

ANNUAL REPORT 2004



AZGARD-9

AZGARD NINE LIMITED
(FORMERLY: LEGLER-NAFEES DENIM MILLS LIMITED)
ISMAIL AIWAN-E-SCIENCE, SHAHRAH-E-ROOMI,
LAHORE-54600, TEL: +92 (0)42 111-786-645
WWW.AZGARD9.COM

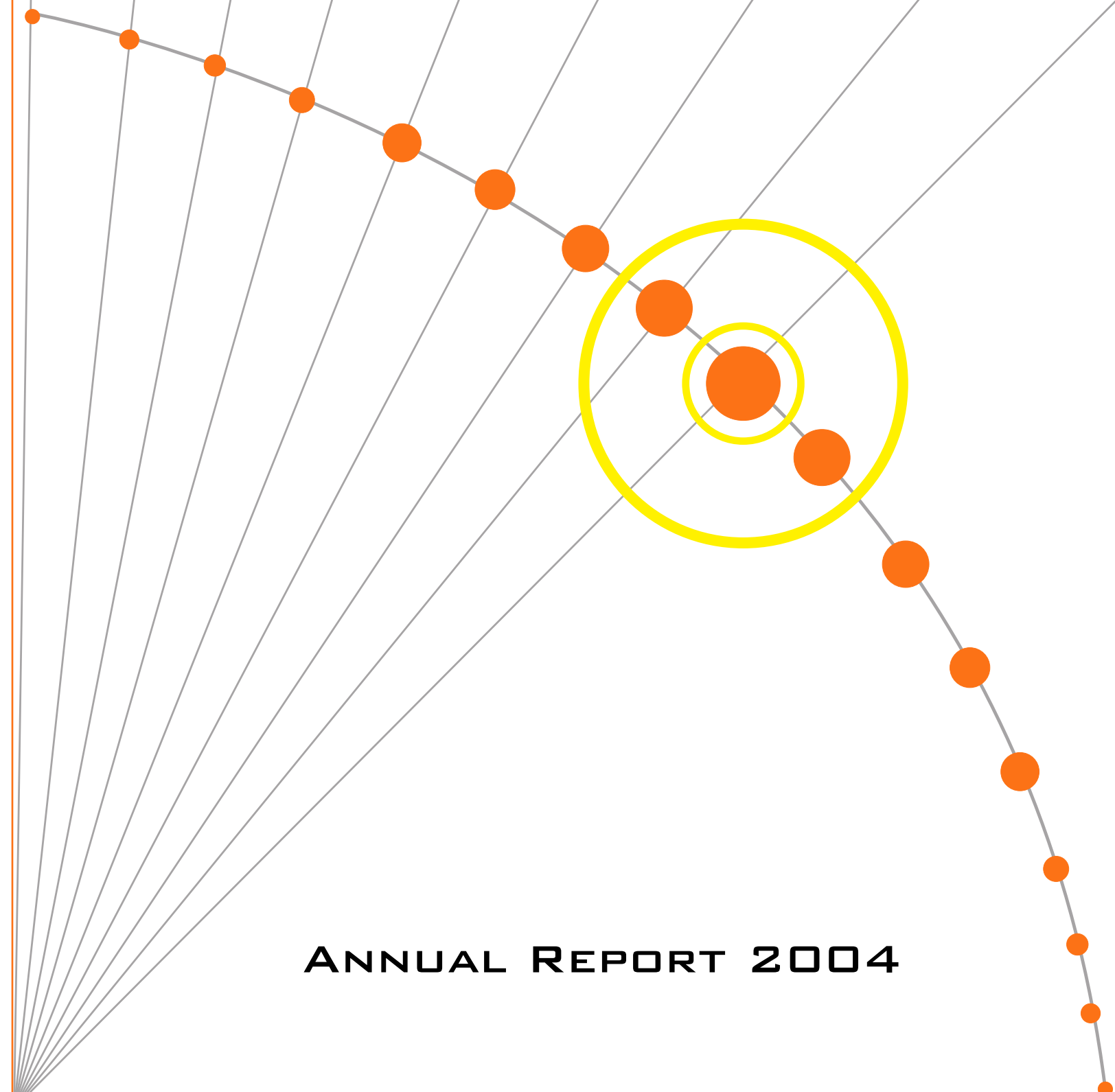
VANTAGE Lhr. Ph: 92 42 6372305-06



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COMPANY INFORMATION

BOARD OF DIRECTORS

MR. MUEEN AFZAL	CHAIRMAN
MR. AHMED H. SHAIKH	CHIEF EXECUTIVE
CHIEF JUSTICE (R) MIAN MAHBOOB AHMAD	
MR. AEHSUN M.H. SHAIKH	
MR. ALI JEHANGIR SIDDIQUI	
MR. KHALID A.H. AL-SAGAR	
MR. MUHAMMAD MUKARRAM	

COMPANY SECRETARY

MR. JAVAID IQBAL

CHIEF FINANCIAL OFFICER

MS. BUSHRA NAZ MALIK

AUDIT COMMITTEE

CHIEF JUSTICE (R) MIAN MAHBOOB AHMAD	CHAIRMAN
MR. MUEEN AFZAL	
MR. AEHSUN M.H. SHAIKH	
MR. ALI JEHANGIR SIDDIQUI	
MR. KHALID A.H. AL-SAGAR	

MANAGEMENT TEAM

MR. AHMED H. SHAIKH
 MR. AEHSUN M.H. SHAIKH
 MS. BUSHRA NAZ MALIK
 MR. MUHAMMAD TALIB
 MR. AAMIR USMAN
 MR. MAZHAR HUSSAIN MIRZA
 MR. IRFAN NAZIR AHMAD
 MR. PER FREDRIKSSON

FINANCE COMMITTEE

MR. AHMED H. SHAIKH
 MR. ALI JEHANGIR SIDDIQUI
 MS. BUSHRA NAZ MALIK



BANKERS

CITIBANK N.A.
FAYSAL BANK LIMITED
HABIB BANK LIMITED
MUSLIM COMMERCIAL BANK LIMITED
NATIONAL BANK OF PAKISTAN
PICIC COMMERCIAL BANK LIMITED
SAUDI PAK INDUSTRIAL & AGRICULTURAL
INVESTMENT COMPANY (PRIVATE) LIMITED
THE HONG KONG AND SHANGHAI
BANKING CORPORATION
UNION BANK LIMITED
UNITED BANK LIMITED
HABIB BANK AG ZURICH
NDLC-IFIC BANK LIMITED

LEGAL ADVISORS

HAMID LAW ASSOCIATES

HASSAN & HASSAN
ADVOCATES

AUDITORS

M.YOUSAF ADIL SALEEM & CO.
CHARTERED ACCOUNTANTS

TAX ADVISORS

FORD RHODES SIDAT HYDER & CO.
CHARTERED ACCOUNTANTS

HAMEED CHAUDHRI & CO.
CHARTERED ACCOUNTANTS

REGISTERED OFFICE

ISMAIL AIWAN-I-SCIENCE
OFF SHAHRAH-I-ROOMI
LAHORE, 54600
PH: +92 (0)42 111-786-645
FAX: +92 (0)42 5761791
WEBSITE: WWW.AZGARD9.COM

PROJECT LOCATIONS

UNIT I

2.5 KM OFF MANAGA, RAIWIND ROAD,
DISTRICT KASUR.

PH: +92 (0)4951 384081-2
FAX: +92 (0)4951 384093

UNIT II

ALIPUR ROAD, MUZAFFARGARH.

PH: +92 (0)661 422503, 422651
FAX : +92 (0)661 422652

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

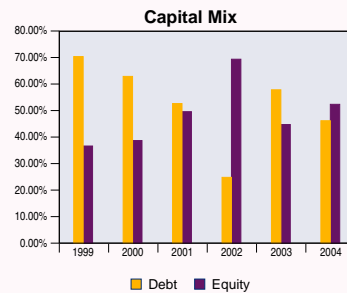
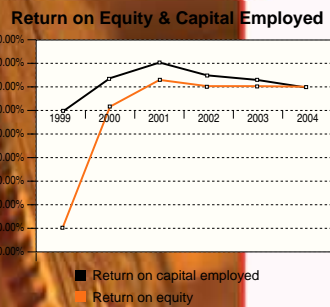
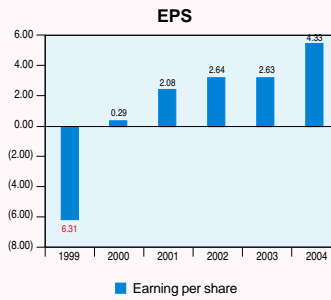
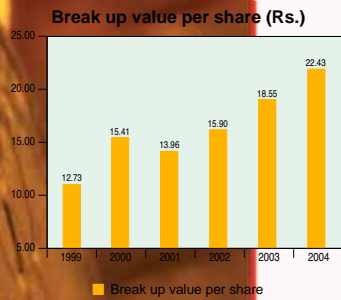
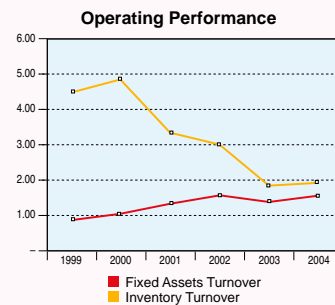
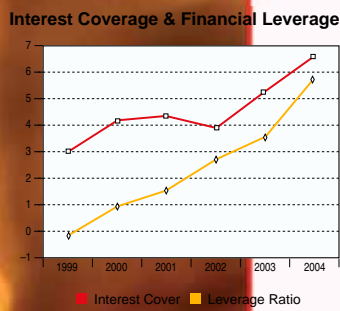
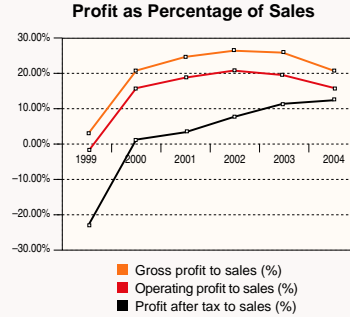
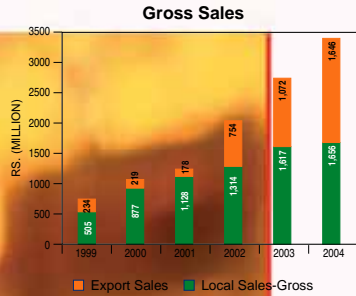


FINANCIAL HIGHLIGHTS

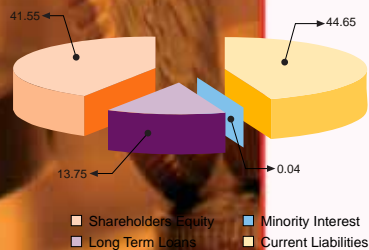


	2004	2003	2002	2001	2000	1999
OPERATING PERFORMANCE (Rs. 000)						
SALES-NET	3,160,780	2,428,127	1,931,118	1,257,106	1,079,985	711,195
EXPORT SALES-GROSS	1,657,688	1,616,709	1,314,025	1,127,941	876,615	504,693
LOCAL SALES-GROSS	1,646,344	1,072,293	754,073	178,412	219,100	233,646
GROSS PROFIT	720,001	646,103	493,389	308,630	218,597	37,705
OPERATING PROFIT	533,436	446,671	350,713	204,117	132,084	(23,506)
PROFIT BEFORE TAX	398,677	248,441	146,321	61,883	7,540	(157,426)
PROFIT AFTER TAX BUT BEFORE MINORITY INTEREST	378,677	228,189	160,116	56,583	7,241	(158,820)
PROFIT AFTER TAX BUT AFTER MINORITY INTEREST	377,004	-	-	-	-	-
FINANCIAL POSITION (Rs. 000)						
SHARE CAPITAL	1,737,309	868,654	868,654	319,057	251,557	251,557
SHARE PREMIUM	106,433	143,675	143,675	143,675	143,675	143,675
CAPITAL RESERVE	255,709	107,368	105,152	-	-	-
UNAPPROPRIATED PROFIT / (ACCUMULATED LOSS)	412,400	161,711	(92,057)	(310,468)	(367,050)	(374,291)
	2,511,851	1,281,408	1,025,424	152,264	28,182	20,941
MINORITY INTEREST	2,743	-	-	-	-	-
SHARES DEPOSIT MONEY	-	-	-	40,000	106,086	45,939
SURPLUS ON REVALUATION OF FIXED ASSETS	306,565	330,250	355,829	253,289	253,289	253,289
NON-PARTICIPATORY REDEEMABLE CAPITAL - SECURED	750,000	650,000	2,798	4,042	5,286	6,530
LONG TERM LIABILITIES	1,17,652	150,093	384,649	377,478	519,935	532,505
DEFERRED LIABILITIES	-	-	-	-	-	-
STAFF GRATUITY	-	25,513	19,808	13,578	10,334	8,309
CURRENT LIABILITIES	363,082	160,799	140,431	154,429	121,965	104,757
CURRENT PORTION OF LONG TERM LIABILITIES	1,492,910	1,428,656	995,880	557,810	421,774	334,406
SHORT TERM FINANCES	701,846	747,930	552,548	207,767	126,004	131,330
CREDITORS, ACCRUALS & OTHER LIABILITIES	64,825	44,825	30,735	8,864	3,564	-
PROVISION FOR TAXATION	95	96	116	-	-	-
UNCLAIMED DIVIDENDS	-	-	-	-	-	-
	2,622,758	2,382,306	1,719,710	928,870	673,307	570,493
OPERATING FIXED ASSETS AND CAPITAL WORK IN PROGRESS	2,937,696	2,333,753	1,938,068	970,040	1,019,996	1,000,322
INTANGIBLE ASSETS	88,376	-	-	-	-	-
LONG TERM DEPOSITS & INVESTMENTS	19,533	6,315	19,761	17,805	14,896	14,839
	3,045,605	2,340,068	1,957,829	987,845	1,034,892	1,015,161
CURRENT ASSETS						
STORES, SPARES AND LOOSE TOOLS	72,609	45,778	21,689	9,229	12,972	16,015
STOCK IN TRADE	1,425,587	1,265,777	722,376	246,192	187,229	167,374
TRADE DEBTORS	924,208	536,616	533,468	337,303	239,568	132,520
SHORT TERM INVESTMENT	109,149	-	-	-	-	-
ADVANCES, DEPOSITS	713,461	609,728	249,380	168,574	107,606	75,784
CASH & CASH EQUIVALENTS	20,949	21,602	23,477	20,380	14,152	31,154
	3,265,962	2,479,501	1,550,390	781,678	561,527	422,847
NET WORKING CAPITAL	643,205	97,195	(169,320)	(147,192)	(111,780)	(147,646)
TOTAL CAPITAL EMPLOYED	3,688,809	2,437,263	1,788,509	840,652	923,114	867,515
PROFITABILITY ANALYSIS						
GROSS PROFIT TO SALES (%)	22.78	26.61	25.55	24.55	20.24	5.30
OPERATING PROFIT TO SALES (%)	16.88	18.40	18.16	16.24	12.23	(3.31)
PROFIT BEFORE TAX TO SALES (%)	12.61	10.23	7.58	4.92	0.70	(22.14)
PROFIT AFTER TAX TO SALES (%)	11.98	9.40	8.29	4.50	0.67	(22.33)
RETURN ON CAPITAL EMPLOYED (%)	14.46	18.33	19.64	24.28	15.42	(2.33)
RETURN ON EQUITY (%)	13.38	14.16	11.59	12.70	1.87	(49.60)
EARNINGS PER SHARE (RS.) (PLEASE REFER TO NOTE 31)	4.33	2.63	2.64	2.08	0.29	(6.31)
FINANCIAL ANALYSIS						
FINANCIAL CHARGES TO SALES (%)	3.91	7.65	10.21	10.75	12.44	18.23
CURRENT RATIO (TIMES) *	1.45	1.12	0.98	1.01	1.02	0.91
*(EXCLUDING CURRENT PORTION OF LT LIABILITIES)						
DEBT TO EQUITY (RATIO)	30:70	37:63	28 : 72	55 : 45	63 : 37	67 : 33
LEVERAGE RATIO (TIMES)	1.24	1.99	1.54	2.97	3.12	3.49
BREAKUP VALUE PER SHARE (RS.)	22.43	18.55	15.90	13.96	15.41	12.73
INVENTORY TURNOVER (TIMES PER YEAR)	1.81	1.79	2.97	4.38	4.86	4.55
TOTAL ASSETS TURNOVER (TIMES)	0.50	0.50	0.55	0.71	0.68	0.49
FIXED ASSETS TURNOVER (TIMES)	1.20	1.14	1.33	1.26	1.07	0.83
INTEREST COVER (RS.)	5.39	3.41	2.78	1.55	1.06	(0.43)

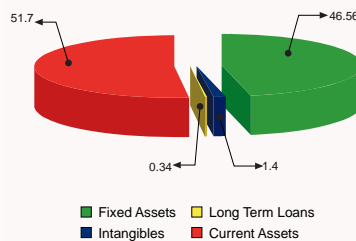
FINANCIAL HIGHLIGHTS



Shareholders' Equity and Liabilities



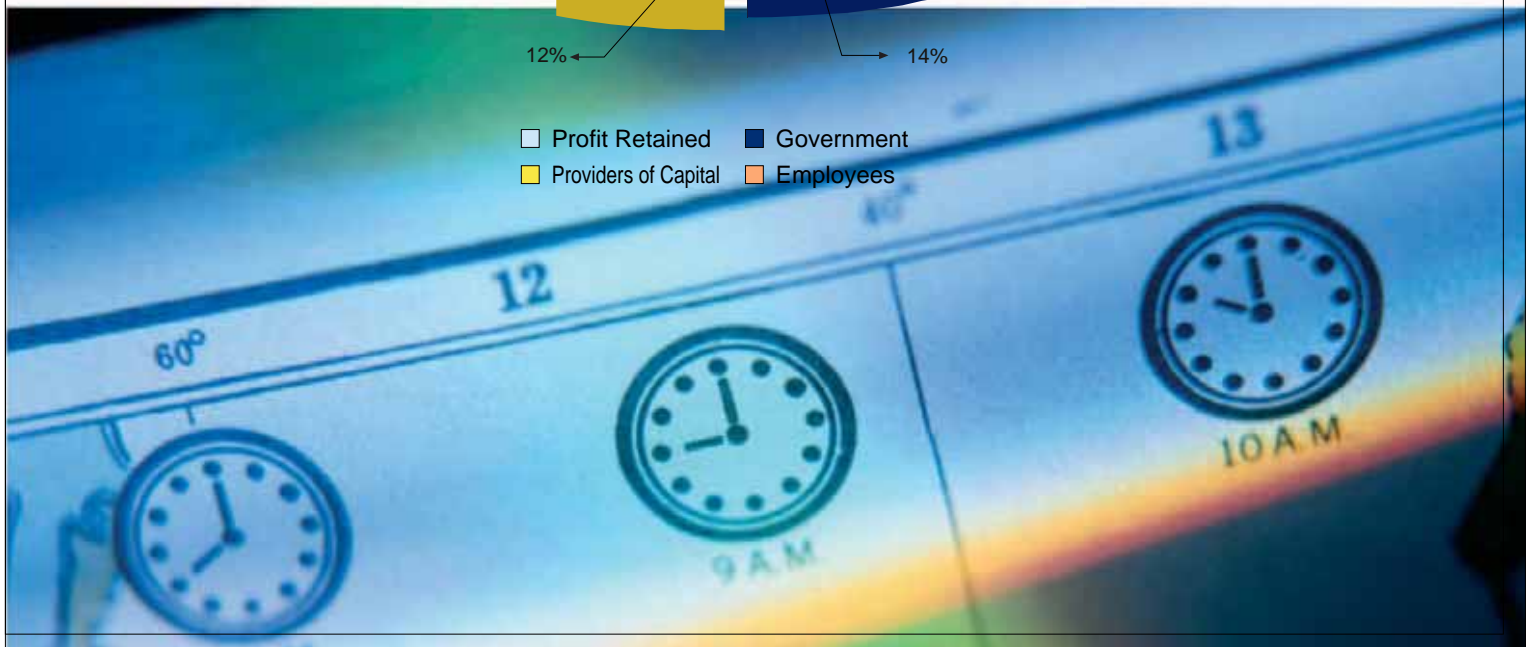
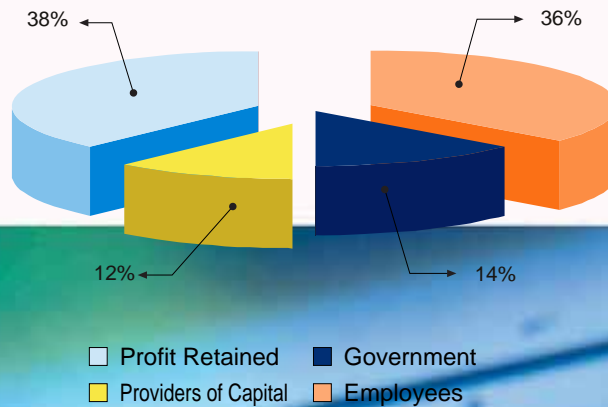
Total Assets



DISTRIBUTION OF REVENUE

WEALTH GENERATED	RUPEES	%
TOTAL REVENUE		
SALES NET	3,160,780,433	
OTHER INCOME	9,864,791	
BOUGHT IN MATERIAL & SERVICES	(2,170,015,229)	
	1,000,629,995	100
WEALTH DISTRIBUTION/ ALLOCATION		
TO EMPLOYEES		
SALARIES, WAGES & BENEFITS (INCLUDING WPPF)	358,167,311	36
TO GOVERNMENT		
INCOME TAX, SALES TAX, CUSTOM DUTY	141,750,287	14
TO PROVIDERS OF CAPITAL		
CHARGES ON BORROWED FUND	123,708,381	12
PROFIT RETAINED	377,004,016	38
	1,000,629,995	100

Wealth Distribution / Allocation



NOTICE OF ANNUAL GENERAL MEETING



NOTICE IS HEREBY GIVEN THAT THE 12TH ANNUAL GENERAL MEETING OF AZGARD NINE LIMITED (FORMERLY LEGLER-NAFEES DENIM MILLS LIMITED) WILL BE HELD ON 31ST JANUARY 2005 AT 10.00 A.M AT THE REGISTERED OFFICE OF THE COMPANY AIWAN-I-SCIENCE OFF SHAHRAH-I-ROOMI, LAHORE TO TRANSACT THE FOLLOWING BUSINESS:

ORDINARY BUSINESS

1. TO CONFIRM THE MINUTES OF THE LAST EXTRA ORDINARY GENERAL MEETING.
2. TO RECEIVE, CONSIDER AND ADOPT THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2004 TOGETHER WITH DIRECTORS' AND AUDITORS' REPORTS THEREON.
3. TO APPROVE CASH DIVIDEND @10 % (I.E. RS.1/- PER ORDINARY SHARE) AS RECOMMENDED BY THE BOARD.
4. TO APPOINT AUDITORS AND FIX THEIR REMUNERATION. M/S M. YOUSAF ADIL SALEEM & CO. CHARTERED ACCOUNTANTS HAVE COMPLETED THEIR FIVE YEARS AS AUDITORS OF THE COMPANY IN TERMS OF CLAUSE Xli OF CODE OF CORPORATE GOVERNANCE. THE BOARD, ON THE RECOMMENDATION OF THE AUDIT COMMITTEE OF THE COMPANY HAS PROPOSED THE APPOINTMENT OF M/S RAHMAN SARFRAZ & COMPANY, CHARTERED ACCOUNTANTS AS AUDITORS FOR THE YEAR 2004-2005.

A NOTICE UNDER SECTION 253(1) OF THE COMPANIES ORDINANCE, 1984 HAS ALSO BEEN RECEIVED FROM A SHAREHOLDER OF THE COMPANY.

SPECIAL BUSINESS

5. TO SEEK THE CONSENT OF SHAREHOLDERS TO PLACE QUARTERLY ACCOUNTS OF THE COMPANY ON ITS WEBSITE INSTEAD OF CIRCULATING THE SAME BY POST TO THE SHAREHOLDERS AND, IF THOUGHT FIT, TO PASS THE FOLLOWING RESOLUTION:

“RESOLVED THAT THE COMPANY BE AND IS HEREBY AUTHORIZED TO PLACE ITS QUARTERLY ACCOUNTS ON ITS WEBSITE INSTEAD OF SENDING THE SAME TO THE MEMBERS BY POST, SUBJECT TO COMPLIANCE AND APPROVAL OF THE SECURITIES & EXCHANGE COMMISSION OF PAKISTAN’S CIRCULAR NO. 19 OF 2004 DATED APRIL 14, 2004.”

6. TO CONSIDER AND APPROVE THE AMENDMENTS IN THE MEMORANDUM OF ASSOCIATION TO ENLARGE THE SCOPE OF ACTIVITIES OF THE COMPANY AND, IF THOUGHT FIT, TO PASS THE FOLLOWING RESOLUTION AS A SPECIAL RESOLUTION, WITH OR WITHOUT MODIFICATION:

“RESOLVED THAT THE APPROVAL OF THE COMPANY BE AND IS HEREBY ACCORDED TO ALTER THE MEMORANDUM OF ASSOCIATION AS PER THE ATTACHED BLACK-LINED DRAFT REFLECTING THE PROPOSED CHANGES SUBJECT TO THE APPROVAL OF SECP.

