERS INTO FORWARD CONTRACTS TO GUARD AGAINST EXCHANGE FLUCTUATION AND AS SUCH EXPOSURE TO FOREIGN EXCHANGE RISK IS MINIMAL.

37.4 CONCENTRATION OF CREDIT RISK

CREDIT RISK REPRESENTS THE ACCOUNTING LOSS THAT WOULD BE RECOGNISED AT THE REPORTING DATE IF COUNTER PARTIES FAILED COMPLETELY TO PERFORM AS CONTRACTED. TO REDUCE EXPOSURE TO CREDIT RISK, THE COMPANY HAS DEVELOPED FORMAL APPROVAL PROCESS WHEREBY CREDIT LIMITS ARE APPLIED TO CUSTOMERS. THE MANAGEMENT ALSO CONTINUOUSLY MONITORS THE CREDIT EXPOSURE TOWARD THE CUSTOMERS AND MAKE PROVISIONS AGAINST THESE BALANCES CONSIDERED DOUBTFUL OF RECOVERY. OUT OF TOTAL FINANCIAL ASSETS OF Rs. 1,956 MILLION (2004: 1,133 MILLION), THE FINANCIAL ASSETS WHICH ARE SUBJECT TO CREDIT RISK AGGREGATED Rs. 521.00 MILLION (2004:Rs.423.00 MILLION). THE COMPANY BELIEVES THAT IT IS NOT EXPOSED TO MAJOR CONCENTRATION OF CREDIT RISK.

37.5 INTEREST RISK MANAGEMENT

INTEREST RATE RISK REPRESENTS THE VALUE OF A FINANCIAL INSTRUMENT WHICH WILL FLUCTUATE DUE TO CHANGES IN MARKET INTEREST RATE. SINCE THE COMPANY BORROWS MOST OF THE FUNDS AT FIXED INTEREST RATE OR INTEREST RATE SWAP CONTRACTS ARE ENTERED INTO TO HEDGE ANY MOVEMENT IN INTEREST RATES, THE COMPANIES EXPOSURE TO INTEREST RATE RISK IS MINIMAL.

37.6 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

THE CARRYING VALUES OF ALL FINANCIAL ASSETS AND LIABILITIES REFLECTED IN THE FINANCIAL STATEMENTS APPROXIMATE TO THEIR FAIR VALUES.

38 NUMBER OF EMPLOYEES

NUMBER OF PERMANENT EMPLOYEES AS AT DECEMBER 31, 2005 WAS 5,605 (2004: 4,513).

39 DIVIDEND

DIRECTORS HAVE PROPOSED 15% CASH DIVIDEND I.E. Rs. 1.5 PER ORDINARY SHARE TO BE APPROVED BY THE SHAREHOLDERS IN ENSUING ANNUAL GENERAL MEETING TO BE HELD ON 28 APRIL 2006. TOTAL AMOUNT OF CASH DIVIDEND TO BE PAID Rs.130,298,151 WHICH HAS NOT BEEN ACCOUNTED FOR AS LIABILITY IN THESE FINANCIAL STATEMENTS.

40 DATE OF AUTHORISATION FOR ISSUE

THESE FINANCIAL STATEMENTS WERE AUTHORISED FOR ISSUE ON 28 MARCH 2006 BY THE BOARD OF DIRECTORS OF THE COMPANY.

41 FIGURES

- COMPARATIVE FIGURES HAVE BEEN REARRANGED, WHERE EVER NECESSARY, FOR THE PURPOSE OF COMPARISON. RETURN ON BANK DEPOSITS WHICH WAS PREVIOUSLY GROUPED UNDER OTHER INCOME HAS NOW BEEN ADJUSTED AGAINST FINANCE COST AS A MATTER OF PRUDENCE.
- FIGURES IN THE ACCOUNTS HAVE BEEN ROUNDED OFF NEAREST TO RUPEE.

CHIEF EXECUTIVE

DIRECTOR

CONSOLIDATED FINANCIAL STATEMENTS

AUDITORS' REPORT TO THE MEMBERS

WE HAVE AUDITED THE ANNEXED CONSOLIDATED FINANCIAL STATEMENTS COMPRISING CONSOLIDATED BALANCE SHEET OF AZGARD NINE LIMITED, THE HOLDING COMPANY, AND ITS SUBSIDIARY COMPANIES AS AT 31 DECEMBER 2005 AND THE RELATED CONSOLIDATED PROFIT AND LOSS ACCOUNT, CONSOLIDATED CASH FLOW STATEMENT AND CONSOLIDATED STATEMENT OF CHANGES IN EQUITY TOGETHER WITH THE NOTES FORMING PART THEREOF, FOR THE FIFTEEN MONTHS THEN ENDED. WE HAVE ALSO EXPRESSED SEPARATE OPINION ON THE FINANCIAL STATEMENTS FOR THE SAME PERIOD OF AZGARD NINE LIMITED. THE FINANCIAL STATEMENTS OF FOREIGN SUBSIDIARY NAFEEES INTERNATIONAL TEKSTIL SANAYS VE TICARET ANONIM SIRKET ARE UNAUDITED FOR THE THREE MONTHS 1ST OCTOBER 2004 TO 31 DECEMBER 2004 WHEREAS FOR THE YEAR ENDED 31 DECEMBER 2005 HAVE BEEN AUDITED BY ANOTHER AUDITOR AND THE FINANCIAL STATEMENTS OF PAKISTANI SUBSIDIARY AZSOFT (PVT) LIMITED FOR THE PERIOD 05 OCTOBER 2004 TO 31 DECEMBER 2005 HAVE BEEN AUDITED BY ANOTHER FIRM OF CHARTERED ACCOUNTANTS, WHOSE REPORTS HAVE BEEN FURNISHED TO US BY THE MANAGEMENT AND OUR OPINION, IN SO FAR AS IT RELATES TO THE AMOUNTS INCLUDED FOR SUCH COMPANIES, IS BASED SOLELY ON THE REPORTS OF SUCH OTHER AUDITORS. THESE FINANCIAL STATEMENTS ARE THE RESPONSIBILITY OF THE HOLDING COMPANY'S MANAGEMENT. OUR RESPONSIBILITY IS TO EXPRESS AN OPINION ON THESE FINANCIAL STATEMENTS BASED ON OUR AUDIT.

OUR AUDIT WAS CONDUCTED IN ACCORDANCE WITH THE INTERNATIONAL STANDARDS ON AUDITING AND ACCORDINGLY INCLUDED SUCH TESTS OF ACCOUNTING RECORDS AND SUCH OTHER AUDITING PROCEDURES AS WE CONSIDERED NECESSARY IN THE CIRCUMSTANCES.

IN OUR OPINION, THE CONSOLIDATED FINANCIAL STATEMENTS SUBJECT TO ANY ADJUSTMENTS THAT MAY HAVE BEEN REQUIRED ON AUDIT OF THE FINANCIAL STATEMENTS FOR THE THREE MONTHS OF THE FOREIGN SUBSIDIARY PRESENT FAIRLY THE FINANCIAL POSITION OF AZGARD NINE LIMITED AND ITS SUBSIDIARY COMPANIES AS AT 31 DECEMBER 2005 AND THE RESULTS OF THEIR OPERATIONS FOR THE PERIOD THEN ENDED.

THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2004 WERE AUDITED BY ANOTHER FIRM OF CHARTERED ACCOUNTANTS WHOSE REPORT DATED 28 DECEMBER 2004 EXPRESSED A MODIFIED OPINION REGARDING CHANGES IN ACCOUNTING POLICIES.

LAHORE
MARCH 28, 2006

RAHMAN SARFRAZ & CO.
CHARTERED ACCOUNTANTS

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2005

	NOTE	31 DECEMBER, 2005 RUPEES	30 SEPTEMBER 2004 RUPEES
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
SHARE CAPITAL	3	1,737,308,680	1,737,308,680
RESERVES	4	403,359,347	362,142,241
UNAPPROPRIATED PROFIT		953,107,592	412,399,663
		3,093,775,619	2,511,850,584
MINORITY INTEREST		1,759,518	2,742,560
SURPLUS ON REVALUATION OF FIXED ASSETS	5	278,943,671	306,564,511
NON-CURRENT LIABILITIES			
LONG TERM FINANCING - SECURED LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE	6	2,678,232,532	750,000,000
	7	40,173,972	116,503,819
LONG TERM DEPOSITS	8	2,907,643	1,147,729
CURRENT LIABILITIES			
CURRENT PORTION OF:			
LONG TERM FINANCING - SECURED LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE	6	365,437,468	300,000,000
	7	68,343,306	63,081,881
SHORT TERM BORROWINGS	9	3,142,402,324	1,492,909,892
CREDITORS, ACCRUED AND OTHER LIABILITIES	10	831,880,184	701,845,741
PROVISION FOR TAXATION	11	79,684,435	64,824,871
UNCLAIMED DIVIDENDS		362,062	95,414
CONTINGENCIES AND COMMITMENTS	12	4,488,109,779	2,622,757,799
		10,583,902,734	6,311,567,002

THE ANNEXED NOTES FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CHIEF EXECUTIVE

	NOTE	31 DECEMBER, 2005 RUPEES	30 SEPTEMBER 2004 RUPEES
ASSETS			
NON-CURRENT ASSETS			
OPERATING FIXED ASSETS	13	3,114,554,527	2,847,936,402
CAPITAL WORK IN PROGRESS	14	2,479,903,660	89,759,126
		5,594,458,187	2,937,695,528
INTANGIBLE ASSETS	15	73,937,276	88,375,589
LONG TERM INVESTMENTS	16	89,868,842	1,015,576
LONG TERM DEPOSITS	17	29,745,135	18,517,830
CURRENT ASSETS			
STORES, SPARES AND LOOSE TOOLS	18	87,790,355	72,608,693
STOCK IN TRADE	19	2,035,875,069	1,425,586,819
TRADE DEBTS	20	1,034,669,395	924,208,356
DERIVATIVE FINANCIAL INSTRUMENT	21	13,458,916	-
ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES	22	897,252,727	713,461,070
CURRENT MATURITY OF LONG TERM INVESTMENTS	16.2	9,637,121	-
SHORT TERM INVESTMENTS	23	670,927,050	109,148,931
CASH AND BANK BALANCES	24	46,282,661	20,948,610
		4,795,893,294	3,265,962,479
		10,583,902,734	6,311,567,002

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

	NOTE	01 OCTOBER, 04 TO 31 DECEMBER, 2005 RUPEES	01 OCTOBER, 03 TO 30 SEPTEMBER 2004 RUPEES
SALES - NET	25	4,460,828,929	3,160,780,433
COST OF SALES	26	3,322,348,339	2,440,779,273
GROSS PROFIT		1,138,480,590	720,001,160
ADMINISTRATIVE AND SELLING EXPENSES	27	327,483,372	186,565,495
OPERATING PROFIT		810,997,218	533,435,665
OTHER INCOME	29	305,852,832	9,154,424
OTHER CHARGES		1,116,850,050	542,590,089
FINANCE COST	30	290,509,378	122,998,014
WORKERS' PROFIT PARTICIPATION FUND	10.1	24,509,700	20,803,281
OTHERS	31	11,761,051	111,400
		326,780,129	143,912,695
PROFIT BEFORE TAXATION		790,069,921	398,677,394
PROVISION FOR TAXATION	11.1	50,857,877	20,000,000
PROFIT AFTER TAXATION		739,212,044	378,677,394
MINORITY INTEREST		(985,042)	1,673,378
PROFIT ATTRIBUTABLE TO HOLDING COMPANY		740,197,086	377,004,016
EARNINGS PER SHARE - BASIC	32	7.40	4.33
- DILUTED		6.46	4.32

THE ANNEXED NOTES FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CHIEF EXECUTIVE

DIRECTOR

CONSOLIDATED CASH FLOW STATEMENT

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

	NOTE	01 OCTOBER, 04 TO 31 DECEMBER, 2005 RUPEES	01 OCTOBER, 03 TO 30 SEPTEMBER 2004 RUPEES
CASH FLOW FROM OPERATING ACTIVITIES			
PROFIT BEFORE TAXATION		790,069,921	398,677,394
ADJUSTMENT FOR:			
DEPRECIATION		264,284,035	170,505,791
AMORTIZATION OF INTANGIBLE ASSETS		40,530,337	22,964,732
GAIN ON SALE OF INVESTMENTS		(199,442,372)	(1,192,320)
UNREALISED GAIN ON INVESTMENTS		(35,039,438)	(6,951,688)
(GAIN)/LOSS ON DISPOSAL OF FIXED ASSETS		6,661,778	(266,005)
DIVIDEND INCOME		(38,934,462)	-
EXCHANGE ADJUSTMENTS		27,878	-
GRATUITY - NET		-	(25,512,837)
INTEREST INCOME		(17,966,099)	(710,367)
FINANCE COST		308,475,477	123,708,381
		328,597,134	282,545,687
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES		1,118,667,055	681,223,081
CHANGES IN WORKING CAPITAL	36	(920,807,188)	(714,693,989)
CASH FLOW FROM OPERATIONS		197,859,867	(33,470,908)
FINANCE COST PAID		(180,351,891)	(106,270,614)
EXPENSES ON ISSUANCE OF COMPANY'S SECURITIES		(34,775,530)	(37,241,757)
LONG TERM DEPOSITS		(11,227,305)	(14,868,110)
LONG TERM DEPOSITS PAYABLE		1,759,914	(5,240,773)
TAXES PAID		(57,920,459)	(25,275,947)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		(84,655,404)	(222,368,109)
CASH FLOW FROM INVESTING ACTIVITIES			
FIXED CAPITAL EXPENDITURE		(2,933,361,297)	(775,461,104)
INTANGIBLE ASSETS		(1,174,441)	(111,788,860)
SALE PROCEEDS OF FIXED ASSETS		5,652,825	1,278,805
LONG TERM INVESTMENTS		(98,484,545)	(9,544)
INFLOW FROM MINORITY ON FORMATION OF NEW SUBSIDIARY		2,000	-
DIVIDEND INCOME		38,934,462	-
INTEREST RECEIVED		17,966,099	710,367
SHORT TERM INVESTMENTS		(327,296,309)	(101,004,923)
NET CASH USED IN INVESTING ACTIVITIES		(3,297,761,206)	(986,275,259)
CASH INFLOW FROM FINANCING ACTIVITIES			
PREFERENCE SHARES ISSUED		-	868,654,340
LONG TERM FINANCING OBTAINED		2,143,670,000	650,000,000
REPAYMENT OF LONG TERM LOANS		(150,000,000)	(350,000,000)
DIVIDEND PAID		(164,343,349)	(269)
SHORT TERM FINANCES- NET		1,649,492,432	64,253,791
FINANCE LEASE LIABILITIES PAID		(71,068,422)	(24,917,634)
NET CASH IN FLOW FROM FINANCING ACTIVITIES		3,407,750,661	1,207,990,228
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		25,334,051	(653,140)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		20,948,610	21,601,750
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		46,282,661	20,948,610

THE ANNEXED NOTES FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CHIEF EXECUTIVE

DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

	RESERVES						UNAPPROPRIATED PROFIT / (ACCUMULATED LOSS)	TOTAL EQUITY	SURPLUS ON REVALUATION OF FIXED ASSETS	
	SHARE CAPITAL ISSUED, SUBSCRIBED AND PAID-UP	SHARE PREMIUM	HEDGING RESERVE	EXCHANGE DIFFERENCE ON TRANSLATION OF FOREIGN SUBSIDIARY	RESERVE ON MERGER	PREFERENCE SHARE REDEMPTION RESERVE				SURPLUS ON REVALUATION OF INVESTMENTS
R U P E E S										
BALANCE AS AT SEPTEMBER 30, 2003	868,654,340	143,675,125	-	-	105,152,005	-	2,215,724	251,042,854	1,281,407,828	330,249,524
PROFIT FOR THE YEAR	-	-	-	-	-	-	-	-	377,004,016	-
PREFERENCE SHARES ISSUED	868,654,340	-	-	-	-	-	-	-	-	868,654,340
SURPLUS ON REVALUATION OF FIXED ASSETS TRANSFERRED TO RETAINED EARNINGS DURING THE YEAR	-	-	-	-	-	-	-	-	-	-
PREFERENCE SHARES REDEMPTION RESERVE	-	-	-	-	-	150,000,000	-	150,000,000	(150,000,000)	(23,685,013)
EXPENSES INCURRED ON ISSUE OF COMPANY'S SECURITIES	-	(37,241,757)	-	-	-	-	-	(37,241,757)	(37,241,757)	-
REVALUATION OF INVESTMENTS	-	-	-	-	-	(1,658,856)	(1,658,856)	(1,658,856)	(1,658,856)	-
BALANCE AS AT SEPTEMBER 30, 2004	1,737,308,680	106,433,368	-	-	105,152,005	150,000,000	556,868	362,142,241	412,399,663	2,511,850,584
PROFIT FOR THE PERIOD	-	-	-	-	-	-	-	-	740,197,086	740,197,086
SURPLUS ON REVALUATION OF FIXED ASSETS TRANSFERRED TO RETAINED EARNINGS DURING THE PERIOD	-	-	-	-	-	-	-	-	27,392,552	27,392,552
- RELATING TO INCREMENTAL DEPRECIATION	-	-	-	-	-	-	-	-	-	(27,392,552)
- DISPOSAL OF REVALUED PLANT & MACHINERY	-	-	-	-	-	-	-	-	-	(228,288)
PREFERENCE SHARES REDEMPTION RESERVE	-	(34,775,530)	-	-	-	62,500,000	-	62,500,000	(62,500,000)	228,288
EXPENSES INCURRED ON ISSUE OF COMPANY'S SECURITIES	-	-	-	-	-	-	-	(34,775,530)	(34,775,530)	-
ORDINARY SHARE DIVIDEND	-	-	-	-	-	-	-	-	(86,865,434)	(86,865,434)
PREFERENCE SHARE DIVIDEND	-	-	-	-	-	-	-	-	(77,744,563)	(77,744,563)
INCREASE IN FAIR VALUE OF INTEREST RATE SWAP CONTRACTS	-	-	13,458,916	-	-	-	5,842	13,458,916	13,458,916	-
REVALUATION OF INVESTMENTS	-	-	-	-	-	-	5,842	5,842	5,842	-
EXCHANGE ADJUSTMENTS	-	-	-	27,878	-	-	-	27,878	27,878	-
BALANCE AS AT DECEMBER 31, 2005	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

THE ANNEXED NOTES FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CHIEF EXECUTIVE

DIRECTOR

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

1 STATUS AND ACTIVITIES

THE GROUP COMPRISES THE FOLLOWING COMPANIES AND BUSINESSES:

HOLDING COMPANY

AZGARD NINE LTD. 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. THE REGISTERED OFFICE OF THE COMPANY IS SITUATED AT ISMAIL AIWAN-E-SCIENCE, OFF SHAHRAH-E-ROOMI, LAHORE.

