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COMPANY INFORMATION

BOARD OF DIRECTORS

MR. MUEEN AFZAL

MR. AHMED H. SHAIKH

CHIEF JUSTICE (RETD.) MIAN MAHBOOB AHMAD

MR. AEHSUN M.H. SHAIKH

MR. ALI JEHANGIR SIDDIQUI

MR. KHALID A.H. AL-SAGAR

MR. MOHAMMED KHAISHGI

CHAIRMAN

CHIEF EXECUTIVE

MANAGEMENT TEAM

MR. AHMED H. SHAIKH

MR. AEHSUN M.H. SHAIKH

MR. ABID AMIN

MR. IRFAN NAZIR

MR. TAHIR MUNIR

MR. ATIF FAROOQI

MR. PER FREDRIKSSON

COMPANY SECRETARY

MR. MUHAMMAD IJAZ HAIDER

CHIEF FINANCIAL OFFICER

MR. ABID AMIN

AUDIT COMMITTEE

CHIEF JUSTICE (RETD.) MIAN MAHBOOB AHMAD - CHAIRMAN

MR. MUEEN AFZAL

MR. AEHSUN M.H. SHAIKH

MR. ALI JEHANGIR SIDDIQUI

MR. KHALID A.H. AL-SAGAR

FINANCE COMMITTEE

MR. AHMED H. SHAIKH

MR. ALI JEHANGIR SIDDIQUI

MR. TARIQ MOHAMMAD KHAN

HUMAN RESOURCE COMMITTEE

MR. AHMED H. SHAIKH

MR. AEHSUN M.H. SHAIKH

MR. SALIM KHAN

BANKERS

JS BANK LIMITED
 MCB BANK LIMITED
 CITIBANK N.A.
 ABN AMRO BANK
 FAYSAL BANK LIMITED
 HABIB BANK LIMITED
 SAUDI PAK INDUSTRIAL & AGRICULTURAL
 INVESTMENT COMPANY (PRIVATE) LIMITED
 PICIC COMMERCIAL BANK LIMITED
 THE HONG KONG AND SHANGHAI
 BANKING CORPORATION
 UNITED BANK LIMITED
 STANDARD CHARTERED BANK
 HABIB BANK AG ZURICH
 NIB BANK LIMITED
 NATIONAL BANK OF PAKISTAN
 ALLIED BANK LIMITED
 MY BANK LIMITED
 KASB BANK LIMITED

LEGAL ADVISORS

HAMID LAW ASSOCIATES
 HASSAN & HASSAN ADVOCATES

AUDITORS

RAHMAN SARFARAZ & CO.
 CHARTERED ACCOUNTANTS

TAX ADVISORS

FORD RHODES SIDAT HYDER & CO.
 CHARTERED ACCOUNTANTS

REGISTERED OFFICE

ISMAIL AIWAN-E-SCIENCE
 OFF SHAHRAH-E-ROOMI
 LAHORE, 54600
 PH: +92 (0)42 111-786-645
 FAX: +92 (0)42 5761791

PROJECT LOCATIONS**UNIT I**

2.5 KM OFF MANGA, RAIWIND ROAD,
 DISTRICT KASUR.

PH: +92 (0)42 5384081

FAX: +92 (0)42 5384093

UNIT II

ALIPUR ROAD, MUZAFFARGARH.

PH: +92 (0)661 422503, 422651

FAX: +92 (0)661 422652

UNIT III

20 KM OFF FERDOSPUR ROAD,
 6 KM BADIAN ROAD ON RUHI NALA
 DER KHURD, LAHORE.

PH: +92 (0)42 8460333, 8488862





**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

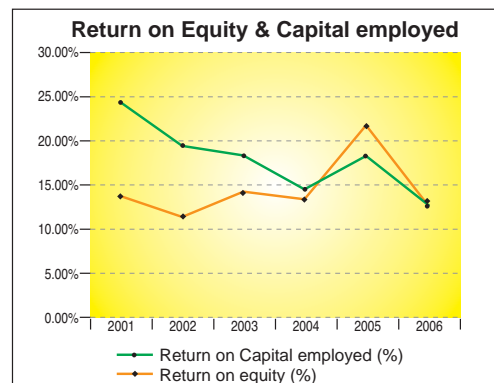
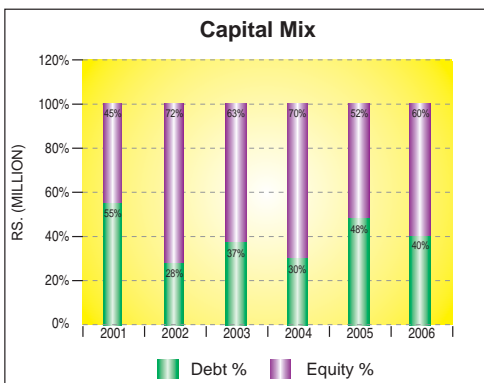
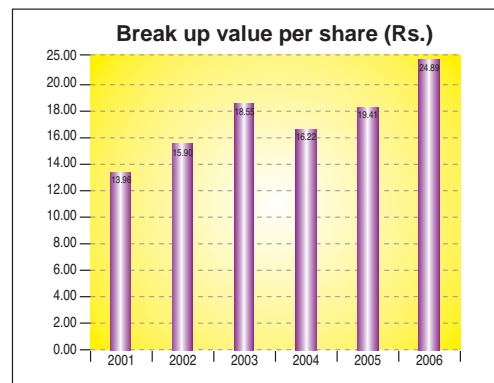
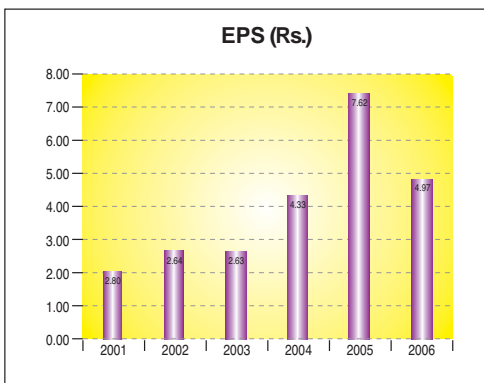
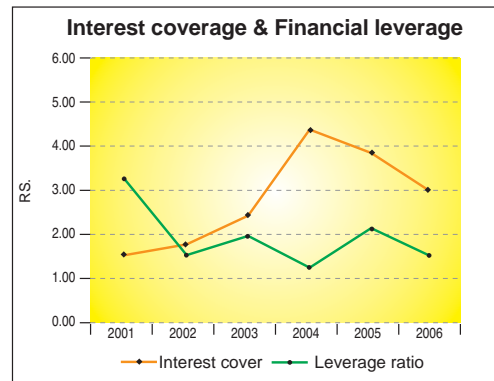
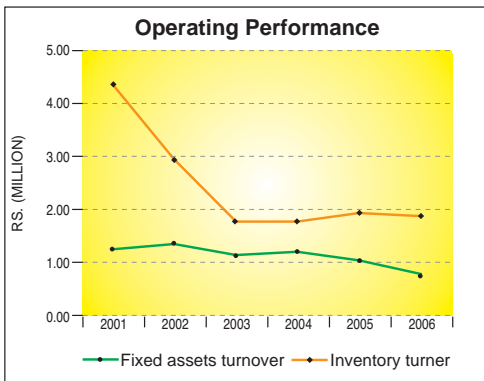
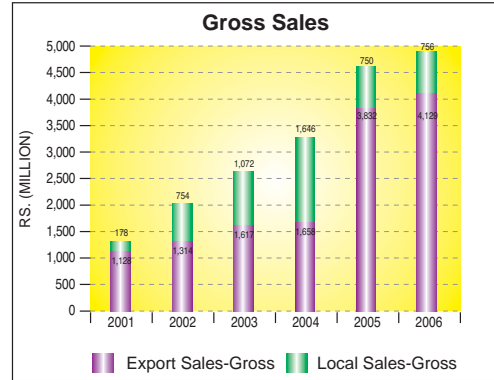
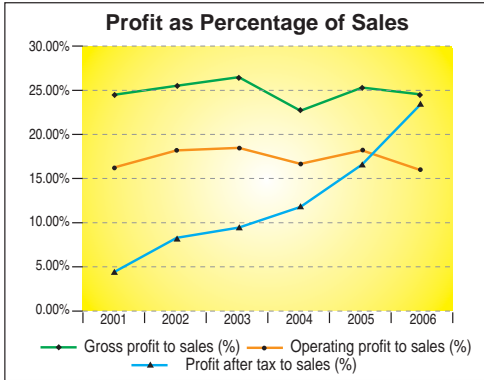
	2006	2005	2004	2003	2002	2001
OPERATING PERFORMANCE (Rs. 000)						
SALES-NET	4,889,682	4,422,472	3,160,780	2,428,127	1,931,118	1,257,106
EXPORT SALES-GROSS	4,128,679	3,832,201	1,657,688	1,616,709	1,314,025	1,127,941
LOCAL SALES-GROSS	756,303	750,217	1,646,344	1,072,293	754,073	178,412
GROSS PROFIT	1,186,321	1,133,686	720,001	646,103	493,389	308,630
OPERATING PROFIT	795,030	813,063	533,436	446,671	350,713	204,117
PROFIT BEFORE TAX	1,260,084	792,137	398,677	248,440	146,321	61,883
PROFIT AFTER TAX	1,144,515	741,294	378,677	228,188	160,116	56,583

FINANCIAL POSITION (Rs. 000)						
SHARE CAPITAL	3,788,839	1,737,309	1,737,309	868,654	868,654	319,057
SHARE PREMIUM	2,633,371	71,658	106,433	143,675	143,675	143,675
CAPITAL RESERVE	944,891	331,674	255,709	107,368	105,152	-
UNAPPROPRIATED PROFIT / (ACCUMULATED LOSS)	1,807,067	952,462	412,400	161,711	(92,057)	(310,468)
	9,174,168	3,093,103	2,511,851	1,281,408	1,025,424	152,265
MINORITY INTEREST	-	-	2,743	-	-	-
SHARES DEPOSIT MONEY	-	-	-	-	-	40,000
SURPLUS ON REVALUATION OF FIXED ASSETS	257,361	278,944	306,565	330,249	355,829	253,289
NON-PARTICIPATORY REDEEMABLE CAPITAL - SECURED	5,786,172	2,678,233	750,000	650,000	2,798	4,042
LONG TERM LIABILITIES (LEASES & LT DEPOSITS)	11,267	43,082	117,652	150,093	384,649	377,478
DEFERRED LIABILITIES (STAFF GRATUITY)	-	-	-	25,513	19,808	13,578
CURRENT LIABILITIES						
CURRENT PORTION OF LONG TERM LIABILITIES	450,047	433,781	363,082	160,799	140,431	154,429
SHORT TERM FINANCES	6,006,118	3,142,402	1,492,910	1,428,656	995,880	557,810
CREDITORS, ACCRUALS & OTHER LIABILITIES	1,275,610	791,641	701,846	747,930	552,548	207,767
PROVISION FOR TAXATION	195,249	79,680	64,825	44,825	30,735	8,864
UNCLAIMED DIVIDENDS	22,312	362	95	96	116	-
	7,949,336	4,447,866	2,622,758	2,382,306	1,719,710	928,870
OPERATING FIXED ASSETS AND CAPITAL WORK IN PROGRESS	7,752,546	5,572,699	2,937,696	2,333,753	1,938,068	970,040
INTANGIBLE ASSETS	60,545	73,937	88,376	-	-	-
LONG TERM DEPOSITS & INVESTMENTS	6,323,396	34,415	19,533	6,315	19,761	17,805
	14,136,487	5,681,051	3,045,605	2,340,068	1,957,829	987,845
CURRENT ASSETS						
STORES, SPARES AND LOOSE TOOLS	101,762	87,790	72,609	45,778	21,689	9,229
STOCK IN TRADE	2,022,511	2,034,181	1,425,587	1,265,777	722,376	246,192
TRADE DEBTORS	1,134,897	1,013,884	924,208	536,616	533,468	337,303
SHORT TERM INVESTMENTS	3,788,316	769,412	109,149	-	-	-
OTHER CURRENT ASSETS	1,413,425	909,267	713,461	609,728	249,380	168,574
CASH & CASH EQUIVALENTS	580,906	45,642	20,949	21,602	23,477	20,380
	9,041,817	4,860,175	3,265,963	2,479,501	1,550,389	781,677
NET WORKING CAPITAL	1,092,481	412,309	643,205	97,195	(169,321)	(147,193)
TOTAL CAPITAL EMPLOYED	15,228,968	6,093,360	3,688,810	2,437,263	1,788,508	840,651