7. TO APPROVE AMENDMENTS IN THE ARTICLES OF ASSOCIATION AND IN THIS CONNECTION TO CONSIDER AND, IF THOUGHT FIT, TO PASS THE FOLLOWING RESOLUTION AS A SPECIAL RESOLUTION, WITH OR WITHOUT MODIFICATION:

“RESOLVED THAT THE APPROVAL OF THE COMPANY BE AND IS HEREBY ACCORDED TO ALTER THE ARTICLES OF ASSOCIATION AS PER THE ATTACHED BLACK-LINED ARTICLES OF ASSOCIATION REFLECTING THE PROPOSED CHANGES.

RESOLVED FURTHER THAT THE CHIEF EXECUTIVE OF THE COMPANY AND COMPANY SECRETARY BE AND ARE HEREBY AUTHORIZED JOINTLY OR SEVERALLY TO DO ALL ACTS, DEEDS OR THINGS AND TO COMPLETE ALL LEGAL FORMALITIES ON BEHALF OF THE COMPANY IN CONNECTION WITH OBTAINING OF RESPECTIVE APPROVALS OF SECP, AND COMPANY REGISTRATION OFFICE, LAHORE.

RESOLVED FURTHER THAT THE CHIEF EXECUTIVE OF THE COMPANY AND COMPANY SECRETARY BE AND ARE HEREBY AUTHORIZED JOINTLY OR SEVERALLY TO MAKE NECESSARY AMENDMENTS/MODIFICATIONS IN THE MEMORANDUM AND ARTICLES OF ASSOCIATION, IF ANY, POINTED OUT OR DESIRED BY SECP OR COMPANY REGISTRATION OFFICE, LAHORE ON BEHALF OF THE COMPANY.”

8. TO TRANSACT ANY OTHER BUSINESS WITH THE PERMISSION OF THE CHAIR.

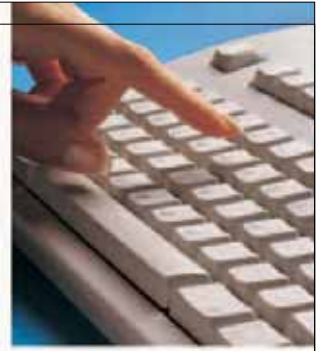
BY ORDER OF THE BOARD
 5. CDC ACCOUNT HOLDERS WILL FURTHER HAVE TO FOLLOW THE UNDER MENTIONED GUIDELINES AS LAID DOWN BY THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN:-

JAVAID IQBAL
 (COMPANY SECRETARY)

NOTES:

1. THE SHARE TRANSFER BOOKS OF THE COMPANY WILL REMAIN CLOSED FROM JANUARY 25, 2005 TO JANUARY 31, 2005. (BOTH DAYS INCLUSIVE).
2. THE PREFERENCE SHAREHOLDERS ARE NOT ENTITLED TO ATTEND THE MEETING.
3. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING MAY APPOINT ANOTHER MEMBER AS HIS/HER PROXY TO ATTEND AND VOTE IN HIS/HER PLACE. PROXIES, COMPLETE IN EVERY RESPECT, IN ORDER TO BE EFFECTIVE, MUST BE RECEIVED AT THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN 48 HOURS BEFORE THE TIME OF THE MEETING.
4. MEMBERS WHO HAVE NOT YET SUBMITTED PHOTOCOPY OF COMPUTERIZED NATIONAL IDENTITY CARD (NIC) TO THE COMPANY ARE REQUESTED TO SEND THE SAME AT THE EARLIEST.
5. CDC ACCOUNT HOLDERS WILL FURTHER HAVE TO FOLLOW THE UNDER MENTIONED GUIDELINES AS LAID DOWN BY THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN:-





A. FOR ATTENDING THE MEETING

- 1) IN CASE OF INDIVIDUALS, THE ACCOUNT HOLDER OR SUB-ACCOUNT HOLDER AND/OR THE PERSON WHOSE SECURITIES ARE IN GROUP ACCOUNT AND THEIR REGISTRATION DETAILS ARE UPLOADED AS PER THE CDC REGULATIONS, SHALL AUTHENTICATE HIS IDENTITY BY SHOWING HIS ORIGINAL NIC OR ORIGINAL PASSPORT AT THE TIME OF ATTENDING THE MEETING.
- 2) IN CASE OF CORPORATE ENTITY, THE BOARD OF DIRECTORS' RESOLUTION / POWER OF ATTORNEY WITH SPECIMEN SIGNATURE OF THE NOMINEE SHALL BE PRODUCED (UNLESS IT HAS BEEN PROVIDED EARLIER) AT THE TIME OF THE MEETING.

B. FOR APPOINTING PROXIES

- 1) IN CASE OF INDIVIDUALS, THE ACCOUNT HOLDER OR SUB-ACCOUNT HOLDER AND/OR THE PERSON WHOSE SECURITIES ARE IN GROUP ACCOUNT AND THEIR REGISTRATION DETAILS ARE UPLOADED AS PER THE CDC REGULATIONS, SHALL SUBMIT THE PROXY FORM AS PER THE ABOVE REQUIREMENTS.
- 2) THE PROXY FORM SHALL BE WITNESSED BY TWO PERSONS WHOSE NAMES, ADDRESSES AND NIC NUMBERS SHALL BE MENTIONED ON THE FORM.
- 3) ATTESTED COPIES OF NIC OR THE PASSPORT OF THE BENEFICIAL OWNERS AND THE PROXY SHALL BE FURNISHED WITH THE PROXY FORM.
- 4) THE PROXY SHALL PRODUCE HIS ORIGINAL NIC OR ORIGINAL PASSPORT AT THE TIME OF THE MEETING.
- 5) IN CASE OF CORPORATE ENTITY, THE BOARD OF DIRECTORS' RESOLUTION/POWER OF ATTORNEY WITH SPECIMEN SIGNATURE SHALL BE SUBMITTED (UNLESS IT HAS BEEN PROVIDED EARLIER) ALONG WITH PROXY FORM TO THE COMPANY.

STATEMENT UNDER SECTION 160 OF THE COMPANIES ORDINANCE 1984 IN RESPECT OF THE SPECIAL BUSINESS TO BE CONSIDERED AT THE MEETING TOGETHER WITH COPY OF BLACK LINED MEMORANDUM AND ARTICLES OF ASSOCIATION ARE BEING SENT TO THE MEMBERS.

STATEMENT UNDER SECTION 160 OF THE COMPANIES ORDINANCE, 1984

PLACEMENT OF QUARTERLY ACCOUNTS ON WEBSITE

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN (SECP) HAS VIDE ITS CIRCULAR No. 19 OF 2004 DATED APRIL 14, 2004 ALLOWED THE LISTED COMPANIES TO PLACE THE QUARTERLY ACCOUNTS ON ITS WEBSITE SUBJECT TO ITS APPROVAL INSTEAD OF TRANSMITTING THE SAME TO THE SHAREHOLDERS BY POST WHICH WILL BE TREATED COMPLIANCE OF THE PROVISION OF SECTION 245 OF THE COMPANIES ORDINANCE, 1984 SUBJECT TO FULFILLMENT OF CERTAIN CONDITIONS INCLUDING SEEKING PRIOR CONSENT OF THE SHAREHOLDERS IN GENERAL MEETING.

IN ORDER TO AVOID CUMBERSOME EXERCISE AND SAVE COST OF PRINTING AND DISPATCHING THE QUARTERLY ACCOUNTS, THE BOARD OF DIRECTORS OF THE COMPANY IN THEIR MEETING HELD ON DECEMBER 28, 2004 HAS RECOMMENDED TO THE SHAREHOLDERS OF THE COMPANY TO ALLOW PLACEMENT OF QUARTERLY ACCOUNTS ON ITS WEBSITE I.E. WWW.AZGARD9.COM INSTEAD OF CIRCULATING THE SAME BY POST TO THE SHAREHOLDERS SUBJECT TO THE APPROVAL FROM SECP. THE COMPANY AFTER OBTAINING REQUISITE PERMISSION FROM THE SECP WILL INFORM SHAREHOLDERS THROUGH ADVERTISEMENT IN THE NEWSPAPERS. THE COMPANY SHALL ALSO SUPPLY THE COPIES OF THE QUARTERLY ACCOUNTS TO THE SHAREHOLDERS, ON DEMAND, AT THEIR REGISTERED ADDRESS, FREE OF COST WITHIN ONE WEEK OF SUCH DEMAND.



AMENDMENT IN MEMORANDUM AND ARTICLES OF ASSOCIATION

AT THE TIME OF INCORPORATION, THE COMPANY HAD REGISTERED EXISTING MEMORANDUM OF ASSOCIATION WITH EXCLUSIVE OBJECT TO AVAIL THE TAX EXEMPTION AS ENVISAGED UNDER THE CLAUSE 118 OF SECOND SCHEDULE OF REPEALED INCOME TAX ORDINANCE, 1979. THE BOARD OF DIRECTORS IN THEIR MEETING HELD ON DECEMBER 28, 2004 HAS PROPOSED A MULTI PURPOSE OBJECT CLAUSE OF THE MEMORANDUM OF ASSOCIATION TO ENLARGE AND EXTEND THE SCOPE OF ACTIVITIES OF THE COMPANY FOR MORE PROFITABLE PURPOSES KEEPING IN VIEW THE POST QUOTA REGIME AND GLOBALIZATION OBJECTIVE.

THE BOARD HAS ALSO CONSIDERED THAT DUE TO THE RECENT AMENDMENTS IN THE COMPANIES ORDINANCE, 1984 (THE "ORDINANCE") THROUGH THE COMPANIES (AMENDMENT) ORDINANCE, 2002, AND THE INTRODUCTION OF NEW CORPORATE LAWS, INCLUDING BUT NOT LIMITED TO THE CENTRAL DEPOSITORIES ACT, 1997 AND THE RULES MADE THEREUNDER, THE CODE OF CORPORATE GOVERNANCE, LISTING REGULATIONS, THE ELECTRONIC TRANSACTIONS ORDINANCE, 2002, THE COMPANIES (BUY-BACK OF SHARES) RULES, 1999, AND THE COMPANIES SHARE CAPITAL (VARIATION IN RIGHTS AND PRIVILEGES) RULES, 2002, CERTAIN CLAUSES OF THE ARTICLES OF ASSOCIATION OF THE COMPANY NEED TO BE ALTERED.

A BLACK LINED DRAFT REFLECTING THE PROPOSED AMENDMENTS IN MEMORANDUM AND ARTICLES OF ASSOCIATION OF THE COMPANY ARE ANNEXED HERETO.

A COPY OF THE EXISTING AS WELL AS PROPOSED MEMORANDUM AND ARTICLES OF ASSOCIATION MAY BE INSPECTED BY THE MEMBERS DURING BUSINESS HOURS AT THE REGISTERED OFFICE OF THE COMPANY UPTIL THE CONVENING OF ANNUAL GENERAL MEETING.

THE DIRECTORS OF THE COMPANY HAVE NO INTEREST IN THESE SPECIAL RESOLUTIONS EXCEPT IN THEIR CAPACITY AS SHAREHOLDERS OF ORDINARY SHARES OF THE COMPANY TO THE EXTENT OF THEIR RESPECTIVE SHAREHOLDING.



CHIEF EXECUTIVE'S REVIEW

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IT IS WITH A TREMENDOUS AMOUNT OF PRIDE THAT I AM WRITING THIS REVIEW.

OUR NUMBERS CONTINUE TO IMPROVE. SALES HAVE GROWN BY 30% AND PROFITS BY 65%.

HOWEVER, THE GREATEST CHANGE HAS TAKEN PLACE WITHIN THE ORGANIZATION AND IS CURRENTLY NOT REFLECTED IN THE NUMBERS. IN FACT, CHANGE HAS BEEN THE BUZZ WORD FOR 2004. THE FOCUS HAS BEEN TO DEVELOP THE ORGANIZATION IN ORDER FOR THE COMPANY TO BE READY TO MAKE MAXIMUM USE OF THE "ONCE IN A LIFETIME" OPPORTUNITY THAT WILL BE AVAILABLE POST THE REMOVAL OF QUOTAS IN 2005.

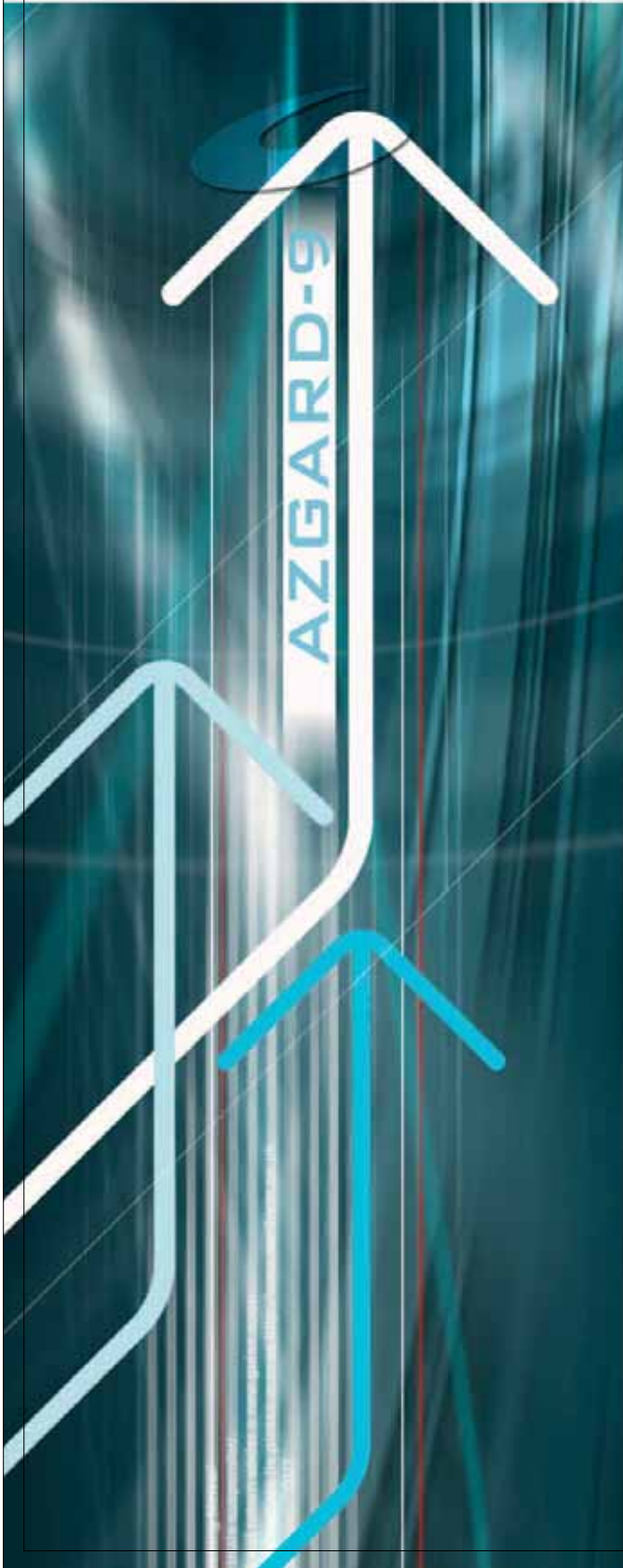
A GREAT DEAL OF EMPHASIS HAS BEEN PLACED ON "CULTURAL CHANGE", GREATER RESPONSIBILITY AND OWNERSHIP AT ALL LEVELS OF THE ORGANIZATION. WE HAVE LAUNCHED A PROCESS THAT I HOPE WILL GAIN MOMENTUM AND WILL BE THE ENGINE THAT WILL DRIVE THE COMPANY TO NEW UNSCALED HEIGHTS IN TIMES TO COME.

I AM PROUD THAT OUR MANAGEMENT TEAM WHO HAS CHAMPIONED AND LEAD SUCH A PROCESS. I HOPE THAT WE SHALL CONTINUE DOWN THIS ROAD WITH THE SAME VIGOUR, ZEAL AND ENTHUSIASM WITH WHICH WE HAVE STARTED IT.

I WOULD LIKE TO CONGRATULATE ALL THE EMPLOYEES OF AZGARD-9. YOU HAVE LEARNT AND PROVEN THAT BY WORKING TOGETHER YOU ARE UNBEATABLE. I HOPE IT IS A LESSON WE HAVE ALL LEARNT WELL AND PRAY FOR OUR CONTINUED FUTURE SUCCESS TOGETHER.

REGIONAL AND GLOBAL BUSINESS ENVIRONMENT

THIS WAS A YEAR THAT FELT LIKE A DRESS REHEARSAL. EVERYONE WAS PREPARING FOR 2005 WHEN THE CURTAIN WOULD FINALLY GO UP. DEMAND WAS FAIRLY ROBUST. THE EXPECTATION FOR 2005 IS GENERALLY POSITIVE AFTER A CAUTIOUS START. IN THE FIRST HALF OF THE YEAR BUYERS WILL SLOWLY TEST NEW WATERS AND CHANGE THEIR BUYING PATTERNS BASED ON NEW OPPORTUNITIES PRESENTED BY A WORLD BASED ON "FREE TRADE".



OUR BUSINESS STRATEGY

WE REMAIN COMMITTED TO GLOBALIZE AZGARD-9.

AS SUCH WE HAVE EVOLVED FROM A PAKISTAN ONLY MANUFACTURING BUSINESS TO AN INTERNATIONAL BUSINESS. THE COMPANY NOW HAS A DIRECT PRESENCE IN FIVE COUNTRIES. "A JOURNEY OF A THOUSAND MILES BEGINS WITH THE FIRST STEP."

THE COMPANY WITHIN THE SECTOR

- ▶▶▶ THE COMPANY'S MARGIN IS NEAR THE TOP END OF THE DENIM SECTOR IN SOUTH ASIA.
- ▶▶▶ ITS RATING BY PACRA OF "A" IN THE LONG TERM AND "A1" IN THE SHORT TERM IS AT PAR WITH THE HIGHEST IN THE TEXTILE SECTOR IN PAKISTAN.

FUTURE OUTLOOK

THE OUTLOOK IS OPTIMISTIC IN THE LONG TERM AND CONTINUOUS FOR THE SHORT TERM. THE OCTOBER-DECEMBER AND THE JANUARY-MARCH QUARTERS ARE TYPICALLY LEAN. MOREOVER, IT WILL TAKE TIME FOR THINGS TO REALLY SETTLE DOWN AFTER THE REMOVAL OF QUOTAS. IN FACT, I BELIEVE IT WILL BE THE SECOND HALF OF THE YEAR BEFORE WE REALLY SEE THE POSITIVE EFFECTS OF THIS TRICKLE DOWN TO OUR NUMBERS.

THE COMPANY HAS AGGRESSIVE EXPANSION PLANS DURING 2005.

- ▶▶▶ A NEW DENIM MILL IS PLANNED WHICH WILL TAKE FABRIC CAPACITY TO 26 MILLION METERS.
- ▶▶▶ SPINNING CAPACITY IS PLANNED TO INCREASE BY 51% TO 51,000 SPINDLES.
- ▶▶▶ GARMENTS CAPACITY TO BE 5 MILLION UNITS BY THE END OF 2005.
- ▶▶▶ POWER GENERATION CAPACITY TO INCREASE FROM 3 MEGA WATTS TO 10 MEGA WATTS BY THE END OF THE YEAR.

APPRECIATION

I WOULD LIKE TO THANK ALL STAKEHOLDERS IN AZGARD-9 FOR THEIR SUPPORT HARD WORK AND TRUST.

OUR SUPPLIERS, FINANCIERS, CUSTOMERS, OUR BOARD OF DIRECTORS AND OUR GREATEST ASSET, OUR PEOPLE.

IT IS THROUGH THE TEAM WORK BETWEEN ALL OF THESE THAT SUCH SUCCESS HAS BEEN POSSIBLE.

I THANK YOU ALL AND PRAY FOR A PROSPEROUS 2005.

LAHORE
DECEMBER 28, 2004

CHIEF EXECUTIVE

DIRECTORS' REPORT

THE BOARD OF DIRECTORS OF AZGARD NINE LIMITED IS PLEASED TO PRESENT THE 12TH ANNUAL REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2004 OF THE COMPANY ALONG WITH CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP INCLUDING ITS FOREIGN SUBSIDIARY'S RESULTS.

BOARD OF DIRECTORS FEELS IMMENSE PLEASURE TO ANNOUNCE ANOTHER YEAR OF RECORD RESULTS AND CONSISTENT GROWTH. THE OPERATING AND FINANCIAL DECISIONS UNDERTAKEN DURING THE YEAR ALLOWED THE COMPANY TO MAINTAIN THE FINANCIAL STRENGTH AND FLEXIBILITY NECESSARY TO OPERATE IN A CAPITAL INTENSIVE, CYCLICAL BUSINESS.

FINANCIAL RESULTS		
	2004	2003
	RUPEES	RUPEES
SALES - NET	3,160,780,433	2,428,127,182
OPERATING PROFIT	533,435,665	446,671,058
FINANCIAL CHARGES	123,708,381	185,641,156
PROFIT BEFORE TAX	398,677,394	248,440,384
PROFIT AFTER TAX	377,004,016	228,188,046

ECONOMIC ENVIRONMENT

YEAR 2003-2004, REMAINED THE MOST CHALLENGING YEAR FOR TEXTILE INDUSTRY DUE TO FOLLOWING REASONS:

- LOW COTTON PRODUCTION ALL OVER THE WORLD CAUSES COTTON PRICES TO JUMP UP TO RECORD OF RS. 3,600 PER MAUND.
- SALES RATES REMAINED UNDER PRESSURE AND NOT ENOUGH TO ABSORB THE INCREASED COST OF COTTON.
- INTERNATIONAL ECONOMIC SCENARIO REMAINED UNDER DEPRESSION IN THE AFTERMATH OF IRAQ WAR AND DUE TO HIGHER OIL PRICES. MOREOVER, SOME OF THE FACTORS LIKE IMPOSITION OF ANTIDUMPING DUTY FROM EU, INCREASE IN PRICES OF POLYESTER FIBER, HIGH QUOTA COSTS EFFECTED SALES AND PROFIT MARGIN.

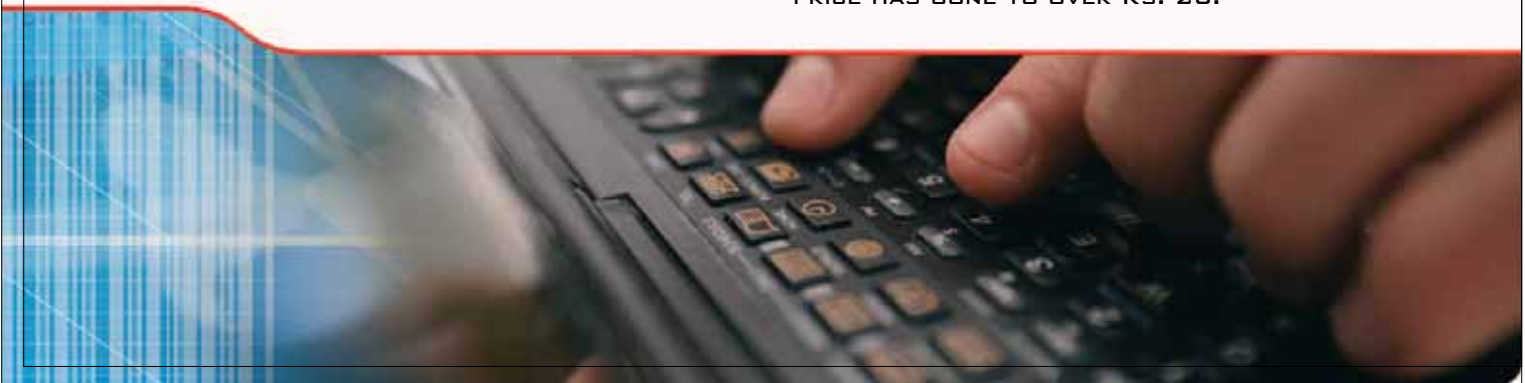
HIGHLIGHTS OF COMPANY PERFORMANCE

YOUR COMPANY HAS PERFORMED REMARKABLY WELL, DESPITE OF THE ABOVE MENTIONED CHALLENGES

SUMMARIZE THE KEY ACHIEVEMENT WHICH CONTRIBUTED TO OUR SUCCESS IN 2003-2004.

THE COMPANY'S TURNOVER HAS INCREASED BY 30% DUE TO EXPLORING NEW MARKETS AND INCREASED PLANT CAPACITY. MOREOVER PROFIT AFTER TAX HAS BEEN INCREASED FROM 9.40% TO 11.93% OF NET SALES. THE CONTRIBUTORY FACTORS ARE DECREASE IN FINANCIAL CHARGES FROM 7.65% TO 3.91% OF NET SALES AND TAX RATE FROM 0.83% TO 0.63 % OF NET SALES.