SUBSIDIARY COMPANIES

NAFEES INTERNATIONAL TEKSTIL SANAYS VE TICARET ANONIM SIRKET, REPRESENTING SALE OF DENIM AND DENIM PRODUCTS. THE COMPANY WAS INCORPORATED IN TURKEY AND PRINCIPAL ACTIVITY OF THE COMPANY IS SALE OF DENIM AND DENIM PRODUCTS. PROPORTION OF OWNERSHIP INTEREST HELD BY HOLDING COMPANY IS 51 %.

AZSOFT (PVT) LTD., REPRESENTING A SOFTWARE BUSINESS. THE COMPANY WAS INCORPORATED IN PAKISTAN AND PRINCIPAL ACTIVITY OF THE COMPANY IS DEVELOPMENT, IMPLEMENTATION AND SALE OF SOFTWARE PRODUCTS AND PROVIDING RELATED SERVICES. PROPORTION OF OWNERSHIP INTEREST HELD BY HOLDING COMPANY IS 99.90 %.

1.1 CHANGE IN FINANCIAL YEAR

THE HOLDING COMPANY HAS BEEN ACCORDED APPROVAL BY COMMISSIONER OF INCOME TAX TO ADOPT CALENDAR YEAR AS FINANCIAL YEAR WITH EFFECT FROM JANUARY 01, 2006 AND ALSO OBTAINED SPECIAL PERMISSION FROM SECP TO PREPARE FINANCIAL STATEMENTS EXCEEDING TWELVE MONTHS. AS SUCH THESE FINANCIAL STATEMENTS ARE PREPARED FOR FIFTEEN MONTHS AND CORRESPONDING FIGURES OF PROFIT AND LOSS ACCOUNT, CASH FLOW STATEMENT, STATEMENT OF CHANGES IN EQUITY AND THE RELATED NOTES ARE FOR ONE YEAR.

2 SIGNIFICANT ACCOUNTING POLICIES

2.1 STATEMENT OF COMPLIANCE

THESE FINANCIAL STATEMENTS HAVE BEEN PREPARED IN ACCORDANCE WITH THE APPROVED ACCOUNTING STANDARDS AS APPLICABLE IN PAKISTAN AND THE REQUIREMENTS OF COMPANIES ORDINANCE, 1984 (THE ORDINANCE). APPROVED ACCOUNTING STANDARDS COMPRISE OF SUCH INTERNATIONAL ACCOUNTING STANDARDS AS NOTIFIED UNDER THE PROVISIONS OF THE ORDINANCE. WHERE THE REQUIREMENTS OF THE ORDINANCE OR DIRECTIVES ISSUED BY THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN DIFFER WITH THE REQUIREMENTS OF THESE STANDARDS, THE REQUIREMENTS OF THE ORDINANCE OR THE SAID DIRECTIVES TAKE PRECEDENCE.

2.2 ACCOUNTING CONVENTION

THESE ACCOUNTS HAVE BEEN PREPARED UNDER THE HISTORICAL COST CONVENTION EXCEPT AS STATED IN NOTES 2.6, 2.13 AND 2.14 RELATING TO CERTAIN FIXED ASSETS THAT HAVE BEEN INCLUDED AT REVALUED AMOUNTS, MONETARY ASSETS AND LIABILITIES IN FOREIGN CURRENCIES WHICH HAVE BEEN TRANSLATED AND CERTAIN FINANCIAL INSTRUMENTS WHICH ARE STATED AT FAIR VALUE.

2.3 BASIS OF CONSOLIDATION

THE CONSOLIDATED FINANCIAL STATEMENTS INCLUDE THE ACCOUNTS OF AZGARD NINE LIMITED AND ITS SUBSIDIARIES, FOREIGN AND LOCAL.

SUBSIDIARIES ARE THOSE ENTERPRISES IN WHICH PARENT COMPANY DIRECTLY OR INDIRECTLY CONTROLS, BENEFICIALLY OWNS OR HOLDS MORE THAN 50 PERCENT OF THE VOTING SECURITIES OR OTHERWISE HAS POWER TO ELECT AND APPOINT MORE THAN 50% OF ITS DIRECTORS. THE FINANCIAL STATEMENTS OF THE SUBSIDIARIES ARE INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS FROM THE DATE CONTROL COMMENCES UNTIL THE DATE THAT CONTROL CEASES. THE FINANCIAL STATEMENTS OF SUBSIDIARY COMPANIES HAVE BEEN CONSOLIDATED ON A LINE BY LINE BASIS.

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

ALL INTER-COMPANY BALANCES, TRANSACTIONS AND RESULTING UNREALISED PROFITS/LOSSES HAVE BEEN ELIMINATED.

MINORITY INTERESTS ARE THAT PART OF THE NET RESULTS OF THE OPERATION AND NET ASSETS OF THE SUBSIDIARY ATTRIBUTABLE TO INTERESTS WHICH ARE NOT OWNED BY THE PARENT COMPANY. MINORITY INTEREST IS PRESENTED AS A SEPARATE ITEM IN THE CONSOLIDATED FINANCIAL STATEMENTS.

CORRESPONDING FIGURES IN THE CONSOLIDATED FINANCIAL STATEMENTS ARE RELATED TO HOLDING COMPANY AND ITS FOREIGN SUBSIDIARY BECAUSE THE LOCAL SUBSIDIARY WAS ACQUIRED DURING THE PERIOD.

2.4 STAFF RETIREMENT BENEFITS

THE HOLDING COMPANY OPERATED AN UNFUNDED GRATUITY SCHEME AND REPLACED IT WITH PROVIDENT FUND LAST YEAR. CURRENTLY THE HOLDING COMPANY OPERATES AN APPROVED DEFINED CONTRIBUTORY PROVIDENT FUND FOR ITS EMPLOYEES. EQUAL CONTRIBUTIONS ARE MADE BY EMPLOYEE AND THE HOLDING COMPANY @ 8.5 % PER MONTH OF THE BASIC PAY. INTEREST IS CHARGED @8.25% ON THE OUTSTANDING FUND BALANCE AND IS CHARGED TO PROFIT AND LOSS ACCOUNT.

2.5 TAXATION

CURRENT

INCOME TAX EXPENSE REPRESENTS THE SUM OF CURRENT TAX PAYABLE, AND ADJUSTMENTS, IF ANY, TO PROVISION FOR TAX MADE IN PRIOR YEARS ARISING FROM ASSESSMENTS COMPLETED DURING THE PERIOD FOR SUCH YEARS.

DEFERRED

DEFERRED TAX IS PROVIDED USING THE LIABILITY METHOD ON ALL TEMPORARY TIMING DIFFERENCES AT THE BALANCE SHEET DATE BETWEEN THE TAX BASE OF ASSETS AND LIABILITIES AND THEIR CARRYING AMOUNTS FOR FINANCIAL STATEMENTS' REPORTING PURPOSES TAKING INTO CONSIDERATION THE IMPLICATIONS OF TAXES PAYABLE UNDER PRESUMPTIVE TAX REGIME, IF ANY.

DEFERRED TAX ASSETS ARE RECOGNISED ONLY TO THE EXTENT THAT IT IS PROBABLE THAT FUTURE TAXABLE PROFITS WILL BE AVAILABLE AGAINST WHICH THESE ASSETS CAN BE UTILISED.

2.6 OPERATING FIXED ASSETS, DEPRECIATION AND CAPITAL WORK IN PROGRESS

OPERATING FIXED ASSETS, EXCEPT FREEHOLD LAND, ARE STATED AT COST OR REVALUED AMOUNTS LESS ACCUMULATED DEPRECIATION. FREEHOLD LAND IS STATED AT REVALUED AMOUNT.

DEPRECIATION IS CHARGED TO INCOME FOR THE PERIOD APPLYING THE REDUCING BALANCE METHOD. AMOUNT EQUAL TO INCREMENTAL DEPRECIATION CHARGED DURING THE PERIOD ON REVALUED AMOUNT OF ASSETS IS TRANSFERRED FROM SURPLUS ON REVALUATION OF FIXED ASSETS TO UNAPPROPRIATED PROFIT/ACCUMULATED LOSS THROUGH STATEMENT OF CHANGES IN EQUITY. THE ADJUSTMENTS MADE IN THIS CONTEXT AND THE AMOUNTS INVOLVED HAVE BEEN DISCLOSED IN NOTE 5 (SURPLUS ON REVALUATION OF FIXED ASSETS).

THE USEFUL LIFE AND DEPRECIATION METHOD ARE REVIEWED PERIODICALLY TO ENSURE THAT THE METHOD AND PERIOD OF DEPRECIATION ARE CONSISTENT WITH THE EXPECTED PATTERN OF ECONOMIC BENEFITS FROM ITEMS OF FIXED ASSETS. RATES OF DEPRECIATION ARE STATED IN NOTE 13. NO DEPRECIATION IS PROVIDED ON ASSETS DISPOSED OF DURING THE PERIOD. ADDITIONS OR EXTENSIONS TO PRODUCTION FACILITIES ARE DEPRECIATED FROM THE MONTH THE ASSETS ARE PUT IN USE.

GAIN OR LOSS ON DISPOSAL OF OPERATING FIXED ASSETS IS INCLUDED IN CURRENT PERIOD INCOME. NORMAL MAINTENANCE AND REPAIRS ARE CHARGED TO CURRENT PERIOD INCOME AS AND WHEN INCURRED. MAJOR RENEWALS, IMPROVEMENTS AND REPLACEMENTS ARE CAPITALISED AND ASSETS SO REPLACED, IF NOT KEPT AS STAND BY, ARE RETIRED.

CAPITAL WORK IN PROGRESS AND STORES HELD FOR CAPITAL EXPENDITURE ARE STATED AT COST AND REPRESENTS EXPENDITURE INCURRED ON PROPERTY, PLANT AND EQUIPMENT DURING

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

THE CONSTRUCTION AND INSTALLATION. COST ALSO INCLUDES APPLICABLE BORROWING COSTS. TRANSFERS ARE MADE TO RELEVANT PROPERTY, PLANT AND EQUIPMENT CATEGORY AS AND WHEN ASSETS ARE AVAILABLE FOR USE.

2.7 ACCOUNTING FOR FINANCE LEASE

LEASES ARE CLASSIFIED AS FINANCE LEASES WHENEVER THE TERMS OF THE LEASE TRANSFER SUBSTANTIALLY ALL THE RISKS AND REWARDS OF OWNERSHIP TO THE LESSEE. THE ASSETS SUBJECT TO FINANCE LEASE RECOGNISED AS ASSETS OF THE COMPANY AT LOWER OF PRESENT VALUE OF MINIMUM LEASE PAYMENTS, EACH DETERMINED AT THE INCEPTION OF THE LEASE AND THE FAIR VALUE OF THE LEASED ASSETS AT THE DATE OF ACQUISITION. THESE ARE STATED AT COST LESS ACCUMULATED DEPRECIATION.

DEPRECIATION IS CHARGED AT THE RATE SPECIFIED IN NOTE 13, TO WRITE OFF THE ASSETS OVER THE ESTIMATED USEFUL LIFE IN VIEW OF THE CERTAINTY OF THE OWNERSHIP OF THE ASSETS AT THE END OF LEASE PERIOD. THE CORRESPONDING LIABILITIES TO THE LESSOR ARE INCLUDED IN THE BALANCE SHEET AS LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE. LEASE PAYMENTS ARE APPORTIONED BETWEEN FINANCE CHARGES AND REDUCTION OF THE LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE SO AS TO ACHIEVE A CONSTANT RATE OF INTEREST ON THE REMAINING BALANCE OF THE LIABILITY. FINANCE CHARGES ARE CHARGED DIRECTLY AGAINST INCOME UNLESS THESE ARE DIRECTLY ATTRIBUTABLE TO QUALIFYING ASSETS, IN WHICH CASE THESE ARE CAPITALISED IN ACCORDANCE WITH THE HOLDING COMPANY'S GENERAL POLICY ON BORROWING COSTS.

2.8 BORROWING COSTS

BORROWING COSTS DIRECTLY ATTRIBUTABLE TO THE ACQUISITION, CONSTRUCTION OR PRODUCTION OF QUALIFYING ASSETS, WHICH ARE ASSETS THAT NECESSARILY TAKE A SUBSTANTIAL PERIOD OF TIME TO GET READY FOR THEIR INTENDED USE OR SALE, ARE ADDED TO THE COST OF THOSE ASSETS UNTIL SUCH TIME AS THE ASSETS ARE SUBSTANTIALLY READY FOR THEIR INTENDED USE OR SALE.

ALL OTHER BORROWING COSTS ARE RECOGNIZED AS AN EXPENSE IN THE PERIOD IN WHICH THESE ARE INCURRED.

2.9 INTANGIBLE ASSETS

2.9.1 RESEARCH AND DEVELOPMENT

EXPENDITURE ON RESEARCH ACTIVITIES IS RECOGNISED AS AN EXPENSE IN THE PERIOD IN WHICH IT IS INCURRED. COSTS INCURRED ON DEVELOPMENT PROJECTS (RELATING TO DESIGN AND TESTING OF NEW OR IMPROVED PRODUCTS) ARE RECOGNISED AS INTANGIBLE ASSETS ONLY IF ALL OF THE FOLLOWING CONDITIONS ARE MET;

- AN ASSET IS CREATED THAT CAN BE IDENTIFIED
- IT IS PROBABLE THAT THE ASSET CREATED WILL GENERATE FUTURE ECONOMIC BENEFITS; AND
- THE DEVELOPMENT COST OF THE ASSET CAN BE MEASURED RELIABLY.

ALL OTHER DEVELOPMENT EXPENDITURES ARE RECOGNISED AS AN EXPENSE WHEN INCURRED. DEVELOPMENT COSTS PREVIOUSLY RECOGNISED AS AN EXPENSE ARE NOT RECOGNISED AS AN ASSET IN THE SUBSEQUENT PERIOD. DEVELOPMENT COSTS THAT HAVE BEEN CAPITALIZED ARE AMORTIZED FROM THE COMMENCEMENT OF THE COMMERCIAL PRODUCTION OF THE PRODUCT ON A STRAIGHT LINE BASIS OVER THE PERIOD OF ITS EXPECTED BENEFITS. THE AMORTIZATION PERIOD ADOPTED DOES NOT EXCEED FIVE YEARS.

2.9.2 OTHERS

OTHER INTANGIBLE ASSETS ARE AMORTISED OVER THE PERIOD OF THEIR EXPECTED BENEFITS. THE AMORTISATION PERIOD ADOPTED DOES NOT EXCEED FIVE YEARS.

2.10 INVESTMENTS

ALL INVESTMENTS ARE INITIALLY RECOGNIZED AT COST, BEING FAIR VALUE OF THE CONSIDERATION

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

GIVEN AND INCLUDING ACQUISITION CHARGES ASSOCIATED WITH INVESTMENTS AND CLASSIFIED AS WHETHER HELD TO MATURITY, HELD FOR TRADING OR AVAILABLE FOR SALE.

SUBSEQUENT TO INITIAL RECOGNITION, INVESTMENTS WHICH ARE CLASSIFIED AS HELD FOR TRADING AND AVAILABLE FOR SALE ARE MEASURED AT FAIR VALUE UNLESS FAIR VALUE CANNOT BE MEASURED RELIABLY. INVESTMENTS HELD FOR TRADING ARE THOSE WHICH ARE EITHER ACQUIRED FOR GENERATING A PROFIT FROM SHORT TERM FLUCTUATION IN PRICES OR DEALER'S MARGIN, OR ARE SECURITIES INCLUDED IN A PORTFOLIO IN WHICH A PATTERN OF SHORT TERM PROFIT TAKING EXISTS. INVESTMENTS INTENDED TO BE HELD FOR AN INDEFINITE PERIOD OF TIME, WHICH MAY BE SOLD IN RESPONSE TO NEEDS FOR LIQUIDITY OR CHANGE IN INTEREST RATES ARE CLASSIFIED AS AVAILABLE FOR SALE. THE INVESTMENTS ARE CLASSIFIED AS NON CURRENT UNLESS MANAGEMENT HAS INTENTION OF HOLDING THESE FOR LESS THAN TWELVE MONTHS FROM THE BALANCE SHEET DATE, IN WHICH CASE THEY ARE INCLUDED AS CURRENT ASSETS.

SUBSEQUENT TO INITIAL RECOGNITION, INVESTMENTS WHICH ARE CLASSIFIED AS HELD TO MATURITY ARE MEASURED AT AMORTIZED COST USING EFFECTIVE INTEREST METHOD.

GAINS AND LOSSES ON INVESTMENTS HELD FOR TRADING ARE RECOGNIZED IN INCOME. GAINS AND LOSSES ON INVESTMENTS AVAILABLE FOR SALE ARE RECOGNIZED AS SEPARATE COMPONENT OF EQUITY UNTIL INVESTMENTS ARE SOLD, DISPOSED-OFF OR UNTIL THE INVESTMENTS ARE DETERMINED TO BE IMPAIRED, AT WHICH TIME ACCUMULATED GAIN/LOSS PREVIOUSLY REPORTED IN EQUITY IS INCLUDED IN PROFIT AND LOSS ACCOUNT.

ALL PURCHASES AND SALES OF INVESTMENTS ARE RECOGNIZED ON THE TRADE DATE, WHICH IS THE DATE THAT THE GROUP COMMITS TO PURCHASE OR SELL THE INVESTMENTS.