PROFITABILITY ANALYSIS						
GROSS PROFIT TO SALES (%)	24.26	25.63	22.78	26.61	25.55	24.55
OPERATING PROFIT TO SALES (%)	16.26	18.38	16.88	18.40	18.16	16.24
PROFIT BEFORE TAX TO SALES (%)	25.77	17.91	12.61	10.23	7.58	4.92
PROFIT AFTER TAX TO SALES (%)	23.41	16.76	11.98	9.40	8.29	4.50
RETURN ON CAPITAL EMPLOYED (%)	12.59	18.36	14.73	18.34	19.64	24.28
RETURN ON EQUITY (%)	12.13	21.98	13.44	14.16	11.59	13.95
EARNINGS PER SHARE (RS.) (PLEASE REFER TO NOTE 31)	4.97	7.62	4.33	2.63	2.64	2.08

FINANCIAL ANALYSIS						
FINANCIAL CHARGES TO SALES (%)	13.27	6.57	3.91	7.65	10.21	10.75
CURRENT RATIO (TIMES) *	1.21	1.21	1.45	1.12	0.98	1.01
*(EXCLUDING CURRENT PORTION OF LT LIABILITIES)						
DEBT TO EQUITY (RATIO)	40 : 60	48 : 52	30 : 70	37 : 63	28 : 72	57 : 43
LEVERAGE RATIO (TIMES)	1.46	2.13	1.24	1.99	1.54	3.26
BREAKUP VALUE PER SHARE (RS.)	24.89	19.41	16.22	18.55	15.90	13.96
INVENTORY TURNOVER (TIMES PER YEAR)	1.83	1.90	1.79	1.79	2.97	4.38
FIXED ASSETS TURNOVER (TIMES)	0.73	1.04	1.20	1.14	1.33	1.26
INTEREST COVER (RS.)	2.96	3.85	4.39	2.41	1.78	1.51

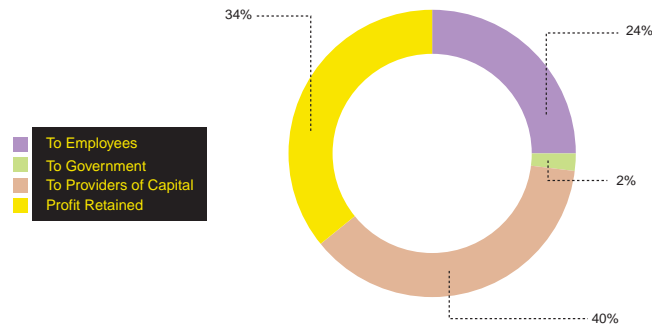
FINANCIAL HIGHLIGHTS



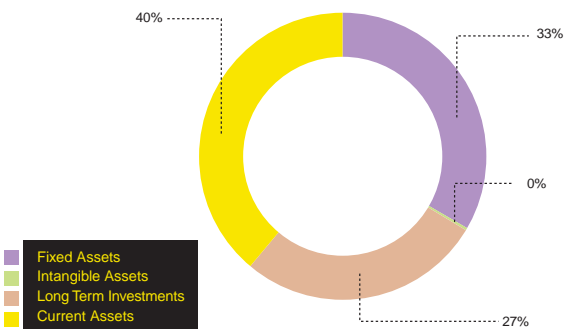
DISTRIBUTION OF REVENUE

WEALTH GENERATED	RUPEES	% AGE
SALES - NET	6,504,962,162	
OTHER INCOME	71,554,190	
BOUGHT IN MATERIAL AND SERVICES	(3,173,395,365)	
	3,403,120,987	100%
WEALTH DISTRIBUTION/ALLOCATION		
TO EMPLOYEES SALARIES WAGES AND BENEFITS INCLUDING WORKERS (PROFIT) PARTICIPATION FUND	801,440,355	24%
TO GOVERNMENT INCOME TAX, SALES TAX, CUSTOM DUTY	59,448,993	2%
TO PROVIDERS OF CAPITAL CASH DIVIDEND FOR 2005 DIVIDEND ON PREFERENCE SHARES CHARGES ON BORROWED FUNDS	151,267,383 59,225,581 1,187,223,953	
	1,397,716,917	40%
PROFIT RETAINED	1,144,514,722	34%
WEALTH GENERATED	3,403,120,987	

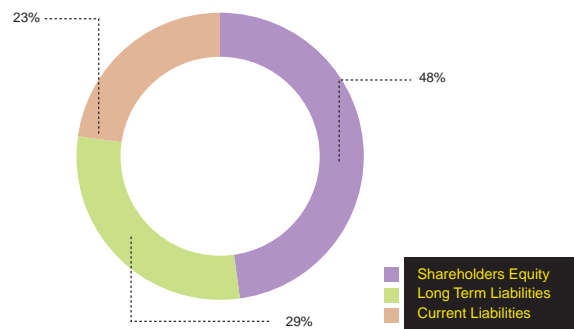
Wealth Distribution/Allocation



Total Assets



Shareholders' Equity and Liabilities





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

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

INSTRUMENT RATING
LISTED TFCs
FROM PACRA
AND
JCR-VIS CREDIT RATING COMPANY LIMITED.
A+ (SINGLE A PLUS)



NOTICE OF ANNUAL GENERAL MEETING



NOTICE IS HEREBY GIVEN THAT THE 14TH ANNUAL GENERAL MEETING OF AZGARD NINE LIMITED (THE "COMPANY") WILL BE HELD ON 28TH JUNE 2007 AT 10.00 A.M AT THE REGISTERED OFFICE OF THE COMPANY ISMAIL AIWAN-I-SCIENCE, OFF SHAHRAH-I-ROOMI, LAHORE TO TRANSACT THE FOLLOWING BUSINESS:

ORDINARY BUSINESS:

1. TO CONFIRM THE MINUTES OF THE EXTRA ORDINARY GENERAL MEETING HELD ON SEPTEMBER 30, 2006;
2. TO RECEIVE, CONSIDER AND ADOPT THE FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2006 TOGETHER WITH DIRECTORS' AND AUDITORS' REPORTS THEREON;
3. TO APPROVE CASH DIVIDEND @ 11 % (I.E. RS.1.10 PER ORDINARY SHARE) AS APPROVED AND RECOMMENDED BY THE BOARD OF DIRECTORS OF THE COMPANY (THE "BOARD") AND TO APPROVE INTERIM DIVIDEND ALREADY PAID TO THE PREFERENCE SHAREHOLDERS @ 8.95% AS FINAL DIVIDEND FOR THE SECOND YEAR ENDING ON SEPTEMBER 24, 2006;
4. TO CONSIDER RE- APPOINTMENT OF M/S RAHMAN SARFARAZ RAHIM IQBAL RAFIQ & COMPANY, CHARTERED ACCOUNTANTS AS EXTERNAL AUDITORS FOR THE FINANCIAL YEAR ENDING DECEMBER 31, 2007 AND TO FIX THEIR REMUNERATION, AS PER THE RECOMMENDATION OF THE BOARD;

5. TO CONSIDER ANY OTHER BUSINESS THAT MAY BE PLACED BEFORE THE MEMBERS WITH THE PERMISSION OF THE CHAIR.

SPECIAL BUSINESS:

1. TO CONSIDER AND ALLOW THE COMPANY TO INVEST IN OR TO EXTEND LOAN TO ITS 100% OWNED SUBSIDIARY, PAK AMERICAN FERTILIZERS LIMITED BY WAY OF PASSING FOLLOWING SPECIAL RESOLUTION, WITH OR WITHOUT MODIFICATIONS, IN TERMS OF SECTION 208 OF THE COMPANIES ORDINANCE 1984:

"RESOLVED THAT

1. AZGARD NINE LIMITED (THE "COMPANY") BE AND IS HEREBY AUTHORIZED TO PROVIDE LOAN OF UP TO PKR 9 BILLION FOR A PERIOD NOT IN EXCESS OF TEN (10) YEARS, TO ITS SUBSIDIARY COMPANY NAMED PAK AMERICAN FERTILIZERS LIMITED ("PAFL"), FROM THE PROCEEDS OF UNITED STATES DOLLAR FINANCING PROPOSED TO BE OBTAINED FROM THE INTERNATIONAL CAPITAL MARKETS BY THE ISSUE OF BONDS ("BONDS") ON THE FOLLOWING TERMS AND CONDITIONS:
 - i. THE RATE OF RETURN/MARK UP/INTEREST ON THE LOAN TO BE PAID BY PAFL SHALL NOT BE LESS THAN THE COST TO THE COMPANY OF OBTAINING FINANCING BY THE ISSUE OF BONDS.
 - ii. PAFL SHALL USE THE LOAN TO RE-PROFILE ITS DEBT STRUCTURE IN AN EFFICIENT MANNER.

2. EACH OF THE FOLLOWING (EACH REFERRED TO AS AN "AUTHORIZED OFFICER"):

I.	MR. AHMED H. SHAIKH	CHIEF EXECUTIVE OFFICER
II.	MR. MUHAMMAD IJAZ HAIDER	COMPANY SECRETARY
III.	MR. TARIQ MOHAMMAD KHAN	GROUP DIRECTOR FINANCE
IV.	MR. ABID AMIN	CHIEF FINANCIAL OFFICER
V.	MS. IRUM AHSAN	IN HOUSE LEGAL COUNSEL

BE AND IS HEREBY AUTHORIZED ON BEHALF OF THE COMPANY TO TAKE ALL SUCH INCIDENTAL, CONSEQUENTIAL AND SUPPLEMENTAL MATTERS AS ARE NECESSARY TO FULLY AND EFFECTIVELY CARRY OUT THE TERMS OF THIS SPECIAL RESOLUTION INCLUDING BUT NOT LIMITED TO ENTERING INTO AGREEMENT WITH PAFL ON BEHALF OF THE COMPANY, FOR PROVIDING THE LOAN TO PAFL ("LOAN AGREEMENT").