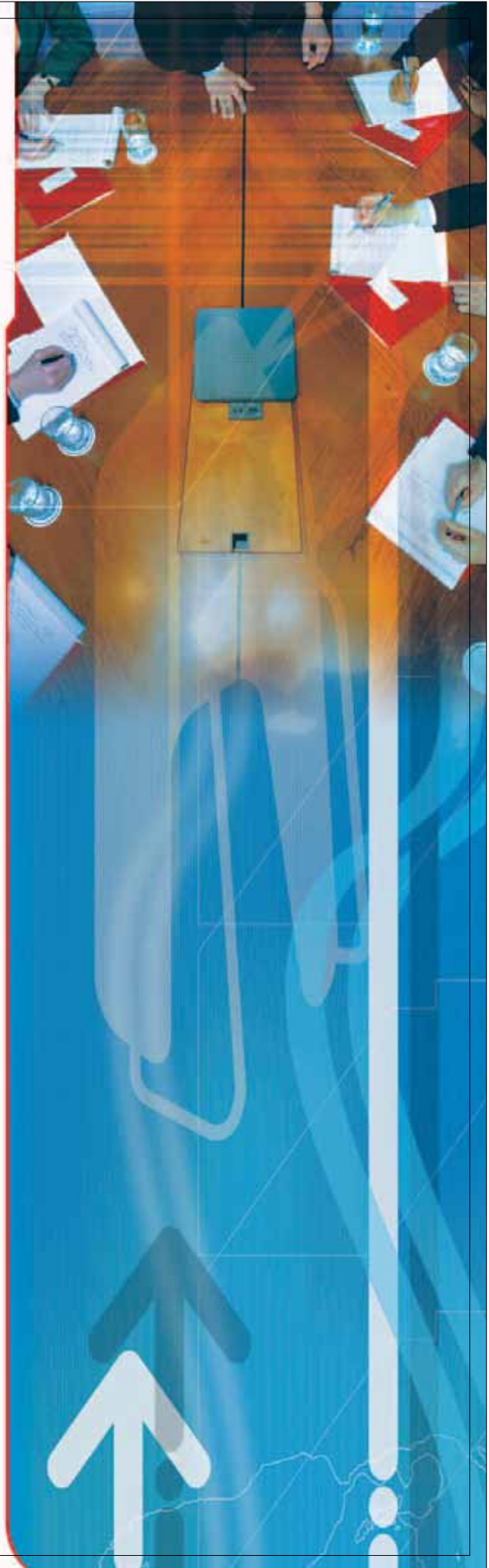
CONSEQUENTLY THE EPS HAS IMPROVED FROM RS. 2.63 TO RS 4.33. THE MARKET CAPITALIZATION HAS STRENGTHENED AND SHARE PRICE HAS GONE TO OVER RS. 26.



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 ACCOUNT OF THE COMPANY HAVE BEEN MAINTAINED.
- APPROPRIATE ACCOUNTING POLICIES HAVE BEEN CONSISTENTLY APPLIED EXCEPT FOR CHANGES IN ACCOUNTING POLICIES AS DISCLOSED IN NOTE NO. 2.19 IN PREPARATION OF FINANCIAL STATEMENTS AND ACCOUNTING ESTIMATES ARE BASED ON REASONABLE AND PRUDENT JUDGMENT.
- INTERNATIONAL ACCOUNTING STANDARDS, AS APPLICABLE IN PAKISTAN HAVE BEEN FOLLOWED IN PREPARATION OF FINANCIAL STATEMENTS.
- THE SYSTEM OF INTERNAL CONTROL IS SOUND AND HAS BEEN EFFECTIVELY IMPLEMENTED AND MONITORED.
- THE BOARD IS SATISFIED THAT COMPANY IS DOING WELL AND THERE IS NO CONCERN AS REGARD TO GOING CONCERN UNDER THE CODE.
- THERE HAS BEEN NO MATERIAL DEPARTURE FROM THE BEST PRACTICES OF CORPORATE GOVERNANCE AS DETAILED IN THE LISTING REGULATIONS OF THE STOCK EXCHANGES.
- KEY OPERATING AND FINANCIAL DATA FOR THE LAST SIX YEARS IS ANNEXED.
- THERE ARE NO STATUTORY PAYMENTS ON ACCOUNT OF TAXES, DUTIES, LEVIES AND CHARGES WHICH ARE OUTSTANDING AS ON SEPTEMBER 30, 2004 EXCEPT FOR THOSE DISCLOSED IN THE FINANCIAL STATEMENTS.
- THE VALUE OF PROVIDENT FUND INVESTMENTS AS ON SEPTEMBER 30, 2004 WAS RS. 32.777 MILLION (SEPTEMBER 30, 2003: RS.6.179 MILLION)
- NO MATERIAL CHANGES AND COMMITMENTS AFFECTING THE FINANCIAL POSITION OF YOUR COMPANY HAVE OCCURRED BETWEEN THE END OF THE FINANCIAL YEAR TO WHICH THIS BALANCE SHEET RELATES AND THE DATE OF THE DIRECTORS' REPORT.



DIVIDEND

THE DIRECTORS ARE PLEASED TO RECOMMEND PAYMENT OF CASH DIVIDEND @ 10 % (I.E. RS. 1.00 PER SHARE) TO THE ORDINARY SHAREHOLDERS OF THE COMPANY.

PREFERENCE SHARES

DURING THE PERIOD UNDER REVIEW THE COMPANY HAS ISSUED 86,865,434 (8.95% CUMULATIVE (NON VOTING)) PREFERENCE SHARES.

PLACEMENT OF QUARTERLY FINANCIAL STATEMENTS ON COMPANY'S WEBSITE

IN PURSUANCE OF CIRCULAR NO. 19 DATED APRIL 14, 2004 OF SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN (SECP), THE DIRECTORS HAVE PROPOSED, SUBJECT TO THE APPROVAL OF SECP, TO PLACE THE QUARTERLY FINANCIAL STATEMENTS ON COMPANY'S WEBSITE WWW.AZGARD9.COM INSTEAD OF TRANSMITTING THE SAME TO THE SHAREHOLDERS BY POST.

AUDIT COMMITTEE

THE BOARD OF DIRECTORS IN COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE HAS ESTABLISHED AN AUDIT COMMITTEE COMPRISING OF FIVE MEMBERS. FOUR MEMBERS OF THE AUDIT COMMITTEE INCLUDING CHAIRMAN ARE NON EXECUTIVE DIRECTORS. THE NAMES OF ITS MEMBERS ARE GIVEN IN THE COMPANY'S INFORMATION.

AUDITORS

THE PRESENT AUDITORS M/S M. YOUSAF ADIL SALEEM & CO., CHARTERED ACCOUNTANTS WILL RETIRE. THEY HAVE COMPLETED THEIR FIVE YEARS AND IN TERMS OF CLAUSE NO. (Xli) OF THE CODE OF CORPORATE GOVERNANCE, ARE NOT ELIGIBLE FOR REAPPOINTMENT. THE BOARD OF DIRECTORS PLACES ITS APPRECIATIONS FOR THEIR SERVICES. THE AUDIT COMMITTEE HAS RECOMMENDED THE APPOINTMENT OF M/S RAHMAN SARFRAZ & COMPANY, CHARTERED ACCOUNTANTS AS EXTERNAL AUDITORS OF THE COMPANY FOR THE NEXT FINANCIAL YEAR 2004-05.

CHANGE OF FINANCIAL YEAR

PURSUANT TO THE SRO 684(1)/2004 DATED AUGUST 10, 2004 OF CENTRAL BOARD OF REVENUE, GOVERNMENT OF PAKISTAN (CBR) READ WITH CIRCULAR NO. 29 OF 2004 DATED NOVEMBER 5, 2004 OF SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN, THE FINANCIAL YEAR OF THE COMPANY IS CHANGED AS STARTING FROM 1ST JULY AND ENDING ON 30TH JUNE EVERY YEAR. HOWEVER, THE COMPANY INTENDS TO HAVE CALENDAR YEAR AS ITS FINANCIAL YEAR KEEPING IN VIEW ITS GLOBALIZATION OBJECTIVE SUBJECT TO THE RESPECTIVE APPROVALS OF CBR AND SECP.

CONSEQUENT UPON THE ABOVE SAID APPROVAL THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 1ST OCTOBER 2004 TO 31ST DECEMBER 2005 (15 MONTHS) SHALL BE PLACED BEFORE THE SHAREHOLDERS IN NEXT ANNUAL GENERAL MEETING.

BOARD MEETINGS

DURING THE YEAR UNDER REVIEW NINE MEETINGS WERE HELD. ATTENDANCE BY EACH DIRECTOR IS AS FOLLOWS:

NAME OF DIRECTOR	ELIGIBILITY	ATTENDED
MR. HUMAYUN N. SHAIKH*	4	4
MR. AHMED H. SHAIKH	9	9
MR. AEHSUN M. H. SHAIKH	9	6
MS. BUSHRA NAZ. MALIK*	4	4
MR. MUHAMMAD SHAH CHISHTI*	4	3
MR. MUHAMMAD TALIB*	4	3
MR. KHALID A.H. AL-SAGAR	9	1
MR. MUEEN AFZAL**	6	3
CHIEF JUSTICE (R) MIAN MAHBOOB AHMAD**	6	6
MR. CHRISTOPHER WILLIAM KNIGHT**	1	1
MR. AJAY PRASAD KHAITAN**	1	1
MR. ABDUL RASHEED ZAHID GREWAL***	3	3
MR. MUHAMMAD MUKARRAM***	4	4
MR. ALI JEHangIR SIDDIQUI****	1	1

* RESIGNED ON MARCH 18, 2004

** APPOINTED ON MARCH 18, 2004

*** APPOINTED ON MAY 30, 2004 TO FILL UP CASUAL VACANCIES CREATED DUE TO RESIGNATIONS OF MR. CHRISTOPHER WILLIAM KNIGHT AND MR. AJAY PRASAD KHAITAN.





**** APPOINTED ON AUGUST 16, 2004 TO FILL UP CASUAL VACANCY CREATED DUE TO RESIGNATION OF MR. ABDUL RASHEED ZAHID GREWAL.

LEAVES OF ABSENCE WERE GRANTED TO THE MEMBERS WHO COULD NOT ATTEND THE MEETING.

PATTERN OF SHAREHOLDING

THE PATTERN OF SHAREHOLDING AS AT SEPTEMBER 30, 2004 INCLUDING THE INFORMATION UNDER THE CODE OF CORPORATE GOVERNANCE FOR ORDINARY AND PREFERENCE SHARES ARE ANNEXED.

ACKNOWLEDGMENT

THE BOARD OF DIRECTORS PLACES ON RECORD ITS APPRECIATION OF THE SUPPORT OF THE SHAREHOLDERS, GOVERNMENT AGENCIES, FINANCIAL INSTITUTIONS AND CUSTOMERS, WHO ENABLED THE COMPANY TO ACHIEVE GOOD RESULTS.

THE BOARD WOULD ALSO LIKE TO EXPRESS THEIR APPRECIATION FOR THE SERVICES, LOYALTY AND EFFORTS BEING CONTINUOUSLY RENDERED BY THE EXECUTIVES, STAFF MEMBERS AND THE WORKERS OF THE COMPANY AND HOPE THAT THEY WILL CONTINUE WITH THESE EFFORTS.

ON BEHALF OF THE BOARD

LAHORE
DECEMBER 28, 2004

CHIEF EXECUTIVE



STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

THIS STATEMENT IS BEING PRESENTED TO COMPLY WITH THE CODE OF CORPORATE GOVERNANCE CONTAINED IN REGULATION NO. 37 OF LISTING REGULATIONS OF KARACHI STOCK EXCHANGE FOR THE PURPOSE OF ESTABLISHING A FRAMEWORK OF GOOD GOVERNANCE, WHEREBY THE COMPANY IS MANAGED IN COMPLIANCE WITH THE BEST PRACTICES OF CORPORATE GOVERNANCE.

THE COMPANY HAS APPLIED THE PRINCIPLES CONTAINED IN THE CODE IN THE FOLLOWING MANNER:

1. AT PRESENT THE BOARD OF DIRECTORS INCLUDES FOUR (4) NON-EXECUTIVE DIRECTORS.
2. THE DIRECTORS HAVE CONFIRMED THAT NONE OF THEM IS SERVING AS A DIRECTOR IN MORE THAN TEN LISTED COMPANIES, INCLUDING THIS COMPANY.
3. ALL THE RESIDENT DIRECTORS ARE REGISTERED AS TAXPAYERS AND NONE OF THEM HAS DEFAULTED IN PAYMENT OF ANY LOAN TO A BANKING COMPANY, A DFI OR AN NBFII OR, BEING A MEMBER OF A STOCK EXCHANGE, HAS BEEN DECLARED AS A DEFAULTER BY THAT STOCK EXCHANGE.
4. SEVEN CASUAL VACANCIES OCCURRING IN THE BOARD WERE FILLED UP BY THE DIRECTORS WITH IN FOURTEEN DAYS THEREOF.
5. THE COMPANY HAS PREPARED A "STATEMENT OF ETHICS AND BUSINESS PRACTICES", WHICH HAS BEEN SIGNED BY ALL THE DIRECTORS AND EMPLOYEES OF THE COMPANY.
6. THE BUSINESS OPERATIONS OF THE COMPANY ARE CARRIED OUT IN ACCORDANCE WITH THE COMPANY'S VISION/MISSION STATEMENT, OVERALL

CORPORATE STRATEGY AND SIGNIFICANT POLICIES OF THE COMPANY. A COMPLETE RECORD OF PARTICULARS OF SIGNIFICANT POLICIES ALONG WITH THE DATES ON WHICH THEY WERE APPROVED OR AMENDED HAS BEEN MAINTAINED.

7. ALL THE POWERS OF THE BOARD HAVE BEEN DULY EXERCISED AND DECISIONS ON MATERIAL TRANSACTIONS HAVE BEEN TAKEN BY THE BOARD.
8. THE MEETINGS OF THE BOARD WERE PRESIDED OVER BY THE CHAIRMAN AND, IN HIS ABSENCE, BY A DIRECTOR ELECTED BY THE BOARD FOR THIS PURPOSE AND THE BOARD MET AT LEAST ONCE IN EVERY QUARTER. WRITTEN NOTICES OF THE BOARD MEETINGS, ALONG WITH AGENDA AND WORKING PAPERS, WERE CIRCULATED AT LEAST SEVEN DAYS BEFORE THE MEETINGS. THE MINUTES OF THE MEETINGS WERE APPROPRIATELY RECORDED AND CIRCULATED.
9. THE BOARD ARRANGED ORIENTATION COURSES FROM TIME TO TIME FOR ITS DIRECTORS DURING THE YEAR TO APPRISE THEM OF THEIR DUTIES AND RESPONSIBILITIES.
10. CHIEF FINANCIAL OFFICER, COMPANY SECRETARY AND HEAD OF INTERNAL AUDIT EXECUTED THEIR RESPONSIBILITIES IN ACCORDANCE WITH THE APPOINTMENTS APPROVED BY THE BOARD INCLUDING THEIR REMUNERATION AND TERMS AND CONDITIONS OF EMPLOYMENT, AS DETERMINED BY THE CHIEF EXECUTIVE.
11. THE DIRECTORS ARE WELL CONVERSANT WITH THE LISTING REGULATIONS, LEGAL REQUIREMENTS AND OPERATIONAL IMPERATIVES OF THE COMPANY, AND AS



SUCH FULLY AWARE OF THEIR DUTIES AND RESPONSIBILITIES.

12. THE DIRECTORS' REPORT FOR THIS YEAR HAS BEEN PREPARED IN COMPLIANCE WITH THE REQUIREMENTS OF THE CODE AND FULLY DESCRIBES THE SALIENT MATTERS REQUIRED TO BE DISCLOSED.
13. THE FINANCIAL STATEMENTS OF THE COMPANY WERE DULY ENDORSED BY CEO AND CFO BEFORE APPROVAL OF THE BOARD.
14. THE DIRECTORS, CEO AND EXECUTIVES DO NOT HOLD ANY INTEREST IN THE SHARES OF THE COMPANY OTHER THAN THAT DISCLOSED IN THE PATTERN OF SHAREHOLDING.
15. THE COMPANY HAS COMPLIED WITH ALL THE CORPORATE AND FINANCIAL REPORTING REQUIREMENTS OF THE CODE.
16. THE BOARD HAS FORMED AN AUDIT COMMITTEE. IT COMPRISES FIVE MEMBERS, OF WHOM FOUR ARE NON-EXECUTIVE DIRECTORS INCLUDING THE CHAIRMAN OF THE COMMITTEE.
17. THE BOARD HAS SETUP AN EFFECTIVE INTERNAL AUDIT FUNCTION.
8. THE STATUTORY AUDITORS OF THE COMPANY HAVE CONFIRMED THAT THEY HAVE BEEN GIVEN A SATISFACTORY RATING

UNDER THE QUALITY CONTROL REVIEW PROGRAMME OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN, THAT THEY OR ANY OF THE PARTNERS OF THE FIRM, THEIR SPOUSES AND MINOR CHILDREN DO NOT HOLD SHARES OF THE COMPANY AND THAT THE FIRM AND ALL ITS PARTNERS ARE IN COMPLIANCE WITH INTERNATIONAL FEDERATION OF ACCOUNTANTS (IFAC) GUIDELINES ON CODE OF ETHICS AS ADOPTED BY INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN.

19. WE CONFIRM THAT ALL OTHER MATERIAL PRINCIPLES CONTAINED IN THE CODE HAVE BEEN COMPLIED WITH.

LAHORE
DECEMBER 28, 2004

CHIEF EXECUTIVE



FINANCIAL STATEMENTS

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 (FORMERLY LEGLER NAFEEES DENIM MILLS 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 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 □
DECEMBER 28, 2004 □

M. YOUSUF ADIL SALEEM & CO.
CHARTERED ACCOUNTANTS

AUDITORS' REPORT TO THE MEMBERS

WE HAVE AUDITED THE ANNEXED BALANCE SHEET OF AZGARD NINE LIMITED (FORMERLY LEGLER NAFEEES DENIM MILLS LIMITED) AS AT SEPTEMBER 30, 2004 AND THE RELATED PROFIT AND LOSS ACCOUNT, CASH FLOW STATEMENT AND STATEMENT OF CHANGES IN EQUITY TOGETHER WITH THE NOTES FORMING PART THEREOF, FOR THE YEAR 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 PURPOSE 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.

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 ACCOUNT 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 ACCOUNTING POLICIES DUE TO AMENDMENTS IN FOURTH SCHEDULE TO THE COMPANIES ORDINANCE, 1984. AS REFERRED TO IN NOTE 2.19 WITH WHICH WE CONCUR;
- II. THE EXPENDITURE INCURRED DURING THE YEAR WAS FOR THE PURPOSE OF THE COMPANY'S BUSINESS; AND
- III. THE BUSINESS CONDUCTED, INVESTMENTS MADE AND THE EXPENDITURE INCURRED DURING THE YEAR 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 SEPTEMBER 30, 2004 AND OF THE PROFIT, ITS CASH FLOWS AND CHANGES IN EQUITY FOR THE YEAR THEN ENDED; AND
- d) IN OUR OPINION, NO ZAKAT WAS DEDUCTIBLE AT SOURCE UNDER THE ZAKAT AND USHR ORDINANCE, 1980.

LAHORE

DATE: DECEMBER 28, 2004

M. YOUSUF ADIL SALEEM & CO.

CHARTERED ACCOUNTANTS

BALANCE SHEET

AS AT SEPTEMBER 30, 2004

	NOTE	2004 RUPEES	2003 RUPEES
SHARE CAPITAL AND RESERVES			
SHARE CAPITAL	3	1,737,308,680	868,654,340
RESERVES	4	362,142,241	251,042,854
UNAPPROPRIATED PROFIT		410,657,982	161,710,634
		2,510,108,903	1,281,407,828
SURPLUS ON REVALUATION OF FIXED ASSETS			
	5	306,564,511	330,249,524
NON-CURRENT LIABILITIES			
LONG TERM FINANCING - SECURED			
	6	750,000,000	650,000,000
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE			
	7	116,503,819	143,704,801
DEFERRED LIABILITY - STAFF GRATUITY			
	8	-	25,512,837
LONG TERM DEPOSITS			
	9	1,147,729	6,388,502
CURRENT LIABILITIES			
CURRENT PORTION OF:			
LONG TERM FINANCING - SECURED	6	300,000,000	100,000,000
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE	7	63,081,881	60,798,533
SHORT TERM BORROWINGS	10	1,492,909,892	1,428,656,101
CREDITORS, ACCRUED AND OTHER LIABILITIES	11	691,981,192	747,929,841
PROVISION FOR TAXATION	12	64,824,871	44,824,871
UNCLAIMED DIVIDENDS		95,414	95,683
		2,612,893,250	2,382,305,029
CONTINGENCIES AND COMMITMENTS			
	13		
		6,297,218,212	4,819,568,521

THE ANNEXED NOTES FORM AN INTEGRAL PART OF THESE ACCOUNTS.

CHIEF EXECUTIVE

	NOTE	2004 RUPEES	2003 RUPEES
NON-CURRENT ASSETS			
FIXED ASSETS			
OPERATING ASSETS	14	2,847,936,402	2,251,337,991
CAPITAL WORK IN PROGRESS	15	84,292,338	82,415,024
		2,932,228,740	2,333,753,015
INTANGIBLE ASSETS	16	88,375,589	-
LONG TERM INVESTMENTS	17	2,666,296	2,664,888
LONG TERM DEPOSITS	18	18,517,830	3,649,720
CURRENT ASSETS			
STORES, SPARES AND LOOSE TOOLS	19	72,608,693	45,777,796
STOCK IN TRADE	20	1,394,729,330	1,265,777,101
TRADE DEBTS	21	945,111,856	536,616,084
ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES	22	712,923,170	609,728,167
SHORT TERM INVESTMENTS	23	109,148,931	-
CASH AND BANK BALANCES	24	20,907,777	21,601,750
		3,255,429,757	2,479,500,898
		6,297,218,212	4,819,568,521

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED SEPTEMBER 30, 2004

	NOTE	2004 RUPEES	2003 RUPEES
SALES - NET	25	3,155,912,427	2,428,127,182
COST OF SALES	26	2,440,779,273	1,782,024,020
GROSS PROFIT		715,133,154	646,103,162
ADMINISTRATIVE AND SELLING EXPENSES	27	185,112,548	199,432,104
OPERATING PROFIT		530,020,606	446,671,058
OTHER INCOME	28	9,864,791	1,053,050
		539,885,397	447,724,108
OTHER CHARGES			
FINANCIAL CHARGES	29	123,708,381	185,641,156
WORKERS' PROFIT PARTICIPATION FUND	11.1	20,803,281	13,075,810
OTHERS	30	111,400	566,758
		144,623,062	199,283,724
PROFIT BEFORE TAXATION		395,262,335	248,440,384
PROVISION FOR TAXATION			
CURRENT	12.1	20,000,000	20,252,338
PROFIT AFTER TAXATION		375,262,335	228,188,046
EARNINGS PER SHARE - BASIC	31	4.31	2.63
- DILUTED	31	4.30	-

THE ANNEXED NOTES FORM AN INTEGRAL PART OF THESE ACCOUNTS

CHIEF EXECUTIVE

DIRECTOR

CASH FLOW STATEMENT

FOR THE YEAR ENDED SEPTEMBER 30, 2004

	NOTE	2004 RUPEES	2003 RUPEES
CASH FLOW FROM OPERATING ACTIVITIES			
PROFIT BEFORE TAXATION		395,262,335	248,440,384
ADJUSTMENT FOR:			
DEPRECIATION		170,505,791	147,403,006
AMORTIZATION OF INTANGIBLE ASSETS		22,964,732	23,907,556
GAIN ON SALE OF INVESTMENTS		(1,192,320)	-
UNREALISED GAIN ON INVESTMENTS		(6,951,688)	-
(GAIN)/LOSS ON DISPOSAL OF FIXED ASSETS		(266,005)	390,008
EXCHANGE LOSS		-	(120,797)
GRATUITY-NET		(25,512,837)	5,704,555
INTEREST INCOME		(710,367)	(665,073)
FINANCIAL CHARGES		123,708,381	184,976,083
LONG TERM DEPOSITS		282,545,687	610,035,722
		(14,868,110)	(23,985,924)
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES		662,939,912	586,049,798
CHANGES IN WORKING CAPITAL	35	(715,135,831)	(655,421,282)
CASH FLOW FROM OPERATIONS		(52,195,919)	(69,371,484)
FINANCIAL CHARGES PAID		(106,270,614)	(231,111,364)
PRELIMINARY EXPENSES ON ISSUANCE OF PREFERENCE SHARES		(37,241,757)	-
TAXES PAID		(25,275,947)	(34,523,268)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES		(220,984,237)	(103,894,752)
CASH FLOW FROM INVESTING ACTIVITIES			
FIXED CAPITAL EXPENDITURE		(769,994,316)	(546,078,156)
INTANGIBLE ASSETS		(111,788,860)	-
SALE PROCEEDS OF FIXED ASSETS		1,278,805	2,599,632
SALE PROCEEDS OF SHORT TERM INVESTMENTS		1,192,320	-
LONG TERM INVESTMENTS		(1,660,264)	-
INTEREST RECEIVED		710,367	665,073
LONG TERM DEPOSITS		-	2,005,584
SHORT TERM INVESTMENTS		(102,197,243)	-
NET CASH USED IN INVESTING ACTIVITIES		(982,459,191)	(540,807,867)
CASH FLOW FROM FINANCING ACTIVITIES			
PREFERENCE SHARES ISSUED		868,654,340	-
REPAYMENT OF LONG TERM DEPOSITS		(5,240,773)	(4,042,187)
LONG TERM FINANCING OBTAINED		650,000,000	750,000,000
REPAYMENT OF LONG TERM LOANS		(350,000,000)	(370,163,877)
DIVIDEND PAID		(269)	-
SHORT TERM FINANCES- NET		64,253,791	432,775,962
FINANCE LEASE LIABILITIES PAID		(24,917,634)	65,369,020
NET CASH INFLOW FROM FINANCING ACTIVITIES		1,202,749,455	873,938,918
NET (DECREASE) IN CASH AND CASH EQUIVALENTS		(693,973)	(1,875,065)
CASH AND CASH EQUIVALENTS			
AT THE BEGINNING OF THE YEAR		21,601,750	23,476,815
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		20,907,777	21,601,750

CHIEF EXECUTIVE

DIRECTOR



STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED SEPTEMBER 30, 2004

SHARE CAPITAL		RESERVES					UNAPPROPRIATED	TOTAL	SURPLUS ON
ISSUED, SUBSCRIBED AND PAID-UP	SHARES UNDER ISSUE	SHARE PREMIUM	RESERVE ON MERGER	PREFERENCE SHARE REDEMPTION RESERVE	SURPLUS ON REVALUATION OF INVESTMENTS	TOTAL	PROFIT / (ACCUMULATED LOSS)	EQUITY	SURPLUS ON REVALUATION OF FIXED ASSETS

R U P E E S

BALANCE AS AT OCTOBER 1, 2002- RESTATED	360,534,420	508,119,590	143,675,125	105,152,335	-	-	248,827,460	(92,057,197)	1,025,424,273	355,829,309
PROFIT FOR THE YEAR	-	-	-	-	-	-	228,188,046	228,188,046	-	-
ORDINARY SHARES ISSUED	508,119,590	(508,119,590)	-	-	-	-	-	-	-	-
ADJUSTMENT OF FRACTIONAL AMOUNT ON ISSUE OF SHARES	330	-	-	(330)	-	-	(330)	-	-	-
SURPLUS ON REVALUATION OF FIXED ASSETS TRANSFERRED TO RETAINED EARNINGS DURING THE YEAR	-	-	-	-	-	-	25,579,785	25,579,785	(25,579,785)	-
REVALUATION OF INVESTMENTS	-	-	-	-	2,215,724	2,215,724	-	2,215,724	-	-
BALANCE AS AT SEPTEMBER 30, 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 YEAR	-	-	-	-	-	-	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 YEAR	-	-	-	-	-	-	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 PREFERENCE SHARES	-	(37,241,757)	-	-	-	(37,241,757)	-	(37,241,757)	-	-
REVALUATION OF INVESTMENTS	-	-	-	-	(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	410,657,982	2,510,108,903	306,564,511

THE ANNEXED NOTES FORM AN INTEGRAL PART OF THESE ACCOUNTS

CHIEF EXECUTIVE

DIRECTOR

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

1 STATUS AND ACTIVITIES

THE NAME OF THE COMPANY WAS CHANGED FROM LEGLER NAFEEES DENIM MILLS LIMITED TO AZGARD NINE LIMITED (THE COMPANY) AS ON APRIL 07, 2004. THE COMPANY WAS INCORPORATED IN PAKISTAN AS A PUBLIC LIMITED COMPANY AND ITS SHARES ARE QUOTED AT KARACHI STOCK EXCHANGE (GUARANTEE) LIMITED. THE COMPANY IS A COMPOSITE SPINNING, WEAVING, DYEING AND STITCHING UNIT ENGAGED IN THE MANUFACTURING OF YARN, DENIM AND DENIM PRODUCTS.