THE FAIR VALUE OF PUBLICLY TRADED INVESTMENT IS BASED ON QUOTED MARKET PRICES AT THE BALANCE SHEET DATE.

2.11 STORES, SPARES AND LOOSE TOOLS

THESE ARE VALUED AT COST DETERMINED USING FIRST IN FIRST OUT (FIFO) METHOD EXCEPT ITEMS IN TRANSIT WHICH ARE VALUED AT COST COMPRISING INVOICE VALUE PLUS OTHER CHARGES PAID THEREON.

2.12 STOCK IN TRADE

BASIS OF VALUATION ARE AS FOLLOWS:

RAW MATERIALS

AT MILLS	- AT LOWER OF FIRST IN FIRST OUT COST AND NET REALISABLE VALUE
IN-TRANSIT	- AT COST ACCUMULATED TO THE BALANCE SHEET DATE
WORK IN PROCESS	- AT LOWER OF MANUFACTURING COST AND NET REALISABLE VALUE
FINISHED GOODS	- AT LOWER OF MANUFACTURING COST AND NET REALISABLE VALUE
WASTE	- AT NET REALISABLE VALUE

AVERAGE MANUFACTURING COST IN RELATION TO WORK IN PROCESS AND FINISHED GOODS INCLUDES PRIME COST AND PROPORTION OF PRODUCTION OVERHEADS.

NET REALISABLE VALUE SIGNIFIES THE ESTIMATED SELLING PRICE IN ORDINARY COURSE OF BUSINESS LESS COST NECESSARY TO BE INCURRED IN ORDER TO MAKE THE SALES.

2.13 FOREIGN CURRENCY TRANSLATIONS

MONETARY ASSETS AND LIABILITIES IN FOREIGN CURRENCIES ARE TRANSLATED INTO PAK RUPEES AT THE RATES OF EXCHANGE PREVAILING AT THE BALANCE SHEET DATE, EXCEPT THOSE COVERED UNDER FORWARD EXCHANGE CONTRACTS WHICH ARE STATED AT CONTRACTED RATE. FOREIGN CURRENCY TRANSACTIONS ARE TRANSLATED INTO PAK RUPEES PREVAILING AT THE DATE OF TRANSACTION EXCEPT FOR THOSE COVERED BY FORWARD CONTRACTS, WHICH ARE TRANSLATED AT CONTRACTED RATES. EXCHANGE DIFFERENCES ARE INCLUDED IN PROFIT AND LOSS ACCOUNT CURRENTLY.

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

2.14 FINANCIAL INSTRUMENTS

2.14.1 FINANCIAL ASSETS

ALL FINANCIAL ASSETS HAVE BEEN STATED IN ACCORDANCE WITH THE REQUIREMENTS OF IAS-39 (FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT). FINANCIAL ASSETS ARE INITIALLY RECOGNISED AT COST WHICH IS THE FAIR VALUE OF THE CONSIDERATION GIVEN AT INITIAL RECOGNITION. SUBSEQUENT TO INITIAL RECOGNITION, FINANCIAL ASSETS ARE CARRIED AT FAIR VALUE EXCEPT ANY FINANCIAL ASSETS WHOSE FAIR VALUE CANNOT BE ESTIMATED RELIABLY.

A 'REGULAR WAY' PURCHASE OR SALE OF FINANCIAL ASSETS ARE RECOGNISED USING TRADE DATE ACCOUNTING.

2.14.2 FINANCIAL LIABILITIES

ALL FINANCIAL LIABILITIES ARE INITIALLY RECOGNISED AT COST, WHICH IS THE FAIR VALUE OF THE CONSIDERATION RECEIVED AT INITIAL RECOGNITION. SUBSEQUENT TO INITIAL RECOGNITION FINANCIAL LIABILITIES ARE CARRIED AT FAIR VALUE, AMORTISED COST OR COST AS THE CASE MAY BE.

2.14.3 DE-RECOGNITION

FINANCIAL ASSETS ARE DE-RECOGNISED WHEN THE GROUP LOOSES CONTROL OF THE CONTRACTUAL RIGHTS THAT COMPRISE THE FINANCIAL ASSETS.

FINANCIAL LIABILITIES ARE DE-RECOGNISED WHEN THEY ARE EXTINGUISHED, THAT IS, WHEN THE OBLIGATION SPECIFIED IN THE CONTRACT IS DISCHARGED, CANCELLED OR EXPIRES.

GAIN OR LOSS, IF ANY, ON DE-RECOGNITION AND SETTLEMENT OF FINANCIAL ASSETS AND LIABILITIES IS INCLUDED IN NET PROFIT OR LOSS IN THE PERIOD IN WHICH IT ARISES.

2.14.4 TRADE DEBTORS

TRADE DEBTORS ARE STATED AT THEIR NOMINAL VALUE AS REDUCED BY APPROPRIATE ALLOWANCES FOR ESTIMATED IRRECOVERABLE AMOUNTS, IF ANY.

2.14.5 PROVISIONS

PROVISIONS ARE RECOGNISED WHEN THE GROUP HAS A LEGAL OR CONSTRUCTIVE OBLIGATION AS A RESULT OF PAST EVENTS AND IT IS PROBABLE THAT AN OUTFLOW OF RESOURCES EMBODYING ECONOMIC BENEFITS WILL BE REQUIRED TO SETTLE THE OBLIGATION AND A RELIABLE ESTIMATE OF THE AMOUNT CAN BE MADE.

2.14.6 OFF SETTING

FINANCIAL ASSETS AND FINANCIAL LIABILITIES ARE SET-OFF AND THE NET AMOUNT IS REPORTED IN THE FINANCIAL STATEMENTS WHEN THERE IS A LEGALLY ENFORCEABLE RIGHT TO SET OFF AND THE GROUP INTENDS EITHER TO SETTLE ON A NET BASIS, OR TO REALISE THE ASSETS AND TO SETTLE THE LIABILITIES SIMULTANEOUSLY.

2.14.7 CASH AND CASH EQUIVALENTS

CASH AND CASH EQUIVALENTS CONSIST OF CASH-IN-HAND AND BALANCES WITH BANKS.

2.14.8 DERIVATIVE FINANCIAL INSTRUMENTS

THESE ARE INITIALLY RECORDED AT COST BEING THE FAIR VALUE ON THE DATE A DERIVATIVE CONTRACT IS ENTERED INTO AND ARE REMEASURED TO FAIR VALUE AT SUBSEQUENT REPORTING DATES. THE METHOD OF RECOGNISING THE RESULTING GAIN OR LOSS DEPENDS ON WHETHER THE DERIVATIVE IS DESIGNATED AS A HEDGING INSTRUMENT, AND IF SO, THE NATURE OF THE ITEM BEING HEDGED. THE GROUP DESIGNATES CERTAIN DERIVATIVES AS CASH FLOW HEDGES.

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

THE GROUP DOCUMENTS AT THE INCEPTION OF THE TRANSACTION THE RELATIONSHIP BETWEEN THE HEDGING INSTRUMENTS AND HEDGED ITEMS, AS WELL AS ITS RISK MANAGEMENT OBJECTIVE AND STRATEGY FOR UNDERTAKING VARIOUS HEDGE TRANSACTIONS. THE GROUP ALSO DOCUMENTS ITS ASSESSMENT, BOTH AT HEDGE INCEPTION AND ON AN ONGOING BASIS, OF WHETHER THE DERIVATIVES THAT ARE USED IN HEDGING TRANSACTIONS ARE HIGHLY EFFECTIVE IN OFFSETTING CHANGES IN CASH FLOW OF HEDGED ITEMS.

THE EFFECTIVE PORTION OF CHANGES IN THE FAIR VALUE OF DERIVATIVES THAT ARE DESIGNATED AND QUALIFY AS CASH FLOW HEDGES ARE RECOGNISED IN EQUITY. THE GAIN OR LOSS RELATING TO THE INEFFECTIVE PORTION IS RECOGNISED IMMEDIATELY IN THE PROFIT AND LOSS ACCOUNT.

AMOUNTS ACCUMULATED IN EQUITY ARE RECOGNISED IN PROFIT AND LOSS ACCOUNT IN THE PERIODS WHEN THE HEDGED ITEM WILL EFFECT PROFIT OR LOSS. HOWEVER, WHEN THE FORECAST HEDGED TRANSACTION RESULTS IN THE RECOGNITION OF A NON-FINANCIAL ASSET OR A LIABILITY, THE GAINS AND LOSSES PREVIOUSLY DEFERRED IN EQUITY ARE TRANSFERRED FROM EQUITY AND INCLUDED IN THE INITIAL MEASUREMENT OF THE COST OF THE ASSET OR LIABILITY.

2.15 CREDITORS, ACCRUED AND OTHER LIABILITIES

LIABILITIES FOR TRADE AND OTHER AMOUNTS PAYABLE ARE CARRIED AT COST WHICH IS THE FAIR VALUE OF THE CONSIDERATION TO BE PAID IN FUTURE FOR GOODS AND SERVICES.

2.16 DIVIDEND

DIVIDEND ON ORDINARY SHARES IS RECOGNISED IN EQUITY IN THE PERIOD IN WHICH IT IS DECLARED/PAID.

2.17 REVENUE RECOGNITION

- REVENUE FROM LOCAL SALES IS RECOGNISED ON DISPATCH OF GOODS TO CUSTOMERS.
- REVENUE FROM EXPORT SALES IS RECOGNISED ON SHIPMENT BASIS.
- EXPORT REBATE IS RECOGNISED WHEN ENTITLEMENT IS ESTABLISHED.
- DIVIDEND INCOME IS RECOGNISED WHEN THE GROUP'S RIGHT TO RECEIVE PAYMENT IS ESTABLISHED.

2.18 GOVERNMENT GRANTS

THE GROUP HAS OPTED FOR THE METHOD OF OFFSETTING THE GOVERNMENT GRANT AGAINST THE RELATED EXPENSES IN ACCORDANCE WITH THE REQUIREMENTS OF IAS 20 ACCOUNTING FOR GOVERNMENT GRANTS AND DISCLOSURE OF GOVT ASSISTANCE BY GIVING A SEPARATE DISCLOSURE OF NATURE AND EXTENT OF GOVERNMENT GRANT IN NOTE 28.

2.19 RELATED PARTY TRANSACTIONS

ALL TRANSACTIONS INVOLVING RELATED PARTIES ARISING IN THE NORMAL COURSE OF BUSINESS ARE CONDUCTED AT ARM'S LENGTH USING VALUATION MODES, AS ADMISSIBLE. PARTIES ARE SAID TO BE RELATED WHEN THEY MEET THE DEFINITION AS PROVIDED IN THE COMPANIES ORDINANCE, 1984.

2.20 IMPAIRMENT

THE CARRYING AMOUNT OF THE GROUP'S ASSETS ARE REVIEWED AT EACH BALANCE SHEET DATE TO DETERMINE WHETHER THERE IS ANY INDICATION OF IMPAIRMENT LOSS. IF ANY SUCH INDICATION EXISTS, THE ASSETS ARE WRITTEN DOWN TO THEIR ESTIMATED RECOVERABLE AMOUNT AND IMPAIRMENT LOSSES ARE RECOGNISED IN THE PROFIT AND LOSS ACCOUNT. CONSEQUENTLY, THE DEPRECIATION CHARGE IS ADJUSTED IN THE FUTURE PERIOD TO ALLOCATE ASSET'S REVISED CARRYING AMOUNT OVER ITS ESTIMATED USEFUL LIFE.

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

		31 DECEMBER, 05 RUPEES	30 SEPTEMBER, 04 RUPEES
3	SHARE CAPITAL		
	3.1		
	AUTHORISED CAPITAL		
	300,000,000 (2004: 300,000,000) ORDINARY AND PREFERENCE SHARES OF Rs. 10/- EACH	<u>3,000,000,000</u>	<u>3,000,000,000</u>
	<p>AZGARD NINE LTD. (HOLDING COMPANY) INTRODUCED A NEW CLASS OF ORDINARY SHARES (NON-VOTING) HAVING NO RIGHT TO RECEIVE NOTICE OF, ATTEND, OR VOTE AT ANY GENERAL MEETING EXCEPT AS OTHERWISE PROVIDED IN THE ORDINANCE, BY PASSING A SPECIAL RESOLUTION IN EXTRA ORDINARY GENERAL MEETING HELD ON MAY 12, 2005. AUTHORISED CAPITAL OF THE HOLDING COMPANY IS Rs. 3,000,000,000 DIVIDED INTO 153,000,000 (2004: 213,000,000) ORDINARY SHARES OF Rs.10 EACH, 60,000,000 (2004: NIL) ORDINARY SHARES (NON-VOTING) OF Rs.10 EACH AND 87,000,000 (2004 : 87,000,000) PREFERENCE SHARES OF Rs.10 EACH.</p> <p>AUTHORISED CAPITAL OF THE HOLDING COMPANY HAS BEEN INCREASED TO Rs. 15,000,000,000 BY PASSING OF RESOLUTION IN THE EXTRA ORDINARY GENERAL MEETING HELD ON MARCH 7, ,2006 DIVIDED INTO 900,000,000 ORDINARY SHARES OF Rs.10 EACH, 300,000,000 ORDINARY SHARES (NON-VOTING) OF Rs.10 EACH AND 300,000,000 PREFERENCE SHARES OF Rs.10 EACH.</p>		
	3.2		
	ISSUED, SUBSCRIBED AND PAID UP CAPITAL:		
	23,777,369		
	ORDINARY SHARES OF Rs.10/- EACH FULLY PAID IN CASH	237,773,690	237,773,690
	12,276,073		
	ISSUED AS CONSIDERATION FOR MACHINERY	122,760,730	122,760,730
	50,811,992		
	ISSUED AS CONSIDERATION FOR MERGER	508,119,920	508,119,920
	86,865,434		
	PREFERENCE SHARES OF Rs.10/- EACH	868,654,340	868,654,340
	86,865,434		
	FULLY PAID IN CASH	868,654,340	868,654,340
		3.3	
	<u>173,730,868</u>	<u>1,737,308,680</u>	<u>1,737,308,680</u>

3.3 THE HOLDING COMPANY ISSUED CUMULATIVE PREFERENCE SHARES DURING THE PRECEDING YEAR. THESE ARE NON-VOTING, NON-PARTICIPATORY, PARTLY CONVERTIBLE AND ARE REDEEMABLE IN 6 YEARS FROM THE DATE OF ISSUANCE. THESE ARE LISTED ON KARACHI STOCK EXCHANGE (GUARANTEE) LIMITED. THE TERMS AND CONDITIONS OF ISSUE ARE AS FOLLOWS:

RATE OF DIVIDEND

ANNUALISED FIXED DIVIDEND

@ 8.95% PER ANNUM TO BE PAID.

IN CASE OF DEFAULT IN PAYMENT OF DIVIDEND:

DEFAULT IN PAYMENT DURING FIRST YEAR AND PAID REGULARLY DURING SUBSEQUENT YEARS.

RATE OF DIVIDEND WILL BE 9.75 % FOR FIRST YEAR, TOTAL DIVIDEND FOR THE YEAR WILL BE Rs.1.87 PER SHARE INCLUDING 8.95% FOR SECOND YEAR.

DEFAULT IN PAYMENT DURING SECOND YEAR AND PAID REGULARLY DURING SUBSEQUENT YEARS.

RATE OF DIVIDEND WILL BE 20.73 % FOR SECOND YEAR, TOTAL DIVIDEND FOR THE YEAR WILL BE Rs. 2.93 PER SHARE INCLUDING 8.95% FOR THIRD YEAR.

DEFAULT IN PAYMENT DURING THIRD YEAR AND PAID REGULARLY DURING SUBSEQUENT YEARS.

RATE OF DIVIDEND WILL BE 31.95 % FOR THIRD YEAR, TOTAL DIVIDEND FOR THE YEAR WILL BE Rs. 4.09 PER SHARE INCLUDING 8.95% FOR FOURTH YEAR.

DEFAULT IN PAYMENT DURING FOURTH YEAR AND PAID REGULARLY DURING SUBSEQUENT YEARS.

RATE OF DIVIDEND WILL BE 44.56 % FOR FOURTH YEAR, TOTAL DIVIDEND FOR THE YEAR WILL BE Rs. 5.35 PER SHARE INCLUDING 8.95% FOR FIFTH YEAR.

DEFAULT IN PAYMENT DURING FIFTH YEAR AND PAID REGULARLY DURING SUBSEQUENT YEARS.

RATE OF DIVIDEND WILL BE 58.30 % FOR FIFTH YEAR, TOTAL DIVIDEND FOR THE YEAR WILL BE Rs. 6.73 PER SHARE INCLUDING 8.95% FOR SIXTH YEAR.

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

AT THE END OF YEAR SIX, IF THE HOLDING COMPANY FAILS TO PAY DIVIDEND AND/OR REDEEM THE PRINCIPAL IN THE MANNER MENTIONED BELOW, THE ENTIRE AMOUNT OF THE ACCRUED DIVIDEND PLUS THE FACE VALUE OF THE OUTSTANDING PREFERENCE SHARE WILL BE CONVERTED, AT THE OPTION OF PREFERENCE SHAREHOLDER, INTO ORDINARY SHARES AT BREAK-UP VALUE OF THE HOLDING COMPANY TO BE DETERMINED AT THAT TIME.

REDEMPTION OPTION AND TIMING

REDEMPTION WILL BE ALLOWED AS FOLLOWS SUBJECT TO THE PROVISIONS OF SECTION 85 OF THE COMPANIES ORDINANCE, 1984, AS FOLLOWS:

50% OF THE ISSUED AMOUNT AT THE END OF FIFTH (5TH) YEAR OF ISSUANCE/ALLOTMENT;

50% OF THE ISSUED AMOUNT AT THE END OF SIXTH (6TH) YEAR OF ISSUANCE/ALLOTMENT;

CONVERSION/ SWAP

THE PREFERENCE SHAREHOLDERS MAY AT THEIR OPTION CONVERT UP TO 25% OF THE VALUE OF THEIR RESPECTIVE PREFERENCE SHARES INTO ORDINARY SHARES BETWEEN EIGHTEEN AND FORTY TWO MONTHS FROM THE ISSUE/ ALLOTMENT AT THE CONVERSION RATIO OF TEN PREFERENCE SHARES FOR 6.8 ORDINARY SHARES. PREFERENCE SHARE-HOLDERS EXERCISING THEIR RIGHT OF CONVERSION WILL NOT RECEIVE ANY OF REMAINING FIXED COUPON AMOUNTS ON THE CONVERTED AMOUNT.