3. WITHOUT PREJUDICE TO THE GENERALITY OF THE AUTHORIZATION SET OUT ABOVE AND WITHOUT LIMITING THE SAME BUT SUBJECT TO PARAGRAPH 1 ABOVE, THE COMPANY, AND EACH AUTHORIZED OFFICER BE AND IS HEREBY AUTHORIZED TO:

- (i) NEGOTIATE AND AGREE UPON TERMS AND CONDITIONS (INCLUDING ANY AMENDMENTS TO SUCH TERMS AND CONDITIONS) IN RELATION TO THE LOAN (INCLUDING, AND WITHOUT LIMITING THE GENERALITY OF THE FOREGOING, TENOR, INTEREST RATE OR RETURN), AS WELL AS THE SECURITY, IF ANY, TO BE PROVIDED IN RELATION TO THE LOAN;
- (ii) SIGN AND DELIVER ON BEHALF OF THE COMPANY THE LOAN AGREEMENT AND ANY OTHER AGREEMENTS OR DOCUMENTS (INCLUDING ANY DOCUMENTS PURSUANT TO THE LOAN AGREEMENT) ON TERMS AND CONDITIONS CONSIDERED APPROPRIATE OR NECESSARY BY EACH OF THEM;
- (iii) FILE THE COPY OF THIS SPECIAL RESOLUTION ON THE PRESCRIBED FORMS WITH THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN AND THE REGISTRAR OF COMPANIES WITHIN THE PRESCRIBED TIME;

(IV) INTIMATE THE KARACHI STOCK EXCHANGE WITH RESPECT TO THIS SPECIAL RESOLUTION;

(V) TAKE ALL SUCH OTHER ACTIONS, EXECUTE ALL SUCH OTHER DOCUMENTS AND DO ALL SUCH THINGS AS MAY BE CONSIDERED NECESSARY OR APPROPRIATE BY THEM, OR MAY BE REQUIRED, IN RELATION TO THE LOAN."

BY ORDER OF THE BOARD

LAHORE;
JUNE 06, 2007

(MUHAMMAD IJAZ HAIDER)
COMPANY SECRETARY



NOTICE OF ANNUAL GENERAL MEETING

NOTES:

1. THE SHARE TRANSFER BOOKS OF THE COMPANY WILL REMAIN CLOSED FROM JUNE 22, 2007 TO JUNE 28, 2007. (BOTH DAYS INCLUSIVE).
2. THE PREFERENCE SHAREHOLDERS ARE NOT ENTITLED TO ATTEND THE MEETING.
3. A SHARE HOLDER ENTITLED TO ATTEND AND VOTE AT THIS MEETING MAY APPOINT ANOTHER SHARE HOLDER AS HIS/HER PROXY TO ATTEND AND VOTE ON HIS/HER BEHALF. THE INSTRUMENT APPOINTING A PROXY AND THE POWER OF ATTORNEY OR OTHER AUTHORITY UNDER WHICH IT IS SIGNED OR A NOTARIALLY CERTIFIED COPY OF THE POWER OF ATTORNEY MUST BE RECEIVED AT THE REGISTERED OFFICE OF THE COMPANY DULY STAMPED, SIGNED AND WITNESSED NOT LATER THAN 48 HOURS BEFORE THE MEETING. AN INSTRUMENT OF PROXY APPLICABLE FOR MEETING IS ATTACHED HEREWITH.
4. SHARE HOLDERS WHOSE SHARES ARE DEPOSITED WITH CENTRAL DEPOSITORY SYSTEM (CDS) ARE REQUESTED TO BRING THEIR NATIONAL IDENTITY CARD (NIC) ALONG WITH THEIR ACCOUNT NUMBER IN CDS FOR VERIFICATION. IN CASE OF CORPORATE ENTITY, THE BOARD OF DIRECTORS' RESOLUTION/POWER OF ATTORNEY WITH SPECIMEN SIGNATURES OF THE NOMINEE SHALL BE PRODUCED (UNLESS IT HAS BEEN PROVIDED EARLIER) AT THE TIME OF THE MEETING.
5. INCASE OF PROXY FOR AN INDIVIDUAL BENEFICIAL OWNER OF CDC, ATTESTED COPIES OF BENEFICIAL OWNER'S NIC OR PASSPORT, ACCOUNT AND PARTICIPANT'S ID NUMBERS MUST BE DEPOSITED ALONGWITH THE FORM OF PROXY. REPRESENTATIVE OF CORPORATE MEMBERS SHOULD BRING THE USUAL DOCUMENTS REQUIRED FOR SUCH PURPOSE.
6. SHARE HOLDERS ARE REQUESTED TO NOTIFY ANY CHANGE IN THEIR ADDRESSES IMMEDIATELY.



“STATEMENT UNDER SECTION 160 OF THE COMPANIES ORDINANCE, 1984 IS ATTACHED WITH THE ANNUAL REPORT CIRCULATED TO THE MEMBERS OF THE COMPANY”.

STATEMENT UNDER SECTION 160 (1) (b) OF THE COMPANIES ORDINANCE, 1984, READ WITH S.R.O. 865 (I)/ 2000, DATED 6TH DECEMBER, 2000.

I.	(A) NAME OF INVESTEE COMPANY (B) AMOUNT OF LOAN (C) PURPOSE OF LOAN (D) DETAILS OF ANY EXISTING / WRITTEN OFF LOAN	PAK AMERICAN FERTILIZERS LIMITED (“PAFL”) NOT IN EXCESS OF PKR 9 BILLION TO RE-PROFILE ITS DEBT STRUCTURE IN AN EFFICIENT MANNER. NONE
II.	BRIEF ABOUT THE FINANCIAL POSITION OF INVESTEE COMPANY (PAFL) ON THE BASIS OF LAST PUBLISHED FINANCIAL STATEMENT	PAFL WAS INCORPORATED ON DECEMBER 15, 1959 UNDER THE COMPANIES ACT, 1913 NOW COMPANIES ORDINANCE 1984 AS PUBLIC LIMITED COMPANY (UNLISTED). THE COMPANY IS ENGAGED IN PRODUCTION AND SALE OF UREA FERTILIZER. THE REGISTERED OFFICE OF THE COMPANY IS SITUATED AT ISMAIL AIWAN-I-SCIENCE, OFF SHAHRAH-I-ROOMI, LAHORE. THE COMPANY ACQUIRED 100% STAKE IN PAFL ON 15TH JULY 2006 THROUGH THE PRIVATIZATION PROCESS OF GOVERNMENT OF PAKISTAN. AS PER THE HALF YEARLY FINANCIAL STATEMENTS OF THE COMPANY FOR THE SIX MONTHS ENDED DECEMBER 31, 2006, THE NET REVENUE OF PAFL WAS Rs.1,612,042,830 WITH GROSS PROFIT OF Rs.706,235,849 WITH A GROSS PROFIT PERCENTAGE OF 44%. THE COMPANY EARNED A NET PROFIT OF Rs.63,808,493. TOTAL ASSETS OF THE COMPANY AS AT DECEMBER 31, 2006 WERE Rs.16,788,282,239 AGAINST TOTAL LIABILITIES Rs.11,165,993,772.
III.	RATE OF MARK-UP TO BE CHARGED	1 % ABOVE THE FINANCIAL COST OF BONDS AS DISCUSSED UNDER POINT V BELOW.
IV.	PARTICULARS OF COLLATERAL SECURITY TO BE OBTAINED FROM BORROWER; IF NOT NEEDED, THE JUSTIFICATION THEREOF	NO SECURITY IS CURRENTLY ENVISAGED. THE INVESTEE COMPANY IS A FULLY OWNED SUBSIDIARY OF AZGARD NINE LIMITED AND BOTH COMPANIES ARE UNDER COMMON MANAGEMENT CONTROL
V.	SOURCE OF FUNDS FROM WHERE LOAN OR ADVANCE WILL BE GIVEN	AZGARD NINE LIMITED IS PLANNING TO OBTAIN UNITED STATES DOLLAR FINANCING FROM THE INTERNATIONAL CAPITAL MARKETS BY THE ISSUE OF BONDS FOR A PERIOD NOT EXCEEDING 10 YEARS. THE LOAN TO PAFL WILL BE MADE OUT OF THE PROCEEDS OF THIS BOND FINANCING.
VI.	REPAYMENT SCHEDULE	PRINCIPAL AMOUNT WILL BE PAID ON THE MATURITY DATE DETERMINED IN LINE WITH THE MATURITY DATE OF THE BONDS AS DISCUSSED ABOVE BUT NOT TO EXCEED A PERIOD OF TEN YEARS FROM THE DATE OF LOAN WHEREAS INTEREST IS PAYABLE SEMI ANNUALLY.
VII.	BENEFITS LIKELY TO ACCRUE TO THE COMPANY AND THE SHAREHOLDERS FROM THE LOAN AND ADVANCES	THE INVESTING COMPANY, AZGARD NINE LIMITED AND ITS SHAREHOLDERS WILL BE BENEFITED IN A MANNER THAT THEIR INVESTMENT WILL FETCH A RETURN OF ONE PERCENT OVER AND ABOVE THE MARK UP RATE AT WHICH THE INVESTING COMPANY HAS BORROWED. THE EFFICIENT DEBT RE-PROFILING OF INVESTEE COMPANY WILL ENABLE IT TO CARRY OUT ITS FUTURE PLANS ULTIMATELY BENEFITING THE INVESTING COMPANY AND ITS SHAREHOLDERS THROUGH THE DIVIDENDS FROM THE INVESTEE COMPANY.

THE DIRECTORS DO NOT HAVE ANY PERSONAL INTEREST WITH RESPECT TO THE PROPOSED LOAN EXCEPT THAT SOME OF THE DIRECTORS SUCH AS MR. AHMED SHAIKH, MR. AEHSUN SHEIKH, AND MR. ALI JEHANGIR SIDDIQUI ARE ALSO DIRECTORS OF PAFL.

DIRECTORS' REPORT



THE BOARD OF DIRECTORS ALONG WITH OTHER MEMBERS OF THE MANAGEMENT OF YOUR COMPANY, AZGARD NINE LIMITED ARE PLEASED TO PRESENT HERewith THE ANNUAL AUDITED FINANCIAL STATEMENTS OF THE COMPANY IN RESPECT OF ITS FINANCIAL YEAR DECEMBER 31, 2006, TOGETHER WITH THE AUDITORS' REPORT THEREON.

FOLLOWING IS THE ANNUAL REVIEW OF THE COMPANY'S OPERATIONS:

FINANCIAL HIGHLIGHTS

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

FINANCIAL RESULTS	2006	2005
	(12-MONTHS)	(15 MONTHS)
	RUPEES	RUPEES
SALES-NET	4,889,681,966	4,422,472,357
OPERATING PROFIT	795,030,222	813,063,411
FINANCIAL CHARGES	648,649,925	290,508,556
PROFIT BEFORE TAX	1,260,083,804	792,136,936
PROFIT AFTER TAX	1,144,514,722	741,293,665

GROSS PROFIT MARGINS FOR THE TEXTILE SECTOR HAVE GENERALLY DECLINED OVER THE PERIOD, BUT DUE TO ITS BUSINESS STRATEGY, THE COMPANY WAS ABLE TO EARN A PROFIT BEFORE TAX OF RS.1,260,083,804 AND PROFIT AFTER TAX OF RS.1,144,514,722.

THIS YEAR, ONCE AGAIN THE COMPANY EXPERIENCED HIGH ACCEPTABILITY OF ITS PREMIUM PRODUCTS IN THE INTERNATIONAL MARKETS.