2 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 REFERRED 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 SCHEME (DEFINED BENEFIT PLAN) COVERING ALL ITS PERMANENT EMPLOYEES WHO HAD ATTAINED THE MINIMUM QUALIFYING PERIOD. THE MANAGEMENT CEASED THE GRATUITY SCHEME DURING THE YEAR AND REPLACED IT WITH PROVIDENT FUND (DEFINED CONTRIBUTION PLAN). THE GRATUITY LIABILITY ACCRUING TILL MARCH 31, 2004 HAS BEEN TRANSFERRED TO PROVIDENT FUND.

PROVISION FOR GRATUITY WAS MADE ANNUALLY TO COVER THE OBLIGATION UNDER THE SCHEME IN ACCORDANCE WITH ACTUARIAL RECOMMENDATIONS. ACTUARIAL VALUATION OF THE SCHEME WAS CARRIED OUT AT SEPTEMBER 30, 2002, USING THE PROJECTED UNIT CREDIT METHOD. THE COMPANY'S POLICY WITH REGARD TO ACTUARIAL GAINS/LOSSES WAS TO FOLLOW MINIMUM RECOMMENDED APPROACH UNDER IAS-19 'EMPLOYEE BENEFITS'.

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 BASIC PAY.

2.4 TAXATION

CURRENT

INCOME TAX EXPENSE REPRESENTS THE SUM OF CURRENT TAX PAYABLE, ADJUSTMENTS, IF ANY, TO PROVISION FOR TAX MADE IN PRIOR YEARS ARISING FROM ASSESSMENTS FRAMED DURING THE YEAR 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

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

CARRYING AMOUNTS FOR FINANCIAL STATEMENTS¹ REPORTING PURPOSES TAKING INTO CONSIDERATION THE IMPLICATIONS OF TAXES PAYABLE UNDER PRESUMPTIVE TAX REGIME,² IF ANY.³

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.⁴

2.5 OPERATING FIXED ASSETS AND DEPRECIATION⁵

OPERATING FIXED ASSETS, EXCEPT FREEHOLD LAND, ARE STATED AT COST OR REVALUED AMOUNTS LESS ACCUMULATED DEPRECIATION. FREEHOLD LAND IS STATED AT REVALUED AMOUNT.⁶

DEPRECIATION IS CHARGED TO INCOME FOR THE YEAR APPLYING THE REDUCING BALANCE METHOD. AMOUNT EQUAL TO INCREMENTAL DEPRECIATION CHARGED DURING THE YEAR ON REVALUED AMOUNT OF ASSETS HAS BEEN 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 OF SURPLUS ON REVALUATION OF FIXED ASSETS.⁷

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 14. NO DEPRECIATION IS PROVIDED ON ASSETS IN THE YEAR OF DISPOSAL, WHEREAS FULL YEAR'S DEPRECIATION IS CHARGED IN THE YEAR OF PURCHASE. MAJOR ADDITIONS OR EXTENSIONS TO PRODUCTION FACILITIES ARE DEPRECIATED ON PRO-RATA BASIS FOR THE PERIOD OF USE DURING THE YEAR.⁸

CAPITAL WORK IN PROGRESS IS STATED AT COST.⁹

GAIN OR LOSS ON DISPOSAL OF OPERATING FIXED ASSETS IS INCLUDED IN CURRENT YEAR'S INCOME. NORMAL MAINTENANCE AND REPAIRS ARE CHARGED TO CURRENT YEAR'S INCOME AS AND WHEN INCURRED. MAJOR RENEWALS, IMPROVEMENTS AND REPLACEMENTS ARE CAPITALISED AND ASSETS SO REPLACED, IF NOT KEPT AS STAND BY, ARE RETIRED.¹⁰

2.6 LEASES¹¹

ASSETS SUBJECT TO FINANCE LEASE ARE STATED AT LOWER OF PRESENT VALUE OF MINIMUM LEASE PAYMENTS UNDER LEASE AGREEMENTS AND THE FAIR VALUE OF THE ASSETS LESS ACCUMULATED DEPRECIATION. RELATED OBLIGATIONS UNDER THE FINANCE LEASE LESS FINANCIAL CHARGES ALLOCATED TO FUTURE PERIODS ARE SHOWN AS LIABILITIES. DEPRECIATION IS CHARGED AT THE RATES SPECIFIED IN NOTE 14 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 THE LEASE PERIOD.¹²

2.7 BORROWING COSTS¹³

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.¹⁴

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

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

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 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 SUBSIDIARY

INVESTMENTS ARE INITIALLY MEASURED AT COST. COST IN RELATION TO INVESTMENTS MADE IN FOREIGN CURRENCY IS DETERMINED BY TRANSLATING THE CONSIDERATION PAID IN FOREIGN CURRENCY INTO RUPEES AT 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 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. 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.

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.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

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 AT THE RATES 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. ■■

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

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

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2.13.3 DE-RECOGNITION

FINANCIAL ASSETS ARE DE-RECOGNISED WHEN THE COMPANY LOSES 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.

2.14 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 NET 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.

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

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

- 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.

2.18 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 CHANGE IN ACCOUNTING POLICIES

PURSUANT TO CHANGES IN THE FOURTH SCHEDULE TO THE COMPANIES ORDINANCE, 1984, THE FOLLOWING CHANGES HAVE BEEN MADE IN ACCOUNTING POLICIES AS ADOPTED BY THE COMPANY:

- 1) COSTS FORMERLY TREATED AS DEFERRED COSTS AND CHARGED TO PROFIT AND LOSS ACCOUNT PERIODICALLY HAVE BEEN RECLASSIFIED AS INTANGIBLES ASSETS WHERE THEY MEET THE DEFINITION OF SUCH ASSETS. OTHER COSTS WHICH HAVE NOT BEEN CLASSIFIED AS INTANGIBLES ARE WRITTEN OFF. (SEE NOTE 2.8)
- 2) THE EXCHANGE DIFFERENCES ARISING ON LOANS USED FOR FINANCING OPERATING FIXED ASSETS PREVIOUSLY CAPITALISED, ARE NOW INCLUDED IN PROFIT AND LOSS ACCOUNT ANNUALLY.
- 3) NO PROVISION FOR PROPOSED DIVIDEND IS MADE INSTEAD THE DIVIDEND IS NOW RECOGNISED AS PER NOTE 2.16.

IMPACT ON FINANCIAL STATEMENTS (RUPEES)	NATURE OF IMPACT
--	------------------

- | | | |
|---|--------------|--|
| 1) DEFERRED COSTS | 7.44 MILLION | PROFIT OF THE COMPANY WOULD HAVE BEEN LOWER BY RS. 7.44 MILLION AND RETAINED EARNINGS WOULD HAVE BEEN HIGHER BY RS.29.8 MILLION WITH CORRESPONDING EFFECT ON BALANCE SHEET ASSETS. |
| 2) EXCHANGE DIFFERENCES ON FOREIGN CURRENCY BORROWINGS. | NIL | ADJUSTMENTS IN THE CARRYING VALUE OF PLANT AND MACHINERY, DUE TO EXCHANGE FLUCTUATIONS ON FOREIGN CURRENCY LOANS UTILISED FOR ACQUISITION OF SUCH ASSETS WITH EFFECT ON THE DEPRECIATION FOR THE YEAR. |
| 3) PROPOSED DIVIDEND | NIL | APPROPRIATION OF RETAINED EARNINGS. |

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

	NOTE	2004 RUPEES	2003 RUPEES
3 SHARE CAPITAL			
3.1 AUTHORISED CAPITAL			
300,000,000 (2003: 117,380,000)			
ORDINARY AND PREFERENCE SHARES OF RS. 10/- EACH		3,000,000,000	1,173,800,000
AUTHORISED CAPITAL OF THE COMPANY HAS BEEN INCREASED TO RS. 3,000,000,000 DIVIDED INTO 213,000,000 ORDINARY SHARES OF RS. 10/- EACH AND 87,000,000 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
63,088,065	ISSUED FOR CONSIDERATION OTHER THAN CASH	630,880,650	630,880,650
86,865,434		868,654,340	868,654,340
86,865,434	PREFERENCE SHARES OF RS.10/- EACH FULLY PAID IN CASH		
	ISSUED DURING THE YEAR	868,654,340	-
173,730,868		1,737,308,680	868,654,340

3.3 THE COMPANY ISSUED CUMMULATIVE PREFERENCE SHARES DURING THE 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.

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%

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 YEAR ENDED SEPTEMBER 30, 2004

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 ISSUE AMOUNT AT THE END OF FIFTH (5TH) YEAR OF ISSUANCE/ALLOTMENT;
- 50% OF THE ISSUE 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 RESERVE 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 HAS 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.

	2004 RUPEES	2003 RUPEES
4 RESERVES		
CAPITAL RESERVES		
SHARE PREMIUM ON ORDINARY SHARES	106,433,368	143,675,125
PREFERENCE SHARES REDEMPTION RESERVE	150,000,000	-
RESERVE ON MERGER	105,152,005	105,152,005
	<u>361,585,373</u>	<u>248,827,130</u>
SURPLUS ON REVALUATION OF INVESTMENTS	556,868	2,215,724
	<u>362,142,241</u>	<u>251,042,854</u>
5 SURPLUS ON REVALUATION OF FIXED ASSETS		
OPENING BALANCE	414,123,474	414,123,474
SURPLUS TRANSFERRED TO UNAPPROPRIATED PROFIT:		
- PRIOR YEARS	83,873,950	58,294,165
- CURRENT YEAR	23,685,013	25,579,785
	<u>107,558,963</u>	<u>83,873,950</u>
	<u>306,564,511</u>	<u>330,249,524</u>

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.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

	NOTE	2004 RUPEES	2003 RUPEES
6 LONG TERM FINANCING - SECURED			
LONG TERM RUNNING FINANCES			
- UTILISED UNDER MARK UP ARRANGEMENTS			
HABIB BANK LIMITED (HBL)	6.1	400,000,000	500,000,000
FAYSAL BANK LIMITED (FBL)	6.2	-	250,000,000
UNITED BANK LIMITED (UBL)	6.3	200,000,000	-
CITI BANK	6.4	200,000,000	-
TERM FINANCE CERTIFICATES (TFCs)	6.5	250,000,000	-
		<u>1,050,000,000</u>	<u>750,000,000</u>
LESS: CURRENT MATURITY GROUPED UNDER CURRENT LIABILITIES		<u>(300,000,000)</u>	<u>(100,000,000)</u>
		<u>750,000,000</u>	<u>650,000,000</u>

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

THE FINANCE CARRIES MARK-UP BASED ON THE STATE BANK OF PAKISTAN'S LAST AUCTIONED 6-MONTHS TREASURY BILLS' CUT-OFF PLUS 300 BASIC POINTS WITH A FLOOR OF 4.75% PER ANNUM. 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 THIS REPRESENTS BRIDGE FINANCE FACILITY OBTAINED FROM FBL CARRYING MARK-UP @ 4.50 % PER ANNUM. THE LOAN WAS PAID OFF DURING THE YEAR, FROM THE PROCEEDS OF TFCs - PRIVATE PLACEMENT. IT WAS SECURED AGAINST CHARGE ON FIXED ASSETS.

6.3 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 IS REPAYABLE WITHIN TWO MONTHS FROM THE DATE OF DISBURSEMENT. THE MANAGEMENT OF THE COMPANY INTENDS TO SUBSTITUTE THE BRIDGE FINANCE WITH LONG TERM FINANCES AND AS SUCH THE SAME HAS BEEN CLASSIFIED AS A NON-CURRENT LIABILITY.

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

6.4 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 INSTALMENTS 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.

6.5 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 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 IN RESPECT OF PROFIT PAYMENT DUE PLUS MARGIN OF 1.75%.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

TRUSTEE

IN ORDER TO PROTECT THE INTERESTS OF TFC HOLDERS, NDLC-IFIC 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.

7 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE - Secured

	2004 RUPEES	2003 RUPEES
GROSS MINIMUM LEASE PAYMENTS		
NOT LATER THAN ONE YEAR	76,494,987	81,292,132
LATER THAN ONE YEAR BUT NOT LATER THAN FIVE YEARS	146,218,007	189,667,338
	222,712,994	270,959,470
LESS: FINANCIAL CHARGES ALLOCATED TO FUTURE PERIODS	26,050,646	44,671,837
	196,662,348	226,287,633
LESS: SECURITY DEPOSITS ADJUSTABLE ON EXPIRY OF LEASE TERMS	17,076,648	21,784,299
	179,585,700	204,503,334
LESS: CURRENT MATURITY GROUPED UNDER CURRENT LIABILITIES	63,081,881	60,798,533
	116,503,819	143,704,801
PRESENT VALUE OF MINIMUM LEASE PAYMENTS		
NOT LATER THAN ONE YEAR	63,081,881	60,798,533
LATER THAN ONE YEAR BUT NOT LATER THAN FIVE YEARS	116,503,819	143,704,801
	179,585,700	204,503,334

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 6.75% TO 19.00% 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 DEFERRED LIABILITY - STAFF GRATUITY

MOVEMENT IN LIABILITY RECOGNISED IN THE BALANCE SHEET

BALANCE SHEET LIABILITY / (ASSETS) AS ON SEPTEMBER 30, 2003	25,512,837	19,808,282
AMOUNT RECOGNISED DURING THE YEAR	11,218,709	13,706,344
	36,731,546	33,514,626
CONTRIBUTIONS MADE BY THE COMPANY DURING THE YEAR - TRANSFERRED TO PROVIDENT FUND.	36,731,546	8,001,789
	-	25,512,837

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

	NOTE	2004 RUPEES	2003 RUPEES
RECONCILIATION OF THE LIABILITY RECOGNISED IN THE BALANCE SHEET			
PRESENT VALUE OF DEFINED BENEFIT OBLIGATION		-	26,157,132
LESS: UN-RECOGNISED ACTUARIAL LOSSES		-	(644,295)
		-	25,512,837

THE FOLLOWING AMOUNTS HAVE BEEN CHARGED TO THE PROFIT AND LOSS ACCOUNT DURING THE CURRENT YEAR.

PROVISION FOR GRATUITY FOR THE YEAR, THE BREAK-UP OF WHICH IS AS FOLLOWS:

CURRENT SERVICE COST	9,943,067	11,725,516
INTEREST COST	1,275,642	1,980,828
	11,218,709	13,706,344
AMOUNT CHARGED TO		
COST OF SALES	8,414,032	10,115,369
ADMINISTRATIVE AND SELLING EXPENSES	2,804,677	3,590,975
	11,218,709	13,706,344

8.1 ACTUARIAL VALUATION WAS CARRIED OUT AS AT SEPTEMBER 30, 2002 USING PROJECTED UNIT CREDIT METHOD ASSUMING A DISCOUNT RATE OF 10% PER ANNUM AND EXPECTED RATE OF INCREASE IN SALARY @ 9% PER ANNUM.

9 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.

10 SHORT TERM BORROWINGS

FINANCES UNDER MARK-UP			
ARRANGEMENTS - SECURED	10.1	1,482,583,392	1,416,329,149
TEMPORARY OVER DRAFT - UNSECURED	10.2	10,326,500	12,326,952
		1,492,909,892	1,428,656,101

10.1 THESE REPRESENT SHORT-TERM FINANCING FACILITIES AVAILABLE FROM VARIOUS BANKS AMOUNTING TO Rs.3,116.08 MILLION (2003: Rs.1,627.50 MILLION) AND US\$10.5 MILLION (2003: US\$ 11.500 MILLION). THESE FACILITIES CARRY MARK-UP AT THE RATES RANGING BETWEEN RE. 0.06 TO RE. 0.19 PER Rs. 1,000 PER DAY OR PART THEREOF ON THE PRICE OUTSTANDING.

L/C LIMITS AVAILABLE FOR OPENING LETTERS OF CREDIT/GUARANTEE AGGREGATE Rs. 1,040.25 MILLION (2003: Rs. 827.50 MILLION) OF WHICH THE AMOUNT REMAINING UN-UTILISED AT THE YEAR END WAS Rs. 510.38 MILLION (2003: Rs. 89.101 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 US\$ 6,992,986 (2003: US\$ 3,148,588) WHICH HAVE BEEN CONVERTED INTO PAK RUPEES AT THE EXCHANGE RATE PREVAILING ON THE BALANCE SHEET DATE I.E. US\$1 = Rs. 59.37 (2003: US\$ 1 = Rs. 58.05).

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 SEPTEMBER 30, 2005.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

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

10.3 FINANCES UNDER MARK-UP ARRANGEMENTS INCLUDE RS.58.78 MILLION (2003: RS.NIL) OBTAINED IN NORMAL COURSE OF BUSINESS AT ARMS LENGTH FROM UNION BANK LTD, A RELATED PARTY.

	NOTE	2004 RUPEES	2003 RUPEES
11	CREDITORS, ACCRUED AND OTHER LIABILITIES		
	CREDITORS	195,881,907	235,040,148
	BILLS PAYABLE - SECURED	316,801,324	403,527,536
	ACCRUED LIABILITIES	54,792,260	50,571,639
	WORKERS' WELFARE FUND	20,000	20,000
	ADVANCES FROM CUSTOMERS	59,877,980	25,833,632
	MARK-UP ACCRUED ON:		
	LONG TERM FINANCES	-	30,822
	SHORT TERM BORROWINGS	26,687,284	8,353,144
	LEASE FINANCE CHARGES	1,393,512	2,259,063
	WORKER'S PROFIT PARTICIPATION FUND	20,803,281	13,075,810
	CUSTOMS DUTY, SURCHARGE	800,301	797,744
	TAX DEDUCTED AT SOURCE	9,064,521	4,808,634
	OTHER LIABILITIES	5,858,822	3,611,669
		691,981,192	747,929,841
	11.1 WORKERS' PROFIT PARTICIPATION FUND		
	OPENING BALANCE	13,075,810	10,009,728
	ADD: INTEREST ON FUNDS UTILISED BY THE COMPANY	818,980	658,827
		13,894,790	10,668,555
	LESS: PAYMENTS MADE DURING THE YEAR	13,894,247	10,667,950
	DEPOSITED IN GOVERNMENT TREASURY	543	605
		13,894,790	10,668,555
		-	-
	ADD: CONTRIBUTION FOR THE YEAR	20,803,281	13,075,810
		20,803,281	13,075,810
12	PROVISION FOR TAXATION		
	12.1 CURRENT		
	OPENING BALANCE	44,824,871	30,734,778
	ADD: PROVISION MADE DURING THE YEAR		
	- CURRENT YEAR	20,000,000	19,840,093
	- PRIOR YEARS	-	412,245
		20,000,000	20,252,338
	LESS: ADJUSTED AGAINST COMPLETED ASSESSMENTS	-	6,162,245
		64,824,871	44,824,871
	12.2 CURRENT STATUS OF PENDING TAX ASSESSMENTS		
	12.2.1 INCOME TAX ASSESSMENTS OF AZGARD NINE LIMITED (FORMERLY LEGLER NAFEEES DENIM MILLS LTD) (THE COMPANY) HAVE BEEN COMPLETED UP TO TAX YEAR 2003. 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.		
	12.2.2 INCOME TAX ASSESSMENTS OF NAFEEES COTTON MILLS LIMITED (NAFEEES) NOW MERGED INTO THE COMPANY HAVE BEEN COMPLETED UP TO THE INCOME YEAR ENDED 30 SEPTEMBER, 2001 (ASSESSMENT YEAR 2002-2003).		

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

NAFEES HAS FILED APPEALS BEFORE THE LAHORE HIGH COURT FOR THE ASSESSMENT YEARS 1988-89, 1992-93 AND 1993-94 WHICH ARE PENDING FOR ADJUDICATION. THE DEPARTMENT IS IN SECOND APPEAL BEFORE THE INCOME TAX APPELLATE TRIBUNAL FOR THE ASSESSMENT YEARS 1997-98 AND 1998-99. THE COMPANY'S APPEAL FOR THE ASSESSMENT YEAR 1999-2000 BEFORE THE INCOME TAX APPELLATE TRIBUNAL IS PENDING FOR ADJUDICATION. THE COMPANY HAS ALSO FILED APPEALS BEFORE THE COMMISSIONER OF INCOME TAX (APPEALS) FOR THE ASSESSMENT YEARS 1999-2000, 2000-2001, 2001-2002 AND 2002-2003 WHICH ARE PENDING FOR ADJUDICATION.

12.2.3 PROVISION FOR CURRENT YEAR'S 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, WHEREAS, THE LOCAL SALES ARE TO BE TAXED UNDER NORMAL LAW.

ADJUSTMENTS TO BE MADE IN PROVISION FOR TAXATION ON CONFIRMATION OR OTHERWISE OF THE APPEALS.

12.3 DEFERRED

SINCE THE MERGER OF NAFEES COTTON MILLS LIMITED AND NAFEES SPINNING MILLS LIMITED INTO AZGARD NINE LIMITED (FORMERLY LEGLER NAFEES DENIM MILLS LIMITED) FROM APRIL 01, 2002, THERE IS TREND OF INCREASE IN EXPORT SALES INCLUDING INDIRECT EXPORTS. THE EXPORT SALES (INCLUDING INDIRECT EXPORTS) DURING THE YEAR ENDING SEPTEMBER 30, 2004 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.

12.4 RELATIONSHIP BETWEEN TAX EXPENSE AND ACCOUNTING PROFIT

	2004 %	2003 %
APPLICABLE TAX RATE	35.00	35.00
TAX EFFECT OF AMOUNTS THAT ARE:		
- NON DEDUCTIBLE FOR TAX PURPOSES	15.31	20.70
- ALLOWABLE FOR TAX PURPOSES	(41.88)	(47.40)
TAX EFFECT OF BROUGHT FORWARD LOSSES	(8.43)	(3.00)
EFFECT OF TAX RATES UNDER PRESUMPTIVE TAX REGIME	5.05	2.43
ADJUSTMENT IN RESPECT OF CURRENT INCOME TAX OF PREVIOUS PERIOD	-	0.42
EFFECTIVE TAX RATE FOR THE YEAR	5.05	8.15

13 CONTINGENCIES AND COMMITMENTS

CONTINGENCIES

13.1 AZGARD NINE LIMITED (FORMERLY LEGLER NAFEES DENIM MILLS LTD) (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.