REDEMPTION RESERVE

THE HOLDING COMPANY WILL CREATE A REDEMPTION RESERVES OF AT LEAST UP TO THE AMOUNT OF REDEMPTION OF PREFERENCE SHARES I.E. AT LEAST UP TO THE AMOUNT OF OUTSTANDING PREFERENCE SHARES SUBMITTED FOR REDEMPTION BY:

- ALLOCATING Rs.150 MILLION OF THE RESERVES AS AT 30TH SEPTEMBER, 2004;
- APPROPRIATING PROFITS OF AT LEAST Rs 50 MILLION EACH SUBSEQUENT YEAR TO BUILD UP REDEMPTION RESERVE;
- CREATING ADDITIONAL RESERVES TO MATCH THE AMOUNT REQUIRED FOR REDEMPTION.

3.4 AS A CONDITION OF APPROVAL OF THE SCHEME OF ARRANGEMENT, THE HOLDING COMPANY HAD GIVEN AN UNDERTAKING TO THE SECURITIES & EXCHANGE COMMISSION OF PAKISTAN TO PAY DIVIDENDS OF 25% OVER A PERIOD OF THREE YEARS BEFORE SEPTEMBER 30, 2005. WHICH HAS BEEN DULY MET FOR.

4 RESERVES	31 DECEMBER, 05 RUPEES	30 SEPTEMBER, 04 RUPEES
CAPITAL RESERVES		
SHARE PREMIUM ON ORDINARY SHARES	71,657,838	106,433,368
PREFERENCE SHARES REDEMPTION RESERVE	212,500,000	150,000,000
RESERVE ON MERGER	105,152,005	105,152,005
	389,309,843	361,585,373
SURPLUS ON REVALUATION OF INVESTMENTS	562,710	556,868
HEDGING RESERVE		
AT THE BEGINNING OF THE YEAR	-	-
INCREASE IN THE FAIR VALUE OF CASH FLOW HEDGING DERIVATIVES	13,458,916	-
	13,458,916	-
EXCHANGE DIFFERENCES ON TRANSLATION OF FOREIGN SUBSIDIARY	27,878	-
	<u>403,359,347</u>	<u>362,142,241</u>

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

5	NOTE	31 DECEMBER, 05 RUPEES	30 SEPTEMBER, 04 RUPEES
SURPLUS ON REVALUATION OF FIXED ASSETS			
	OPENING BALANCE	306,564,511	414,123,474
	SURPLUS TRANSFERRED TO UNAPPROPRIATED PROFIT:		
	RELATING TO INCREMENTAL DEPRECIATION AND DISPOSAL:		
	- PRIOR YEARS	-	83,873,950
	- CURRENT PERIOD	27,392,552	23,685,013
	- DISPOSAL OF REVALUED FIXED ASSETS	228,288	-
		27,620,840	107,558,963
		278,943,671	306,564,511

THE HOLDING COMPANY REVALUED LAND, BUILDING AND PLANT AND MACHINERY DURING 1999 AND 2002 WHICH PRODUCED REVALUATION SURPLUS OF Rs. 253.29 MILLION AND Rs. 160.83 MILLION RESPECTIVELY. THE TOTAL SURPLUS OF Rs. 414.123 MILLION HAD BEEN ADDED TO THE BOOK VALUE OF THE ASSETS AND THE CORRESPONDING AMOUNT HAD BEEN CREDITED TO THE SURPLUS ON REVALUATION OF FIXED ASSETS.

6.	LONG TERM FINANCING - SECURED		
BANKING COMPANIES			
	HABIB BANK LIMITED (HBL)	6.1	250,000,000
	UNITED BANK LIMITED (UBL)	6.2	200,000,000
	CITI BANK N.A	6.3	200,000,000
OTHERS			
	PRIVATELY PLACED TFC'S	6.4	250,000,000
	TERM FINANCE CERTIFICATES (TFCs)	6.5	2,143,670,000
			3,043,670,000
	LESS: CURRENT MATURITY GROUPED UNDER CURRENT LIABILITIES		(300,000,000)
			750,000,000

6.1 THE HOLDING COMPANY OBTAINED THIS FINANCE FROM CONSORTIUM OF BANKS LEAD BY HBL WHICH IS REPAYABLE IN 10 EQUAL HALF YEARLY INSTALLMENTS COMMENCING FROM DECEMBER, 2003.

THE FINANCE CARRIES MARK-UP BASED ON 6 MONTHS OFFER RATE OF KIBOR + 280 BPS WITH NO FLOOR NO CAP. IT IS SECURED BY WAY OF FIRST PARI PASSU CHARGE ON THE PROJECT THROUGH AN EQUITABLE MORTGAGE ON LAND AND BUILDING AND HYPOTHECATION OF PLANT AND MACHINERY AND PERSONAL GUARANTEES OF SOME OF THE DIRECTORS OF THE GROUP.

6.2 THE HOLDING COMPANY OBTAINED A BRIDGE FINANCE FACILITY OF Rs. 250 MILLION FROM UBL AGAINST WHICH THE BANK DISBURSED Rs. 200 MILLION UP TO SEPTEMBER 30, 2004. IT WAS REPAYABLE WITHIN TWO MONTHS FROM THE DATE OF DISBURSEMENT. HOWEVER THE HOLDING COMPANY ENTERED INTO AN AGREEMENT WITH THE BANK FOR CONVERSION OF THIS FACILITY INTO A TERM FINANCE FOR A PERIOD OF 5 YEARS. THE HOLDING COMPANY SOLD ITS ASSETS FOR A CONSIDERATION OF Rs. 200 MILLION AND PURCHASED BACK FOR A CONSIDERATION OF Rs. 309.269 MILLION. THE FINANCE IS REPAYABLE IN 8 EQUAL SEMI ANNUAL INSTALLMENTS COMMENCING FROM DECEMBER 2006 WITH MAR-UP BEING PAYABLE ON QUARTERLY BASIS COMMENCING SEPTEMBER 2005.

THE FACILITY CARRIES MARK-UP AT THE RATE OF KIBOR AT THE BEGINNING OF EACH CALENDAR QUARTER PLUS 1.75%. IF THE HOLDING COMPANY FAILS TO MAKE PAYMENTS ON DUE DATES MARK-UP IS PAYABLE AT THE RATE OF 20% FOR THE PERIOD OF DEFAULT.

THE FACILITY IS SECURED AGAINST 1ST PARI PASSU CHARGE ON ASSETS, PERSONAL GUARANTEES AND DEMAND PROMISSORY NOTES.

6.3 THE HOLDING COMPANY HAS EXECUTED AN AGREEMENT WITH CITI BANK FOR SALE OF ASSETS AT Rs. 200 MILLION AND PURCHASE BACK THE SAME AT A PURCHASE PRICE OF Rs. 322.792 MILLION. THE LOAN IS REPAYABLE IN 6 EQUAL HALF YEARLY INSTALLMENTS COMMENCING FROM FEBRUARY 2006.

THIS FACILITY CARRIES MARK-UP @ 8% PER ANNUM. MARK-UP @ 22% PER ANNUM IS CHARGEABLE, IF THE HOLDING COMPANY FAILS TO MAKE PAYMENT ON DUE DATE. IT IS SECURED BY WAY OF HYPOTHECATION AND/OR HYPOTHECATION OVER THE PRESENT AND FUTURE FIXED ASSETS OF THE GROUP AND DEMAND PROMISSORY NOTES.

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

- 6.4 TFCs HAVE BEEN ISSUED BY WAY OF PRIVATE PLACEMENTS WITH A CONSORTIUM OF INSTITUTIONAL INVESTORS. THE TOTAL ISSUE COMPRISES OF 250 TFCs HAVING FACE VALE OF Rs. 100,000 AND 45,000 TFCs HAVING FACE VALUE OF Rs. 5,000.

TERMS OF REPAYMENT

CALL OPTION/ PARTIAL CALL OPTION

THE HOLDING COMPANY MAY REDEEM THE TFCs BY WAY OF EXERCISE OF THE CALL/PARTIAL CALL OPTION BY GIVING WRITTEN NOTICE TO THE TFC HOLDERS AND THE TRUSTEE OF NOT LESS THAN NINETY DAYS. IN CASE OF EXERCISE OF CALL/PARTIAL CALL OPTION WITHIN THIRTY MONTHS FROM THE ISSUE DATE, THE HOLDING COMPANY IS LIABLE TO PAY PREMIUM @ 0.1% OF THE CALL/PARTIAL REDEMPTION AMOUNT.

RATE OF RETURN

THE RETURN ON TFCs IS PAYABLE SEMI ANNUALLY. THIS IS CALCULATED AT SIX MONTHS KIBOR PREVAILING TWO DAYS PRIOR TO THE ISSUE DATE AND SUBSEQUENTLY TWO DAYS PRIOR TO START OF EACH SEMI ANNUAL PERIOD IN RESPECT OF WHICH PROFIT PAYMENT DUE AT THE END OF THAT PERIOD PLUS MARGIN OF 1.75%.

TRUSTEE

IN ORDER TO PROTECT THE INTERESTS OF TFC HOLDERS, NIB BANK LIMITED HAS BEEN APPOINTED AS TRUSTEE UNDER A TRUST DEED DATED 2ND AUGUST, 2004.

IN CASE THE HOLDING COMPANY DEFAULTS IN ANY OF ITS OBLIGATIONS, THE TRUSTEE MAY ENFORCE THE HOLDING COMPANY OBLIGATION IN ACCORDANCE WITH THE TERMS OF THE TRUST DEED. THE PROCEED OF ANY SUCH ENFORCEMENT SHALL BE DISTRIBUTED TO THE TFC HOLDERS AT THE TIME ON A PARI PASSU BASIS IN PROPORTION TO THE AMOUNTS OWED TO THEM PURSUANT TO THE TFCs.

SECURITY

THIS FINANCE IS SECURED BY FIRST PARI PASSU CHARGE OVER PRESENT AND FUTURE FIXED ASSETS EXCLUDING IMMOVABLE PROPERTY AND MORTGAGE OF IMMOVABLE PROPERTIES.

- 6.5 THESE HAVE BEEN ISSUED BY WAY OF PRIVATE PLACEMENT AND PUBLIC SUBSCRIPTION AND ARE LISTED ON THE KARACHI STOCK EXCHANGE. TOTAL ISSUE COMPRISES OF 428,734 CERTIFICATES OF Rs. 5,000 EACH.

TERMS OF REPAYMENT

THE PRINCIPAL REDEMPTION OF TFC'S ARE STRUCTURED TO BE IN TEN UNEQUAL SEMI-ANNUAL INSTALMENT STARTING FROM MARCH 2008.

PROFIT RATE AND PAYMENT

6 MONTH KIBOR PLUS 240 BASIS POINTS, WITHOUT ANY FLOOR OR CAP AND IS PAYABLE SEMI-ANNUALLY IN ARREARS.

CONVERSION OPTION

TFC HOLDERS WILL HAVE THE RIGHT OF CONVERSION OF 25 % OF THE VALUE INTO ORDINARY (NON-VOTING) SHARES, ROUNDED OFF TO THE NEAREST WHOLE NUMBER, AT A 30 % DISCOUNT TO THE PRECEDING THREE MONTHS AVERAGE SHARE PRICE OF ORDINARY SHARES PREVAILING AT THE TIME OF CONVERSION, AT ANY TIME BETWEEN JANUARY 01, 2008 TO MARCH 31, 2008 AFTER GIVING 30 DAYS ADVANCE NOTICE TO THE ISSUER AND TRUSTEE. IN CASE OF EXISTENT ESTABLISHED MARKET FOR THE HOLDING COMPANY ORDINARY (NON VOTING) SHARES AT THE TIME OF CONVERSION, TFC HOLDERS WILL HAVE THE RIGHT FOR CONVERSION INTO ORDINARY (NON VOTING) SHARES, ROUNDED OFF TO THE NEAREST WHOLE NUMBER, AT A 15 % DISCOUNT TO THE PRECEDING THREE MONTHS AVERAGE SHARE PRICE OF ORDINARY SHARE (NON-VOTING).

SECURITY

FIRST PARI PASSU CHARGE ON THE PRESENT AND FUTURE FIXED ASSETS OF THE HOLDING COMPANY (EXCLUDING LAND AND BUILDING) WITH 25 % MARGIN IN FAVOUR OF THE TRUSTEE.

TRUSTEE

IN ORDER TO SAFE-GUARD THE INTEREST OF THE TFC HOLDERS, FIRST DAWOOD INVESTMENT BANK LTD. HAS BEEN APPOINTED TO AS TRUSTEE FOR THE ISSUE,

IN CASE THE HOLDING COMPANY DEFAULTS IN ANY OF ITS OBLIGATIONS, THE TRUSTEE MAY ENFORCE THE HOLDING COMPANY OBLIGATION IN ACCORDANCE WITH THE TERMS OF THE TRUST DEED. THE PROCEED OF ANY SUCH ENFORCEMENT SHALL BE DISTRIBUTED TO THE TFC HOLDERS AT THE TIME ON A PARI PASSU BASIS IN PROPORTION TO THE AMOUNTS OWED TO THEM PURSUANT TO THE TFCs, SUBJECT TO THE PRIORITY RIGHTS OF ALL OTHER CREDITORS AND DEPOSITORS OF THE HOLDING COMPANY.

NOTES TO THE CONSOLIDATED ACCOUNTS

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7	LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE - SECURED	NOTE	31 DECEMBER, 05 RUPEES	30 SEPTEMBER, 04 RUPEES
	GROSS MINIMUM LEASE PAYMENTS			
	NOT LATER THAN ONE YEAR		81,542,809	76,494,987
	LATER THAN ONE YEAR BUT NOT LATER THAN FIVE YEARS		48,714,073	146,218,007
			130,256,882	222,712,994
	LESS: FINANCIAL CHARGES ALLOCATED TO FUTURE PERIODS		10,097,006	26,050,646
			120,159,876	196,662,348
	LESS: SECURITY DEPOSITS ADJUSTABLE ON EXPIRY OF LEASE TERMS		11,642,598	17,076,648
			108,517,278	179,585,700
	LESS: CURRENT MATURITY GROUPED UNDER CURRENT LIABILITIES		68,343,306	63,081,881
			40,173,972	116,503,819
	PRESENT VALUE OF MINIMUM LEASE PAYMENTS			
	NOT LATER THAN ONE YEAR		68,343,306	63,081,881
	LATER THAN ONE YEAR BUT NOT LATER THAN FIVE YEARS		40,173,972	116,503,819
			108,517,278	179,585,700

THE HOLDING COMPANY HAS ACQUIRED PLANT AND MACHINERY AND VEHICLES FROM VARIOUS LEASING COMPANIES. RENTALS ARE PAYABLE IN MONTHLY/QUARTERLY INSTALLMENTS UPTO NOVEMBER, 2008. THE DISCOUNT FACTORS APPLIED RANGE BETWEEN 5.50% TO 16.50% PER ANNUM. THE HOLDING COMPANY INTENDS TO EXERCISE ITS OPTION TO PURCHASE THE LEASED ASSETS UPON PAYMENT OF LIABILITY OVER THE LEASE TERM AND SURRENDER OF DEPOSIT AT THE END OF LEASE TERM. TAXES, REPAIRS AND INSURANCE COSTS ARE TO BE BORNE BY LESSEE. IN CASE OF TERMINATION OF THE AGREEMENT, THE LESSEE IS TO PAY THE ENTIRE RENT OF UN-EXPIRED PERIOD. THESE ARE SECURED AGAINST DEMAND PROMISSORY NOTES.

8 LONG TERM DEPOSITS - UNSECURED

THIS REPRESENTS INTEREST FREE DEPOSITS RECEIVED FROM HOLDING COMPANY'S EMPLOYEES UNDER THE CAR SCHEME. VEHICLES HAVE BEEN PROVIDED TO THE EMPLOYEES AGAINST THESE DEPOSITS. THESE ARE ADJUSTABLE AFTER SPECIFIED PERIODS BY TRANSFER OF VEHICLE TO THE RESPECTIVE EMPLOYEE.

9 SHORT TERM BORROWINGS

SHORT TERM FINANCES	- SECURED	9.1	2,395,697,717	1,414,826,753
SHORT TERM RUNNING FINANCES	- SECURED	9.2	702,820,703	67,756,639
TEMPORARY OVER DRAFT	- UNSECURED	9.3	43,883,904	10,326,500
			3,142,402,324	1,492,909,892

9.1 THESE REPRESENT SHORT-TERM FINANCING FACILITIES AVAILABLE FROM VARIOUS BANKS AMOUNTING TO Rs.4,380.29 MILLION (2004: Rs.3,116.08 MILLION) INCLUDING US \$ 15.83 MILLION (2004: US \$ 10.5 MILLION). THESE FACILITIES CARRIES MARK-UP AT THE RATES RANGING BETWEEN RE. 0.06 TO RE. 0.19 PER Rs. 1,000 PER DAY.

L/C LIMITS AVAILABLE FOR OPENING LETTERS OF CREDIT/GUARANTEE AGGREGATE Rs. 2,369.48 MILLION (2004: Rs. 1,040.25 MILLION) OF WHICH THE AMOUNT REMAINING UN-UTILISED AT THE YEAR END WAS Rs.1,586.81 MILLION (2004: Rs. 510.38 MILLION) .

THESE FINANCES ARE SECURED BY 1ST PARI PASSU CHARGE OVER CURRENT ASSETS, HYPOTHECATION OF STOCKS OF RAW MATERIALS, WORK-IN-PROCESS AND FINISHED GOODS, PLEDGE OF RAW MATERIALS, GOODS IMPORTED THROUGH BANKS, EXPORT BILLS DRAWN UNDER CONFIRMED L/C'S OR CONTRACTS, LIEN ON DOCUMENTS OF THE TITLE OF GOODS AND PERSONAL GUARANTEES OF SOME OF THE DIRECTORS OF THE HOLDING COMPANY.