COMPANY'S BUSINESS

TEXTILE

IN 2006, AZGARD NINE LIMITED (THE COMPANY), HAS BY THE GRACE OF GOD, ACHIEVED REMARKABLE LEVEL OF SALES AND PROFITABILITY ACROSS ALL OF ITS DIVISIONS I.E. SPINNING, DENIM AND GARMENTS. OUR WELL STRATEGISED EFFICIENT PRODUCTION FOCUSED ON INTERNATIONALLY RECOGNIZED QUALITY OF PRODUCTS AND SERVICES, ALLOWED US TO COMPETE WELL IN CHALLENGING MARKET CONDITIONS.

FERTILIZERS

DURING THIS YEAR THE COMPANY HAS ACQUIRED PAK AMERICAN FERTILIZERS LTD FROM THE PAKISTAN GOVERNMENT. PAFL IS THE LOWEST COST UREA PRODUCER IN PAKISTAN. THE PLANT IS CURRENTLY OPERATING AT 107% OF THE NAME PLATE CAPACITY, AS A RESULT OF INITIATIVES UNDERTAKEN BY THE MANAGEMENT. THE HIGHER LEVELS OF EFFICIENCY IN OUR PRODUCTION PROCESS HAS RESULTED IN PAFL'S FUEL COST PER TON BEING 26% LOWER THAN ITS MAJOR COMPETITORS, FOR THE YEAR ENDED DECEMBER 31, 2006. WE EXPECT OUR FUEL COST PER TON TO FURTHER DECREASE AS A RESULT OF OUR NEW POWER PLANT, WHICH IS ALREADY OPERATING IN A TRIAL PHASE AND SHOULD COMMENCE COMMERCIAL OPERATIONS IN JUNE 2007.

CHALLENGES AND CONCERNS

THE PAKISTAN TEXTILE INDUSTRY IS SEEN TO BE ONE OF THE PROMINENT PLAYERS IN THE GLOBAL TEXTILE/APPAREL TRADE. SURVIVAL AND SUCCESS IN THE POST WTO REGIME REQUIRES EFFICIENT MANAGEMENT OF RESOURCES, TOP QUALITY AND A COMPETITIVE COST BASE. YOUR COMPANY HAS RESPONDED WELL TO THE SITUATION BY PROMOTING ITS PREMIUM PRODUCTS IN THE LOCAL AND INTERNATIONAL MARKET, WHERE THE RESPONSE HAS BEEN POSITIVE.



DIRECTORS' REPORT

TEXTILE INDUSTRY, IN PAKISTAN, HAS BEEN FACING TOUGH COMPETITION FROM PROMINENT INDUSTRY PLAYERS IN THE REGION, LIKE CHINA, INDIA, SRI LANKA AND BANGLADESH. THESE COMPETITORS ARE OPERATING UNDER THE SUPPORTIVE REGULATORY REGIME PROVIDING VARIOUS FISCAL SUBSIDIES. WHILE IN PAKISTAN GOVERNMENT SUPPORT IS NOMINAL.

GLOBAL DEMAND FOR TEXTILE PRODUCTS IS GROWING AT 2.5% ANNUALLY. THERE IS AN IMMENSE POTENTIAL FOR TEXTILE EXPORTS FROM PAKISTAN, PARTICULARLY IN THE VALUE ADDED PRODUCTS SEGMENT. THE MANAGEMENT FEELS THAT THE FUTURES OFFERS GROWTH WHILE MARGINS WILL REMAINED UNDER PRESSURE.

EARNING PER SHARE

THE EARNING PER SHARE OF THE COMPANY FOR THE PERIOD ENDED DECEMBER 31, 2006 WAS RS.4.97.

CORPORATE GOVERNANCE & FINANCIAL REPORTING FRAMEWORK

AS REQUIRED BY THE CODE OF CORPORATE GOVERNANCE, THE DIRECTORS ARE PLEASED TO REPORT THAT:

- THE FINANCIAL STATEMENTS PREPARED BY THE MANAGEMENT OF THE COMPANY PRESENT ACCURATE STATE OF COMPANY'S OPERATIONS, CASH FLOWS AND CHANGES IN EQUITY;
- PROPER BOOKS OF ACCOUNT OF THE COMPANY HAVE BEEN MAINTAINED.
- APPROPRIATE ACCOUNTING POLICIES HAVE BEEN CONSISTENTLY APPLIED IN THE PREPARATION OF FINANCIAL STATEMENTS AND ACCOUNTING ESTIMATES ARE BASED ON REASONABLE AND PRUDENT JUDGMENT.
- INTERNATIONAL ACCOUNTING STANDARDS, AS APPLICABLE IN PAKISTAN, HAVE BEEN FOLLOWED IN THE PREPARATION OF FINANCIAL STATEMENTS.
- THE SYSTEM OF INTERNAL CONTROLS ARE SOUND AND HAVE BEEN EFFECTIVELY IMPLEMENTED AND MONITORED.

- THE BOARD IS SATISFIED THAT THE COMPANY IS PERFORMING WELL AS A GOING CONCERN UNDER THE CODE OF CORPORATE GOVERNANCE.
- THERE HAS BEEN NO MATERIAL DEPARTURE FROM THE BEST PRACTICES OF CORPORATE GOVERNANCE AS DETAILED IN THE LISTING REGULATIONS OF THE STOCK 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 DECEMBER 31, 2006 EXCEPT FOR THOSE DISCLOSED IN THE FINANCIAL STATEMENTS.
- THE VALUE OF THE PROVIDENT FUND INVESTMENTS AS ON DECEMBER 31, 2006 WAS RS.42.795 MILLION (DECEMBER 31, 2005: 33.547 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 @ 11 % (I.E. RS. 1.10 PER SHARE) TO THE ORDINARY SHAREHOLDERS OF THE COMPANY SUBJECT TO THE APPROVAL OF THE MEMBERS OF THE COMPANY IN THEIR MEETING SCHEDULED FOR JUNE 28, 2007.

THE COMPANY HAS ALREADY PAID INTERIM PREFERRED DIVIDEND TO THE PREFERENCE SHAREHOLDERS FOR THE SECOND YEAR ENDING SEPTEMBER 24, 2006 @ 8.95% (I,E RS.0.895 PER SHARE). THE SAID INTERIM DIVIDEND WILL BE RECOMMENDED AS FINAL DIVIDEND TO THE PREFERENCE SHAREHOLDERS FOR THE SECOND YEAR ENDING SEPTEMBER 24, 2006.



DIRECTORS' REPORT

BOARD OF DIRECTORS

THE BOARD OF DIRECTORS OF THE COMPANY IS PREDOMINANTLY INDEPENDENT WHICH ENSURES TRANSPARENCY AND GOOD CORPORATE GOVERNANCE. THE BOARD COMPRISES FIVE NON EXECUTIVE DIRECTORS INCLUDING THE CHAIRMAN AND TWO EXECUTIVE DIRECTORS (INCLUDING THE CHIEF EXECUTIVE OFFICER). THESE NON EXECUTIVE DIRECTORS HAVE HAD VAST EXPERIENCE OF BUSINESS, GOVERNMENT AND JUDICIARY; HENCE THEY CONTRIBUTE VALUABLE INPUTS AND ENSURE THAT THE COMPANY IS OPERATING ON WORLD CLASS PRINCIPLES OF LEGAL AND CORPORATE COMPLIANCE.

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

NAME OF DIRECTOR	ELIGIBILITY	ATTENDED
MR. MUEEN AFZAL	9	8
MR. AHMED H. SHAIKH	9	9
CHIEF JUSTICE (R)		
MIAN MAHBOOB AHMAD	9	8
MR. AEHSUN M. H. SHAIKH	9	9
MR. ALI JEHANGIR SIDDIQUI	9	8
MR. KHALID A.H. AL-SAGAR	9	-
MR. MOHAMMED KHAISHGI	9	2

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

AUDIT COMMITTEE

THE AUDIT COMMITTEE OPERATES WITH A MANDATE OF MONITORING COMPLIANCE WITH RELEVANT STATUTORY PROVISIONS INCLUDING THE CODE OF CORPORATE GOVERNANCE. ITS RESPONSIBILITIES INCLUDE, INTER ALIA, ENSURING TRANSPARENT AND SOUND INTERNAL AUDIT AND CONTROL SYSTEMS, ACCOUNTING SYSTEM AND REPORTING STRUCTURE. MOREOVER IT IS ALSO ENTRUSTED WITH A DUTY OF SAFEGUARDING COMPANY'S ASSETS., IT CONDUCTS PRELIMINARY REVIEW OF BUSINESS PLANS, QUARTERLY, HALF-YEARLY AND ANNUAL RESULTS AND MAKE APPROPRIATE RECOMMENDATIONS TO THE BOARD.

THE AUDIT COMMITTEE COMPRISES OF FIVE MEMBERS WITH FOUR NON EXECUTIVE DIRECTORS AS MEMBERS AND ONE EXECUTIVE DIRECTOR. THE COMMITTEE MET FIVE TIMES DURING THE PERIOD UNDER REVIEW. THE NAMES OF ITS MEMBERS ARE PROVIDED IN THE COMPANY'S INFORMATION.

INTERNAL AUDIT FUNCTION

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



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

HUMAN CAPITAL

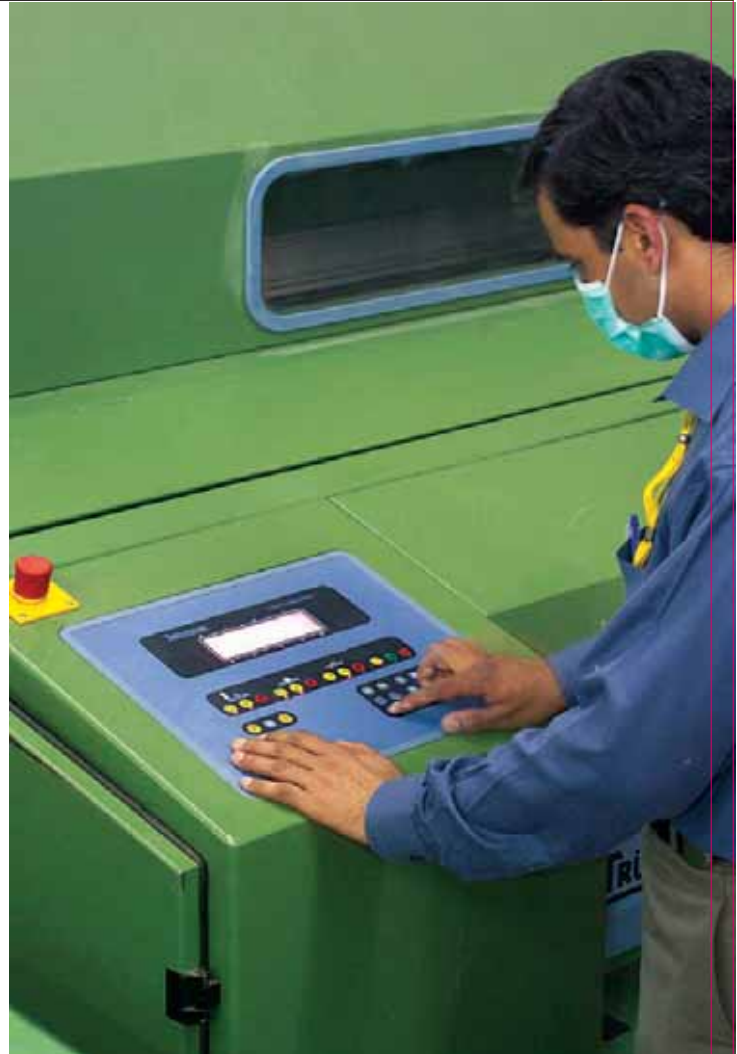
THE COMPANY RECOGNIZES THAT ITS HUMAN RESOURCE IS ITS MOST VALUABLE ASSET.