13.2 THE COMPANY FILED A CONSTITUTIONAL PETITION IN THE SIND 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 SIND HIGH COURT HENCE NO ADDITIONAL LIABILITY IS EXPECTED TO ARISE.

13.3 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 (2003: RS. 64.756 MILLION).

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

13.4 THE COMPANY HAS FILED AN APPEAL BEFORE THE LAHORE HIGH COURT FOR RECOVERY OF ITS CLAIM FROM THE INSURANCE COMPANIES AMOUNTING TO RS. 2,462,187 (2003: Rs. 2,462,187). THE APPEAL IS PENDING FOR ADJUDICATION.

13.5 REFER CONTENTS OF NOTE 3.3.

COMMITMENTS

13.6 COUNTER GUARANTEES GIVEN BY THE COMPANY TO ITS BANKERS OUTSTANDING AS AT 30 SEPTEMBER, 2004 WERE FOR RS.0.102 MILLION (2003: Rs. 0.102 MILLION).

13.7 COMMITMENTS AGAINST IRREVOCABLE LETTERS OF CREDIT OUTSTANDING AS AT 30 SEPTEMBER, 2004 AMOUNT TO RS.300 MILLION (2003:RS.334.77 MILLION).

13.8 ATTENTION IS ALSO DRAWN TO THE COMMITMENT MADE FOR PAYMENT OF DIVIDEND TO SHAREHOLDERS AS REFERRED IN NOTE 3.4.

14. OPERATING FIXED ASSETS

PARTICULARS	GROSS / REVALUATION				AS AT 30 SEPTEMBER, 2004	RATE %	DEPRECIATION				NET BOOK VALUE AS AT 30 SEPTEMBER, 2004	
	AS AT 30 SEPTEMBER, 2003	ADDITIONS DURING THE YEAR	LEASED ASSETS TRANSFERS	DISPOSALS			TO SEPTEMBER 30, 2003	FOR THE YEAR	ON DISPOSALS/ TRANSFERS	TO 30 SEPTEMBER, 2004		
OWNED:												
FREEHOLD LAND:												
- COST	269,167,648	68,470,000	-	-	337,637,648	-	-	-	-	-	-	337,637,648
- REVALUATION	8,442,352	-	-	-	8,442,352	-	-	-	-	-	-	8,442,352
	277,610,000	68,470,000	-	-	346,080,000	-	-	-	-	-	-	346,080,000
BUILDINGS ON												
FREEHOLD LAND:												
- COST	230,344,068	54,213,418	-	-	284,557,486	5.0	48,280,802	11,813,835	-	60,094,637	-	224,462,849
- REVALUATION	19,455,864	-	-	-	19,455,864	5.0	1,434,870	90,1050	-	2,335,920	-	17,119,944
	249,799,932	54,213,418	-	-	304,013,350		49,715,672	12,714,885	-	62,430,557	-	241,582,793
PLANT AND MACHINERY:												
- COST	1,599,582,863	535,654,260	82,379,977	-	2,217,617,100	7.5	421,088,517	110,324,941	38,275,856	569,689,314	-	1,647,927,786
- REVALUATION	386,225,258	-	-	-	386,225,258	7.5	82,439,080	22,783,963	-	105,223,043	-	281,002,215
	1,985,808,121	535,654,260	82,379,977	-	2,603,842,358		503,527,597	133,108,904	38,275,856	674,912,357	-	1,928,930,001
FURNITURE AND FITTINGS	7,598,848	2,945,141	-	-	10,543,989	10.0	2,805,388	773,860	-	3,579,248	-	6,964,741
VEHICLES	5,891,122	1,711,641	9,187,796	1,690,500	15,100,059	20.0	3,183,833	1,824,262	2,794,913	7,803,008	-	7,297,051
TOOLS AND EQUIPMENT	2,608,229	986,319	-	-	3,594,548	10.0	1,812,682	322,974	-	2,135,656	-	1,458,892
OFFICE EQUIPMENTS	19,563,389	19,439,325	-	-	39,002,714	10.0	4,541,015	3,301,382	-	7,842,397	-	31,160,317
ELECTRICAL INSTALLATIONS	32,325,405	25,253,657	-	-	57,579,062	10.0	10,505,316	4,707,375	-	15,212,691	-	42,366,371
	2,581,205,046	708,673,761	91,567,773	1,690,500	3,379,756,080		576,091,503	156,753,642	41,070,769	773,915,914	-	2,605,840,166
LEASED:												
PLANT AND MACHINERY	230,395,038	63,954,008	(82,379,977)	-	211,969,069	7.5	1,380,080	18,274,188	(38,275,856)	(18,621,588)	-	230,590,657
VEHICLES	23,524,574	2,887,666	(9,187,796)	-	17,224,444	20.0	6,315,084	2,876,394	(3,472,613)	5,718,865	-	11,505,579
	253,919,612	66,841,674	(91,567,773)	-	229,193,513		7,695,164	21,150,582	(41,748,469)	(12,902,723)	-	242,096,236
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
2003 RUPEES	2,379,070,961	463,663,132	-	7,609,435	2,835,124,658		441,003,456	147,403,006	(4,619,795)	583,786,667	-	2,251,337,991

14.1 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.

14.2 DISPOSAL OF OPERATING FIXED ASSETS

PARTICULARS	COST	ACCUMULATED DEPRECIATION	BOOK VALUE	SALE PROCEEDS	GAIN	MODE OF DISPOSAL	PARTICULARS OF PURCHASER
VEHICLES							
HONDA CIVIC	1,150,500	414,180	736,320	1,002,325	266,005	COMPANY'S CAR SCHEME	MR. TARIQ SADDAT (EX-EMPLOYEE)
SUZUKI CULTUS	540,000	263,520	276,480	276,480	-	COMPANY'S CAR SCHEME	MR. RIZWAN ZAHOOR - (EMPLOYEE)
RUPEES	1,690,500	677,700	1,012,800	1,278,805	266,005		

14.3 DEPRECIATION FOR THE YEAR HAS BEEN APPORTIONED AS UNDER

	2004 RUPEES	2003 RUPEES
COST OF SALES	164,167,467	140,383,061
ADMINISTRATIVE AND SELLING EXPENSES	6,338,324	7,019,945
CAPITALISED DURING THE YEAR	7,398,433	-
	177,904,224	147,403,006

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

	NOTE	2004 RUPEES	2003 RUPEES
15			
CAPITAL WORK IN PROGRESS			
BUILDINGS ON FREEHOLD LAND			
- ADVANCE PAYMENTS		22,060,697	5,750,000
PLANT AND MACHINERY			
- LETTERS OF CREDIT COST		62,231,641	69,567,862
- OTHER PAYMENTS		-	7,097,162
		62,231,641	76,665,024
		84,292,338	82,415,024
16			
INTANGIBLE ASSETS			
DEVELOPMENT COSTS	16.1	81,187,908	-
TEXTILE QUOTA	16.2	-	-
		81,187,908	-
ERP - ORACLE FINANCIAL	16.3	7,187,681	-
		88,375,589	-
16.1	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.		
16.2			
TEXTILE QUOTA			
OPENING BALANCE		24,469,044	24,221,128
ADD: PURCHASES DURING THE YEAR		23,413,271	23,985,789
		47,882,315	48,206,917
LESS: AMORTISATION OF TEXTILE QUOTA		22,964,732	23,737,873
		24,917,583	24,469,044
LESS: CURRENT PORTION GROUPED UNDER CURRENT ASSETS		24,917,583	24,469,044
		-	-
16.3	THIS REPRESENTS COST RELATING TO IMPLEMENTATION OF ORACLE FINANCIAL, WHICH IS UNDER PROCESS AS AT BALANCE SHEET DATE.		
17			
LONG TERM INVESTMENTS			
INVESTMENT IN FOREIGN SUBSIDIARY			
NAFEES INTERNATIONAL TEKSTIL SANAY VE TICARET ANONIM SIRKET		1,650,720	-
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 REVIEWED ACCOUNTS AS AT SEPT 30, 2004 IS Rs 2.855 MILLION (2003: NIL)			
AVAILABLE FOR SALE:			
QUOTED			
BSJS BALANCED FUND LTD.			
1,000 ORDINARY SHARES OF Rs. 10 EACH.		10,000	-
APPRECIATION IN VALUE OF INVESTMENT		600	-
MARKET VALUE RS. 10.60 PER SHARE (2003: -)		10,600	-
COLONY TEXTILE MILLS LTD.			
456 (2003: 456) ORDINARY SHARES OF Rs.10 EACH		8,664	8,664
DIMINUTION IN VALUE OF INVESTMENT		456	1,824
MARKET VALUE RS. 18 PER SHARE (2003: Rs. 15)		8,208	6,840
UNQUOTED			
NATIONAL SECURITY INSURANCE CO. LTD.			
221,504 (2003:221,504) ORDINARY SHARES OF RS.10 EACH		910,345	910,345
EQUITY HELD 12.66% (2003: 12.66%)		86,423	1,747,703
APPRECIATION IN VALUE OF INVESTMENT		996,768	2,658,048
		2,666,296	2,664,888

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

	NOTE	2004 RUPEES	2003 RUPEES
18	LONG TERM DEPOSITS		
	OPENING BALANCE	3,649,720	3,649,720
	COST INCURRED DURING THE YEAR	14,868,110	-
		<u>18,517,830</u>	<u>3,649,720</u>
19	STORES, SPARES AND LOOSE TOOLS		
	STORE	50,503,425	33,097,125
	SPARES	21,443,068	12,128,501
	LOOSE TOOLS	662,200	552,170
		<u>72,608,693</u>	<u>45,777,796</u>
	19.1	INCLUDED IN STORES AND SPARES ARE ITEMS IN TRANSIT VALUING Rs 0.750 MILLION (2003: Rs.0.659 MILLION).	
	19.2	THE COMPANY DOES NOT HOLD ANY STORES AND SPARES FOR SPECIFIC CAPITALISATION.	
20	STOCK IN TRADE		
	RAW MATERIALS	636,338,989	620,411,415
	WORK IN PROCESS	220,379,606	172,868,794
	FINISHED GOODS	537,888,016	472,080,704
	WASTE	122,719	416,188
		<u>1,394,729,330</u>	<u>1,265,777,101</u>
	20.1	INCLUDED IN RAW MATERIALS ARE STOCKS IN TRANSIT VALUING Rs. 75 MILLION (2003:Rs.55.396 MILLION) AND STOCKS IN CUSTOMS BOND Rs.NIL (2003:Rs.14.715 MILLION).	
	20.2	STOCKS AMOUNTING TO Rs.160.146 MILLION (2003: Rs.140.53 MILLION) HAVE BEEN PLEDGED AS SECURITY WITH VARIOUS BANKS AGAINST FINANCING FACILITIES.	
21	TRADE DEBTS		
	CONSIDERED GOOD:		
	SECURED	631,503,900	277,196,084
	UN-SECURED	313,607,956	259,420,000
	CONSIDERED DOUBTFUL	4,249,348	4,249,348
		<u>949,361,204</u>	<u>540,865,432</u>
	LESS: PROVISION FOR DOUBTFUL DEBTS	(4,249,348)	(4,249,348)
		<u>945,111,856</u>	<u>536,616,084</u>
	21.1	THESE ARE SECURED BY LETTER OF CREDIT. THESE INCLUDE RECEIVABLE FROM NAFEEES INTERNATIONAL (SUBSIDIARY COMPANY) AMOUNTING TO Rs.102,891,846 (2003:Rs.NIL).	
22	ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		
	ADVANCES - UNSECURED CONSIDERED GOOD		
	TO EMPLOYEES	19,357,526	9,211,008
	TO SUPPLIERS, CONTRACTORS AND OTHERS	158,543,173	96,803,745
	SECURITY DEPOSIT	9,314,906	-
	MARGIN DEPOSITS	201,562,598	260,938,883
	PREPAYMENTS	8,873,451	3,809,852
	EXPORT REBATE RECEIVABLE	26,624,906	16,219,675
	SALES TAX RECOVERABLE	141,957,831	82,270,385
	TEXTILE QUOTA	24,917,583	24,469,044
	LETTERS OF CREDIT	26,571,132	41,712,951
	TAX DEDUCTED AT SOURCE / TAX REFUNDABLE	85,906,387	60,630,440
	DCTROI REFUNDABLE	2,778,781	77,432
	INSURANCE CLAIM	2,462,187	2,462,187
	OTHER RECEIVABLES - UNSECURED, CONSIDERED GOOD	4,052,709	11,122,565
		<u>712,923,170</u>	<u>609,728,167</u>

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

22.1 ADVANCES TO EMPLOYEES ARE AGAINST PURCHASE AND OTHER EXPENSES ON COMPANY'S BEHALF. THE MAXIMUM AGGREGATE DEBIT BALANCE OUTSTANDING DURING THE YEAR AT ANY MONTH END WAS Rs.3.50 MILLION (2003: Rs.4.938 MILLION).

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

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

23 SHORT TERM INVESTMENTS

	2004 RUPEES	2003 RUPEES
HELD FOR TRADING		
QUOTED		
BANK OF PUNJAB		
458,000 ORDINARY SHARES OF Rs.10 EACH	29,355,786	-
EQUITY HELD 0.036%		
APPRECIATION IN VALUE OF INVESTMENT	995,875	-
MARKET VALUE Rs.66.27 PER SHARE	30,351,661	-
NATIONAL BANK OF PAKISTAN		
434,000 ORDINARY SHARES OF Rs.10 EACH	29,152,758	-
EQUITY HELD 0.0088%		
APPRECIATION IN VALUE OF INVESTMENT	849,662	-
MARKET VALUE Rs.69.13 PER SHARE	30,002,420	-
PAKISTAN TELECOMMUNICATION Co. LTD		
1,111,500 ORDINARY SHARES OF Rs.10 EACH	43,688,699	-
EQUITY HELD 0.0029%		
APPRECIATION IN VALUE OF INVESTMENT	5,106,151	-
MARKET VALUE Rs.43.90 PER SHARE	48,794,850	-
	109,148,931	-
24 CASH AND BANK BALANCES		
CASH IN HAND	2,556,878	505,615
CASH AT BANKS		
CURRENT ACCOUNTS	9,563,317	7,995,737
SAVING ACCOUNTS	8,787,582	13,100,398
	18,350,899	21,096,135
	20,907,777	21,601,750
24.1 CASH AT BANKS ON SAVING ACCOUNTS INCLUDE FOREIGN CURRENCY BALANCES OF US \$ 132,764 (2003: US \$ 117,527) WHICH HAVE BEEN CONVERTED INTO PAK RUPEES AT THE EXCHANGE RATE PREVAILING ON THE BALANCE SHEET DATE I.E. US \$ 1 = Rs. 59.35 (2003:US \$ 1 = Rs. 57.90).		
25 SALES -NET		
LOCAL	1,613,246,671	1,044,399,750
EXPORT (INCLUDING INDIRECT EXPORT)		
- NET OF EXPORT DEVELOPMENT		
SURCHARGE AMOUNTING TO Rs.3,484,649		
TO (2003: Rs. 49,803) AND EXCHANGE		
GAIN OF Rs.13,221,017		
(2003:Rs. 336,182)	1,652,820,064	1,616,709,320
WASTE	33,097,303	27,893,059
	3,299,164,038	2,689,002,129
LESS: COMMISSION TO SELLING AGENTS - LOCAL	3,501,456	19,767,020
- EXPORT	34,874,588	25,238,015
SALES TAX	94,596,501	214,341,443
BROKERAGE AND DISCOUNTS	10,279,066	1,528,469
	143,251,611	260,874,947
	3,155,912,427	2,428,127,182

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

	NOTE	2004 RUPEES	2003 RUPEES
26 COST OF SALES			
RAW MATERIALS AND OTHER DIRECT			
MATERIALS CONSUMED		1,748,032,339	1,295,156,696
SALARIES, WAGES AND BENEFITS		283,661,014	242,241,067
FUEL AND POWER		189,237,711	179,509,434
STORE AND SPARES CONSUMED		48,628,540	51,287,245
TRAVELLING ,CONVEYANCE AND ENTERTAINMENT		16,704,076	10,404,724
RENT, RATES AND TAXES		2,070,589	891,850
INSURANCE		6,792,699	7,570,049
REPAIR AND MAINTENANCE		10,793,306	12,686,129
PROCESSING CHARGES		17,529,443	66,327,990
DEPRECIATION	14.3	164,167,467	140,383,061
PRINTING & STATIONERY		710,526	1,097,236
COMMUNICATIONS		2,530,894	899,435
OTHERS		6,921,232	5,909,612
		<u>2,497,779,836</u>	<u>2,014,364,528</u>
ADJUSTMENT OF WORK IN PROCESS			
OPENING		172,868,794	92,181,376
CLOSING		(220,379,606)	(172,868,794)
		<u>(47,510,812)</u>	<u>(80,687,418)</u>
COST OF GOODS MANUFACTURED		<u>2,450,269,024</u>	<u>1,933,677,110</u>
ADJUSTMENT OF FINISHED GOODS			
OPENING		472,496,892	267,739,214
PURCHASES		56,024,092	53,104,588
CLOSING		(538,010,735)	(472,496,892)
		<u>(9,489,751)</u>	<u>(151,653,090)</u>
		<u>2,440,779,273</u>	<u>1,782,024,020</u>

26.1 SALARIES, WAGES AND BENEFITS INCLUDE CONTRIBUTION TO PROVIDENT FUND AMOUNTING TO Rs. 6,117,233 (2003: Rs. 1,156,042) AND GRATUITY EXPENSE FOR THE YEAR AS MENTIONED IN NOTE 8.

27 ADMINISTRATIVE AND SELLING EXPENSES			
SALARIES AND BENEFITS		52,250,069	43,643,109
TRAVELLING AND CONVEYANCE INCLUDING			
CHIEF EXECUTIVE/DIRECTORS			
TRAVELLING Rs 9,887,430 (2003:Rs.2,301,611)		16,005,579	15,846,810
POWER AND FUEL		1,580,446	-
REPAIR AND MAINTENANCE		2,514,315	1,716,519
RENT, RATES AND TAXES		1,247,250	131,064
INSURANCE		450,145	2,068,135
FREIGHT AND CLEARING			
CHARGES		48,598,511	74,274,831
PRINTING AND			
STATIONERY		2,114,502	2,675,448
COMMUNICATIONS		11,295,398	15,724,895
ADVERTISEMENT AND SALES PROMOTION		6,829,196	1,876,929
LEGAL AND PROFESSIONAL CHARGES	27.1	2,127,432	671,114
DEPRECIATION	14.3	6,338,324	7,019,945
AMORTISATION OF TEXTILE QUOTA		22,964,732	23,907,556
FEES AND SUBSCRIPTION		2,636,288	4,837,188
OTHERS		8,160,361	5,038,561
		<u>185,112,548</u>	<u>199,432,104</u>

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

	2004 RUPEES	2003 RUPEES
27.1 LEGAL AND PROFESSIONAL CHARGES		
THE CHARGES FOR PROFESSIONAL SERVICES		
INCLUDE THE FOLLOWING IN RESPECT OF		
AUDITOR'S SERVICES FOR:		
AUDIT	185,000	150,000
TAX AND OTHER SERVICES	30,000	-
	<u>215,000</u>	<u>150,000</u>
28 OTHER INCOME		
FINANCIAL ASSETS		
GAIN ON SALE OF INVESTMENTS	1,192,320	-
UNREALISED GAIN ON INVESTMENTS HELD FOR TRADING	6,951,688	-
RETURN ON BANK DEPOSITS	710,367	665,073
EXCHANGE GAIN	-	120,797
OTHERS		
GAIN ON SALE OF FIXED ASSETS	266,005	-
MISCELLANEOUS	744,411	267,180
	<u>9,864,791</u>	<u>1,053,050</u>
29 FINANCIAL CHARGES		
INTEREST ON:		
LONG TERM LOANS - SECURED	-	34,091,394
WORKERS' PROFIT PARTICIPATION FUND	818,980	658,827
MARK UP ON:		
LONG TERM FINANCING - SECURED	23,198,011	12,325,396
SHORT TERM BORROWINGS - SECURED	74,804,694	92,710,325
LEASE FINANCE CHARGES	16,644,210	25,919,965
GUARANTEE COMMISSION AND BANK CHARGES	8,242,486	19,935,249
	<u>123,708,381</u>	<u>185,641,156</u>
30 OTHER CHARGES		
LOSS ON DISPOSAL OF FIXED ASSETS	-	390,008
DONATIONS	110,944	176,750
PROVISION FOR DIMINUTION IN VALUE OF INVESTMENTS	456	-
	<u>111,400</u>	<u>566,758</u>

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

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

<p>₹1 EARNINGS PER SHARE (EPS)</p> <p>BASIC</p> <p>NET PROFIT AFTER TAX</p> <p>NUMBER OF ORDINARY SHARES</p> <p>EPS</p> <p>DILUTED</p> <p>NET PROFIT AFTER TAX</p> <p>POTENTIAL PREFERENCE DIVIDEND TO BE ISSUED</p> <p>PROFIT AVAILABLE FOR ORDINARY SHAREHOLDERS</p> <p>NUMBER OF ORDINARY SHARES</p> <p>POTENTIAL NUMBER OF ORDINARY SHARES TO BE ISSUED</p> <p>TOTAL NUMBER OF ORDINARY SHARES</p> <p>EPS</p> <p>BASIC</p> <p>PROFIT AVAILABLE FOR ORDINARY SHAREHOLDERS</p> <p>NUMBER OF ORDINARY SHARES</p> <p>EPS</p> <p>DILUTED</p> <p>THERE WAS NO DILUTIVE EFFECT ON EPS OF THE COMPANY.</p>	<p>2004</p> <p>RUPEES</p> <p>373,984,342</p> <hr/> <p>NO. OF SHARES</p> <p>86,865,434</p> <hr/> <p>RUPEES</p> <p>4.31</p> <hr/> <p>373,984,342</p> <p>319,498</p> <p>374,303,840</p> <hr/> <p>NO. OF SHARES</p> <p>86,865,434</p> <p>242,747</p> <p>87,108,181</p> <hr/> <p>RUPEES</p> <p>4.30</p> <p>2003</p> <p>RUPEES</p> <p>228,188,046</p> <hr/> <p>NO. OF SHARES</p> <p>86,865,434</p> <hr/> <p>RUPEES</p> <p>2.63</p>
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NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

32 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	
	2004 RUPEES	2003 RUPEES	2004 RUPEES	2003 RUPEES	2004 RUPEES	2003 RUPEES
MANAGERIAL REMUNERATION						
BASIC SALARY	1,799,604	600,000	1,379,340	599,602	6,192,766	29,002,252
HOUSE RENT	240,000	270,000	551,726	239,836	2,115,980	10,556,456
UTILITIES	60,000	30,000	137,938	59,962	564,793	3,472,631
LEAVE ENCASHMENT	60,000	-	-	-	19,911	3,090,983
RETIREMENT BENEFITS	-	-	-	-	714,689	4,061,135
BONUS	-	-	-	-	1,388,518	2,445,390
	2,159,604	900,000	2,069,004	899,400	10,996,657	52,628,847
NUMBER OF PERSONS	1	1	4	1	9	152

32.1 THE COMPANIES ORDINANCE, 1984 HAS REVISED THE DEFINITION OF AN EXECUTIVE IN THE CURRENT YEAR. CURRENTLY AN EMPLOYEE, OTHER THAN CHIEF EXECUTIVE AND DIRECTORS, WHOSE BASIC SALARY EXCEEDS FIVE HUNDRED THOUSAND RUPEES (2003: ONE HUNDRED THOUSAND RUPEES) IN A FINANCIAL YEAR IS CONSIDERED TO BE AN EXECUTIVE. CONSEQUENTIAL TO THE ABOVE REVISION NINE (2003: 152) EMPLOYEES OF THE COMPANY FALL UNDER THE DEFINITION OF AN EXECUTIVE.

32.2 IN ADDITION TO ABOVE THE CHIEF EXECUTIVE HAS BEEN PROVIDED WITH FREE USE OF THE COMPANY MAINTAINED CAR. NONE (2003: NONE) OF THE DIRECTORS/EXECUTIVES HAVE BEEN PROVIDED WITH THE COMPANY MAINTAINED CARS.

32.3 NO FEE HAS BEEN PAID TO THE DIRECTORS DURING THE YEAR (2003: NIL).

33 TRANSACTIONS WITH RELATED PARTIES

	2004 RUPEES	2003 RUPEES
RETAINER SHIP FEE	1,189,718	-
UNDERWRITING FEE	26,059,631	-
BROKERAGE	230,975	-
MARK-UP PAID	833,912	-
MISC. EXPENSES	445,818	-
SALES	118,284,677	-

THE MAXIMUM AGGREGATE AMOUNT DUE FROM ASSOCIATED UNDERTAKINGS AT THE END OF ANY MONTH DURING THE YEAR WAS RS.102.892 MILLION (2003:RS.NIL).