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

THESE INCLUDE FOREIGN CURRENCY LOAN OF U.S.\$ 4.13 MILLION (2004: US \$ 6.99 MILLION) WHICH HAVE BEEN CONVERTED INTO PAK RUPEES AT THE EXCHANGE RATE PREVAILING ON THE BALANCE SHEET DATE I.E. U.S. \$1 = Rs. 59.93 (2004: U.S.\$ 1 = Rs. 59.37).

THE FACILITIES ARE GENERALLY AVAILABLE FOR A PERIOD OF TWELVE MONTHS AND ARE RENEWABLE ON EXPIRY, HOWEVER, PURCHASE PRICES ARE REPAYABLE ON VARIOUS DATES, LATEST BY DECEMBER 31, 2006.

- 9.2 SHORT TERM RUNNING FINANCE FACILITIES AVAILABLE FROM VARIOUS BANKS UNDER MARK UP ARRANGEMENTS AMOUNT TO Rs.912.50 MILLION (2004:Rs.762.50 MILLION).
- 9.3 IT REPRESENTS CHEQUES ISSUED BY THE HOLDING COMPANY IN EXCESS OF BALANCE AT BANKS WHICH HAVE BEEN PRESENTED FOR PAYMENT IN THE SUBSEQUENT PERIOD.
- 9.4 FINANCES UNDER MARK UP ARRANGEMENTS INCLUDE Rs.198 MILLION (2004: Rs.58.78 MILLION) OBTAINED IN NORMAL COURSE OF BUSINESS AT ARM'S LENGTH FROM UNION BANK LTD, A RELATED PARTY.

		31 DECEMBER, 05 RUPEES	30 SEPTEMBER, 04 RUPEES
10. CREDITORS, ACCRUED AND OTHER LIABILITIES			
CREDITORS		134,896,010	203,988,450
BILLS PAYABLE – SECURED		394,601,913	316,801,324
ACCRUED LIABILITIES		76,516,977	54,947,816
WORKERS' WELFARE FUND		20,000	20,000
ADVANCES FROM CUSTOMERS		15,089,698	59,877,980
MARK-UP ACCRUED ON:			
LONG TERM FINANCES INCLUDING TFCs		96,071,732	–
SHORT TERM BORROWINGS		58,717,720	26,687,284
LEASE FINANCE CHARGES		1,414,929	1,393,512
WORKER'S PROFIT PARTICIPATION FUND	10.1	24,509,700	20,803,281
CUSTOMS DUTY, SURCHARGE		–	800,301
TAX DEDUCTED AT SOURCE		15,470,450	9,064,521
OTHER LIABILITIES		14,571,055	7,461,272
		831,880,184	701,845,741
10.1 WORKERS' PROFIT PARTICIPATION FUND			
OPENING BALANCE		20,803,281	13,075,810
ADD: INTEREST ON FUNDS UTILISED BY THE COMPANY		326,582	818,980
		21,129,863	13,894,790
LESS: PAYMENTS MADE DURING THE PERIOD		21,127,936	13,894,247
DEPOSITED IN GOVERNMENT TREASURY		1,927	543
		21,129,863	13,894,790
		–	–
ADD: CONTRIBUTION FOR THE PERIOD		24,509,700	20,803,281
		24,509,700	20,803,281
11 PROVISION FOR TAXATION			
11.1 CURRENT			
OPENING BALANCE		64,824,871	44,824,871
ADD: PROVISION MADE DURING THE PERIOD			
– CURRENT PERIOD		47,858,304	20,000,000
– PRIOR YEARS		2,999,573	–
		50,857,877	20,000,000
		115,682,748	64,824,871
LESS: ADJUSTED AGAINST COMPLETED ASSESSMENTS		35,998,313	–
		79,684,435	64,824,871
11.2 CURRENT STATUS OF PENDING TAX ASSESSMENTS			
11.2.1 INCOME TAX ASSESSMENTS OF AZGARD NINE LIMITED HAVE BEEN COMPLETED UP TO TAX YEAR 2005. THE HOLDING COMPANY'S APPEALS FOR ASSESSMENT YEARS 1996-1997, 1998-1999, 1999-2000, 2000-2001 & 2001-2002 BEFORE THE LAHORE HIGH COURT ARE PENDING FOR ADJUDICATION AND ASSESSMENT YEAR 2002-03 IS PENDING BEFORE CIT (APPEAL).			

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

- 11.2.2 THE HOLDING COMPANY HAS FILED APPEALS PERTAINING TO CASES OF NAFEEES COTTON MILLS (NOW MERGED INTO HOLDING COMPANY) BEFORE THE INCOME TAX APPELLATE TRIBUNAL FOR THE ASSESSMENT YEARS 1999-2000, 2000-2001, 2001-2002, 2002-2003 WHICH ARE PENDING FOR ADJUDICATION. THE HOLDING COMPANY HAS ALSO FILED APPEAL BEFORE THE COMMISSIONER OF INCOME TAX (APPEALS) FOR THE TAX YEAR 2003, WHICH IS PENDING FOR ADJUDICATION.
- 11.2.3 PROVISION FOR CURRENT PERIOD TAXATION REPRESENTS TAX PAYABLE UNDER SECTION 154 OF THE INCOME TAX ORDINANCE, 2001 (THE ORDINANCE), KEEPING IN VIEW THE PROVISIONS OF CIRCULAR NO.5 OF 2000 READ WITH RULE 216 OF INCOME TAX RULES 1982 FOR EXPORT SALES.
- 11.3 DEFERRED TAX
THE EXPORT SALES (INCLUDING INDIRECT EXPORTS) DURING THE PERIOD ENDED DECEMBER 31, 2005 ACHIEVED THE THRESHOLD OF PRESUMPTIVE TAX AND THE TREND IS EXPECTED TO CONTINUE IN FORESEEABLE FUTURE. ACCORDINGLY, NO PROVISION FOR DEFERRED TAX HAS BEEN MADE.
- 11.4 SINCE THE COMPANY'S PROFITS ARE SUBJECT TO TAXATION UNDER PRESUMPTIVE TAX REGIME, NO NUMERICAL RECONCILIATION OF THE TAX RATE HAS BEEN GIVEN.

12 CONTINGENCIES AND COMMITMENTS

CONTINGENCIES

- 12.1 THE HOLDING COMPANY WAS DENIED EXEMPTION BY THE CUSTOMS DEPARTMENT UNDER SRO 484(I)/92 FROM LEVY OF CUSTOMS DUTY AND SALES TAX ON CERTAIN PLANT AND MACHINERY. THE HOLDING COMPANY FILED AN APPEAL IN THE HIGH COURT, WHICH WAS DECIDED IN ITS FAVOUR. THE DEPARTMENT HAS FILED AN APPEAL AGAINST THE SAME IN THE SUPREME COURT. IN CASE OF ADVERSE DECISION THE MAXIMUM LIABILITY IS LIKELY TO RISE TO RS.9.40 MILLION APPROXIMATELY. NO PROVISION HAS BEEN MADE IN THESE ACCOUNTS SINCE THE HOLDING COMPANY EXPECTS A FAVOURABLE OUTCOME.
- 12.2 THE HOLDING COMPANY FILED A CONSTITUTIONAL PETITION IN THE SINDH HIGH COURT AGAINST THE CUSTOMS AUTHORITIES. THE CASE HAD BEEN REFERRED BACK TO THE COLLECTOR OF CUSTOMS THROUGH CENTRAL BOARD OF REVENUE AND IS STILL PENDING. THE DISPUTED AMOUNT OF RS.1,293,061 HAS ALREADY BEEN DEPOSITED WITH THE SINDH HIGH COURT HENCE NO ADDITIONAL LIABILITY IS EXPECTED TO ARISE.
- 12.3 THE HOLDING COMPANY IMPORTED TEXTILE MACHINERY AVAILING EXEMPTION FROM CUSTOMS DUTY AND SALES TAX ON IMPORTATION THEREOF UNDER VARIOUS SROs. THE CLAIM SUBJECT TO FULFILMENT OF CERTAIN CONDITIONS AGGREGATES RS.68.156 MILLION (2004: RS. 68.156 MILLION).
- 12.4 THE HOLDING COMPANY HAS FILED AN APPEAL BEFORE THE LAHORE HIGH COURT FOR RECOVERY OF ITS CLAIM FROM THE INSURANCE COMPANIES AMOUNTING TO RS.2.46 MILLION (2004: RS. 2.46 MILLION). THE APPEAL IS PENDING FOR ADJUDICATION.
- 12.5 REFER CONTENTS OF NOTE 3.3 & 3.4 REGARDING DIVIDEND.

COMMITMENTS

- 12.6 COUNTER GUARANTEES GIVEN BY THE HOLDING COMPANY TO ITS BANKERS OUTSTANDING AS AT 31 DECEMBER, 2005 WERE FOR RS. 24.00 MILLION (2004: RS. 0.102 MILLION).
- 12.7 COMMITMENTS AGAINST IRREVOCABLE LETTERS OF CREDIT OUTSTANDING AS AT 31ST DECEMBER, 2005 AMOUNT TO RS.126.89 MILLION (2004:RS.300 MILLION).
- 12.8 THE HOLDING COMPANY DURING THE PERIOD ENTERED INTO A FINANCING AGREEMENT TO THE TUNE OF EURO 15 MILLION WITH DEUTSCHE INVESTITIONS-UND MBH A FINANCIAL INSTITUTION INCORPORATED UNDER THE LAWS OF GERMANY. THE LOAN WILL BE EXCLUSIVELY USED TO FINANCE THE INSTALLATION OF NEW SPINNING, DENIM AND GARMENT PROJECTS. THE FIRST DISBURSEMENT OF THE LOAN HAS BEEN RECEIVED SUBSEQUENT TO THE BALANCE SHEET DATE. THE LOAN IS REPAYABLE IN 10 EQUAL HALF YEARLY INSTALLMENTS COMMENCING AUGUST 15, 2008. THE FACILITY CARRIES INTEREST AT SIX MONTHS EURIBOR RATE PLUS 3.25% PER ANNUM. IN CASE OF DELAYED PAYMENT 2% ADDITIONAL INTEREST WILL BE PAYABLE FOR THE PERIOD OF DEFAULT.

THIS LOAN IS SECURED BY FIRST PARI PASSU CHARGE OVER LAND, BUILDINGS AND ALL MOVABLE ASSETS, AND PROMISSORY NOTE.

- 12.9 THE HOLDING COMPANY DURING THE PERIOD ENTERED INTO AN AGREEMENT WITH M/s ALI MURTAZA ASSOCIATES (PVT.) LTD. FOR THE PURCHASE OF A GARMENT STITCHING UNIT LOCATED AT FERDZEPUR ROAD LAHORE AT PURCHASE PRICE OF RS.530 MILLION AGAINST WHICH 10% ADVANCE PAYMENT HAS BEEN MADE AS PER AGREEMENT WHICH HAS BEEN GROUPED UNDER CAPITAL WORK IN PROGRESS, RS.347 MILLION WILL BE PAID ON EXECUTION OF SALE DEED AND THE BALANCE WILL BE PAID WITHIN ONE YEAR OF EXECUTION OF SALE DEED AND DELIVERY OF POSSESSION OF THE PROPERTY.

NOTES TO THE CONSOLIDATED ACCOUNTS FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

13. OPERATING FIXED ASSETS

PARTICULARS	COST / REVALUATION				AS AT 31 DECEMBER, 2005	RATE %	DEPRECIATION				NET BOOK VALUE AS AT 31 DECEMBER, 2005
	AS AT 30 SEPTEMBER, 2004	ADDITIONS DURING THE PERIOD	LEASED ASSETS TRANSFERS	DISPOSALS			AS AT 30 SEPTEMBER, 2004	FOR THE PERIOD	ON DISPOSALS/ TRANSFERS	TO 31 DECEMBER, 2005	
OWNED:											
FREEHOLD LAND											
- COST	337,637,648	23,374,593	-	-	361,012,241	-	-	-	-	-	361,012,241
- REVALUATION	8,442,352	-	-	-	8,442,352	-	-	-	-	-	8,442,352
	346,080,000	23,374,593	-	-	369,454,593	-	-	-	-	-	369,454,593
BUILDINGS ON FREEHOLD LAND											
- COST	313,393,182	76,827,978	-	-	390,221,160	5.0	88,930,334	18,633,575	-	107,563,909	282,657,251
- REVALUATION	19,455,864	-	-	-	19,455,864	5.0	2,335,920	1,069,996	-	3,405,916	16,049,948
	332,849,046	76,827,978	-	-	409,677,024		91,266,254	19,703,571	-	110,969,825	298,707,199
PLANT AND MACHINERY											
- COST	2,423,842,646	376,853,599	46,486,925	17,971,277	2,829,211,893	7.5	775,914,849	177,399,812	(9,040,434)	953,387,168	1,875,824,725
- REVALUATION	386,225,258	-	-	313,772	385,911,486	7.5	105,223,043	26,322,556	(85,484)	131,460,115	254,451,371
	2,810,067,904	376,853,599	46,486,925	18,285,049	3,215,123,379		881,137,892	203,722,368	(12,977)	1,084,847,283	2,130,276,096
FURNITURE AND FITTINGS											
VEHICLES	12,559,256	10,890,323	-	-	23,449,579	10.0	5,594,515	2,242,049	-	7,836,564	15,613,015
	21,348,845	1,379,565	7,058,360	5,296,930	24,489,840	20.0	14,051,806	2,438,290	(2,141,458)	17,174,971	7,314,869
	6,414,208	4,756,781	-	-	11,170,989	10.0	3,507,445	957,943	-	4,465,388	6,705,601
OFFICE EQUIPMENTS	39,923,367	31,919,387	-	-	71,842,754	10.0	10,210,920	7,714,110	-	17,925,030	53,917,724
ELECTRICAL INSTALLATIONS	59,799,469	16,311,238	-	-	76,110,707	10.0	17,433,099	7,347,429	-	24,780,528	51,330,179
	3,629,042,095	542,313,464	53,545,285	23,581,979	4,201,318,865		1,023,201,931	244,125,760	671,898	1,267,999,589	2,933,319,276
LEASED:											
PLANT AND MACHINERY	266,252,068	-	(46,486,925)	-	219,765,143	7.5	35,661,410	18,114,062	(9,112,941)	44,662,531	175,102,612
VEHICLES	18,506,559	903,300	(7,058,360)	-	12,351,499	20.0	7,000,980	2,044,213	(2,826,333)	6,218,860	6,132,639
	284,758,627	903,300	(53,545,285)	-	232,116,642		42,662,390	20,158,275	(11,939,274)	50,881,391	181,235,251
2005 RUPEES	3,913,800,722	543,216,764	-	23,581,979	4,433,435,507		1,065,864,321	264,284,035	(11,267,376)	1,318,880,980	3,114,554,527
2004 RUPEES	2,835,124,658	775,515,435	-	1,690,500	3,608,949,593		583,786,667	177,904,224	(677,700)	761,013,191	2,847,936,402

13.1 LAND, BUILDING AND PLANT AND MACHINERY HAVE BEEN REVALUED IN 2002 BY AN INDEPENDENT VALUER M/S. BLUE FEATHERS AFFILIATIONS. THESE ASSETS WERE REVALUED ON THE BASIS OF PRESENT REPLACEMENT DEPRECIATED VALUES.

13.2 DISPOSAL OF OPERATING FIXED ASSETS.

PARTICULARS	COST	ACCUMULATED DEPRECIATION	BOOK VALUE	SALE PROCEEDS	GAIN	MODE OF DISPOSAL	PARTICULARS OF PURCHASER
VEHICLES							
CULTUS	655,000	235,800	419,200	568,598	149,398	COMPANY'S CAR SCHEME	MR. AHSAN RIAZ KHAN
CULTUS	669,000	326,472	342,528	474,806	132,278	COMPANY'S CAR SCHEME	MR. AHMAD IMRAN
TOYOTA COROLLA	1,379,580	496,649	882,931	941,323	58,392	COMPANY'S CAR SCHEME	MR. AMIR USMAN
TOYOTA COROLLA	1,368,580	492,689	875,891	940,924	65,033	COMPANY'S CAR SCHEME	MR. MUHAMMAD HUSSAIN
HONDA CIVIC	1,224,770	589,848	634,922	634,922	-	COMPANY'S CAR SCHEME	MR. IRFAN NAZIR
MACHINERY							
D6 RING FRAMES	5,307,360	4,058,844	1,248,516	840,000	(408,516)	NEGOTIATION	INTNL TEXTILE MACHINERY ENTERPRISES, KARACHI
WASHING MACHINES	4,323,231	1,371,627	2,951,604	961,435	(1,990,169)	NEGOTIATION	MASTER IJAZ & MASTER KHALIL
STITCHING MACHINES	8,654,458	3,695,447	4,959,011	290,817	(4,668,194)	NEGOTIATION	BRAVO INTERNATIONAL
RUPEES	23,581,979	11,267,376	12,314,603	5,652,825	(6,661,778)		

13.3 DEPRECIATION FOR THE PERIOD HAS BEEN APPORTIONED AS UNDER:

	2005 RUPEES	2004 RUPEES
COST OF SALES	253,998,842	164,167,467
ADMINISTRATIVE AND SELLING EXPENSES CAPITALISED DURING THE PERIOD	10,285,193	6,338,324
	-	7,398,433
	264,284,035	177,904,224

13.4 FIGURES OF BOTH THE COST OF FIXED ASSETS AND RELATED ACCUMULATED DEPRECIATION HAVE BEEN INCREASED BY THE AMOUNT OF RS.304,851,129 WHICH REPRESENTS BALANCE OF ACCUMULATED DEPRECIATION OF NAFEEZ COTTON MILLS LTD. AT THE TIME OF MERGER AS AT 31 MARCH, 2002 WHICH WAS ADJUSTED AGAINST COST AT THAT TIME. THESE ARRANGEMENT OF FIGURES HAVE NO AFFECT ON THE AMOUNT OF DEPRECIATION CALCULATED FOR CURRENT PERIOD AND PREVIOUS YEARS.

13.5 FIGURES OF TOOLS & EQUIPMENT AND OFFICE EQUIPMENT ARE RE-CLASSIFIED IN THE CURRENT PERIOD HAVING NO CURRENT OR RETROSPECTIVE AFFECT ON THE AMOUNT OF DEPRECIATION.