THE BOARD REMAINS COMMITTED TO ENSURING THAT ALL EMPLOYEES ARE TREATED WITH DIGNITY AND RESPECT, AND THAT THE WORKING ENVIRONMENT IS ONE WHERE EACH EMPLOYEE'S CONTRIBUTION IS RECOGNIZED AND VALUED. TO MOTIVATE THE EMPLOYEES, THE COMPENSATION AND BENEFITS ARE LINKED TO INDIVIDUAL AND GROUP PERFORMANCES, WHICH ARE NOW BEING EVALUATED THROUGH WELL IMPLEMENTED PERFORMANCE APPRAISAL SYSTEM.

INFORMATION TECHNOLOGY

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

THE IMPLEMENTATION OF THE FIRST PHASE OF THE IMPLEMENTATION OF ORACLE FINANCIALS APPLICATION HAS BEEN COMPLETED AFTER PARALLEL PROCESSING AND THROUGH TESTING OF THE APPLICATION PROCESSING SYSTEM DURING THE YEAR. THE COMPANY PLANS TO IMPLEMENT PRODUCTION MANAGEMENT, INVENTORY, HUMAN RESOURCE AND PAYROLL MODULES IN THE NEXT PHASE TO ENABLE EASIER FLOW OF INFORMATION, IMPROVE SHARING AND DECISION MAKING.



SAFETY, HEALTH AND ENVIRONMENT

THE COMPANY STRICTLY COMPLIES WITH THE RULES, REGULATIONS AND STANDARDS OF HEALTH, SAFETY AND ENVIRONMENT. THE COMPANY'S SAFE OPERATIONS ARE CERTIFIED BY VARIOUS INTERNATIONAL ACCREDITING AGENCIES INCLUDING ISO 9000 AND ISO 14001. WE CONDUCT REGULAR SESSIONS ON SAFETY AWARENESS DUE TO WHICH NO MAJOR ACCIDENT WAS REPORTED DURING THE YEAR.

CONSOLIDATED FINANCIAL STATEMENTS

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

- PAK AMERICAN FERTILIZERS LIMITED
- NAFES INTERNATIONAL TEKSTIL SANAYS VE TICARET ANONIM SIRKET
- AZSOFT (PRIVATE) LIMITED

DIRECTORS' REPORT

AUDITORS

MESSRS RAHMAN SARFARAZ RAHIM IQBAL RAFIQ & COMPANY, CHARTERED ACCOUNTANTS COMPLETED THEIR TENURE OF APPOINTMENT AND BEING ELIGIBLE HAVE OFFERED THEIR SERVICES FOR ANOTHER TERM. THE AUDIT COMMITTEE AND THE BOARD HAS ALSO RECOMMENDED THEIR RE-APPOINTMENT AS EXTERNAL AUDITORS OF THE COMPANY FOR THE NEXT FINANCIAL YEAR 2007.

SHAREHOLDING PATTERN

THE SHAREHOLDING PATTERN AS AT DECEMBER 31, 2006 INCLUDING THE INFORMATION UNDER THE CODE OF CORPORATE GOVERNANCE, FOR ORDINARY AND PREFERENCE SHARES, IS ANNEXED WEB PRESENCE

ANNUAL AND PERIODICAL FINANCIAL STATEMENTS OF THE COMPANY ARE ALSO AVAILABLE ON THE AZGARD9 WEBSITE FOR INFORMATION OF THE SHAREHOLDERS AND OTHERS.

ACKNOWLEDGEMENT

THE BOARD WOULD LIKE TO AVAIL THIS OPPORTUNITY TO THANK OUR VALUED CUSTOMERS AND THE FINANCIAL INSTITUTIONS WHOSE FAITH AND SUPPORT OVER THE YEARS HAS FOSTERED A MUTUALLY BENEFICIAL RELATIONSHIP WHICH HAS PLAYED A PIVOTAL ROLE IN THE GROWTH OF THE BUSINESS.

THE BOARD ALSO WISHES TO PLACE ON RECORD ITS APPRECIATION FOR THE EMPLOYEES OF THE COMPANY. ALL THIS HAS BEEN POSSIBLE WITH THERE HARD WORK AND COMMITMENT.

ON BEHALF OF THE BOARD

LAHORE CHIEF EXECUTIVE OFFICER
APRIL 28, 2007



STATEMENT OF COMPLIANCE

WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE FOR THE YEAR ENDED DECEMBER 31, 2006

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 FIVE (5) NON-EXECUTIVE DIRECTORS.
2. THE DIRECTORS HAVE CONFIRMED THAT NONE OF THEM IS SERVING AS A DIRECTOR IN MORE THAN TEN LISTED COMPANIES, INCLUDING THIS COMPANY.
3. ALL THE RESIDENT DIRECTORS ARE REGISTERED AS TAXPAYERS AND NONE OF THEM HAS DEFAULTED IN PAYMENT OF ANY LOAN TO A BANKING COMPANY, A DFI OR AN NBFI OR, BEING A MEMBER OF A STOCK EXCHANGE, HAS BEEN DECLARED AS A DEFAULTER BY THAT STOCK EXCHANGE.
4. NO CASUAL VACANCY OCCURRED DURING THE YEAR ENDED DECEMBER 31, 2006.
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 MEETINGS OF THE AUDIT COMMITTEE WERE HELD AT LEAST ONCE EVERY QUARTER PRIOR TO THE APPROVAL OF INTERIM AND FINAL RESULTS OF THE COMPANY AND AS REQUIRED BY THE CODE. THE TERM OF REFERENCE OF THE COMMITTEE HAVE BEEN FORMED AND ADVISED TO THE COMMITTEE FOR COMPLIANCE.
18. THE BOARD HAS SET-UP AN EFFECTIVE INTERNAL AUDIT FUNCTION MANNED BY SUITABLY QUALIFIED AND EXPERIENCED PERSONNEL WHO ARE CONVERSANT WITH THE POLICIES AND PROCEDURES OF THE COMPANY AND ARE INVOLVED IN THE INTERNAL AUDIT FUNCTION ON A FULL TIME BASIS.
19. THE STATUTORY AUDITORS OF THE COMPANY HAVE CONFIRMED THAT THEY HAVE BEEN GIVEN A SATISFACTORY RATING UNDER THE QUALITY CONTROL REVIEW PROGRAMME OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN, THAT THEY OR ANY OF THE PARTNERS OF THE FIRM, THEIR SPOUSES AND MINOR CHILDREN DO NOT HOLD SHARES OF THE COMPANY AND THAT THE FIRM AND ALL ITS PARTNERS ARE IN COMPLIANCE WITH INTERNATIONAL FEDERATION OF ACCOUNTANTS (IFAC) GUIDELINES ON CODE OF ETHICS AS ADOPTED BY INSTITUTE OF CHARTERED ACCOUNTANTS OF PAKISTAN.
20. WE CONFIRM THAT ALL OTHER MATERIAL PRINCIPLES CONTAINED IN THE CODE HAVE BEEN COMPLIED WITH.

BY ORDER OF THE BOARD

AHMED H. SHAIKH
CHIEF EXECUTIVE

APRIL 28, 2007

**REVIEW REPORT TO THE MEMBERS
ON STATEMENT OF COMPLIANCE WITH THE PRACTICES OF CODE OF CORPORATE GOVERNANCE**

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

THE RESPONSIBILITY FOR COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE IS THAT OF THE BOARD OF DIRECTORS OF THE COMPANY. OUR RESPONSIBILITY IS TO REVIEW, TO THE EXTENT WHERE SUCH COMPLIANCE CAN BE OBJECTIVELY VERIFIED, WHETHER THE STATEMENT OF COMPLIANCE REFLECTS THE STATUS OF THE COMPANY'S COMPLIANCE WITH THE PROVISIONS OF THE CODE OF CORPORATE GOVERNANCE AND REPORT IF IT DOES NOT. A REVIEW IS LIMITED PRIMARILY TO 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 AS APPLICABLE TO THE COMPANY FOR THE YEAR ENDED DECEMBER 31, 2006.

LAHORE;
DATE: APRIL 28, 2007

RAHMAN SARFARAZ & Co.
CHARTERED ACCOUNTANTS

AUDITORS' REPORT TO THE MEMBERS

WE HAVE AUDITED THE ANNEXED BALANCE SHEET OF AZGARD NINE LIMITED AS AT DECEMBER 31, 2006 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 SPECIFIED IN NOTE 2.19 TO THE FINANCIAL STATEMENTS 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 DECEMBER 31, 2006 AND OF THE PROFIT, ITS CASH FLOWS AND CHANGES IN EQUITY FOR THE YEAR THEN ENDED; AND
- D) IN OUR OPINION, ZAKAT DEDUCTIBLE AT SOURCE UNDER THE ZAKAT AND USHR ORDINANCE, 1980 (XVIII OF 1980), WAS DEDUCTED BY THE COMPANY AND DEPOSITED IN THE CENTRAL ZAKAT FUND ESTABLISHED UNDER SECTION 7 OF THAT ORDINANCE.

LAHORE

DATE: APRIL 28, 2007

RAHMAN SARFARAZ & CO.

CHARTERED ACCOUNTANTS

BALANCE SHEET
AS AT 31 DECEMBER, 2006

	NOTE	31 DECEMBER, 2006 RUPEES	31 DECEMBER, 2005 RUPEES
SHARE CAPITAL AND RESERVES			
AUTHORISED	3	15,000,000,000	3,000,000,000
ISSUED, SUBSCRIBED AND PAID UP	3	3,788,838,900	1,737,308,680
RESERVES	4	3,578,262,182	403,331,469
UNAPPROPRIATED PROFIT		1,807,067,052	952,462,490
		9,174,168,134	3,093,102,639
SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT			
	5	257,360,867	278,943,671
REDEEMABLE CAPITAL	6	2,266,955,064	2,330,312,532
LONG TERM FINANCING	7	3,519,216,988	347,920,000
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE	8	9,622,618	40,173,972
LONG TERM DEPOSITS	9	1,643,889	2,907,643
CURRENT LIABILITIES			
CURRENT PORTION OF LONG TERM LIABILITIES	10	450,047,125	433,780,774
SHORT TERM BORROWINGS	11	6,006,117,630	3,142,402,324
FAIR VALUE OF OBLIGATIONS UNDER SWAP CONTRACTS	4.2	32,021,607	—
CREDITORS, ACCRUED AND OTHER LIABILITIES	12	1,243,588,067	791,641,172
PROVISION FOR TAXATION	13	195,249,017	79,679,935
UNCLAIMED DIVIDENDS		22,312,061	362,062
		7,949,335,507	4,447,866,267
CONTINGENCIES AND COMMITMENTS	14		
		23,178,303,067	10,541,226,724

THE ANNEXED NOTES 1 TO 41 FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CHIEF EXECUTIVE