THERE WERE NO RECEIVABLES OR PAYABLES TO RELATED PARTIES OTHER THAN THOSE REFERRED IN NOTES 10.3 AND 21.1.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

		2004	2003
34	CAPACITY AND PRODUCTION		
	SPINNING		
	NO. OF ROTORS INSTALLED	1,272	792
	PLANT CAPACITY ON THE BASIS OF UTILIZATION CONVERTED INTO 6.5S COUNT		
	(BASED ON 3 SHIFTS PER DAY)	-Kgs. 6,382,842	4,828,136
	ACTUAL PRODUCTION CONVERTED INTO 6.5S COUNT	34.1 -Kgs. 5,145,768	3,839,392
	NO. OF SPINDLES INSTALLED	39,024	35,024
	PLANT CAPACITY ON THE BASIS OF UTILIZATION CONVERTED INTO 20S COUNT		
	(BASED ON 3 SHIFTS PER DAY)	-Kgs. 10,570,050	10,414,516
	ACTUAL PRODUCTION CONVERTED INTO 20S COUNT	34.2 -Kgs. 9,561,801	10,025,432
	WEAVING		
	NO. OF LOOMS INSTALLED	93	84
	ANNUAL RATED CAPACITY ON THE BASIS OF UTILIZATION - AT 38 PICKS		
	(BASED ON 3 SHIFTS PER DAY)	-MTRS. 15,222,452	14,232,000
	ACTUAL PRODUCTION - AT 38 PICKS	-MTRS. 13,871,935	13,809,550
	GARMENTS		
	NO. OF STITCHING MACHINES INSTALLED	287	106
	ANNUAL CAPACITY ON THE BASIS OF UTILIZATION		
	(BASED ON 2 SHIFTS PER DAY)	-Pcs. 2,400,000	1,310,660
	ACTUAL PRODUCTION	-Pcs. 1,583,414	1,166,662

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

34.2 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.

	2004 RUPEES	2003 RUPEES
35	CHANGES IN WORKING CAPITAL	
	(INCREASE) IN CURRENT ASSETS	
	STORES, SPARES AND LOOSE TOOLS	(26,830,897)
	STOCK IN TRADE	(128,952,229)
	TRADE DEBTS	(408,495,772)
	ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (EXCLUDING INCOME TAX)	(77,470,517)
	(DECREASE)/INCREASE IN CURRENT LIABILITIES	
	CREDITORS, ACCRUED AND OTHER LIABILITIES (EXCLUDING ACCRUED FINANCIAL CHARGES)	240,852,463
		<u>(655,421,282)</u>
		<u>(715,135,831)</u>

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

36 FINANCIAL INSTRUMENTS

36.1 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 SEPTEMBER 30, 2004 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. THEREFORE IT 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.

36.2 FINANCIAL ASSETS AND LIABILITIES

INTEREST	INTEREST / MARK-UP BEARING			NON INTEREST / MARK-UP BEARING			TOTAL
	MARK-UP RATES RANGE % PER ANNUM	MATURITY UPTO ONE YEAR	MATURITY AFTER ONE YEAR	SUB-TOTAL	MATURITY UPTO ONE YEAR	MATURITY AFTER ONE YEAR	
	(R U P E E S)						
FINANCIAL ASSETS:							
LONG TERM INVESTMENTS				-	2,666,296		2,666,296
TRADE DEBTORS				-	945,111,856		945,111,856
ADVANCES, DEPOSITS AND OTHER RECEIVABLES				-	55,276,109		55,276,109
SHORT TERM INVESTMENTS				-	109,148,931		109,148,931
CASH AND BANK BALANCES	1% TO 3.5%	8,787,582		8,787,582	12,120,195		20,907,777
2004:		8,787,582	-	8,787,582	1,121,657,091	2,666,296	1,133,110,969
2003:		13,100,398	-	13,100,398	584,210,302	8,344,638	605,655,338
FINANCIAL LIABILITIES:							
LONG TERM FINANCING	4.75% TO 8.00%	300,000,000	750,000,000	1,050,000,000			1,050,000,000
LIABILITIES AGAINST ASSETS							
SUBJECT TO FINANCE LEASE	6.75% TO 19.00%	63,081,881	116,503,819	179,585,700			179,585,700
LONG TERM DEPOSITS AND PAYABLES					1,147,729		1,147,729
SHORT TERM BORROWINGS	1.60% TO 8.00%			-	1,492,909,892		1,492,909,892
CREDITORS, ACCRUED AND OTHER LIABILITIES				-	601,321,068		601,321,068
UNCLAIMED DIVIDENDS				-	95,414		95,414
2004:		363,081,881	866,503,819	1,229,585,700	2,095,474,103	-	3,325,059,803
2003:		1,589,454,634	803,859,601	2,393,314,235	703,480,663	6,388,502	3,103,183,400
OFF BALANCE SHEET ITEMS:							
COMMITMENTS				-	300,000,000		300,000,000
GUARANTEE				-	102,000		102,000
2004:		-	-	-	300,102,000		300,102,000
2003:		-	-	-	334,872,000		334,872,000

36.3 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.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

36.4 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. 1,133 MILLION (2003: 605.66 MILLION), THE FINANCIAL ASSETS WHICH ARE SUBJECT TO CREDIT RISK AGGREGATED Rs. 423.00 MILLION (2003:Rs.605.15 MILLION). THE COMPANY BELIEVES THAT IT IS NOT EXPOSED TO MAJOR CONCENTRATION OF CREDIT RISK.

36.5 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, EXPOSURE TO INTEREST RATE RISK IS MINIMAL.

36.6 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.

37 NUMBER OF EMPLOYEES

NUMBER OF PERMANENT EMPLOYEES AS AT SEPTEMBER 30, 2004 WAS 4,512 (2003: 4,511).

38 DIVIDEND

DIRECTORS HAVE PROPOSED 10% CASH DIVIDEND I.E. RS. 1 PER ORDINARY SHARE TO BE APPROVED BY THE SHAREHOLDERS IN ENSUING ANNUAL GENERAL MEETING TO BE HELD ON 31 JANUARY 2005. TOTAL AMOUNT OF CASH DIVIDEND TO BE PAID IS Rs. 86,865,434 WHICH HAS NOT BEEN ACCOUNTED FOR AS LIABILITY IN THESE FINANCIAL STATEMENTS.

39 DATE OF AUTHORISATION FOR ISSUE

THESE FINANCIAL STATEMENTS WERE AUTHORISED FOR ISSUE ON DECEMBER 28, 2004 BY THE BOARD OF DIRECTORS OF THE COMPANY.

40 FIGURES

- ON CHANGE IN ACCOUNTING POLICY, ASSETS (SEE NOTE 2.19) AMOUNT INCLUDED IN DEFERRED COSTS IN 2003 HAVE BEEN RECLASSIFIED AS INTANGIBLE ASSETS. NO OTHER RE-ARRANGEMENT HAS BEEN MADE IN THESE ACCOUNTS.

- FIGURES IN THE ACCOUNTS HAVE BEEN ROUNDED OFF NEAREST TO RUPEE.

CHIEF EXECUTIVE

DIRECTOR

CONSOLIDATED FINANCIAL STATEMENTS

AUDITORS' REPORT TO THE MEMBERS

WE HAVE EXAMINED THE ANNEXED CONSOLIDATED FINANCIAL STATEMENTS COMPRISING CONSOLIDATED BALANCE SHEET OF AZGARD NINE LIMITED (FORMERLY LEGLER NAFESS DENIM MILLS LIMITED), THE HOLDING COMPANY, AND ITS SUBSIDIARY COMPANY AS AT SEPTEMBER 30, 2004 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 YEAR ENDED SEPTEMBER 30, 2004. THE FINANCIAL STATEMENTS OF NAFESS INTERNATIONAL TEKSTIL SANAYS VE TICARET ANONIM SIRKET ARE UN AUDITED BUT SUBJECT TO LIMITED REVIEW BY ANOTHER FIRM OF ACCOUNTANTS FOR THE PERIOD ENDED SEPTEMBER 30, 2004 WHOSE REPORT HAVE BEEN FURNISHED TO US AND OUR OPINION IN SO FAR AS IT RELATES TO THE AMOUNTS INCLUDED FOR SUCH COMPANY , IS BASED SOLELY ON SUCH LIMITED REVIEW. 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 EXAMINATION.

OUR EXAMINATION WAS MADE IN ACCORDANCE WITH 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 EXAMINED BY US SUBJECT TO ANY ADJUSTMENT THAT MAY HAVE BEEN REQUIRED ON AUDIT AND THE FINANCIAL STATEMENTS OF THE SUBSIDIARY COMPANY PRESENT FAIRLY THE FINANCIAL POSITION OF AZGARD NINE LIMITED (FORMERLY LEGLER NAFESS DENIM MILLS LIMITED), AND ITS SUBSIDIARY COMPANY AS AT SEPTEMBER 30, 2004 OF THE RESULTS OF THEIR OPERATIONS FOR THE YEAR THEN ENDED.

LAHORE □

DATE: DECEMBER 28, 2004 □

M. YOUSUF ADIL SALEEM & CO.

CHARTERED ACCOUNTANTS



AZGARD-9

CONSOLIDATED BALANCE SHEET

AS AT SEPTEMBER 30, 2004

	NOTE	2004 RUPEES	2003 RUPEES
SHARE CAPITAL AND RESERVES			
SHARE CAPITAL	3	1,737,308,680	868,654,340
RESERVES	4	362,142,241	251,042,854
UNAPPROPRIATED PROFIT		412,399,663	161,710,634
		2,511,850,584	1,281,407,828
MINORITY INTEREST		2,742,560	-
SURPLUS ON REVALUATION OF FIXED ASSETS	5	306,564,511	330,249,524
NON-CURRENT LIABILITIES			
LONG TERM FINANCING - SECURED	6	750,000,000	650,000,000
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE	7	116,503,819	143,704,801
DEFERRED LIABILITY - STAFF GRATUITY	8	-	25,512,837
LONG TERM DEPOSITS	9	1,147,729	6,388,502
CURRENT LIABILITIES			
CURRENT PORTION OF:			
LONG TERM FINANCING - SECURED	6	300,000,000	100,000,000
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE	7	63,081,881	60,798,533
SHORT TERM BORROWINGS	10	1,492,909,892	1,428,656,101
CREDITORS, ACCRUED AND OTHER LIABILITIES	11	701,845,741	747,929,841
PROVISION FOR TAXATION	12	64,824,871	44,824,871
UNCLAIMED DIVIDENDS		95,414	95,683
		2,622,757,799	2,382,305,029
CONTINGENCIES AND COMMITMENTS	13		
		6,311,567,002	4,819,568,521

THE ANNEXED NOTES FORM AN INTEGRAL PART OF THESE ACCOUNTS.

CHIEF EXECUTIVE

	NOTE	2004 RUPEES	2003 RUPEES
NON-CURRENT ASSETS			
FIXED ASSETS			
OPERATING ASSETS	14	2,847,936,402	2,251,337,991
CAPITAL WORK IN PROGRESS	15	89,759,126	82,415,024
		2,937,695,528	2,333,753,015
INTANGIBLE ASSETS	16	88,375,589	-
LONG TERM INVESTMENTS	17	1,015,576	2,664,888
LONG TERM DEPOSITS	18	18,517,830	3,649,720
CURRENT ASSETS			
STORES, SPARES AND LOOSE TOOLS	19	72,608,693	45,777,796
STOCK IN TRADE	20	1,425,586,819	1,265,777,101
TRADE DEBTS	21	924,208,356	536,616,084
ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES	22	713,461,070	609,728,167
SHORT TERM INVESTMENTS	23	109,148,931	-
CASH AND BANK BALANCES	24	20,948,610	21,601,750
		3,265,962,479	2,479,500,898
		<u>6,311,567,002</u>	<u>4,819,568,521</u>

DIRECTOR

CONSOLIDATED PROFIT AND LOSS ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

	NOTE	2004 RUPEES	2003 RUPEES
SALES - NET	25	3,160,780,433	2,428,127,182
COST OF SALES	26	2,440,779,273	1,782,024,020
GROSS PROFIT		720,001,160	646,103,162
ADMINISTRATIVE AND SELLING EXPENSES	27	186,565,495	199,432,104
OPERATING PROFIT		533,435,665	446,671,058
OTHER INCOME	28	9,864,791	1,053,050
OTHER CHARGES		543,300,456	447,724,108
FINANCIAL CHARGES	29	123,708,381	185,641,156
WORKERS' PROFIT PARTICIPATION FUND	11.1	20,803,281	13,075,810
OTHERS	30	111,400	566,758
PROFIT BEFORE TAXATION		144,623,062	199,283,724
PROVISION FOR TAXATION		398,677,394	248,440,384
CURRENT	12.1	20,000,000	20,252,338
PROFIT AFTER TAXATION		378,677,394	228,188,046
MINORITY INTEREST		1,673,378	-
PROFIT ATTRIBUTABLE TO HOLDING COMPANY		377,004,016	228,188,046
EARNINGS PER SHARE - BASIC	31	4.33	2.63
- DILUTED	31	4.32	-

THE ANNEXED NOTES FORM AN INTEGRAL PART OF THESE ACCOUNTS

CHIEF EXECUTIVE

DIRECTOR

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED SEPTEMBER 30, 2004

	NOTE	2004 RUPEES	2003 RUPEES
CASH FLOW FROM OPERATING ACTIVITIES			
PROFIT BEFORE TAXATION		398,677,394	248,440,384
ADJUSTMENT FOR:			
DEPRECIATION		170,505,791	147,403,006
AMORTIZATION OF INTANGIBLE ASSETS		22,964,732	23,907,556
GAIN ON SALE OF INVESTMENTS		(1,192,320)	-
UNREALISED GAIN ON INVESTMENTS		(6,951,688)	-
(GAIN)/LOSS ON DISPOSAL OF FIXED ASSETS		(266,005)	390,008
EXCHANGE LOSS		-	(120,797)
GRATUITY-NET		(25,512,837)	5,704,555
INTEREST INCOME		(710,367)	(665,073)
FINANCIAL CHARGES		123,708,381	184,976,083
		282,545,687	610,035,722
LONG TERM DEPOSITS		(14,868,110)	(23,985,924)
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES		666,354,971	586,049,798
CHANGES IN WORKING CAPITAL	35	(714,693,989)	(655,421,282)
CASH FLOW FROM OPERATIONS		(48,339,018)	(69,371,484)
FINANCIAL CHARGES PAID		(106,270,614)	(231,111,364)
PRELIMINARY EXPENSES ON ISSUANCE OF PREFERENCE SHARES		(37,241,757)	-
TAXES PAID		(25,275,947)	(34,523,268)
NET CASH (OUTFLOW) FROM OPERATING ACTIVITIES		(217,127,336)	(103,894,752)
CASH FLOW FROM INVESTING ACTIVITIES			
FIXED CAPITAL EXPENDITURE		(775,461,104)	(546,078,156)
INTANGIBLE ASSETS		(111,788,860)	-
SALE PROCEEDS OF FIXED ASSETS		1,278,805	2,599,632
SALE PROCEEDS OF SHORT TERM INVESTMENTS		1,192,320	-
LONG TERM INVESTMENTS		(9,544)	-
INTEREST RECEIVED		710,367	665,073
LONG TERM DEPOSITS		-	2,005,584
SHORT TERM INVESTMENTS		(102,197,243)	-
NET CASH USED IN INVESTING ACTIVITIES		(986,275,259)	(540,807,867)
CASH FLOW FROM FINANCING ACTIVITIES			
PREFERENCE SHARES ISSUED		868,654,340	-
REPAYMENT OF LONG TERM DEPOSITS		(5,240,773)	(4,042,187)
LONG TERM FINANCING OBTAINED		650,000,000	750,000,000
REPAYMENT OF LONG TERM LOANS		(350,000,000)	(370,163,877)
DIVIDEND PAID		(269)	-
SHORT TERM FINANCES- NET		64,253,791	432,775,962
FINANCE LEASE LIABILITIES PAID		(24,917,634)	65,369,020
NET CASH INFLOW FROM FINANCING ACTIVITIES		1,202,749,455	873,938,918
NET (DECREASE) IN CASH AND CASH EQUIVALENTS		(653,140)	(1,875,065)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		21,601,750	23,476,815
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		20,948,610	21,601,750

CHIEF EXECUTIVE

DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED SEPTEMBER 30, 2004

SHARE CAPITAL		RESERVES					UNAPPROPRIATED	TOTAL	SURPLUS ON
ISSUED, SUBSCRIBED AND PAID-UP	SHARES UNDER ISSUE	SHARE PREMIUM	RESERVE ON MERGER	PREFERENCE SHARE REDEMPTION RESERVE	SURPLUS ON REVALUATION OF INVESTMENTS	TOTAL	PROFIT / (ACCUMULATED LOSS)	EQUITY	REVALUATION OF FIXED ASSETS

R U P E E S

BALANCE AS AT OCTOBER 1, 2002- RESTATED	360,534,420	508,119,590	143,675,125	105,152,335	-	-	248,827,460	(92,057,197)	1,025,424,273	355,829,309
PROFIT FOR THE YEAR	-	-	-	-	-	-	228,188,046	228,188,046	-	-
ORDINARY SHARES ISSUED	508,119,590	(508,119,590)	-	-	-	-	-	-	-	-
ADJUSTMENT OF FRACTIONAL AMOUNT ON ISSUE OF SHARES	330	-	-	(330)	-	-	(330)	-	-	-
SURPLUS ON REVALUATION OF FIXED ASSETS TRANSFERRED TO RETAINED EARNINGS DURING THE YEAR	-	-	-	-	-	-	25,579,785	25,579,785	-	-
REVALUATION OF INVESTMENTS	-	-	-	-	-	2,215,724	2,215,724	-	2,215,724	(25,579,785)
BALANCE AS AT SEPTEMBER 30, 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 YEAR	-	-	-	-	-	-	377,004,016	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	-	-	-	-	-	-	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 PREFERENCE SHARES	-	(37,241,757)	-	-	-	(37,241,757)	-	(37,241,757)	-	-
REVALUATION OF INVESTMENTS	-	-	-	-	(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	306,564,511

THE ANNEXED NOTES FORM AN INTEGRAL PART OF THESE ACCOUNTS

CHIEF EXECUTIVE

DIRECTOR

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

1 STATUS AND ACTIVITIES

THE GROUP COMPRISES THE FOLLOWING BUSINESS:

THE NAME OF THE HOLDING COMPANY WAS CHANGED FROM LEGLER NAFEEES DENIM MILLS LIMITED TO AZGARD NINE LIMITED (THE COMPANY) AS ON APRIL 07, 2004. 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.

NAFEEES INTERNATIONAL TEKSTIL SANAYI VE TICARET ANONIM SIRKETI: 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.

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 REFERRED IN NOTES 2.6 AND 2.13 RELATING TO CERTAIN FIXED ASSETS THAT HAVE BEEN INCLUDED AT REVALUED AMOUNTS AND CERTAIN FINANCIAL INSTRUMENTS WHICH ARE STATED AT FAIR VALUE.

2.3 BASIS OF CONSOLIDATION

THE CONSOLIDATED FINANCIAL STATEMENTS INCLUDE THE ACCOUNTS OF THE AZGARD NINE LIMITED AND ITS FOREIGN SUBSIDIARY.

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 PERCENT OF ITS DIRECTORS. THE FINANCIAL STATEMENTS OF THE SUBSIDIARY ARE INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS FROM THE DATE CONTROL COMMENCES UNTIL THE DATE THAT CONTROL CEASES. THE FINANCIAL STATEMENTS OF SUBSIDIARY COMPANY HAS BEEN CONSOLIDATED ON A LINE BY LINE BASIS.

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

COMPARATIVE AMOUNTS FOR THE CORRESPONDING YEAR RELATE TO AZGARD OPERATIONS ONLY.

2.4 STAFF RETIREMENT BENEFITS

THE HOLDING COMPANY OPERATED AN UNFUNDED GRATUITY SCHEME (DEFINED BENEFIT PLAN) COVERING ALL ITS PERMANENT EMPLOYEES WHO HAD ATTAINED THE MINIMUM QUALIFYING PERIOD. THE MANAGEMENT CEASED THE GRATUITY SCHEME DURING THE YEAR AND REPLACED IT WITH PROVIDENT FUND (DEFINED CONTRIBUTION PLAN). THE GRATUITY LIABILITY ACCRUING TILL MARCH 31, 2004 HAS BEEN TRANSFERRED TO PROVIDENT FUND.

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

PROVISION FOR GRATUITY WAS MADE ANNUALLY TO COVER THE OBLIGATION UNDER THE SCHEME IN ACCORDANCE WITH ACTUARIAL RECOMMENDATIONS. ACTUARIAL VALUATION OF THE SCHEME WAS CARRIED OUT AT SEPTEMBER 30, 2002, USING THE PROJECTED UNIT CREDIT METHOD. THE COMPANY'S POLICY WITH REGARD TO ACTUARIAL GAINS/LOSSES WAS TO FOLLOW MINIMUM RECOMMENDED APPROACH UNDER IAS-19 'EMPLOYEE BENEFITS'.

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 BASIC PAY.

2.5 TAXATION

CURRENT

INCOME TAX EXPENSE REPRESENTS THE SUM OF CURRENT TAX PAYABLE, ADJUSTMENTS, IF ANY, TO PROVISION FOR TAX MADE IN PRIOR YEARS ARISING FROM ASSESSMENTS FRAMED DURING THE YEAR 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 AND DEPRECIATION

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 YEAR APPLYING THE REDUCING BALANCE METHOD. AMOUNT EQUAL TO INCREMENTAL DEPRECIATION CHARGED DURING THE YEAR ON REVALUED AMOUNT OF ASSETS HAS BEEN 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 OF 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 14. NO DEPRECIATION IS PROVIDED ON ASSETS IN THE YEAR OF DISPOSAL, WHEREAS FULL YEAR'S DEPRECIATION IS CHARGED IN THE YEAR OF PURCHASE. MAJOR ADDITIONS OR EXTENSIONS TO PRODUCTION FACILITIES ARE DEPRECIATED ON PRO-RATA BASIS FOR THE PERIOD OF USE DURING THE YEAR.

CAPITAL WORK IN PROGRESS IS STATED AT COST.

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

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

2.7 LEASES

ASSETS SUBJECT TO FINANCE LEASE ARE STATED AT LOWER OF PRESENT VALUE OF MINIMUM LEASE PAYMENTS UNDER LEASE AGREEMENTS AND THE FAIR VALUE OF THE ASSETS LESS ACCUMULATED DEPRECIATION. RELATED OBLIGATIONS UNDER THE FINANCE LEASE LESS FINANCIAL CHARGES ALLOCATED TO FUTURE PERIODS ARE SHOWN AS LIABILITIES. DEPRECIATION IS CHARGED AT THE RATES SPECIFIED IN NOTE 14 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 THE LEASE PERIOD.

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 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.

2.9 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 FOR TRADING OR AVAILABLE FOR SALE.

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

Subsequent to initial recognition, investments which are classified as held for trading and available for sale are measured at fair value. 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.

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.

2.1 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.

2.1.1 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.

2.1.2 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 at the rates 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.

2.1.3 Financial instruments

2.1.3.1 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.

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

4 '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 LOSES 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.

2.14 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 NET 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.

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.

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

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 COMPANY'S RIGHT TO RECEIVE PAYMENT IS ESTABLISHED.

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 CHANGE IN ACCOUNTING POLICIES

PURSUANT TO CHANGES IN THE FOURTH SCHEDULE TO THE COMPANIES ORDINANCE, 1984, THE FOLLOWING CHANGES HAVE BEEN MADE IN ACCOUNTING POLICIES AS ADOPTED BY THE COMPANY:

- 1) COSTS FORMERLY TREATED AS DEFERRED COSTS AND CHARGED TO PROFIT AND LOSS ACCOUNT PERIODICALLY HAVE BEEN RECLASSIFIED AS INTANGIBLES ASSETS WHERE THEY MEET THE DEFINITION OF SUCH ASSETS. OTHER COSTS WHICH HAVE NOT BEEN CLASSIFIED AS INTANGIBLES ARE WRITTEN OFF. (SEE NOTE 2.8)
- 2) THE EXCHANGE DIFFERENCES ARISING ON LOANS USED FOR FINANCING OPERATING FIXED ASSETS PREVIOUSLY CAPITALISED, ARE NOW INCLUDED IN PROFIT AND LOSS ACCOUNT ANNUALLY.
- 3) NO PROVISION FOR PROPOSED DIVIDEND IS MADE INSTEAD THE DIVIDEND IS NOW RECOGNISED AS PER NOTE 2.16.