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

				31 DECEMBER, 05 RUPEES	30 SEPTEMBER, 04 RUPEES
14			CAPITAL WORK IN PROGRESS		
			BUILDINGS ON FREEHOLD LAND		
			– COST AND EXPENSES	334,658,520	–
			– ADVANCE PAYMENTS	153,915,717	27,527,485
				488,574,237	27,527,485
			PLANT AND MACHINERY		
			– COST AND EXPENSES	1,975,292,610	62,231,641
		14.2	ELECTRIC INSTALLATION	15,920,713	–
			OFFICE EQUIPMENT AND FITTINGS	116,100	–
				2,479,903,660	89,759,126
14.1			IT INCLUDES NET EXCHANGE DIFFERENCE OF Rs.35,002 ARISING ON THE TRANSLATION OF FINANCIAL STATEMENTS OF FOREIGN SUBSIDIARY.		
14.2			THIS INCLUDES PURCHASE PRICE, IMPORT DUTIES AND THE COST DIRECTLY ATTRIBUTABLE TO BRINGING THE ASSETS TO THE CONDITION OF OPERATING IN THE MANNER INTENDED BY THE MANAGEMENT. THE BREAK UP IS AS FOLLOWS:		
			– PURCHASE PRICE INCLUDING IMPORT DUTIES	1,699,063,205	
			– BORROWING COST	92,169,262	
			– OTHER ATTRIBUTABLE COSTS		
			RAW MATERIAL CONSUMED	196,287,304	
			SALARIES, WAGES AND OTHER BENEFITS	81,523,102	
			POWER AND FUEL	36,750,368	
			STORES CONSUMED	27,040,824	
			OTHER COSTS	20,500,102	
			PROCEEDS FROM SAMPLES SOLD	(144,322,226)	
			REALISABLE VALUE OF CLOSING FINISHED GOODS	(23,446,575)	
			REALISABLE VALUE OF CLOSING WORK IN PROCESS	(10,272,756)	
				184,060,143	
				1,975,292,610	
15			INTANGIBLE ASSETS		
			DEVELOPMENT COSTS		
		15.1	TEXTILE QUOTA	64,221,974	81,187,908
		15.2		–	–
				64,221,974	81,187,908
			ERP – ORACLE FINANCIAL	9,715,302	7,187,681
				73,937,276	88,375,589
15.1			THIS RELATES TO EXPENDITURE ON DEVELOPMENT OF NEW PRODUCTS TO GAIN COMPETITIVE ADVANTAGE IN THE NATIONAL AND INTERNATIONAL MARKET. THE MANAGEMENT PLANS TO CONTINUE THIS POLICY AND INCREASE RESEARCH AND DEVELOPMENT SPENDING IN THE TIMES TO COME.		
			OPENING BALANCE	81,187,908	–
			COST INCURRED DURING THE PERIOD	–	81,187,908
				81,187,908	–
			LESS: AMORTISATION	16,965,934	–
				64,221,974	81,187,908
15.2			TEXTILE QUOTA		
			OPENING BALANCE	24,917,583	24,469,044
			PURCHASES/SALES DURING THE PERIOD	(1,353,180)	23,413,271
				23,564,403	47,882,315
			LESS: AMORTISATION OF TEXTILE QUOTA	23,564,403	22,964,732
				–	24,917,583
			LESS: CURRENT PORTION GROUPED UNDER CURRENT ASSETS	–	24,917,583
				–	–
15.3			THIS REPRESENTS COST RELATING TO IMPLEMENTATION OF ORACLE FINANCIAL, WHICH IS UNDER PROCESS AS AT BALANCE SHEET DATE.		

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

	NOTE	31 DECEMBER, 05 RUPEES	30 SEPTEMBER, 04 RUPEES
16	LONG TERM INVESTMENTS		
16.1	AVAILABLE FOR SALE		
	QUOTED		
	COLONY TEXTILE MILLS LTD.		
	456 (2004: 456) ORDINARY SHARES OF RS.10 EACH	8,664	8,664
	APPRECIATION/DIMINUTION IN VALUE OF INVESTMENT	2,736	(456)
	MARKET VALUE RS. 25 PER SHARE (2004: RS. 18)	11,400	8,208
	BSJS BALANCED FUND LTD.		
	1,000 ORDINARY SHARES OF RS. 10 EACH.	10,000	10,000
	APPRECIATION IN VALUE OF INVESTMENT	3,250	600
	MARKET VALUE RS. 13.25 PER SHARE (2004: RS. 10.60)	13,250	10,600
	UNQUOTED		
	NATIONAL SECURITY INSURANCE CO. LTD.		
	221,504 (2004:221,504) ORDINARY SHARES OF RS.10 EACH	996,768	996,768
16.2	HELD TO MATURITY (TERM FINANCE CERTIFICATES):		
	CHANDA OIL & GAS SECURITIZATION CO. LTD		
	12,895 SCRIPS OF RS.5,000 EACH	61,638,100	-
	16.2.1 CURRENT MATURITY GROUPED UNDER CURRENT ASSETS	(4,255,350)	-
		57,382,750	
	NIAMAT BASAL OIL		
	3,913 SCRIPS OF RS.5,000 EACH	18,275,160	-
	16.2.2 CURRENT MATURITY GROUPED UNDER CURRENT ASSETS	(4,217,118)	-
		14,058,042	
	TELECARD LIMITED - TFC		
	3,715 SCRIPS OF RS.5,000 EACH	18,571,285	-
	16.2.3 CURRENT MATURITY GROUPED UNDER CURRENT ASSETS	(1,164,653)	-
		17,406,632	-
		89,868,842	1,015,576

16.2.1 THESE TFC'S ARE REDEEMABLE IN 7 YEARS STARTING FROM SIX MONTHS AFTER THE DATE OF CLOSING OF SUBSCRIPTION DATE AND THEREAFTER QUARTERLY. IT CARRIES INTEREST PAYABLE QUARTERLY AT BASE RATE PLUS 3.25% WHERE BASE RATE IS A SIMPLE AVERAGE OF THE LAST 7 DAYS OF ASK SIDE OF THREE MONTHS DAILY AVERAGE KIBOR RATES WITH A FLOOR OF 8.95% AND CAP OF 13.0% PER ANNUM. THESE SCRIPS ARE PLEDGED AS SECURITY AGAINST VARIOUS FINANCE FACILITIES.

16.2.2 THESE TFC'S ARE REDEEMABLE BY MONTHLY INSTALLMENTS IN FIVE YEARS. IT CARRIES INTEREST AT BASE RATE PLUS 2.5% WHERE BASE RATE IS AVERAGE OF THE SIX MONTH DAILY AVERAGE RATE CALCULATED ON KIBOR ON THE LAST WORKING DAY PRIOR TO START OF EACH MONTHLY PERIOD FOR WHICH PROFIT DUE WITH A FLOOR OF 7.5% AND CAP OF 13.0% PER ANNUM. THESE SCRIPS ARE PLEDGED AS SECURITY AGAINST VARIOUS FINANCE FACILITIES.

16.2.3 THESE TFC'S ARE REDEEMABLE IN 6 YEARS BY SEMI-ANNUAL INSTALLMENTS. IT CARRIES INTEREST AT 3.75% PLUS BASE RATE WHERE BASE RATE IS SIMPLE AVERAGE OF THE SIX MONTH KIBOR ON THE FIRST WORKING DAY OF THE START OF EACH SEMI-ANNUAL PERIOD FOR PROFIT DUE.

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

	NOTE	31 DECEMBER, 05 RUPEES	30 SEPTEMBER, 04 RUPEES
17 LONG TERM DEPOSITS			
OPENING BALANCE		18,517,830	3,649,720
COST INCURRED DURING THE PERIOD		11,227,305	14,868,110
		29,745,135	18,517,830
		29,745,135	18,517,830

THESE INCLUDE SECURITY DEPOSITS FOR ELECTRICITY Rs. 5,327,400/- AND WITH SUI NORTHERN GAS PIPE LINES LTD. Rs. 15,265,300/-.

18 STORES, SPARES AND LOOSE TOOLS			
STORE		60,280,813	50,503,425
SPARES		27,069,375	21,443,068
LOOSE TOOLS		440,167	662,200
		87,790,355	72,608,693

18.1 INCLUDED IN STORES AND SPARES ARE ITEMS IN TRANSIT VALUING Rs. 0.662 MILLION (2004: Rs.0.750 MILLION).

18.2 THE COMPANY DOES NOT HOLD ANY STORES AND SPARES FOR SPECIFIC CAPITALISATION.

19 STOCK IN TRADE			
RAW MATERIALS		1,507,912,595	636,338,989
WORK IN PROCESS		227,469,465	220,379,606
WORK IN PROCESS - TRIAL RUN		10,272,756	-
FINISHED GOODS		266,597,655	568,745,505
FINISHED GOODS - TRIAL RUN		23,446,575	-
WASTE		176,023	122,719
		2,035,875,069	1,425,586,819

19.1 INCLUDED IN RAW MATERIALS ARE STOCKS IN TRANSIT VALUING Rs. 62.030 MILLION (2004:Rs.75 MILLION) AND STOCKS IN CUSTOMS BOND Rs.7.293 MILLION (2004:Rs.NIL).

19.2 STOCKS AMOUNTING TO Rs.1,044.249 MILLION (2004: 160.146 MILLION) HAVE BEEN PLEDGED AS SECURITY WITH VARIOUS BANKS AGAINST FINANCING FACILITIES.

19.3 TRIAL RUN STOCKS ARE VALUED AT NRV.

20 TRADE DEBTS			
CONSIDERED GOOD:			
SECURED	20.1	519,678,402	610,600,400
UN-SECURED		514,990,993	313,607,956
CONSIDERED DOUBTFUL		4,249,348	4,249,348
		1,038,918,743	928,457,704
LESS: PROVISION FOR DOUBTFUL DEBTS		(4,249,348)	(4,249,348)
		1,034,669,395	924,208,356

20.1 THESE ARE SECURED BY LETTER OF CREDIT.

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

21 DERIVATIVE FINANCIAL INSTRUMENTS

THE HOLDING COMPANY DURING THE CURRENT FINANCIAL PERIOD HAS ENTERED INTO LOCAL AND FOREIGN CURRENCY INTEREST RATE SWAP CONTRACT TO HEDGE THE POSSIBLE ADVERSE MOVEMENTS IN INTEREST RATES ARISING ON FOREIGN CURRENCY PAYMENTS AS WELL AS UNSTABLE MARKET PRICING. AS THE HEDGING RELATIONSHIP IS EFFECTIVE & MEETS THE CRITERIA OF CASH FLOW HEDGE, THIS ARRANGEMENT QUALIFIES FOR HEDGE ACCOUNTING AS PER SPECIFICATION IAS-39 FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT.

THE INCREASE IN FAIR VALUE OF INTEREST RATE SWAP RESULTS IN GAIN AMOUNTING RS. 13.459 MILLION WHICH HAS BEEN RECOGNISED IN THE STATEMENT OF CHANGES IN EQUITY AS HEDGING RESERVE.

	NOTE	31 DECEMBER, 05 RUPEES	30 SEPTEMBER, 04 RUPEES
22 ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES			
ADVANCES - UNSECURED CONSIDERED GOOD			
TO EMPLOYEES	22.1 & 22.2	31,059,330	19,357,526
TO SUPPLIERS, CONTRACTORS AND OTHERS		407,631,218	158,543,173
SECURITY DEPOSIT		3,115,165	9,314,906
MARGIN DEPOSITS	22.3	2,297,956	201,562,598
PREPAYMENTS		10,064,786	9,411,351
EXPORT REBATE RECEIVABLE INCL. SBP 6%		56,947,188	26,624,906
SALES TAX RECOVERABLE		81,783,885	141,957,831
TEXTILE QUOTA		-	24,917,583
LETTERS OF CREDIT		175,710,254	26,571,132
TAX DEDUCTED AT SOURCE / TAX REFUNDABLE		107,828,533	85,906,387
OCTROI REFUNDABLE		-	2,778,781
INSURANCE CLAIM	12.4	14,462,187	2,462,187
OTHER RECEIVABLES - UNSECURED, CONSIDERED GOOD		6,352,225	4,052,709
		897,252,727	713,461,070

22.1 ADVANCES TO EMPLOYEES ARE AGAINST PURCHASE AND OTHER EXPENSES ON HOLDING COMPANY'S BEHALF.

22.2 NO ADVANCES HAVE BEEN GIVEN TO CHIEF EXECUTIVE / DIRECTORS DURING THE PERIOD.

22.3 IT REPRESENTS DEPOSITS AGAINST LETTERS OF CREDIT AND OTHER WORKING CAPITAL UTILISED.

NOTES TO THE CONSOLIDATED ACCOUNTS
FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

23	SHORT TERM INVESTMENTS	31 DECEMBER, 05 RUPEES	30 SEPTEMBER, 04 RUPEES
	HELD FOR TRADING QUOTED		
	BANK OF PUNJAB		
	13,000 (2004: 3,895,100) ORDINARY SHARES OF Rs.10 EACH	1,358,399	29,355,786
	DIMINUTION/APPRECIATION IN VALUE OF INVESTMENT MARKET VALUE Rs.102.45 PER SHARE (2004: Rs 66.27)	(26,549)	995,875
		1,331,850	30,351,661
	NATIONAL BANK OF PAKISTAN		
	160,100 (2004: 400,000) ORDINARY SHARES OF Rs.10 EACH	32,242,667	29,152,758
	DIMINUTION/APPRECIATION IN VALUE OF INVESTMENT MARKET VALUE Rs.199.45 PER SHARE (2004: Rs 69.13)	(310,722)	849,662
		31,931,945	30,002,420
	PAKISTAN TELECOMMUNICATION CO. LTD		
	1,111,500 ORDINARY SHARES OF Rs. 10 EACH	-	43,688,699
	APPRECIATION IN VALUE OF INVESTMENT MARKET VALUE Rs.NIL PER SHARE (2004: Rs 43.90)	-	5,106,151
		-	48,794,850
	MUSLIM COMMERCIAL BANK LTD.		
	30,000 ORDINARY SHARES OF Rs.10 EACH	5,428,051	-
	DIMINUTION IN VALUE OF INVESTMENT MARKET VALUE Rs.167.80 PER SHARE	(394,051)	-
		5,034,000	-
	ABAMCO CAPITAL FUND		
	4,897,000 ORDINARY SHARES OF Rs.10.10 EACH	39,910,550	-
	APPRECIATION IN VALUE OF INVESTMENT MARKET VALUE Rs.13.50 PER SHARE	26,198,950	-
		66,109,500	-
	ASKARI COMMERCIAL BANK LIMITED		
	189,500 ORDINARY SHARES OF Rs.10 EACH EQUITY HELD 0.126%	24,089,087	-
	DIMINUTION IN VALUE OF INVESTMENT MARKET VALUE Rs.126.80 PER SHARE	(60,487)	-
		24,028,600	-
	FAUJI FERTILIZERS LTD.		
	65,100 ORDINARY SHARES OF Rs.10 EACH	8,260,593	-
	APPRECIATION IN VALUE OF INVESTMENT MARKET VALUE Rs.137 PER SHARE	658,107	-
		8,918,700	-

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

	NOTE	31 DECEMBER, 05 RUPEES	30 SEPTEMBER, 04 RUPEES
ATTOCK REFINERY LIMITED			
46,000 ORDINARY SHARES OF RS.10 EACH		8,054,170	-
APPRECIATION IN VALUE OF INVESTMENT		1,513,830	-
MARKET VALUE RS.208.00 PER SHARE		9,568,000	-
FAYSAL BANK LTD			
540,525 ORDINARY SHARES OF RS.10 EACH		35,425,806	-
APPRECIATION IN VALUE OF INVESTMENT		4,627,097	-
MARKET VALUE RS.74.10 PER SHARE		40,052,903	-
ADAMJEE INSURANCE CO. LTD.			
183,800 ORDINARY SHARES OF RS.10 EACH		22,375,803	-
APPRECIATION IN VALUE OF INVESTMENT		2,804,797	-
MARKET VALUE RS 137 PER SHARE		25,180,600	-
LUCKY CEMENT			
20,000 ORDINARY SHARES OF RS.10 EACH		1,584,958	-
APPRECIATION IN VALUE OF INVESTMENT		93,042	-
MARKET VALUE RS.83.90 PER SHARE		1,678,000	-
PAKISTAN STATE OIL COMPANY LTD.			
6,500 ORDINARY SHARES OF RS.10 EACH		2,761,576	-
DIMINUTION IN VALUE OF INVESTMENT		(52,051)	-
MARKET VALUE RS.416.85 PER SHARE		2,709,525	-
PAKISTAN INDUSTRIAL CREDIT AND INVESTMENT CORPORATION			
4,000 ORDINARY SHARES OF RS.10 EACH		271,724	-
DIMINUTION IN VALUE OF INVESTMENT		(12,524)	-
MARKET VALUE RS.64.80 PER SHARE		259,200	-
HELD TO MATURITY			
TERM DEPOSIT RECEIPT	23.2	454,124,227	-
		670,927,050	109,148,931
23.1	SHARES OF ABAMCO CAPITAL FUND, ADAMJEE INSURANCE COMPANY LIMITED, FAYSAL BANK LIMITED, FAUJI FERTILIZER COMPANY LIMITED AND NATIONAL BANK OF PAKISTAN LIMITED ARE PLEDGED AS SECURITY AGAINST VARIOUS FINANCE FACILITIES.		
23.2	THE BALANCE REPRESENT INVESTMENT IN TDRs OF ABN AMRO BANK AMOUNTING US \$ 500,000/- FOR A PERIOD OF ONE MONTH AT THE RATE OF 2.60% AND IN TDRs OF NIB BANK AMOUNTING RS.423.943 MILLION FOR A PERIOD OF ONE MONTH AT THE RATE OF 9.00%.		
24	CASH AND BANK BALANCES		
CASH IN HAND		1,504,680	2,556,878
CASH WITH BANKS IN:			
CURRENT ACCOUNTS		40,664,598	9,604,150
SAVING ACCOUNTS		4,113,383	8,787,582
		44,777,981	18,391,732
		46,282,661	20,948,610
24.1	CASH AT BANKS ON SAVING AND CURRENT ACCOUNTS INCLUDE FOREIGN CURRENCY BALANCES OF US \$ 155,229 (2004: US \$ 132,764) & EURO 29,293.99 (2004: NIL) WHICH HAVE BEEN CONVERTED INTO PAK RUPEES AT THE EXCHANGE RATE PREVAILING ON THE BALANCE SHEET DATE I.E. US \$ 1 = Rs. 59.73 (2004:US \$ 1=Rs. 59.35) AND EURO 1 = Rs.70.71.		