	NOTE	31 DECEMBER, 2006 RUPEES	31 DECEMBER, 2005 RUPEES
NON-CURRENT ASSETS			
PROPERTY, PLANT AND EQUIPMENT	15	7,601,895,866	3,113,043,032
CAPITAL WORK IN PROGRESS	16	150,650,477	2,459,655,906
INTANGIBLE ASSETS	17	60,544,809	73,937,276
		7,813,091,152	5,646,636,214
LONG TERM INVESTMENTS	18	6,303,488,906	4,670,138
LONG TERM DEPOSITS AND RECEIVABLE	19	19,906,757	29,745,135
CURRENT ASSETS			
STORES, SPARES AND LOOSE TOOLS	20	101,762,486	87,790,355
STOCK IN TRADE	21	2,022,510,924	2,034,180,550
TRADE DEBTS	22	1,134,897,149	1,013,883,584
FAIR VALUE DERIVATIVE FINANCIAL INSTRUMENTS	4.2	555,680,244	13,458,916
ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES	23	857,744,304	895,807,879
SHORT TERM INVESTMENTS	24	3,788,315,521	769,411,595
CASH AND BANK BALANCES	25	580,905,624	45,642,358
		9,041,816,252	4,860,175,237
		<u>23,178,303,067</u>	<u>10,541,226,724</u>

DIRECTOR

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER, 2006

	NOTE	01 JANUARY, 06 TO 31 DECEMBER, 2006 RUPEES	01 OCTOBER, 04 TO 30 DECEMBER, 2005 RUPEES
SALES - NET	26	4,889,681,966	4,422,472,357
COST OF SALES	27	3,703,361,406	3,288,786,063
GROSS PROFIT		1,186,320,560	1,133,686,294
ADMINISTRATIVE AND SELLING EXPENSES	28	391,290,338	320,622,883
OPERATING PROFIT		795,030,222	813,063,411
OTHER INCOME	30	1,122,601,656	305,447,731
OTHER CHARGES		1,917,631,878	1,118,511,142
FINANCE COST	31	648,649,925	290,508,556
WORKERS' PROFIT PARTICIPATION FUND	12.2	7,753,166	24,509,700
OTHERS	32	1,144,983	11,355,950
		657,548,074	326,374,206
PROFIT BEFORE TAXATION		1,260,083,804	792,136,936
PROVISION FOR TAXATION	13.1	115,569,082	50,843,271
PROFIT AFTER TAXATION		1,144,514,722	741,293,665
EARNINGS PER SHARE - BASIC	33	4.97	7.42
- DILUTED		4.67	6.47

THE ANNEXED NOTES 1 TO 41 FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CHIEF EXECUTIVE

DIRECTOR

CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER, 2006

	NOTE	01 JANUARY, 06 TO 31 DECEMBER, 2006 RUPEES	01 OCTOBER, 04 TO 30 DECEMBER, 2005 RUPEES
CASH FLOW FROM OPERATING ACTIVITIES			
PROFIT BEFORE TAXATION		1,260,083,804	792,136,936
ADJUSTMENT FOR:			
DEPRECIATION		245,662,739	264,030,365
AMORTIZATION OF INTANGIBLE ASSETS		16,273,349	40,530,337
GAIN ON SALE OF INVESTMENTS		(58,478,149)	(199,442,372)
UNREALIZED GAIN ON INVESTMENTS		-	(35,039,438)
MARK-UP ON TERM FINANCE CERTIFICATES		(4,206,768)	(29,038,697)
DIVIDEND INCOME		(1,058,711,503)	(38,934,462)
LOSS ON DISPOSAL OF FIXED ASSETS		48,215	6,661,778
FAIR VALUE ADJUSTMENT ON LONG TERM INVESTMENT		996,768	-
INTEREST INCOME		(7,414,660)	(17,966,099)
FINANCIAL CHARGES		656,064,585	308,474,655
		(209,765,424)	299,276,067
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES		1,050,318,380	1,091,413,003
CHANGES IN WORKING CAPITAL	37	316,570,744	(937,900,310)
CASH FLOW FROM OPERATIONS		1,366,889,124	153,512,693
FINANCIAL CHARGES PAID		(515,026,430)	(180,351,069)
EXPENSES ON ISSUE OF COMPANY'S SECURITIES		(35,203,132)	(34,775,530)
LONG TERM DEPOSITS		9,838,378	(11,227,305)
LONG TERM DEPOSITS PAYABLE		(1,263,753)	1,759,914
TAXES PAID		(90,914,500)	(57,758,405)
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES		734,319,687	(128,839,702)
CASH FLOW FROM INVESTING ACTIVITIES			
FIXED CAPITAL EXPENDITURE		(2,445,557,754)	(2,916,815,165)
INTANGIBLE ASSETS		(2,880,882)	(1,174,441)
SALE PROCEEDS OF FIXED ASSETS		19,999,396	5,652,825
LONG TERM INVESTMENTS		(10,086,113,366)	(100,482,545)
SHORT TERM INVESTMENTS		827,889,744	(327,296,310)
MARK-UP RECEIVED ON TERM FINANCE CERTIFICATES		4,206,768	29,038,697
DIVIDEND INCOME		1,058,711,503	38,934,462
INTEREST RECEIVED		7,414,660	17,966,099
NET CASH USED IN INVESTING ACTIVITIES		(10,616,329,931)	(3,254,176,378)
CASH FLOW FROM FINANCING ACTIVITIES			
ORDINARY SHARES ISSUED		4,648,446,653	-
REDEEMABLE CAPITAL		(63,357,468)	2,143,670,000
LONG TERM FINANCES OBTAINED		3,307,350,000	-
REPAYMENT OF LONG TERM FINANCES		(116,666,666)	(150,000,000)
FINANCE LEASE LIABILITIES PAID		(33,671,349)	(71,068,422)
SHORT TERM FINANCES- NET		2,863,715,305	1,649,492,432
DIVIDEND PAID		(188,542,965)	(164,343,349)
NET CASH INFLOW FROM FINANCING ACTIVITIES		10,417,273,510	3,407,750,661
NET INCREASE IN CASH AND CASH EQUIVALENTS		535,263,266	24,734,581
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		45,642,358	20,907,777
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		580,905,624	45,642,358

THE ANNEXED NOTES 1 TO 41 FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CHIEF EXECUTIVE

DIRECTOR



STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER, 2006

	RESERVES					R U P E E S		UNAPPORTIONED PROFIT	TOTAL EQUITY	SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT
	SHARE CAPITAL ISSUED, SUBSCRIBED AND PAID-UP	SHARE PREMIUM	HEDGING RESERVE	RESERVE ON MERGER	PREFERENCE SHARE REDEMPTION RESERVE	SURPLUS ON REVALUATION OF INVESTMENTS	TOTAL			
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
PROFIT FOR THE PERIOD								741,293,665	741,293,665	
PREFERENCE SHARES ISSUED								27,392,552	27,392,552	(27,392,552)
SURPLUS ON REVALUATION OF FIXED ASSETS TRANSFERRED TO RETAINED EARNINGS DURING THE YEAR								228,288	228,288	(228,288)
- RELATING TO INCREMENTAL DEPRECIATION										
- RELATING TO DISPOSAL OF REVALUED ASSET										
PREFERENCE SHARES REDEMPTION RESERVE		(34,775,530)			62,500,000		62,500,000	(62,500,000)		
EXPENSES INCURRED ON ISSUE OF COMPANY'S SECURITIES							(34,775,530)		(34,775,530)	
ORDINARY SHARE DIVIDEND								(86,865,434)	(86,865,434)	
PREFERENCE SHARE DIVIDEND								(77,744,563)	(77,744,563)	
NET INCREASE IN FAIR VALUE OF INTEREST RATE SWAP CONTRACTS			13,458,916				13,458,916		13,458,916	
APPRECIATION IN VALUE OF INVESTMENTS						5,842	5,842		5,842	
BALANCE AS AT DECEMBER 31, 2005	1,737,308,680	71,657,838	13,458,916	105,152,005	212,500,000	562,710	403,331,469	952,462,490	3,093,102,639	278,943,671
FURTHER ISSUE DURING THE YEAR	2,117,743,350	2,530,703,303					2,530,703,303		4,648,446,653	
CONVERSION OF PREFERENCE SHARES	(66,213,130)	66,213,130					66,213,130			
PROFIT FOR THE YEAR								1,144,514,722	1,144,514,722	
SURPLUS ON REVALUATION OF FIXED ASSETS TRANSFERRED TO RETAINED EARNINGS DURING THE YEAR										
- RELATING TO INCREMENTAL DEPRECIATION										
- RELATING TO DISPOSAL OF REVALUED ASSET										
PREFERENCE SHARES REDEMPTION RESERVE		(35,203,132)			101,000,000		101,000,000	(101,000,000)		
EXPENSES INCURRED ON ISSUE OF COMPANY'S SHARES							(35,203,132)		(35,203,132)	
ORDINARY SHARE DIVIDEND								(59,225,581)	(59,225,581)	
PREFERENCE SHARE DIVIDEND										
NET INCREASE IN FAIR VALUE OF INTEREST RATE SWAP CONTRACTS			510,199,721				510,199,721		510,199,721	
APPRECIATION IN VALUE OF INVESTMENTS						2,017,691	2,017,691		2,017,691	
BALANCE AS AT DECEMBER 31, 2006	3,788,838,900	2,633,371,139	523,658,637	105,152,005	313,500,000	2,580,401	3,578,262,182	1,807,067,052	9,174,168,134	257,360,867

THE ANNEXED NOTES 1 TO 41 FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CHIEF EXECUTIVE

DIRECTOR

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

1 STATUS AND ACTIVITIES

THE COMPANY WAS INCORPORATED IN PAKISTAN AS A PUBLIC LIMITED COMPANY AND ITS SHARES ARE QUOTED AT KARACHI STOCK EXCHANGE (GUARANTEE) LIMITED. THE COMPANY IS A COMPOSITE SPINNING, WEAVING, DYEING AND STITCHING UNIT ENGAGED IN THE MANUFACTURING OF YARN, DENIM AND DENIM PRODUCTS. THE REGISTERED OFFICE OF THE COMPANY IS SITUATED AT ISMAIL AIWAN-E-SCIENCE, OFF SHAHRAH-E-ROOMI, LAHORE.

THE COMPANY ALSO HAS INVESTMENT IN PAK-AMERICAN FERTILIZERS LIMITED ENGAGED IN PRODUCTION AND SALE OF UREA FERTILIZER. PAK-AMERICAN FERTILIZERS LIMITED WAS ACQUIRED THROUGH PRIVATIZATION PROCESS OF THE GOVERNMENT OF PAKISTAN ON 15 JULY, 2006.

1.1 CHANGE IN FINANCIAL YEAR

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

2 SIGNIFICANT ACCOUNTING POLICIES

THE SIGNIFICANT ACCOUNTING POLICIES ADOPTED IN PREPARATION OF FINANCIAL STATEMENTS ARE SET OUT BELOW.

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 FINANCIAL REPORTING STANDARDS (IFRSs) / INTERNATIONAL ACCOUNTING STANDARDS (IASs) 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 FINANCIAL STATEMENTS HAVE BEEN PREPARED UNDER THE HISTORICAL COST CONVENTION EXCEPT FOR FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS ACCOUNT, DERIVATIVE FINANCIAL INSTRUMENTS, AVAILABLE FOR SALE FINANCIAL ASSETS ARE MEASURED AT FAIR VALUE AND CERTAIN PROPERTY, PLANT AND EQUIPMENT AT REVALUED AMOUNT.