IMPACT ON FINANCIAL STATEMENTS	NATURE OF IMPACT
--------------------------------------	------------------

- | | | |
|--|--------------|--|
| 1) DEFERRED COSTS | 7.44 MILLION | PROFIT OF THE COMPANY WOULD HAVE BEEN LOWER BY RS. 7.44 MILLION AND RETAINED EARNINGS WOULD HAVE BEEN HIGHER BY RS.29.8 MILLION WITH CORRESPONDING EFFECT ON BALANCE SHEET ASSETS. |
| 2) EXCHANGE DIFFERENCES ON FOREIGN CURRENCY BORROWINGS | NIL | ADJUSTMENTS IN THE CARRYING VALUE OF PLANT AND MACHINERY, DUE TO EXCHANGE FLUCTUATIONS ON FOREIGN CURRENCY LOANS UTILISED FOR ACQUISITION OF SUCH ASSETS WITH EFFECT ON THE DEPRECIATION FOR THE YEAR. |
| 3) PROPOSED DIVIDEND | NIL | APPROPRIATION OF RETAINED EARNINGS. |

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

	NOTE	2004 RUPEES	2003 RUPEES
3 SHARE CAPITAL			
3.1 AUTHORISED CAPITAL			
300,000,000 (2003: 117,380,000)			
ORDINARY AND PREFERENCE SHARES OF RS. 10/-EACH		3,000,000,000	1,173,800,000
AUTHORISED CAPITAL OF THE COMPANY HAS BEEN INCREASED TO RS. 3,000,000,000 DIVIDED INTO 213,000,000 ORDINARY SHARES OF RS. 10/- EACH AND 87,000,000 PREFERENCE SHARES OF RS. 10/- EACH.			
3.2 ISSUED, SUBSCRIBED AND PAID UP CAPITAL:			
23,777,369	ORDINARY SHARES OF RS. 10/- EACH	237,773,690	237,773,690
63,088,065	FULLY PAID IN CASH ISSUED FOR CONSIDERATION OTHER THAN CASH	630,880,650	630,880,650
86,865,434		868,654,340	868,654,340
86,865,434	PREFERENCE SHARES OF RS. 10/- EACH		
	FULLY PAID IN CASH ISSUED DURING THE YEAR	868,654,340	-
86,865,434		1,737,308,680	868,654,340

3.3 AZGARD NINE LIMITED (THE COMPANY) ISSUED CUMMULATIVE PREFERENCE SHARES DURING THE 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.

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 CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

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 ISSUE AMOUNT AT THE END OF FIFTH (5TH) YEAR OF ISSUANCE/ALLOTMENT;
- 50% OF THE ISSUE 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 HAS 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	2004 RUPEES	2003 RUPEES
	CAPITAL RESERVES		
	SHARE PREMIUM ON ORDINARY SHARES	106,433,368	143,675,125
	PREFERENCE SHARES REDEMPTION RESERVE	150,000,000	-
	RESERVE ON MERGER	105,152,005	105,152,005
		361,585,373	248,827,130
	SURPLUS ON REVALUATION OF INVESTMENTS	556,868	2,215,724
		362,142,241	251,042,854
5	SURPLUS ON REVALUATION OF FIXED ASSETS		
	OPENING BALANCE	414,123,474	414,123,474
	SURPLUS TRANSFERRED TO UNAPPROPRIATED PROFIT:		
	- PRIOR YEARS	83,873,950	58,294,165
	- CURRENT YEAR	23,685,013	25,579,785
		107,558,963	83,873,950
		306,564,511	330,249,524

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.

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

	NOTE	2004 RUPEES	2003 RUPEES
6 LONG TERM FINANCING - SECURED			
LONG TERM RUNNING FINANCES			
- UTILISED UNDER MARK UP ARRANGEMENTS			
HABIB BANK LIMITED (HBL)	6.1	400,000,000	500,000,000
FAYSAL BANK LIMITED (FBL)	6.2	-	250,000,000
UNITED BANK LIMITED (UBL)	6.3	200,000,000	-
CITI BANK	6.4	200,000,000	-
TERM FINANCE CERTIFICATES (TFCs)	6.5	250,000,000	-
		<u>1,050,000,000</u>	<u>750,000,000</u>
LESS: CURRENT MATURITY GROUPED UNDER CURRENT LIABILITIES		<u>(300,000,000)</u>	<u>(100,000,000)</u>
		<u>750,000,000</u>	<u>650,000,000</u>

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

THE FINANCE CARRIES MARK-UP BASED ON THE STATE BANK OF PAKISTAN'S LAST AUCTIONED 6-MONTHS TREASURY BILLS' CUT-OFF PLUS 300 BASIC POINTS WITH A FLOOR OF 4.75% PER ANNUM. 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 THIS REPRESENTS BRIDGE FINANCE FACILITY OBTAINED FROM FBL CARRYING MARK-UP @ 4.50 % PER ANNUM. THE LOAN WAS PAID OFF DURING THE YEAR, FROM THE PROCEEDS OF TFCs - PRIVATE PLACEMENT. IT WAS SECURED AGAINST CHARGE ON FIXED ASSETS.

6.3 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 IS REPAYABLE WITHIN TWO MONTHS FROM THE DATE OF DISBURSEMENT. THE MANAGEMENT OF THE COMPANY INTENDS TO SUBSTITUTE THE BRIDGE FINANCE WITH LONG TERM FINANCES AND AS SUCH THE SAME HAS BEEN CLASSIFIED AS A NON-CURRENT LIABILITY.

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

6.4 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 INSTALMENTS 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.

6.5 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 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 IN RESPECT OF PROFIT PAYMENT DUE PLUS MARGIN OF 1.75%.

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

TRUSTEE

IN ORDER TO PROTECT THE INTERESTS OF TFC HOLDERS, NDLC-IFIC 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.

7 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE - SECURED

	2004 RUPEES	2003 RUPEES
GROSS MINIMUM LEASE PAYMENTS		
NOT LATER THAN ONE YEAR	76,494,987	81,292,132
LATER THAN ONE YEAR BUT NOT LATER THAN FIVE YEARS	146,218,007	189,667,338
	222,712,994	270,959,470
LESS: FINANCIAL CHARGES ALLOCATED TO FUTURE PERIODS	26,050,646	44,671,837
	196,662,348	226,287,633
LESS: SECURITY DEPOSITS ADJUSTABLE ON EXPIRY OF LEASE TERMS	17,076,648	21,784,299
	179,585,700	204,503,334
LESS: CURRENT MATURITY GROUPED UNDER CURRENT LIABILITIES	63,081,881	60,798,533
	116,503,819	143,704,801
PRESENT VALUE OF MINIMUM LEASE PAYMENTS		
NOT LATER THAN ONE YEAR	63,081,881	60,798,533
LATER THAN ONE YEAR BUT NOT LATER THAN FIVE YEARS	116,503,819	143,704,801
	179,585,700	204,503,334

AZGARD NINE LIMITED (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 6.75% TO 19.00% 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 DEFERRED LIABILITY - STAFF GRATUITY

MOVEMENT IN LIABILITY RECOGNISED IN THE BALANCE SHEET

BALANCE SHEET LIABILITY / (ASSETS) AS ON SEPTEMBER 30, 2003
AMOUNT RECOGNISED DURING THE YEAR

CONTRIBUTIONS MADE BY THE COMPANY DURING THE YEAR-TRANSFERRED TO PROVIDENT FUND.

	25,512,837	19,808,282
	11,218,709	13,706,344
	36,731,546	33,514,626
	36,731,546	8,001,789
	-	25,512,837

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

	NOTE	2004 RUPEES	2003 RUPEES
RECONCILIATION OF THE LIABILITY RECOGNISED IN THE BALANCE SHEET			
PRESENT VALUE OF DEFINED BENEFIT OBLIGATION		-	26,157,132
LESS: UN-RECOGNISED ACTUARIAL LOSSES		-	(644,295)
		-	25,512,837

THE FOLLOWING AMOUNTS HAVE BEEN CHARGED TO THE PROFIT AND LOSS ACCOUNT DURING THE CURRENT YEAR.

PROVISION FOR GRATUITY FOR THE YEAR, THE BREAK-UP OF WHICH IS AS FOLLOWS:

CURRENT SERVICE COST		9,943,067	11,725,516
INTEREST COST		1,275,642	1,980,828
		11,218,709	13,706,344
AMOUNT CHARGED TO			
COST OF SALES		8,414,032	10,115,369
ADMINISTRATIVE AND SELLING EXPENSES		2,804,677	3,590,975
		11,218,709	13,706,344

8.1 ACTUARIAL VALUATION WAS CARRIED OUT AS AT SEPTEMBER 30, 2002 USING PROJECTED UNIT CREDIT METHOD ASSUMING A DISCOUNT RATE OF 10% PER ANNUM AND EXPECTED RATE OF INCREASE IN SALARY @ 9% PER ANNUM.

9 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.

10 SHORT TERM BORROWINGS

FINANCES UNDER MARK-UP ARRANGEMENTS - SECURED	10.1	1,482,583,392	1,416,329,149
TEMPORARY OVER DRAFT - UNSECURED	10.2	10,326,500	12,326,952
		1,492,909,892	1,428,656,101

10.1 THESE REPRESENT SHORT-TERM FINANCING FACILITIES AVAILABLE FROM VARIOUS BANKS AMOUNTING TO Rs.3,116.08 MILLION (2003: Rs.1,627.50 MILLION) AND US \$10.5 MILLION (2003: US \$ 11.500 MILLION). THESE FACILITIES CARRY MARK-UP AT THE RATES RANGING BETWEEN RE. 0.06 TO RE. 0.19 PER Rs. 1,000 PER DAY OR PART THEREOF ON THE PRICE OUTSTANDING.

L/C LIMITS AVAILABLE FOR OPENING LETTERS OF CREDIT/GUARANTEE AGGREGATE Rs. 1,040.25 MILLION (2003: Rs. 827.500 MILLION) OF WHICH THE AMOUNT REMAINING UN-UTILISED AT THE YEAR END WAS Rs. 510.38 MILLION (2003: Rs. 89.101 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 US \$ 6,992,986 (2003: US \$ 3,148,588) WHICH HAVE BEEN CONVERTED INTO PAK RUPEES AT THE EXCHANGE RATE PREVAILING ON THE BALANCE SHEET DATE I.E. US \$1 = Rs. 59.37 (2003: US \$ 1 = Rs. 58.05).

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 SEPTEMBER 30, 2005.

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

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

10.3 FINANCES UNDER MARK UP ARRANGEMENTS INCLUDE RS.58.78 MILLION (2003: RS.NIL) OBTAINED IN NORMAL COURSE OF BUSINESS AT ARMS LENGTH FROM UNION BANK LTD, A RELATED PARTY.

	NOTE	2004 RUPEES	2003 RUPEES
11	CREDITORS, ACCRUED AND OTHER LIABILITIES		
CREDITORS		203,988,450	235,040,148
BILLS PAYABLE - SECURED		316,801,324	403,527,536
ACCRUED LIABILITIES		54,947,816	50,571,639
WORKERS' WELFARE FUND		20,000	20,000
ADVANCES FROM CUSTOMERS		59,877,980	25,833,632
MARK-UP ACCRUED ON:			
LONG TERM FINANCES		-	30,822
SHORT TERM BORROWINGS		26,687,284	8,353,144
LEASE FINANCE CHARGES		1,393,512	2,259,063
WORKER'S PROFIT PARTICIPATION FUND	11.1	20,803,281	13,075,810
CUSTOMS DUTY, SURCHARGE		800,301	797,744
TAX DEDUCTED AT SOURCE		9,064,521	4,808,634
OTHER LIABILITIES		7,461,272	3,611,669
		701,845,741	747,929,841
11.1	WORKERS' PROFIT PARTICIPATION FUND		
OPENING BALANCE		13,075,810	10,009,728
ADD: INTEREST ON FUNDS UTILISED BY THE COMPANY		818,980	658,827
		13,894,790	10,668,555
LESS: PAYMENTS MADE DURING THE YEAR		13,894,247	10,667,950
DEPOSITED IN GOVERNMENT TREASURY		543	605
		13,894,790	10,668,555
		-	-
ADD: CONTRIBUTION FOR THE YEAR		20,803,281	13,075,810
		20,803,281	13,075,810
12	PROVISION FOR TAXATION		
12.1	CURRENT		
OPENING BALANCE		44,824,871	30,734,778
ADD: PROVISION MADE DURING THE YEAR			
- CURRENT YEAR		20,000,000	19,840,093
- PRIOR YEARS		-	412,245
		20,000,000	20,252,338
LESS: ADJUSTED AGAINST COMPLETED ASSESSMENTS		-	6,162,245
		64,824,871	44,824,871

12.2 CURRENT STATUS OF PENDING TAX ASSESSMENTS

12.2.1 INCOME TAX ASSESSMENTS OF AZGARD NINE LIMITED (FORMERLY LEGLER NAFEEES DENIM MILLS LTD) (THE COMPANY) HAVE BEEN COMPLETED UP TO TAX YEAR 2003. 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.

12.2.2 INCOME TAX ASSESSMENTS OF NAFEEES COTTON MILLS LIMITED (NAFEEES) NOW MERGED INTO THE COMPANY HAVE BEEN COMPLETED UP TO THE INCOME YEAR ENDED 30 SEPTEMBER, 2001 (ASSESSMENT YEAR 2002-2003).

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

NAFEES HAS FILED APPEALS BEFORE THE LAHORE HIGH COURT FOR THE ASSESSMENT YEARS 1988-89, 1992-93 AND 1993-94 WHICH ARE PENDING FOR ADJUDICATION. THE DEPARTMENT IS IN SECOND APPEAL BEFORE THE INCOME TAX APPELLATE TRIBUNAL FOR THE ASSESSMENT YEARS 1997-98 AND 1998-99. THE COMPANY'S APPEAL FOR THE ASSESSMENT YEAR 1999-2000 BEFORE THE INCOME TAX APPELLATE TRIBUNAL IS PENDING FOR ADJUDICATION. THE COMPANY HAS ALSO FILED APPEALS BEFORE THE COMMISSIONER OF INCOME TAX (APPEALS) FOR THE ASSESSMENT YEARS 1999-2000, 2000-2001, 2001-2002 AND 2002-2003 WHICH ARE PENDING FOR ADJUDICATION.

12.2.3 PROVISION FOR CURRENT YEAR'S 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, WHEREAS, THE LOCAL SALES ARE TO BE TAXED UNDER NORMAL LAW.

ADJUSTMENTS TO BE MADE IN PROVISION FOR TAXATION ON CONFIRMATION OR OTHERWISE OF THE APPEALS.

12.3 DEFERRED

SINCE THE MERGER OF NAFEES COTTON MILLS LIMITED AND NAFEES SPINNING MILLS LIMITED INTO AZGARD NINE LIMITED (FORMERLY LEGLER NAFEES DENIM MILLS LIMITED) FROM APRIL 01, 2002, THERE IS TREND OF INCREASE IN EXPORT SALES INCLUDING INDIRECT EXPORTS. THE EXPORT SALES (INCLUDING INDIRECT EXPORTS) DURING THE YEAR ENDING SEPTEMBER 30, 2004 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.

12.4 RELATIONSHIP BETWEEN TAX EXPENSE AND ACCOUNTING PROFIT

	2004 %	2003 %
APPLICABLE TAX RATE	35.00	35.00
TAX EFFECT OF AMOUNTS THAT ARE:		
- NON DEDUCTIBLE FOR TAX PURPOSES	15.31	20.70
- ALLOWABLE FOR TAX PURPOSES	(41.88)	(47.40)
TAX EFFECT OF BROUGHT FORWARD LOSSES	(8.43)	(3.00)
EFFECT OF TAX RATES UNDER PRESUMPTIVE TAX REGIME	5.05	2.43
ADJUSTMENT IN RESPECT OF CURRENT INCOME TAX OF PREVIOUS PERIOD	-	0.42
EFFECTIVE TAX RATE FOR THE YEAR	5.05	8.15

13 CONTINGENCIES AND COMMITMENTS

CONTINGENCIES

13.1 AZGARD NINE LIMITED (FORMERLY LEGLER NAFEES DENIM MILLS LTD) (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.

13.2 THE COMPANY FILED A CONSTITUTIONAL PETITION IN THE SIND 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 SIND HIGH COURT HENCE NO ADDITIONAL LIABILITY IS EXPECTED TO ARISE.

13.3 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 (2003: RS. 64.756 MILLION).

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

13.4 THE COMPANY HAS FILED AN APPEAL BEFORE THE LAHORE HIGH COURT FOR RECOVERY OF ITS CLAIM FROM THE INSURANCE COMPANIES AMOUNTING TO Rs. 2,462,187 (2003: Rs. 2,462,187). THE APPEAL IS PENDING FOR ADJUDICATION.

13.5 REFER CONTENTS OF NOTE 3.3.

COMMITMENTS

13.6 COUNTER GUARANTEES GIVEN BY THE COMPANY TO ITS BANKERS OUTSTANDING AS AT 30 SEPTEMBER, 2004 WERE FOR Rs.0.102 MILLION (2003: Rs. 0.102 MILLION).

13.7 COMMITMENTS AGAINST IRREVOCABLE LETTERS OF CREDIT OUTSTANDING AS AT 30 SEPTEMBER, 2004 AMOUNT TO Rs.300 MILLION (2003:Rs.334.77 MILLION).

13.8 ATTENTION IS ALSO DRAWN TO THE COMMITMENT MADE FOR PAYMENT OF DIVIDEND TO SHAREHOLDERS AS REFERRED IN NOTE 3.4.

14. OPERATING FIXED ASSETS

PARTICULARS	COST / REVALUATION				AS AT 30 SEPTEMBER, 2004	RATE %	DEPRECIATION				NET BOOK VALUE AS AT 30 SEPTEMBER, 2004	
	AS AT 30 SEPTEMBER, 2003	ADDITIONS DURING THE YEAR	LEASED ASSETS TRANSFERS	DISPOSALS			TO SEPTEMBER 30, 2003	FOR THE YEAR	ON DISPOSALS/ TRANSFERS	TO 30 SEPTEMBER, 2004		
OWNED												
FREEHOLD LAND												
- COST	269,167,648	68,470,000	-	-	337,637,648	-	-	-	-	-	-	337,637,648
- REVALUATION	8,442,352	-	-	-	8,442,352	-	-	-	-	-	-	8,442,352
	277,610,000	68,470,000	-	-	346,080,000	-	-	-	-	-	-	346,080,000
BUILDINGS ON												
FREEHOLD LAND												
- COST	230,344,068	54,213,418	-	-	284,557,486	5.0	48,280,802	11,813,835	-	60,094,637	-	224,462,849
- REVALUATION	19,455,864	-	-	-	19,455,864	5.0	1,434,870	901,050	-	2,335,920	-	17,119,944
	249,799,932	54,213,418	-	-	304,013,350		49,715,672	12,714,885	-	62,430,557	-	241,582,793
PLANT AND MACHINERY												
- COST	1,599,582,863	535,654,260	82,379,977	-	2,217,617,100	7.5	421,088,517	110,324,941	38,275,856	569,689,314	-	1,647,927,786
- REVALUATION	386,225,258	-	-	-	386,225,258	7.5	82,439,080	22,783,963	-	105,223,043	-	281,002,215
	1,985,808,121	535,654,260	82,379,977	-	2,603,842,358		503,527,597	133,108,904	38,275,856	674,912,357	-	1,928,930,001
FURNITURE AND FITTINGS												
VEHICLES	7,598,848	2,945,141	-	-	10,543,989	10.0	2,805,388	773,860	-	3,579,248	-	6,964,741
TOOLS AND EQUIPMENT	5,891,122	1,711,641	9,187,796	1,690,500	15,100,059	20.0	3,183,833	1,824,262	2,794,913	7,803,008	-	7,297,051
OFFICE EQUIPMENTS	2,608,229	986,319	-	-	3,594,548	10.0	1,812,682	322,974	-	2,135,656	-	1,458,892
ELECTRICAL INSTALLATIONS	19,563,389	19,439,325	-	-	39,002,714	10.0	4,541,015	3,301,382	-	7,842,397	-	31,160,317
	32,325,405	25,253,657	-	-	57,579,062	10.0	10,505,316	4,707,375	-	15,212,691	-	42,366,371
	2,581,205,046	708,673,761	91,567,773	1,690,500	3,379,756,080		576,091,503	156,753,642	41,070,769	773,915,914	-	2,605,840,166
LEASED												
PLANT AND MACHINERY												
VEHICLES	230,395,038	63,954,008	(82,379,977)	-	211,969,069	7.5	1,380,080	18,274,188	(38,275,856)	(18,621,589)	-	230,590,657
	23,524,574	2,887,666	(9,187,796)	-	17,224,444	20.0	6,315,084	2,876,394	(3,472,613)	5,718,865	-	11,505,579
	253,919,612	66,841,674	(91,567,773)	-	229,193,513		7,695,164	21,150,582	(41,748,469)	(12,902,723)	-	242,096,236
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
2003 RUPEES	2,379,070,961	463,663,132	-	7,609,435	2,835,124,658		441,003,456	147,403,006	(4,619,795)	583,786,667	-	2,251,337,991

14.1 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.

14.2 DISPOSAL OF OPERATING FIXED ASSETS

PARTICULARS	COST	ACCUMULATED DEPRECIATION	BOOK VALUE	SALE PROCEEDS	GAIN	MODE OF DISPOSAL	PARTICULARS OF PURCHASER
VEHICLES							
HONDA CIVIC	1,150,500	414,180	736,320	1,002,325	266,005	COMPANY'S CAR SCHEME	MR. TARIQ SADDAT (EX-EMPLOYEE)
SUZUKI CULTUS	540,000	263,520	276,480	276,480	-	COMPANY'S CAR SCHEME	MR. RIZWAN ZAHOOR - (EMPLOYEE)
RUPEES	1,690,500	677,700	1,012,800	1,278,805	266,005		

14.3 DEPRECIATION FOR THE YEAR HAS BEEN APPORTIONED AS UNDER

	2004 RUPEES	2003 RUPEES
COST OF SALES	164,167,467	140,383,061
ADMINISTRATIVE AND SELLING EXPENSES	6,338,324	7,019,945
CAPITALISED DURING THE YEAR	7,398,433	-
	177,904,224	147,403,006

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

	NOTE	2004 RUPEES	2003 RUPEES
15 CAPITAL WORK IN PROGRESS			
BUILDINGS ON FREEHOLD LAND			
- ADVANCE PAYMENTS		27,527,485	5,750,000
PLANT AND MACHINERY			
- LETTERS OF CREDIT COST		62,231,641	69,567,862
- OTHER PAYMENTS		-	7,097,162
		62,231,641	76,665,024
		89,759,126	82,415,024
16 INTANGIBLE ASSETS			
DEVELOPMENT COSTS	16.1	81,187,908	-
TEXTILE QUOTA	16.2	-	-
		81,187,908	-
ERP - ORACLE FINANCIAL	16.3	7,187,681	-
		88,375,589	-
16.1 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.			
16.2 TEXTILE QUOTA			
OPENING BALANCE		24,469,044	24,221,128
ADD: PURCHASES DURING THE YEAR		23,413,271	23,985,789
		47,882,315	48,206,917
LESS: AMORTISATION OF TEXTILE QUOTA		22,964,732	23,737,873
		24,917,583	24,469,044
LESS: CURRENT PORTION GROUPED UNDER CURRENT ASSETS		24,917,583	24,469,044
		-	-
16.3 THIS REPRESENTS COST RELATING TO IMPLEMENTATION OF ORACLE FINANCIAL, WHICH IS UNDER PROCESS AS AT BALANCE SHEET DATE.			
17 LONG TERM INVESTMENTS			
AVAILABLE FOR SALE:			
QUOTED			
BSJS BALANCED FUND LTD. 1,000 ORDINARY SHARES OF RS. 10 EACH		10,000	-
APPRECIATION IN VALUE OF INVESTMENT MARKET VALUE RS. 10.60 PER SHARE (2003: -)		600	-
		10,600	-
COLONY TEXTILE MILLS LTD. 456 (2003: 456) ORDINARY SHARES OF RS.10 EACH		8,664	8,664
DIMINUTION IN VALUE OF INVESTMENT MARKET VALUE RS. 18 PER SHARE (2003: RS. 15)		456	1,824
		8,208	6,840
UNQUOTED			
NATIONAL SECURITY INSURANCE CO. LTD. 221,504 (2003:221,504) ORDINARY SHARES OF RS.10 EACH		910,345	910,345
EQUITY HELD 12.66% (2003: 12.66%) APPRECIATION IN VALUE OF INVESTMENT		86,423	1,747,703
		996,768	2,658,048
		1,015,576	2,664,888

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

	NOTE	2004 RUPEES	2003 RUPEES
18	LONG TERM DEPOSITS		
	OPENING BALANCE	3,649,720	3,649,720
	COST INCURRED DURING THE YEAR	14,868,110	-
		<u>18,517,830</u>	<u>3,649,720</u>
19	STORES, SPARES AND LOOSE TOOLS		
	STORE	50,503,425	33,097,125
	SPARES	21,443,068	12,128,501
	LOOSE TOOLS	662,200	552,170
		<u>72,608,693</u>	<u>45,777,796</u>
	19.1	INCLUDED IN STORES AND SPARES ARE ITEMS IN TRANSIT VALUING Rs 0.750 MILLION (2003: Rs.0.659 MILLION).	
	19.2	THE GROUP DOES NOT HOLD ANY STORES AND SPARES FOR SPECIFIC CAPITALISATION.	
20	STOCK IN TRADE		
	RAW MATERIALS	636,338,989	620,411,415
	WORK IN PROCESS	220,379,606	172,868,794
	FINISHED GOODS	568,745,505	472,080,704
	WASTE	122,719	416,188
		<u>1,425,586,819</u>	<u>1,265,777,101</u>
	20.1	INCLUDED IN RAW MATERIALS ARE STOCKS IN TRANSIT VALUING Rs. 75 MILLION (2003:Rs.55.396 MILLION) AND STOCKS IN CUSTOMS BOND Rs.NIL (2003:Rs.14.715 M).	
	20.2	STOCKS AMOUNTING TO Rs.160.146 MILLION (2003: 140.53 MILLION) HAVE BEEN PLEDGED AS SECURITY WITH VARIOUS BANKS AGAINST FINANCING FACILITIES.	
21	TRADE DEBTS		
	CONSIDERED GOOD:		
	SECURED	21.1 610,600,400	277,196,084
	UN-SECURED	313,607,956	259,420,000
	CONSIDERED DOUBTFUL	4,249,348	4,249,348
		<u>928,457,704</u>	<u>540,865,432</u>
	LESS: PROVISION FOR DOUBTFUL DEBTS	(4,249,348)	(4,249,348)
		<u>924,208,356</u>	<u>536,616,084</u>

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

	NOTE	2004 RUPEES	2003 RUPEES
22	ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		
ADVANCES - UNSECURED CONSIDERED GOOD			
TO EMPLOYEES	22.1 & 22.2	19,357,526	9,211,008
TO SUPPLIERS, CONTRACTORS AND OTHERS		158,543,173	96,803,745
SECURITY DEPOSIT		9,314,906	-
MARGIN DEPOSITS	22.3	201,562,598	260,938,883
PREPAYMENTS		9,411,351	3,809,852
EXPORT REBATE RECEIVABLE		26,624,906	16,219,675
SALES TAX RECOVERABLE		141,957,831	82,270,385
TEXTILE QUOTA		24,917,583	24,469,044
LETTERS OF CREDIT		26,571,132	41,712,951
TAX DEDUCTED AT SOURCE / TAX REFUNDABLE		85,906,387	60,630,440
DUTY REFUNDABLE		2,778,781	77,432
INSURANCE CLAIM	13.4	2,462,187	2,462,187
OTHER RECEIVABLES - UNSECURED, CONSIDERED GOOD		4,052,709	11,122,565
		713,461,070	609,728,167

22.1 ADVANCES TO EMPLOYEES ARE AGAINST PURCHASE AND OTHER EXPENSES ON COMPANY'S BEHALF. THE MAXIMUM AGGREGATE DEBIT BALANCE OUTSTANDING DURING THE YEAR AT ANY MONTH END WAS Rs.3.50 MILLION (2003: Rs.4.938 MILLION).