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

		NOTE	31 DECEMBER, 05 RUPEES	30 SEPTEMBER, 04 RUPEES
25	SALES -NET			
	LOCAL		750,216,920	1,613,246,671
	EXPORT - (INCLUDING INDIRECT EXPORT)			
	NET OF EXPORT DEVELOPMENT SURCHARGE			
	AMOUNTING TO Rs.5,730,404 TO (2004: Rs. 3,484,649)			
	AND EXCHANGE GAIN OF Rs. 14,794,775			
	(2004:Rs. 13,221,017)		3,870,557,096	1,657,688,070
	WASTE		41,428,012	33,097,303
			4,662,202,028	3,304,032,044
	LESS: COMMISSION TO SELLING AGENTS - LOCAL		34,860,167	3,501,456
	- EXPORT		19,377,301	34,874,588
	SALES TAX		136,731,073	94,596,501
	BROKERAGE AND DISCOUNTS		10,404,558	10,279,066
			201,373,099	143,251,611
			4,460,828,929	3,160,780,433
26	COST OF SALES			
	RAW MATERIALS AND OTHER DIRECT			
	MATERIALS CONSUMED		1,824,980,048	1,778,889,828
	SALARIES, WAGES AND BENEFITS		354,746,907	283,661,014
	FUEL AND POWER		333,090,255	189,237,711
	STORE AND SPARES CONSUMED		152,724,507	48,628,540
	TRAVELLING ,CONVEYANCE AND ENTERTAINMENT		9,220,631	16,704,076
	RENT, RATES AND TAXES		5,141,456	2,070,589
	INSURANCE		8,064,020	6,792,699
	REPAIR AND MAINTENANCE		22,665,131	10,793,306
	PROCESSING CHARGES		22,330,528	17,529,443
	DEPRECIATION	13.3	253,998,842	164,167,467
	R & D AMORTIZATION		16,965,934	-
	PRINTING & STATIONERY		3,797,218	710,526
	COMMUNICATIONS		1,872,407	2,530,894
	OTHERS		17,745,768	6,921,232
			3,027,343,652	2,528,637,325
	ADJUSTMENT OF WORK IN PROCESS			
	OPENING		220,379,606	172,868,794
	CLOSING		(227,469,465)	(220,379,606)
			(7,089,859)	(47,510,812)
	COST OF GOODS MANUFACTURED		3,020,253,793	2,481,126,513
	ADJUSTMENT OF FINISHED GOODS			
	OPENING		568,868,224	472,496,892
	PURCHASES		-	56,024,092
	CLOSING		(266,773,678)	(568,868,224)
			302,094,546	(40,347,240)
			3,322,348,339	2,440,779,273

26.1 SALARIES, WAGES AND BENEFITS INCLUDE CONTRIBUTION TO STAFF RETIREMENT BENEFITS AMOUNTING TO Rs. 24,325,377 (2004: Rs. 14,531,265).

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

	NOTE	31 DECEMBER, 05 RUPEES	30 SEPTEMBER, 04 RUPEES
27	ADMINISTRATIVE AND SELLING EXPENSES		
	SALARIES AND BENEFITS	103,970,037	53,703,016
	TRAVELLING AND CONVEYANCE INCLUDING CHIEF EXECUTIVE/DIRECTORS ¹		
	TRAVELLING Rs. 22,367,701 (2004:Rs.9,887,430)	54,340,963	16,005,579
	POWER AND FUEL	3,303,763	1,580,446
	REPAIR AND MAINTENANCE	3,581,988	2,514,315
	RENT, RATES AND TAXES	760,014	1,247,250
	INSURANCE	1,764,074	450,145
	FREIGHT AND CLEARING CHARGES	80,684,019	48,598,511
	PRINTING AND STATIONERY	3,457,129	2,114,502
	COMMUNICATIONS	19,112,928	11,295,398
	ADVERTISEMENT AND SALES PROMOTION	4,501,610	6,829,196
	LEGAL AND PROFESSIONAL CHARGES	6,472,585	2,127,432
	DEPRECIATION	10,285,193	6,338,324
	AMORTISATION OF TEXTILE QUOTA	23,564,403	22,964,732
	FEES AND SUBSCRIPTION	3,441,907	2,636,288
	OTHERS	8,242,759	8,160,361
		327,483,372	186,565,495
27.1	SALARIES, WAGES AND BENEFITS INCLUDE CONTRIBUTION TO STAFF RETIREMENT BENEFITS AMOUNTING Rs. 2,886,353 (2004: Rs.2,804,677).		
27.2	LEGAL AND PROFESSIONAL CHARGES THE CHARGES FOR PROFESSIONAL SERVICES INCLUDE THE FOLLOWING IN RESPECT OF AUDITOR'S SERVICES FOR:		
	AUDIT	185,000	185,000
	CERTIFICATION AND OTHER SERVICES	161,250	30,000
		346,250	215,000
28	GOVERNMENTS GRANTS THE HOLDING COMPANY DURING THE PERIOD HAS LODGED CLAIMS AMOUNTING FOR Rs. 53,036,367 AS RESEARCH & DEVELOPMENT REBATE WHICH HAS BEEN TREATED AS GOVERNMENT GRANT IN ACCORDANCE WITH IAS-20, "GOVERNMENT GRANT" AND IT HAS BEEN DEDUCTED IN REPORTING EXPENSES RELATING TO HIRING THE CONSULTANTS FOR ADOPTION OF NEW TECHNOLOGIES, INNOVATION AND SALES PROMOTION.		
29	OTHER INCOME		
	FINANCIAL ASSETS		
	GAIN ON SALE OF INVESTMENTS	199,442,372	1,192,320
	UNREALISED GAIN ON INVESTMENTS HELD FOR TRADING	35,039,438	6,951,688
	MARK-UP ON TFC'S	29,038,697	-
	DIVIDEND INCOME	38,934,462	-
	OTHERS		
	GAIN ON SALE OF FIXED ASSETS	405,101	266,005
	MISCELLANEOUS	2,992,762	744,411
		305,852,832	9,154,424
30	FINANCE COST		
	INTEREST ON:		
	WORKERS' PROFIT PARTICIPATION FUND	326,582	818,980
	MARK UP ON:		
	LONG TERM FINANCING - SECURED	93,647,624	23,198,011
	SHORT TERM BORROWINGS -SECURED	176,264,631	74,804,694
	LEASE FINANCE CHARGES	9,724,293	16,644,210
	GUARANTEE COMMISSION AND BANK CHARGES	28,512,347	8,242,486
	LESS: RETURN ON BANK DEPOSITS	(17,966,099)	(710,367)
		290,509,378	122,998,014

THESE INCLUDE MARK-UP PAID TO RELATED PARTIES TO THE TUNE OF Rs. 6,604,158 (2004: 833,912).

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

			31 DECEMBER, 05 RUPEES	30 SEPTEMBER, 04 RUPEES
31	OTHER CHARGES	NOTE		
	LOSS ON DISPOSAL OF FIXED ASSETS		7,066,879	-
	DONATIONS	31.1	4,694,172	110,944
	PROVISION FOR DIMINUTION IN VALUE OF INVESTMENTS		-	456
			11,761,051	111,400

31.1 RECIPIENTS OF DONATIONS DO NOT INCLUDE ANY DONEE IN WHOM ANY DIRECTOR OR HIS / HER SPOUSE HAS ANY INTEREST.

32 EARNINGS PER SHARE (EPS)

BASIC

NET PROFIT AFTER TAX ATTRIBUTABLE TO ORDINARY SHARE HOLDERS	643,016,382	375,726,023
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NO. OF SHARES	NO. OF SHARES
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WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES	86,865,434	86,865,434
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RUPEES	RUPEES
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EPS	7.40	4.33
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DILUTED

NET PROFIT AFTER TAX ATTRIBUTABLE TO ORDINARY SHAREHOLDERS	643,016,382	375,726,023
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EFFECT OF DILUTIVE POTENTIAL ORDINARY SHARES: INTEREST ON CONVERTIBLE TFCs	16,478,929	
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PREFERENCE DIVIDEND	24,295,176	319,498
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EARNINGS FOR THE PURPOSES OF DILUTED EARNING PER SHARE	683,790,487	376,045,521
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NO. OF SHARES	NO. OF SHARES
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WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES FOR BASIC EPS	86,865,434	86,865,434
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EFFECT OF DILUTIVE POTENTIAL ORDINARY SHARES: CONVERTIBLE TFCs	4,203,110	-
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PREFERENCE SHARES	14,767,124	242,747
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WEIGHTED AVERAGE NO. OF ORDINARY SHARES FOR THE PURPOSES OF DILUTED EARNING PER SHARE	105,835,668	87,108,181
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RUPEES	RUPEES
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EPS	6.46	4.32
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33 REMUNERATION OF CHIEF EXECUTIVE AND EXECUTIVES

THE AGGREGATE AMOUNT CHARGED IN THE ACCOUNTS FOR REMUNERATION, INCLUDING ALL BENEFITS, TO THE CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES OF THE COMPANY IS AS FOLLOWS:

	CHIEF EXECUTIVE		DIRECTORS		EXECUTIVES	
	2005 RUPEES	2004 RUPEES	2005 RUPEES	2004 RUPEES	2005 RUPEES	2004 RUPEES
MANAGERIAL REMUNERATION						
BASIC SALARY	2,400,000	1,799,604	3,625,005	1,379,340	8,869,326	6,192,766
HOUSE RENT	960,000	240,000	1,450,050	551,726	3,570,688	2,115,980
UTILITIES	240,000	60,000	362,505	137,938	853,851	564,793
LEAVE ENCASHMENT	-	60,000	-	-	-	19,911
RETIREMENT BENEFITS	102,000	-	-	-	697,790	714,689
BONUS	-	-	-	-	185,396	1,388,518
	3,702,000	2,159,604	5,437,560	2,069,004	14,177,051	10,996,657
NUMBER OF PERSONS	1	1	5	4	11	9

33.1 IN ADDITION TO ABOVE THE CHIEF EXECUTIVE HAS BEEN PROVIDED WITH FREE USE OF THE COMPANY MAINTAINED CAR. NONE (2004: NONE) OF THE DIRECTORS/EXECUTIVES HAVE BEEN PROVIDED WITH THE COMPANY MAINTAINED CARS.

33.2 NO FEE HAS BEEN PAID TO THE DIRECTORS DURING THE YEAR (2004: NIL).

33.3 NONE OF THE SUBSIDIARIES' DIRECTORS ARE PAID WITH REMUNERATION OR OTHER BENEFITS.

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

	NOTE	31 DECEMBER, 05 RUPEES	30 SEPTEMBER, 04 RUPEES
34	TRANSACTIONS WITH RELATED PARTIES		
	ASSOCIATES:		
	RETAINER SHIP FEE	–	1,189,718
	UNDERWRITING FEE	–	26,059,631
	BROKERAGE	4,834,233	230,975
	MARK-UP PAID	6,604,158	833,912
	PURCHASES	48,617,868	–
	MISC. EXPENSES	731,800	445,818

THERE WERE NO RECEIVABLES OR PAYABLES TO RELATED PARTIES OTHER THAN THOSE REFERRED IN NOTES 9.4.

35	CAPACITY AND PRODUCTION		
	SPINNING		
	NO. OF ROTORS INSTALLED	1,290	1,272
	PLANT CAPACITY ON THE BASIS OF UTILIZATION CONVERTED INTO 6.5s COUNT (BASED ON 3 SHIFTS PER DAY)	-KGS. 9,331,418	6,382,842
	ACTUAL PRODUCTION CONVERTED INTO 6.5s COUNT	35.1 -KGS. 7,566,724	5,145,768
	NO. OF SPINDLES INSTALLED	40,776	39,024
	PLANT CAPACITY ON THE BASIS OF UTILIZATION CONVERTED INTO 20s COUNT (BASED ON 3 SHIFTS PER DAY)	-KGS. 14,777,085	10,570,050
	ACTUAL PRODUCTION CONVERTED INTO 20s COUNT	34.2 -KGS. 12,136,950	9,561,801
	WEAVING		
	NO. OF LOOMS INSTALLED	102	93
	ANNUAL RATED CAPACITY ON THE BASIS OF UTILIZATION - AT 38 PICKS (BASED ON 3 SHIFTS PER DAY)	-MTRS. 21,433,949	15,222,452
	ACTUAL PRODUCTION - AT 38 PICKS	MTRS. 15,951,677	13,871,935
	GARMENTS		
	NO. OF STITCHING MACHINES INSTALLED	537	287
	ANNUAL CAPACITY ON THE BASIS OF UTILIZATION (BASED ON 2 SHIFTS PER DAY)	-Pcs. 4,150,000	2,400,000
	ACTUAL PRODUCTION	-Pcs. 2,261,959	1,583,414

35.1 REDUCED REQUIREMENT OF OPEN END YARN IN THE FABRIC PRODUCED DURING THE PERIOD RESULTED IN UNDER UTILISATION OF PRODUCTION CAPACITY.

35.2 IT IS DIFFICULT TO DESCRIBE PRECISELY THE PRODUCTION CAPACITY IN THE TEXTILE INDUSTRY SINCE IT FLUCTUATES WIDELY DEPENDING ON VARIOUS FACTORS SUCH AS COUNT OF YARN SPUN, SPINDLES SPEED, TWIST AND RAW MATERIALS USED ETC. IT ALSO VARIES ACCORDING TO THE PATTERN OF PRODUCTION ADOPTED IN PARTICULAR PERIOD.

35.3 SUBSIDIARIES ARE NOT INVOLVED IN ANY PRODUCTION ACTIVITIES, HENCE PRODUCTION CAPACITY STATEMENT IS NOT RELEVANT.

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

36	CHANGES IN WORKING CAPITAL	NOTE	31 DECEMBER, 05 RUPEES	30 SEPTEMBER, 04 RUPEES
	(INCREASE) IN CURRENT ASSETS			
	STORES, SPARES AND LOOSE TOOLS		(15,181,662)	(26,830,897)
	STOCK IN TRADE		(610,288,250)	(159,809,718)
	TRADE DEBTS		(110,461,039)	(387,592,772)
	ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (EXCLUDING INCOME TAX)		(186,787,094)	(78,008,417)
	(DECREASE)/INCREASE IN CURRENT LIABILITIES			
	CREDITORS, ACCRUED AND OTHER LIABILITIES (EXCLUDING ACCRUED FINANCIAL CHARGES)		1,910,857	(62,452,185)
			<u>1,910,857</u>	<u>(62,452,185)</u>
			<u>(920,807,188)</u>	<u>(714,693,989)</u>

37 FINANCIAL INSTRUMENTS

37.1 FAIR VALUE IS THE AMOUNT FOR WHICH AN ASSET COULD BE EXCHANGED, OR A LIABILITY SETTLED BETWEEN KNOWLEDGEABLE WILLING PARTIES IN AN ARM'S LENGTH TRANSACTION. AS AT 31 DECEMBER, 2005 THE NET FAIR VALUE OF ALL FINANCIAL INSTRUMENTS HAS BEEN BASED ON THE VALUATION METHODOLOGY OUTLINED BELOW:

LONG-TERM DEPOSITS

LONG TERM DEPOSITS DOES NOT CARRY ANY RATE OF RETURN. THEIR FAIR VALUE HAS BEEN TAKEN AT BOOK VALUE AS IT IS NOT CONSIDERED MATERIALLY DIFFERENT AND READILY EXCHANGEABLE.

NON-CURRENT LIABILITIES

FOR ALL NON-CURRENT LIABILITIES THE FAIR VALUES HAVE BEEN TAKEN AT BOOK VALUES AS THESE ARE NOT CONSIDERED MATERIALLY DIFFERENT BASED ON THE CURRENT MARKET RATES OF RETURN AND REPRICING PROFILES OF SIMILAR NON-CURRENT LIABILITIES.

OTHER FINANCIAL INSTRUMENTS

THE FAIR VALUES OF ALL OTHER FINANCIAL INSTRUMENTS ARE CONSIDERED TO APPROXIMATE THEIR BOOK VALUES AS THEY ARE SHORT TERM IN NATURE.