THE PREPARATION OF FINANCIAL STATEMENTS IN CONFORMITY WITH APPROVED ACCOUNTING STANDARDS REQUIRES MANAGEMENT TO MAKE JUDGMENTS, ESTIMATES AND ASSUMPTIONS THAT AFFECT THE APPLICATION OF POLICIES AND REPORTED AMOUNTS OF ASSETS AND LIABILITIES, INCOME AND EXPENSES. THE ESTIMATES AND ASSOCIATED ASSUMPTIONS AND JUDGEMENTS ARE BASED ON HISTORICAL EXPERIENCE AND VARIOUS OTHER FACTORS THAT ARE BELIEVED TO BE REASONABLE UNDER THE CIRCUMSTANCES, THE RESULT OF WHICH FORM THE BASIS OF MAKING THE JUDGEMENTS ABOUT CARRYING VALUES OF ASSETS AND LIABILITIES THAT ARE NOT READILY APPARENT FROM OTHER SOURCES. ACTUAL RESULTS MAY DIFFER FROM THESE ESTIMATES.

THE ESTIMATES AND UNDERLYING ASSUMPTIONS ARE REVIEWED ON AN ONGOING BASIS. REVISION TO ACCOUNTING ESTIMATES ARE RECOGNIZED IN THE PERIOD IN WHICH THE ESTIMATE IS REVISED IF THE REVISION EFFECTS ONLY THAT PERIOD, OR IN THE PERIOD OF REVISION AND FUTURE PERIODS IF THE REVISION AFFECTS BOTH CURRENT AND FUTURE PERIODS. THE AREAS WHERE VARIOUS ASSUMPTIONS AND ESTIMATES ARE SIGNIFICANT TO COMPANY'S FINANCIAL STATEMENTS OR WHERE JUDGEMENTS WERE EXERCISED IN APPLICATION OF ACCOUNTING POLICIES ARE AS FOLLOWS:

- USEFUL LIFE OF DEPRECIABLE ASSETS
- TAXATION
- PROVISIONS AND CONTINGENCIES
- FAIR VALUE OF INVESTMENTS, DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

2.3 STAFF RETIREMENT BENEFITS

COMPANY OPERATES AN APPROVED DEFINED CONTRIBUTORY PROVIDENT FUND FOR ITS EMPLOYEES EXCLUDING EXPATRIATES. EQUAL CONTRIBUTIONS ARE MADE BY EMPLOYEE AND THE COMPANY @ 8.5 % PER MONTH OF BASIC PAY. INTEREST IS CHARGED @ 8.25% ON THE OUTSTANDING FUND BALANCE AND IS CHARGED TO PROFIT AND LOSS ACCOUNT.

2.4 TAXATION

INCOME TAX EXPENSES COMPRISES CURRENT AND DEFERRED TAX. INCOME TAX EXPENSE IS RECOGNISED IN PROFIT AND LOSS EXCEPT TO THE EXTENT THAT IT RELATES TO ITEMS RECOGNISED DIRECTLY IN EQUITY, IN WHICH CASE IT IS RECOGNISED IN EQUITY.

CURRENT

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

DEFERRED

DEFERRED TAX IS PROVIDED USING THE BALANCE SHEET 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 IS MEASURED AT THE TAX RATES THAT ARE EXPECTED TO BE APPLIED TO THE TEMPORARY DIFFERENCES WHEN THEY REVERSE, BASED ON THE LAWS THAT HAVE BEEN ENACTED OR SUBSTANTIVELY ENACTED BY THE REPORTING DATE.

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

DEFERRED TAX ASSETS AND LIABILITIES ARE CALCULATED AT THE RATES THAT ARE EXPECTED TO APPLY TO THE PERIOD WHEN THE ASSET IS REALIZED OR THE LIABILITY IS SETTLED, BASED ON THE TAX RATES (AND TAX LAWS) THAT HAVE BEEN ENACTED OR SUBSTANTIVELY ENACTED BY THE BALANCE SHEET DATE. DEFERRED TAX IS CHARGED OR CREDITED IN THE INCOME STATEMENT, EXCEPT IN THE CASE OF ITEMS CREDITED OR CHARGED TO EQUITY IN WHICH CASE IT IS INCLUDED IN EQUITY.

2.5 FIXED CAPITAL EXPENDITURE AND DEPRECIATION

PROPERTY, PLANT AND EQUIPMENT

PROPERTY, PLANT AND EQUIPMENT, EXCEPT FREEHOLD LAND, ARE STATED AT COST OR REVALUED AMOUNTS LESS ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSS, IF ANY . FREEHOLD LAND IS STATED AT REVALUED AMOUNT LESS IDENTIFIED IMPAIRMENT LOSS, IF ANY. COST IN RELATION TO SELF CONSTRUCTED ASSETS INCLUDES DIRECT COST OF MATERIAL, LABOUR AND ANY OTHER COSTS DIRECTLY ATTRIBUTEABLE TO BRINGING THE ASSET TO A WORKING CONDITIONS OF ITS INTENDED USE.

THE COST OF REPLACING THE PART OF AN ITEM OF PROPERTY, PLANT AND EQUIPMENT IS RECOGNIZED IN THE CARRYING AMOUNT OF THE THE ITEMS IF IT IS PROBABLE THAT THE FUTURE ECONOMIC BENEFITS EMBODIES WITHIN PARTS WILL FLOW TO THE COMPANY AND ITS COST CAN BE MEASURED RELIABLY.

DEPRECIATION IS CHARGED TO INCOME ON THE REDUCING BALANCE METHOD WHEREBY COST OF AN ASSET IS WRITTEN OFF OVER ITS ESTIMATED USEFUL LIFE AT THE RATES GIVEN IN NOTE 15. AMOUNT EQUAL TO INCREMENTAL DEPRECIATION CHARGED DURING THE YEAR ON REVALUED AMOUNT OF ASSETS IS TRANSFERRED FROM SURPLUS ON REVALUATION OF FIXED ASSETS TO UNAPPROPRIATED PROFIT/ACCUMULATED LOSS THROUGH STATEMENT OF CHANGES IN EQUITY. THE ADJUSTMENTS MADE IN THIS CONTEXT AND THE AMOUNTS INVOLVED HAVE BEEN DISCLOSED IN NOTE 5 (SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT).

RESIDUAL VALUE AND THE USEFUL LIFE OF AN ASSET ARE REVIEWED AT LEAST AT EACH FINANCIAL YEAR-END.

DEPRECIATION ON ADDITIONS IS CHARGED ON A PRO-RATA BASIS FROM THE MONTH OF USE, WHILE FOR DISPOSALS DEPRECIATION IS CHARGED UP TO THE MONTH OF DISPOSAL. WHERE AN IMPAIRMENT LOSS IS RECOGNIZED, THE DEPRECIATION CHARGE IS ADJUSTED IN THE FUTURE PERIODS TO ALLOCATE THE ASSETS REVISED CARRYING AMOUNT OVER ITS ESTIMATED USEFUL LIFE.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

MAINTENANCE AND REPAIRS ARE CHARGED TO INCOME AS AND WHEN INCURRED. MAJOR RENEWALS AND IMPROVEMENTS ARE CAPITALIZED AND THE ASSETS SO REPLACED, IF ANY, ARE RETIRED. GAINS AND LOSSES ON DISPOSALS OF ASSETS ARE INCLUDED IN INCOME. WHEN REVALUED ASSETS ARE SOLD, THE AMOUNTS INCLUDED IN REVALUATION RESERVE IS TRANSFERRED TO RETAINED EARNINGS.

CAPITAL WORK IN PROGRESS

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

2.6 INTANGIBLE ASSETS

2.6.1 RESEARCH AND DEVELOPMENT

EXPENDITURE ON RESEARCH ACTIVITIES, UNDERTAKEN WITH THE PROSPECT OF GAINING NEW SCIENTIFIC OR TECHNICAL KNOWLEDGE AND UNDERSTANDING, IS RECOGNIZED IN PROFIT AND LOSS WHEN INCURRED.

EXPENDITURE ON RESEARCH ACTIVITIES IS RECOGNIZED 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 RECOGNIZED AS INTANGIBLE ASSETS ONLY IF ALL OF THE FOLLOWING CONDITIONS ARE MET;

- DEVELOPMENT COSTS CAN BE MEASURED RELIABLY,
- THE PRODUCT OR PROCESS IS TECHNICALLY AND COMMERCIALY FEASIBLE,
- AND THE THE COMPANY INTENDS TO AND HAS SUFFICIENT RESOURCES TO COMPLETE DEVELOPMENT AND TO USE OR SELL THE ASSET,
- AN ASSET IS CREATED THAT CAN BE IDENTIFIED; AND
- IT IS PROBABLE THAT THE ASSET CREATED WILL GENERATE FUTURE ECONOMIC BENEFITS.

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

CAPITUSED DEVELOPMENT EXPENDITURE IS MEASURED AT COST LESS ACCUMULATED AMORTIZATION AND ACCUMULATED IMPAIRMENT LOSSES.

2.6.2 OTHERS

COSTS THAT ARE DIRECTLY ASSOCIATED WITH IDENTIFIABLE SOFTWARE PRODUCTS AND HAVE PROBABLE ECONOMIC BENEFITS BEYOND ONE YEAR ARE RECOGNISED AS INTANGIBLE ASSETS.

SOFTWARES AND OTHER INTANGIBLE ASSETS ARE AMORTIZED OVER THE PERIOD OF THEIR EXPECTED BENEFITS. THE AMORTIZATION PERIOD ADOPTED DOES NOT EXCEED FIVE YEARS.

2.7 LEASE

OPERATING LEASES

LEASES WHERE A SIGNIFICANT PORTION OF THE RISKS AND REWARDS OF OWNERSHIP ARE RETAINED BY THE LESSOR ARE CLASSIFIED AS OPERATING LEASES. PAYMENTS MADE UNDER OPERATING LEASES (NET OF ANY INCENTIVES RECEIVED FROM THE LESSOR) ARE CHARGED TO THE INCOME STATEMENT ON A STRAIGHT-LINE BASIS OVER THE PERIOD OF THE LEASE.

FINANCE LEASES

LEASES IN TERMS OF WHICH THE COMPANY HAS SUBSTANTIALLY ALL THE RISKS AND REWARDS OF OWNERSHIP ARE CLASSIFIED AS FINANCE LEASES. ASSETS SUBJECT TO FINANCE LEASE ARE STATED AT THE LOWER OF PRESENT VALUE OF MINIMUM LEASE PAYMENTS UNDER THE LEASE AGREEMENTS OR THE FAIR VALUE OF THE ASSETS, LESS ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSS, IF ANY.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

THE RELATED RENTAL OBLIGATIONS, NET OF FINANCE COSTS ARE CLASSIFIED AS CURRENT AND LONG TERM DEPENDING UPON THE TIMING OF THE PAYMENT.