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

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

	2004 RUPEES	2003 RUPEES
23	SHORT TERM INVESTMENTS	
HELD FOR TRADING		
QUOTED		
BANK OF PUNJAB		
458,000 ORDINARY SHARES OF Rs.10 EACH	29,355,786	-
EQUITY HELD 0.036%		
APPRECIATION IN VALUE OF INVESTMENT	995,875	-
MARKET VALUE Rs.66.27 PER SHARE		
	30,351,661	-
NATIONAL BANK OF PAKISTAN		
434,000 ORDINARY SHARES OF Rs.10 EACH	29,152,758	-
EQUITY HELD 0.0088%		
APPRECIATION IN VALUE OF INVESTMENT	849,662	-
MARKET VALUE Rs.69.13 PER SHARE		
	30,002,420	-
PAKISTAN TELECOMMUNICATION Co. LTD		
1,111,500 ORDINARY SHARES OF Rs.10 EACH	43,688,699	-
EQUITY HELD 0.0029%		
APPRECIATION IN VALUE OF INVESTMENT	5,106,151	-
MARKET VALUE Rs.43.90 PER SHARE		
	48,794,850	-
	109,148,931	-

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

	NOTE	2004 RUPEES	2003 RUPEES
27	ADMINISTRATIVE AND SELLING EXPENSES		
SALARIES AND BENEFITS		53,703,016	43,643,109
TRAVELLING AND CONVEYANCE INCLUDING CHIEF EXECUTIVE/DIRECTORS			
TRAVELLING Rs 9,887,430 (2003:Rs.2,301,611)		16,005,579	15,846,810
POWER AND FUEL		1,580,446	-
REPAIR AND MAINTENANCE		2,514,315	1,716,519
RENT, RATES AND TAXES		1,247,250	131,064
INSURANCE		450,145	2,068,135
FREIGHT AND CLEARING CHARGES		48,598,511	74,274,831
PRINTING AND STATIONERY		2,114,502	2,675,448
COMMUNICATIONS		11,295,398	15,724,895
ADVERTISEMENT AND SALES PROMOTION		6,829,196	1,876,929
LEGAL AND PROFESSIONAL CHARGES	27.1	2,127,432	671,114
DEPRECIATION	14.3	6,338,324	7,019,945
AMORTISATION OF TEXTILE QUOTA		22,964,732	23,907,556
FEES AND SUBSCRIPTION		2,636,288	4,837,188
OTHERS		8,160,361	5,038,561
		186,565,495	199,432,104
27.1	LEGAL AND PROFESSIONAL CHARGES		
THE CHARGES FOR PROFESSIONAL SERVICES INCLUDE THE FOLLOWING IN RESPECT OF AUDITOR'S SERVICES FOR: AUDIT TAX AND OTHER SERVICES			
		185,000	150,000
		30,000	-
		215,000	150,000
28	OTHER INCOME		
FINANCIAL ASSETS			
GAIN ON SALE OF INVESTMENTS		1,192,320	-
UNREALISED GAIN ON INVESTMENTS HELD FOR TRADING		6,951,688	-
RETURN ON BANK DEPOSITS		710,367	665,073
EXCHANGE GAIN		-	120,797
OTHERS			
GAIN ON SALE OF FIXED ASSETS		266,005	-
MISCELLANEOUS		744,411	267,180
		9,864,791	1,053,050
29	FINANCIAL CHARGES		
INTEREST ON:			
LONG TERM LOANS - SECURED		-	34,091,394
WORKERS' PROFIT PARTICIPATION FUND		818,980	658,827
MARK UP ON:			
LONG TERM FINANCING - SECURED		23,198,011	12,325,396
SHORT TERM BORROWINGS - SECURED		74,804,694	92,710,325
LEASE FINANCE CHARGES		16,644,210	25,919,965
GUARANTEE COMMISSION AND BANK CHARGES		8,242,486	19,935,249
		123,708,381	185,641,156

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

	2004 RUPEES	2003 RUPEES
30 OTHER CHARGES		
LOSS ON DISPOSAL OF FIXED ASSETS	-	390,008
DONATIONS	110,944	176,750
PROVISION FOR DIMINUTION IN VALUE OF INVESTMENTS	456	-
	111,400	566,758
30.1 RECIPIENTS OF DONATIONS DO NOT INCLUDE ANY DONEE IN WHOM ANY DIRECTOR OR HIS / HER SPOUSE HAS ANY INTEREST.		
31 EARNINGS PER SHARE (EPS)	2004 RUPEES	
BASIC		
NET PROFIT AFTER TAX	375,726,023	
NUMBER OF ORDINARY SHARES	86,865,434	
EPS	4.33	
DILUTED		
NET PROFIT AFTER TAX	375,726,023	
POTENTIAL PREFERENCE DIVIDEND TO BE ISSUED	319,498	
PROFIT AVAILABLE FOR ORDINARY SHAREHOLDERS	376,045,521	
NUMBER OF ORDINARY SHARES	86,865,434	
NUMBER OF ORDINARY SHARES ISSUED	242,747	
TOTAL NUMBER OF ORDINARY SHARES	87,108,181	
EPS	4.32	
BASIC		
PROFIT AVAILABLE FOR ORDINARY SHAREHOLDERS	228,188,046	
NUMBER OF ORDINARY SHARES	86,865,434	
EPS	2.63	
DILUTED		
THERE WAS NO DILUTIVE EFFECT ON EPS OF THE COMPANY.		

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

32 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	
	2004 RUPEES	2003 RUPEES	2004 RUPEES	2003 RUPEES	2004 RUPEES	2003 RUPEES
MANAGERIAL REMUNERATION						
BASIC SALARY	1,799,604	600,000	1,379,340	599,602	6,192,766	29,002,252
HOUSE RENT	240,000	270,000	551,726	239,836	2,115,980	10,556,456
UTILITIES	60,000	30,000	137,938	59,962	564,793	3,472,631
LEAVE ENCASHMENT	60,000	-	-	-	19,911	3,090,983
RETIREMENT BENEFITS	-	-	-	-	714,689	4,061,135
BONUS	-	-	-	-	1,388,518	2,445,390
	2,159,604	900,000	2,069,004	899,400	10,996,657	52,628,847
NUMBER OF PERSONS	1	1	4	1	9	152

32.1 THE COMPANIES ORDINANCE, 1984 HAS REVISED THE DEFINITION OF AN EXECUTIVE IN THE CURRENT YEAR. CURRENTLY AN EMPLOYEE, OTHER THAN CHIEF EXECUTIVE AND DIRECTORS, WHOSE BASIC SALARY EXCEEDS FIVE HUNDRED THOUSAND RUPEES (2003: ONE HUNDRED THOUSAND RUPEES) IN A FINANCIAL YEAR IS CONSIDERED TO BE AN EXECUTIVE. CONSEQUENTIAL TO THE ABOVE REVISION NINE EMPLOYEES (2003: 152) OF THE COMPANY FALL UNDER THE DEFINITION OF AN EXECUTIVE.

32.2 IN ADDITION TO ABOVE THE CHIEF EXECUTIVE HAS BEEN PROVIDED WITH FREE USE OF THE COMPANY MAINTAINED CAR. NONE (2003: NONE) OF THE DIRECTORS/EXECUTIVES HAVE BEEN PROVIDED WITH THE COMPANY MAINTAINED CARS.

32.3 NO FEE HAS BEEN PAID TO THE DIRECTORS DURING THE YEAR (2003: NIL).

33 TRANSACTIONS WITH RELATED PARTIES

	2004 RUPEES	2003 RUPEES
RETAINER SHIP FEE	1,189,718	-
UNDERWRITING FEE	26,059,631	-
BROKERAGE	230,975	-
MARK-UP PAID	833,912	-
MISC. EXPENSES	445,818	-

THERE WERE NO RECEIVABLES OR PAYABLES TO RELATED PARTIES OTHER THAN THOSE REFERRED IN NOTES 10.3 AND 21.1.

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

		2004	2003
34	CAPACITY AND PRODUCTION		
	SPINNING		
	NO. OF ROTORS INSTALLED	1,272	792
	PLANT CAPACITY ON THE BASIS OF UTILIZATION		
	- CONVERTED INTO 6.5s COUNT	6,382,842	4,828,136
	- (BASED ON 3 SHIFTS PER DAY)		
	ACTUAL PRODUCTION CONVERTED INTO 6.5s COUNT	5,145,768	3,839,392
	34.1	-Kgs.	
	NO. OF SPINDLES INSTALLED	39,024	35,024
	PLANT CAPACITY ON THE BASIS OF UTILIZATION CONVERTED INTO 20s COUNT	10,570,050	10,414,516
	(BASED ON 3 SHIFTS PER DAY)		
	ACTUAL PRODUCTION CONVERTED INTO 20s COUNT	9,561,801	10,025,432
	34.2	-Kgs.	
	WEAVING		
	NO. OF LOOMS INSTALLED	93	84
	ANNUAL RATED CAPACITY ON THE BASIS OF UTILIZATION - AT 38 PICKS	15,222,452	14,232,000
	(BASED ON 3 SHIFTS PER DAY)		
	ACTUAL PRODUCTION - AT 38 PICKS	13,871,935	13,809,550
		-MTRS.	
	GARMENTS		
	NO. OF STITCHING MACHINES INSTALLED	287	106
	ANNUAL CAPACITY ON THE BASIS OF UTILIZATION (BASED ON 2 SHIFTS PER DAY)	2,400,000	1,310,660
	ACTUAL PRODUCTION	1,583,414	1,166,662
		-Pcs.	

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

34.2 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.

		2004 RUPEES	2003 RUPEES
35	CHANGES IN WORKING CAPITAL		
	(INCREASE) IN CURRENT ASSETS		
	STORES, SPARES AND LOOSE TOOLS	(26,830,897)	(24,089,037)
	STOCK IN TRADE	(159,809,718)	(543,400,878)
	TRADE DEBTS	(387,592,772)	(3,148,297)
	ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (EXCLUDING INCOME TAX)	(78,008,417)	(325,635,533)
	(DECREASE)/INCREASE IN CURRENT LIABILITIES		
	CREDITORS, ACCRUED AND OTHER LIABILITIES (EXCLUDING ACCRUED FINANCIAL CHARGES)	(62,452,685)	240,852,463
		<u>(714,693,989)</u>	<u>(655,421,282)</u>

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

36 FINANCIAL INSTRUMENTS

36.1 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 SEPTEMBER 30, 2004 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. THEREFORE IT 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.

36.2 FINANCIAL ASSETS AND LIABILITIES

INTEREST	INTEREST / MARK-UP BEARING			NON INTEREST / MARK-UP BEARING			TOTAL
	MARK-UP RATES RANGE % PER ANNUM	MATURITY UPTO ONE YEAR	MATURITY AFTER ONE YEAR	SUB-TOTAL	MATURITY UPTO ONE YEAR	MATURITY AFTER ONE YEAR	
				(R U P E E S)			
FINANCIAL ASSETS:							
LONG TERM INVESTMENTS				-	1,015,576		1,015,576
TRADE DEBTORS				-	942,208,356		942,208,356
ADVANCES, DEPOSITS AND OTHER RECEIVABLES				-	55,276,109		55,276,109
SHORT TERM INVESTMENTS				-	109,148,931		109,148,931
CASH AND BANK BALANCES	1% TO 3.5%	8,787,582		8,787,582	12,161,028		20,948,610
2004:		8,787,582	-	8,787,582	1,100,794,424	1,015,576	1,110,597,582
2003:		13,100,398	-	13,100,398	584,210,302	8,344,638	605,655,338
FINANCIAL LIABILITIES:							
LONG TERM FINANCING	4.75% TO 8.00%	300,000,000	750,000,000	1,050,000,000			1,050,000,000
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE	6.75% TO 19.00%	63,081,881	116,503,819	179,585,700			179,585,700
LONG TERM DEPOSITS AND PAYABLES					1,147,729		1,147,729
SHORT TERM BORROWINGS	1.60% TO 8.00%			-	1,492,909,892		1,492,909,892
CREDITORS, ACCRUED AND OTHER LIABILITIES				-	611,185,617	-	611,185,617
UNCLAIMED DIVIDEND				-	95,414		95,414
2004:		363,081,881	866,503,819	1,229,585,700	2,105,338,652	-	3,334,924,352
2003:		1,589,454,634	803,859,601	2,393,314,235	703,480,663	6,388,502	3,103,183,400
OFF BALANCE SHEET ITEMS:							
COMMITMENTS				-	300,000,000	-	300,000,000
GUARANTEE				-	102,000	-	102,000
2004:		-	-	-	300,102,000	-	300,102,000
2003:		-	-	-	334,872,000	-	334,872,000

36.3 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.

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED SEPTEMBER 30, 2004

36.4 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. 1,133 MILLION (2003: 605.66 MILLION), THE FINANCIAL ASSETS WHICH ARE SUBJECT TO CREDIT RISK AGGREGATED RS. 423.00 MILLION (2003:RS.605.15 MILLION). THE COMPANY BELIEVES THAT IT IS NOT EXPOSED TO MAJOR CONCENTRATION OF CREDIT RISK.

36.5 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, EXPOSURE TO INTEREST RATE RISK IS MINIMAL.

36.6 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.

37 NUMBER OF EMPLOYEES

NUMBER OF PERMANENT EMPLOYEES AS AT SEPTEMBER 30, 2004 WAS 4,513 (2003: 4,511).

38 DIVIDEND

DIRECTORS HAVE PROPOSED 10% CASH DIVIDEND I.E. RS. 1 PER ORDINARY SHARE TO BE APPROVED BY THE SHAREHOLDERS IN ENSUING ANNUAL GENERAL MEETING TO BE HELD ON 31 JANUARY 2005. TOTAL AMOUNT OF CASH DIVIDEND TO BE PAID IS RS. 86,865,434 WHICH HAS NOT BEEN ACCOUNTED FOR AS LIABILITY IN THESE FINANCIAL STATEMENTS.

39 DATE OF AUTHORISATION FOR ISSUE

THESE FINANCIAL STATEMENTS WERE AUTHORISED FOR ISSUE ON DECEMBER 28, 2004 BY THE BOARD OF DIRECTORS OF THE COMPANY.

40 FIGURES

- ON CHANGE IN ACCOUNTING POLICY, ASSETS (SEE NOTE 2.19) AMOUNT INCLUDED IN DEFERRED COSTS IN 2003 HAVE BEEN RECLASSIFIED AS INTANGIBLE ASSETS. NO OTHER RE-ARRANGEMENT HAS BEEN MADE IN THESE ACCOUNTS.

- FIGURES IN THE ACCOUNTS HAVE BEEN ROUNDED OFF NEAREST TO RUPEE.

CHIEF EXECUTIVE

DIRECTOR



AZGARD-9

PATTERN OF SHAREHOLDING (ORDINARY SHARES)

AS AT SEPTEMBER 30, 2004

NUMBER OF SHAREHOLDERS	FROM	SHAREHOLDING	To	TOTAL SHARES HELD
94	1	-	100	16,751
180	101	-	500	77,193
130	501	-	1000	107,780
350	1001	-	5000	959,889
111	5001	-	10000	900,145
31	10001	-	15000	399,203
30	15001	-	20000	540,107
18	20001	-	25000	408,261
18	25001	-	30000	495,176
7	30001	-	35000	230,443
12	35001	-	40000	458,566
5	40001	-	45000	212,352
10	45001	-	50000	491,101
4	50001	-	55000	207,699
1	55001	-	60000	56,182
1	65001	-	70000	67,457
3	70001	-	75000	222,000
1	75001	-	80000	76,591
2	80001	-	85000	167,272
1	85001	-	90000	89,500
3	90001	-	95000	274,484
3	95001	-	100000	299,265
5	100001	-	105000	530,592
1	115001	-	120000	117,791
2	120001	-	125000	248,000
1	145001	-	150000	150,000
2	160001	-	165000	327,025
1	165001	-	170000	166,000
1	225001	-	230000	227,600
1	235001	-	240000	236,754
1	270001	-	275000	275,000
1	300001	-	305000	300,500
1	305001	-	310000	305,500
1	315001	-	320000	320,000
1	335001	-	340000	336,500
1	355001	-	360000	359,500
1	390001	-	395000	390,118
2	395001	-	400000	800,000
1	410001	-	415000	411,265
1	435001	-	440000	437,489
1	490001	-	495000	490,070

PATTERN OF SHAREHOLDING (ORDINARY SHARES)

AS AT SEPTEMBER 30, 2004

1	495001	-	500000	500,000
1	875001	-	880000	878,739
1	910001	-	915000	914,500
1	1085001	-	1090000	1,085,500
1	1095001	-	1100000	1,099,500
1	1325001	-	1330000	1,326,500
1	1335001	-	1340000	1,339,500
1	1400001	-	1405000	1,400,669
1	1465001	-	1470000	1,466,265
1	1720001	-	1725000	1,725,000
1	1875001	-	1880000	1,876,500
1	1975001	-	1980000	1,980,000
1	2040001	-	2045000	4,085,701
1	3970001	-	3975000	3,970,750
1	4260001	-	4265000	4,261,560
1	4930001	-	4935000	4,933,000
1	5305001	-	5310000	5,310,000
1	7305001	-	7310000	7,308,060
1	8200001	-	8250000	8,200,940
1	20015001	-	20020000	20,015,629
				86,865,434
1061				86,865,434

SHAREHOLDER'S CATEGORY	NUMBER OF SHAREHOLDERS	NUMBER OF SHARES HELD	PERCENTAGE
FINANCIAL INSTITUTION	10	10,478,615	12.06
INDIVIDUAL	987	52,308,458	60.22
INSURANCE COMPANIES	1	99,265	0.11
INVESTMENT COMPANIES	1	27,889	0.03
JOINT STOCK COMPANIES	54	15,752,538	18.13
MUTUAL FUNDS	8	8,198,669	9.44
		1,061	86,865,434
			100.00

CATEGORIES OF SHAREHOLDERS (ORDINARY SHARES)

AS AT SEPTEMBER 30, 2004

CATEGORIES OF SHAREHOLDERS	NUMBER OF SHAREHOLDERS	NUMBER OF SHARES HELD
ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES	Nil	Nil
NIT AND ICP	1	27,889
DIRECTORS, CHIEF EXECUTIVE OFFICER AND THEIR SPOUSE AND MINOR CHILDREN		
MR. MUEEN AFZAL	CHAIRMAN	1
MR. AHMED H. SHAIKH	CEO	4,261,560
MR. AEHSUN M. H. SHAIKH	DIRECTOR	3,970,750
MR. KHALID A.H. AL-SAGAR	DIRECTOR	1,466,265
CHIEF JUSTICE (R) MIAN MAHBOOB AHMAD	DIRECTOR	1
MR. ALI JEHANGIR SIDDIQUI	DIRECTOR	1
MR. MUHAMMAD MUKARRAM	DIRECTOR	11,400
EXECUTIVES	Nil	Nil
PUBLIC SECTOR COMPANIES, CORPORATION & JOINT STOCK COMPANIES	54	15,752,538
BANKS, DFIs, NBFIs, INSURANCE COMPANIES, LEASING COMPANIES, MODARABAS & MUTUAL FUNDS	19	18,776,549
SHAREHOLDERS HOLDINGS TEN PERCENT OR MORE VOTING INTEREST OF THE COMPANY		
MRS. NASREEN H. SHAIKH	1	20,015,629

DETAIL OF TRADING IN SHARES BY THE DIRECTORS, CEO, CFO, COMPANY SECRETARY, THEIR SPOUSES AND MINOR CHILDREN.

DURING THE YEAR MR. AHMED H. SHAIKH, CEO AND MR. AEHSUN M.H. SHAIKH, DIRECTOR OF THE COMPANY GIFTED UNDER THE ISLAMIC LAW 4,191,400 AND 4,482,210 ORDINARY SHARES RESPECTIVELY IN FAVOUR OF THEIR MOTHER.

PATTERN OF SHAREHOLDING (PREFERENCE SHARES)

AS AT SEPTEMBER 30, 2004

NUMBER OF SHAREHOLDERS	FROM	SHAREHOLDING	To	TOTAL SHARES HELD
6	1	-	100	212
29	101	-	500	11,021
20	501	-	1000	18,503
45	1001	-	5000	132,362
13	5001	-	10000	107,110
2	15001	-	20000	31,178
2	20001	-	25000	43,000
1	25001	-	30000	26,971
2	35001	-	40000	79,500
2	45001	-	50000	100,000
1	50001	-	55000	50,751
1	75001	-	80000	80,000
1	85001	-	90000	89,343
1	90001	-	95000	92,984
4	95001	-	100000	400,000
1	105001	-	110000	106,313
1	145001	-	150000	150,000
1	245001	-	250000	248,000
1	445001	-	450000	450,000
1	630001	-	635000	632,000
1	1545001	-	1550000	1,546,989
1	2515001	-	2520000	2,517,000
1	2995001	-	3000000	3,000,000
1	23255001	-	23260000	23,255,566
1	53695001	-	53700000	53,696,631
140				86,865,434

SHAREHOLDER'S CATEGORY	NUMBER OF SHAREHOLDERS	NUMBER OF SHARES HELD	PERCENTAGE
FINANCIAL INSTITUTION	4	4,637,181	5.34
INDIVIDUAL	123	27,065,103	31.16
INVESTMENT COMPANIES	1	39,500	0.05
JOINT STOCK COMPANIES	10	54,923,650	63.23
MODARABAS	1	50,000	0.06
OTHERS	1	150,000	0.17
	140	86,865,434	100.00

CATEGORIES OF SHAREHOLDERS (PREFERENCE SHARES)

AS AT SEPTEMBER 30, 2004

CATEGORIES OF SHAREHOLDERS	NUMBER OF SHAREHOLDERS	NUMBER OF SHARES HELD
ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES	NIL	NIL
NIT AND ICP	1	849
DIRECTORS, CHIEF EXECUTIVE OFFICER AND THEIR SPOUSE AND MINOR CHILDREN	NIL	NIL
EXECUTIVES	NIL	NIL
PUBLIC SECTOR COMPANIES, CORPORATION & JOINT STOCK COMPANIES	10	54,923,650
BANKS, DFIS, NBFIs, INSURANCE COMPANIES, LEASING COMPANIES, MODARABAS & MUTUAL FUNDS	3	4,636,332
SHAREHOLDERS HOLDINGS TEN PERCENT OR MORE VOTING INTEREST OF THE COMPANY		
MRS. NASREEN H. SHAIKH	1	23,255,566
DETAIL OF TRADING IN SHARES BY THE DIRECTORS, CEO, CFO, COMPANY SECRETARY, THEIR SPOUSE AND MINOR CHILDREN		

THE CEO, DIRECTORS, CFO, COMPANY SECRETARY AND THEIR SPOUSE AND MINOR CHILDREN HAVE MADE NO SALE/PURCHASE OF COMPANY'S PREFERENCE SHARES UPTO SEPTEMBER 30, 2004.

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 12TH ANNUAL GENERAL MEETING
OF THE COMPANY TO BE HELD ON JANUARY 31, 2005 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 JANUARY, 2005.

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.