37.2 FINANCIAL ASSETS AND LIABILITIES

	INTEREST / MARK-UP RATES RANGE % PER ANNUM	INTEREST / MARK-UP BEARING			NON INTEREST / MARK-UP BEARING			TOTAL
		MATURITY UPTO ONE YEAR	MATURITY AFTER ONE YEAR	SUB-TOTAL	MATURITY UPTO ONE YEAR	MATURITY AFTER ONE YEAR	SUB-TOTAL	
		(R U P E E S)						
FINANCIAL ASSETS:								
LONG TERM INVESTMENTS	6 MONTHS KIBOR + 2.5% TO 3.75%	9,637,121	88,847,424	98,484,545	-	-	-	-
LONG TERM DEPOSITS					4,670,138	29,745,135	4,670,138	103,154,683
TRADE DEBTORS					1,034,669,395		1,034,669,395	29,745,135
DERIVATIVE FINANCIAL INSTRUMENT					13,458,916		13,458,916	1,034,669,395
ADVANCES, DEPOSITS AND OTHER RECEIVABLES					26,227,533		26,227,533	13,458,916
SHORT TERM INVESTMENTS	2.60% TO 9.00%	454,124,227		454,124,227	216,802,823		216,802,823	26,227,533
CASH AND BANK BALANCES	1% TO 3.5%	4,113,383		4,113,383	42,169,278		42,169,278	216,802,823
2005		467,874,731	88,847,424	556,722,155	1,333,327,945	34,415,273	1,367,743,218	1,924,465,373
2004		8,787,582	-	8,787,582	1,100,794,424	1,015,576	1,101,810,000	1,110,597,582
FINANCIAL LIABILITIES:								
PREFERENCE SHARES	8.95%		868,654,340	868,654,340				868,654,340
LONG TERM FINANCING	5.00% TO 12.65%	365,437,468	2,678,232,532	3,043,670,000				3,043,670,000
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE	5.50% TO 20.30%	68,343,306	40,173,972	108,517,278				108,517,278
LONG TERM DEPOSITS AND PAYABLES					2,907,643		2,907,643	2,907,643
SHORT TERM BORROWINGS	3.20% TO 11.20%				3,142,402,324		3,142,402,324	3,142,402,324
CREDITORS, ACCRUED AND OTHER LIABILITIES	8.64%	24,509,700		24,509,700	792,280,786		792,280,786	816,790,486
UNCLAIMED DIVIDEND					362,062		362,062	362,062
2005		458,290,474	3,587,060,844	4,045,351,318	3,937,952,815	-	3,937,952,815	7,983,304,133
2004		363,081,881	866,503,819	1,229,585,700	2,105,338,652	-	2,105,338,652	3,334,924,352
OFF BALANCE SHEET ITEMS:								
COMMITMENTS					603,890,777		603,890,777	603,890,777
GUARANTEE					24,000,000		24,000,000	24,000,000
2005		-	-	-	627,890,777	-	627,890,777	627,890,777
2004		-	-	-	300,102,000	-	300,102,000	300,102,000

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE PERIOD OF 15 MONTHS ENDED 31 DECEMBER, 2005

37.3 FOREIGN EXCHANGE RISK MANAGEMENT

FOREIGN CURRENCY RISK ARISES MAINLY WHERE RECEIVABLES AND PAYABLES EXISTS DUE TO TRANSACTIONS ENTERED INTO FOREIGN CURRENCY. THE HOLDING COMPANY INCURS FOREIGN CURRENCY RISK ON SALES, PURCHASES AND BORROWINGS THAT ARE ENTERED IN A CURRENCY OTHER THAN PAK RUPEES. THE HOLDING COMPANY ENTERS INTO FORWARD CONTRACTS TO GUARD AGAINST EXCHANGE FLUCTUATION AND AS SUCH EXPOSURE TO FOREIGN EXCHANGE RISK IS MINIMAL.

37.4 CONCENTRATION OF CREDIT RISK

CREDIT RISK REPRESENTS THE ACCOUNTING LOSS THAT WOULD BE RECOGNISED AT THE REPORTING DATE IF COUNTER PARTIES FAILED COMPLETELY TO PERFORM AS CONTRACTED. TO REDUCE EXPOSURE TO CREDIT RISK, THE GROUP HAS DEVELOPED FORMAL APPROVAL PROCESS WHEREBY CREDIT LIMITS ARE APPLIED TO CUSTOMERS. THE MANAGEMENT ALSO CONTINUOUSLY MONITORS THE CREDIT EXPOSURE TOWARD THE CUSTOMERS AND MAKE PROVISIONS AGAINST THESE BALANCES CONSIDERED DOUBTFUL OF RECOVERY. OUT OF TOTAL FINANCIAL ASSETS OF Rs. 1,924 MILLION (2004: 1,133 MILLION), THE FINANCIAL ASSETS WHICH ARE SUBJECT TO CREDIT RISK AGGREGATED Rs. 519 MILLION (2004:Rs.423.00 MILLION). THE GROUP BELIEVES THAT IT IS NOT EXPOSED TO MAJOR CONCENTRATION OF CREDIT RISK.

37.5 INTEREST RISK MANAGEMENT

INTEREST RATE RISK REPRESENTS THE VALUE OF A FINANCIAL INSTRUMENT WHICH WILL FLUCTUATE DUE TO CHANGES IN MARKET INTEREST RATE. SINCE THE HOLDING COMPANY BORROWS MOST OF THE FUNDS AT FIXED INTEREST RATE OR INTEREST RATE SWAP CONTRACTS ARE ENTERED INTO TO HEDGE ANY MOVEMENT IN INTEREST RATES, THE HOLDING COMPANY'S EXPOSURE TO INTEREST RATE RISK IS MINIMAL.

37.6 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

THE CARRYING VALUES OF ALL FINANCIAL ASSETS AND LIABILITIES REFLECTED IN THE FINANCIAL STATEMENTS APPROXIMATE TO THEIR FAIR VALUES.

38 NUMBER OF EMPLOYEES

NUMBER OF PERMANENT EMPLOYEES AS AT DECEMBER 31, 2005 WAS 5,625 (2004: 4,512).

39 DIVIDEND

DIRECTORS OF HOLDING COMPANY HAVE PROPOSED 15% CASH DIVIDEND I.E. Rs. 1.5 PER ORDINARY SHARE TO BE APPROVED BY THE SHAREHOLDERS IN ENSUING ANNUAL GENERAL MEETING TO BE HELD ON 28 APRIL 2006. TOTAL AMOUNT OF CASH DIVIDEND TO BE PAID Rs.130,298,151 WHICH HAS NOT BEEN ACCOUNTED FOR AS LIABILITY IN THESE FINANCIAL STATEMENTS.

40 DATE OF AUTHORISATION FOR ISSUE

THESE FINANCIAL STATEMENTS WERE AUTHORISED FOR ISSUE ON 28 MARCH 2006 BY THE BOARD OF DIRECTORS OF THE COMPANY.

41 FIGURES

- COMPARATIVE FIGURES HAVE BEEN RE-ARRANGED, WHEREVER NECESSARY, FOR THE PURPOSE OF COMPARISON. RETURN ON BANK DEPOSITS WHICH WAS PREVIOUSLY GROUPED UNDER OTHER INCOME HAS NOW BEEN ADJUSTED AGAINST FINANCE COST AS A MATTER OF PRUDENCE.
- FIGURES IN THE ACCOUNTS HAVE BEEN ROUNDED OFF NEAREST TO RUPEE.

CHIEF EXECUTIVE

DIRECTOR

PATTERN OF SHAREHOLDING (ORDINARY SHARES)

AS AT DECEMBER 31, 2005

NUMBER OF SHAREHOLDERS	FROM	SHAREHOLDING	To	TOTAL SHARES HELD
109	1	-	100	5,598
251	101	-	500	91,672
193	501	-	1000	171,454
402	1001	-	5000	1,073,069
107	5001	-	10000	854,102
34	10001	-	15000	441,447
20	15001	-	20000	360,251
16	20001	-	25000	375,978
11	25001	-	30000	300,593
7	30001	-	35000	232,618
5	35001	-	40000	194,005
3	40001	-	45000	130,310
9	45001	-	50000	442,001
3	50001	-	55000	156,105
1	55001	-	60000	56,182
2	60001	-	65000	125,700
1	65001	-	70000	67,457
1	70001	-	75000	75,000
1	75001	-	80000	76,591
1	80001	-	85000	84,272
1	85001	-	90000	87,000
3	90001	-	95000	280,484
2	95001	-	100000	199,265
2	105001	-	110000	214,313
1	110001	-	115000	113,279
2	115001	-	120000	237,791
1	120001	-	125000	140,500
1	125001	-	130000	164,025
1	220001	-	225000	221,000
2	225001	-	230000	457,600
1	230001	-	235000	235,000
1	280001	-	285000	281,000
3	295001	-	300000	900,000
1	300001	-	305000	300,118
1	325001	-	330000	325,500
1	345001	-	350000	347,250
1	350001	-	400000	397,250
1	410001	-	415000	411,265
1	415001	-	420000	416,600
1	445001	-	450000	448,000
1	450001	-	455000	454,000

PATTERN OF SHAREHOLDING (ORDINARY SHARES)

AS AT DECEMBER 31, 2005

NUMBER OF SHAREHOLDERS	FROM	SHAREHOLDING	To	TOTAL SHARES HELD
1	555001	-	560000	555,825
1	610001	-	615000	614,750
1	875001	-	880000	878,739
1	995001	-	1000000	1,000,000
1	1020001	-	1025000	1,020,500
1	1030001	-	1035000	1,033,000
1	1085001	-	1090000	1,090,000
1	1130001	-	1135000	1,135,000
1	1170001	-	1175000	1,170,299
1	1190001	-	1195000	1,195,000
1	1440001	-	1445000	1,441,570
1	1465001	-	1470000	1,466,265
1	1845001	-	1850000	1,846,000
1	1930001	-	1935000	1,933,000
1	2040001	-	2045000	2,043,201
1	2065001	-	2070000	2,069,500
1	2590001	-	2595000	2,592,500
1	3115001	-	3120000	3,120,000
1	3970001	-	3975000	3,970,750
1	4260001	-	4265000	4,261,560
1	7305001	-	7310000	7,308,060
1	8200001	-	8205000	8,200,940
1	24970001	-	24975000	24,973,330
1229				86,865,434

SHAREHOLDER'S CATEGORY	NUMBER OF SHAREHOLDERS	NUMBER OF SHARES HELD	PERCENTAGE
FINANCIAL INSTITUTION	14	6,983,243	8.04
INDIVIDUAL	1150	58,140,351	66.93
INSURANCE COMPANIES	4	211,765	0.24
INVESTMENT COMPANIES	1	14,929	0.02
JOINT STOCK COMPANIES	42	11,355,690	13.07
LEASING COMPANIES	2	102	0.00
MODARABA MANAGEMENT COMPANIES	2	165,779	0.19
MUTUAL FUNDS	14	9,993,575	11.50
	1,229	86,865,434	100.00

CATEGORIES OF SHAREHOLDERS (ORDINARY SHARES)

AS AT DECEMBER 31, 2005

CATEGORIES OF SHAREHOLDERS		NUMBER OF SHAREHOLDERS	NUMBER OF SHARES HELD
ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES		NIL	NIL
NIT AND ICP		1	14,929
DIRECTORS, CHIEF EXECUTIVE OFFICER AND THEIR SPOUSES AND MINOR CHILDREN			
MR. MUEEN AFZAL	CHAIRMAN	1	1
MR. AHMED H. SHAIKH	CEO	1	4,261,560
MR. AEHSUN M. H. SHAIKH	DIRECTOR	1	3,970,750
MR. KHALID A.H. AL-SAGAR	DIRECTOR	1	1,466,265
CHIEF JUSTICE (R) MIAN MAHBOOB AHMAD	DIRECTOR	1	1
MR. ALI JEHANGIR SIDDIQUI	DIRECTOR	1	1
MR. MOHAMMED KHAISHGI	DIRECTOR	1	1
EXECUTIVES		NIL	NIL
PUBLIC SECTOR COMPANIES AND CORPORATION		42	11,355,690
BANKS, DFIs, NBFIs, INSURANCE COMPANIES LEASING COMPANIES, MODARABAS & MUTUAL FUNDS		36	17,354,646
SHAREHOLDERS HOLDINGS TEN PERCENT OR MORE VOTING INTEREST OF THE COMPANY			
MRS. NASREEN H. SHAIKH		1	26,143,629
DETAIL OF TRADING IN SHARES BY THE DIRECTORS, CEO, CFO, COMPANY SECRETARY, THEIR SPOUSES AND MINOR CHILDREN.			NIL

PATTERN OF SHAREHOLDING (PREFERENCE SHARES)

AS AT DECEMBER 31, 2005

NUMBER OF SHAREHOLDERS	FROM	SHAREHOLDING	To	TOTAL SHARES HELD
6	1	-	100	212
35	101	-	500	13,479
20	501	-	1000	18,377
37	1001	-	5000	101,667
16	5001	-	10000	140,100
4	10001	-	15000	47,188
2	15001	-	20000	40,000
2	20001	-	25000	47,500
1	25001	-	30000	26,971
1	30001	-	35000	35,000
1	35001	-	40000	40,000
1	40001	-	45000	45,751
1	45001	-	50000	50,000
1	75001	-	80000	80,000
1	90001	-	95000	92,984
5	95001	-	100000	500,000
1	105001	-	110000	106,313
1	110001	-	115000	114,500
1	125001	-	130000	125,500
1	295001	-	300000	300,000
1	325001	-	330000	325,500
1	885001	-	890000	890,000
1	1055001	-	1060000	1,057,500
1	1065001	-	1070000	1,065,500
1	1135001	-	1140000	1,138,000
1	1285001	-	1290000	1,286,318
1	1545001	-	1550000	1,546,989
1	2220001	-	2225000	2,222,056
1	2995001	-	3000000	3,000,000
1	3090001	-	3095000	3,090,794
1	3980001	-	3985000	3,984,770
1	4005001	-	4010000	4,007,500
1	8865001	-	8870000	8,869,000
1	12365001	-	12370000	12,368,676
1	16805001	-	16810000	16,806,723
1	23280001	-	23285000	23,280,566
154				86,865,434

SHAREHOLDER'S CATEGORY	NUMBER OF SHAREHOLDERS	NUMBER OF SHARES HELD	PERCENTAGE
FINANCIAL INSTITUTION	5	16,507,132	19.00
INDIVIDUAL	136	31,457,543	36.21
INVESTMENT COMPANIES	1	3,984,770	4.59
JOINT STOCK COMPANIES	7	16,915,939	19.47
MODARABA MANAGEMENT COMPANIES	1	1,286,318	1.48
MUTUAL FUNDS	3	15,648,232	18.01
OTHER	1	1,065,500	1.23
	154	86,865,434	100.00

CATEGORIES OF SHAREHOLDERS (PREFERENCE SHARES)

AS AT DECEMBER 31, 2005

CATEGORIES OF SHAREHOLDERS	NUMBER OF SHAREHOLDERS	NUMBER OF SHARES HELD
ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES		
NIT AND ICP	1	849
DIRECTORS, CHIEF EXECUTIVE OFFICER AND THEIR SPOUSES AND MINOR CHILDREN		
EXECUTIVES	NIL	NIL
PUBLIC SECTOR COMPANIES AND CORPORATION	7	16,915,939
BANKS, DFIs, NBFIs, INSURANCE COMPANIES		
LEASING COMPANIES, MODARABAS & MUTUAL FUNDS	11	38,491,952
SHAREHOLDERS HOLDINGS TEN PERCENT OR MORE VOTING INTEREST OF THE COMPANY		
MRS. NASREEN H. SHAIKH	1	23,280,566
CDC-TRUSTEE ABAMCO COMPOSITE FUND	1	16,806,723
JAHANGIR SIDDIQUI & COMPANY LIMITED	1	12,368,676
DETAIL OF TRADING IN SHARES BY THE DIRECTORS, CEO, CFO, COMPANY SECRETARY, THEIR SPOUSES AND MINOR CHILDREN.		NIL

**FORM OF PROXY
AZGARD NINE LIMITED**

I/WE _____
 OF _____ A MEMBER/MEMBERS OF THE COMPANY
 AND HOLDER OF _____ SHARES AS PER REGISTERED FOLIO/CDC A/c No. _____ DO HEREBY APPOINT
 MR./Ms. _____ OF _____
 A MEMBER OF THE COMPANY, VIDE REGISTERED FOLIO/CDC A/c No. _____ OR FAILING HIM/HER
 MR./Ms. _____ OF _____
 WHO IS ALSO A MEMBER OF THE COMPANY, VIDE REGISTERED FOLIO/CDC A/c No. _____ AS
 MY/OUR PROXY TO ATTEND, SPEAK AND VOTE FOR ME/US AND ON MY/OUR BEHALF AT THE 13TH ANNUAL GENERAL MEETING
 OF THE COMPANY TO BE HELD ON MARCH 28, 2006 AT 10:00 AM AT REGISTERED OFFICE, AIWAN-I-SCIENCE,
 OFF SHAHRAH-I-ROOMI, LAHORE AND AT ANY ADJOURNMENT THEREOF.

AS WITNESS MY/OUR HAND THIS _____ DAY OF MARCH, 2006.

PLEASE AFFIX
 HERE REVENUE STAMP
 AND
 SIGN ACROSS

1. WITNESS _____
2. WITNESS _____

DATE: _____

SIGNATURE OF MEMBER(S)

PLACE: _____

IMPORTANT:

1. THE PROXY FORM MUST BE DEPOSITED AT THE REGISTERED OFFICE OF THE COMPANY AT AIWAN-I-SCIENCE, SHAHR-I-ROOMI, LAHORE, NOT LATER THAN 48 HOURS BEFORE THE TIME OF HOLDING THE MEETING AND IN DEFAULT PROXY FORM WILL NOT BE TREATED AS VALID.
2. NO PERSON SHALL ACT AS PROXY UNLESS HE/SHE IS A MEMBER OF THE COMPANY EXCEPT A CORPORATE ENTITY BEING A MEMBER MAY APPOINT AS ITS PROXY ANY OFFICER OF SUCH CORPORATE ENTITY WHETHER A MEMBER OF THE COMPANY OR NOT.
3. IF A MEMBER APPOINTS MORE THAN ONE PROXY AND MORE THAN ONE INSTRUMENTS OF PROXY ARE DEPOSITED BY A MEMBER WITH THE COMPANY, ALL SUCH INSTRUMENTS OF PROXY SHALL BE RENDERED INVALID.

FOR CDC ACCOUNT HOLDERS/CORPORATE ENTITIES:

IN ADDITION TO THE ABOVE, THE FOLLOWING REQUIREMENTS HAVE TO BE MET:

- i) THE PROXY FORM SHALL BE WITNESSED BY TWO PERSONS WHOSE NAMES, ADDRESSES AND NIC NUMBERS SHALL BE MENTIONED ON THE FORM.
- ii) ATTESTED COPIES OF NIC OR THE PASSPORT OF THE BENEFICIAL OWNERS AND THE PROXY SHALL BE FURNISHED WITH THE PROXY FORM.
- iii) THE PROXY SHALL PRODUCE HIS ORIGINAL NIC OR ORIGINAL PASSPORT AT THE TIME OF THE MEETING.
- iv) 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) ALONGWITH PROXY FORM TO THE COMPANY.

AFFIX
CORRECT
POSTAGE

THE COMPANY SECRETARY,
AZGARD NINE LIMITED
ISMAIL AIWAN-E-SCIENCE
OFF SHAHRAH-E-ROOMI
LAHORE, 54600