MINIMUM LEASE PAYMENTS MADE UNDER FINANCE LEASES ARE APPORTIONED BETWEEN THE FINANCE EXPENSE AND THE REDUCTION OF THE OUTSTANDING LIABILITY. THE FINANCE EXPENSE IS ALLOCATED TO EACH PERIOD DURING THE LEASE TERM SO AS TO PRODUCE A CONSTANT PERIODIC RATE OF INTEREST ON THE REMAINING BALANCE OF THE LIABILITY. CONTINGENT LEASE PAYMENTS, IF ANY ARE ACCOUNTED FOR BY REVISING THE MINIMUM LEASE PAYMENTS OVER THE REMAINING TERM OF THE LEASE WHEN THE LEASE ADJUSTMENT IS CONFIRMED. THE INTEREST ELEMENT OF THE RENTAL IS CHARGED TO INCOME OVER THE LEASE TERM.

ASSETS ACQUIRED UNDER A FINANCE LEASE ARE DEPRECIATED OVER THE ESTIMATED USEFUL LIFE OF THE ASSET AT THE RATES GIVEN IN NOTE 15. DEPRECIATION OF LEASED ASSETS IS CHARGED TO INCOME.

RESIDUAL VALUE AND THE USEFUL LIFE OF AN ASSET ARE REVIEWED AT LEAST AT EACH FINANCIAL YEAR-END.

2.8 INVESTMENTS

2.8.1 INVESTMENT IN SUBSIDIARIES

INVESTMENTS IN SUBSIDIARIES MADE IN CURRENT YEAR ARE INITIALLY MEASURED AT COST, COST IN RELATION OF INVESTMENT MADE IN FOREIGN CURRENCY IS DETERMINED BY TRANSLATING THE CONSIDERATION PAID IN FOREIGN CURRENCY AT THE EXCHANGE RATES PREVAILING ON THE DATE OF TRANSACTIONS. SUBSEQUENT TO INITIAL RECOGNITION INVESTMENTS ARE MEASURED AT FAIR VALUE. ANY GAINS/LOSSES ARISING ON FAIR VALUE MEASUREMENTS ARE TAKEN TO STATEMENT OF CHANGES IN EQUITY.

THE FAIR VALUE IS THE AMOUNT FOR WHICH THE INVESTMENT IN SUBSIDIARY COULD BE EXCHANGED BETWEEN KNOWLEDGEABLE WILLING PARTIES IN AN ARM'S LENGTH TRANSACTION AND IS BASED ON MANAGEMENT'S BEST ESTIMATE.

PREVIOUSLY, SUBSEQUENT TO INITIAL RECOGNITION THESE WERE VALUED AT COST. CHANGE IN POLICY IS BROUGHT INTO EFFECT TO PROPERLY REFLECT THE FINANCIAL POSITION AND RESULTS OF THE COMPANY AND ITS SUBSIDIARIES AND HAS RESULTED IN INCREASE IN VALUE OF LONG TERM INVESTMENTS BY Rs.1,993,253 AND CONSEQUENTLY INCREASE IN RESERVES OF THE COMPANY BY THE SAME AMOUNT.

2.8.2 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

THESE INCLUDE INVESTMENTS CLASSIFIED AS HELD FOR TRADING OR UPON INITIAL RECOGNITION IT IS DESIGNATED BY THE COMPANY AS AT FAIR VALUE THROUGH PROFIT OR LOSS. INVESTMENTS WHICH ARE ACQUIRED PRINCIPALLY FOR THE PURPOSE OF GENERATING A PROFIT FROM SHORT TERM FLUCTUATIONS IN PRICE OR DEALER'S MARGIN ARE CLASSIFIED AS HELD FOR TRADING. AFTER INITIAL RECOGNITION, THESE ARE STATED AT FAIR VALUES WITH ANY RESULTING GAINS AND LOSSES RECOGNIZED DIRECTLY IN INCOME CURRENTLY. FAIR VALUE OF INVESTMENTS IS THEIR QUOTED BID PRICE AT THE BALANCE SHEET DATE.

2.8.3 AVAILABLE FOR SALE

INVESTMENTS WHICH ARE INTENDED TO BE HELD FOR AN INDEFINITE PERIOD OF TIME BUT MAY BE SOLD IN RESPONSE TO THE NEED FOR LIQUIDITY ARE CLASSIFIED AS AVAILABLE-FOR-SALE. AFTER INITIAL RECOGNITION, THESE ARE STATED AT FAIR VALUES UNLESS FAIR VALUE CANNOT BE MEASURED RELIABLY WITH ANY RESULTING GAINS AND LOSSES BEING TAKEN DIRECTLY TO EQUITY UNTIL THE INVESTMENT IS DISPOSED OR IMPAIRED. AT THE TIME OF DISPOSAL, THE RESPECTIVE SURPLUS OR DEFICIT IS TRANSFERRED TO INCOME CURRENTLY. FAIR VALUE OF QUOTED INVESTMENTS IS THEIR BID PRICE AT THE BALANCE SHEET DATE.

2.8.4 HELD TO MATURITY INVESTMENTS

INVESTMENT WITH FIXED MATURITY THAT THE MANAGEMENT HAS THE INTENT AND ABILITY TO HOLD TO MATURITY ARE CLASSIFIED AS HELD TO MATURITY AND ARE INITIALLY RECOGNISED AT COST AND AT SUBSEQUENT REPORTING DATES MEASURED AT AMORTISED COST USING THE EFFECTIVE YIELD METHOD.

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 INVESTMENT. COST OF PURCHASE INCLUDES TRANSACTION COST.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

CHANGES IN CARRYING VALUE ARE RECOGNIZED IN EQUITY UNTIL INVESTMENT IS SOLD OR DETERMINED TO BE IMPAIRED AT WHICH TIME THE CUMULATIVE GAIN OR LOSS PREVIOUSLY RECOGNIZED IN EQUITY IS INCLUDED IN PROFIT AND LOSS ACCOUNT FOR THE YEAR.

2.9 STORES, SPARES AND LOOSE TOOLS

USABLE STORES, SPARES AND LOOSE TOOLS GENERALLY HELD FOR INTERNAL USE ARE VALUED PRINCIPALLY AT MOVING AVERAGE COST, WHILE ITEMS CONSIDERED OBSOLETE ARE CARRIED AT NIL VALUE. ITEMS IN TRANSIT ARE VALUED AT COST COMPRISING INVOICE VALUE PLUS OTHER CHARGES PAID THEREIN.

PREVIOUSLY THESE WERE VALUED AT FIRST IN FIRST OUT COST. CHANGE IN POLICY IS BROUGHT INTO EFFECT TO PROPERLY REFLECT THE CONSUMPTION PATTERN AND MATCH IT WITH THE RELATED ECONOMIC BENEFITS DERIVED AND HAS RESULTED IN INCREASE IN VALUE OF STORES, SPARES AND LOOSE TOOLS BY Rs.3,522,597 AND CONSEQUENTLY INCREASE IN PROFIT FOR THE YEAR BY THE SAME AMOUNT. THE CHANGE HAS IMMATERIAL EFFECT ON EARNING PER SHARE. RETROSPECTIVE EFFECT HAS NOT BEEN MADE DUE TO IMMATERIALITY.

2.10 STOCK IN TRADE

BASIS OF VALUATION ARE AS FOLLOWS:

RAW MATERIALS

AT MILLS	- AT LOWER OF WEIGHTED AVERAGE COST AND NET REALIZABLE VALUE
IN-TRANSIT	- AT COST ACCUMULATED TO THE BALANCE SHEET DATE
WORK IN PROCESS	- AT LOWER OF MANUFACTURING COST AND NET REALIZABLE VALUE
FINISHED GOODS	- AT LOWER OF MANUFACTURING COST AND NET REALIZABLE VALUE
WASTE	- AT NET REALIZABLE VALUE

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

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

RAW MATERIALS WERE PREVIOUSLY VALUED AT FIRST IN FIRST OUT COST. CHANGE IN POLICY IS BROUGHT INTO EFFECT TO PROPERLY REFLECT THE CONSUMPTION PATTERN AND MATCH IT WITH THE RELATED ECONOMIC BENEFITS DERIVED AND HAS RESULTED IN INCREASE IN VALUE OF RAW MATERIALS BY Rs.8,342,960 AND CONSEQUENTLY INCREASE IN PROFIT FOR THE YEAR BY THE SAME AMOUNT. THE CHANGE HAS IMMATERIAL EFFECT ON EARNING PER SHARE. RETROSPECTIVE EFFECT HAS NOT BEEN MADE DUE TO IMMATERIALITY.

2.11 FOREIGN CURRENCY TRANSACTIONS

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

2.12 FINANCIAL INSTRUMENTS

2.12.1 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 RECOGNIZED 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 RECOGNIZED USING TRADE DATE ACCOUNTING.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

2.12.2 FINANCIAL LIABILITIES

ALL FINANCIAL LIABILITIES ARE INITIALLY RECOGNIZED 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 EXCEPT ANY FINANCIAL LIABILITIES WHOSE FAIR VALUE CANNOT BE ESTIMATED RELIABLY, AMORTIZED COST OR COST AS THE CASE MAY BE.

2.12.3 DE-RECOGNITION

FINANCIAL ASSETS ARE DE-RECOGNIZED WHEN THE COMPANY LOSSES CONTROL OF THE CONTRACTUAL RIGHTS THAT COMPRISE THE FINANCIAL ASSETS.

FINANCIAL LIABILITIES ARE DE-RECOGNIZED 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 PROFIT AND LOSS IN THE PERIOD IN WHICH IT ARISES.

2.12.4 TRADE DEBTORS

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

2.12.5 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.

2.12.6 PROVISIONS

PROVISIONS ARE RECOGNIZED 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.

2.12.7 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 REALIZE THE ASSETS AND TO SETTLE THE LIABILITIES SIMULTANEOUSLY.

2.12.8 CASH AND CASH EQUIVALENTS

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

2.12.9 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

2.13 DIVIDEND

DIVIDEND ON ORDINARY SHARES IS RECOGNIZED IN EQUITY IN THE PERIOD IN WHICH IT IS APPROVED.

2.14 REVENUE RECOGNITION

REVENUE REPRESENTS THE FAIR VALUE OF THE CONSIDERATION RECEIVED OR RECEIVABLE FOR GOODS SOLD, NET OF DISCOUNTS AND SALES TAX. REVENUE IS RECOGNIZED WHEN IT IS PROBABLE THAT THE ECONOMIC BENEFITS ASSOCIATED WITH THE TRANSACTION WILL FLOW TO THE COMPANY AND THE AMOUNT OF REVENUE, AND THE ASSOCIATED COST INCURRED, OR TO BE INCURRED, CAN BE MEASURED RELIABLY.

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

2.15 GOVERNMENT GRANTS

GRANTS THAT COMPENSATE THE COMPANY FOR EXPENSES INCURRED ARE RECOGNISED IN PROFIT AND LOSS ON A SYSTEMATIC BASIS IN THE SAME PERIODS IN WHICH THE EXPENSES ARE RECOGNISED AS STATED IN NOTE 29. GRANTS THAT COMPENSATE THE COMPANY FOR THE COST OF AN ASSET ARE RECOGNISED IN PROFIT AND LOSS ACCOUNT ON A SYSTEMATIC BASIS OVER THE USEFUL LIFE OF THE ASSET. OTHER GOVERNMENT GRANTS ARE RECOGNISED INITIALLY AS DEFERRED INCOME WHEN THERE IS REASONABLE ASSURANCE THAT THEY WILL BE RECEIVED AND THAT THE COMPANY WILL COMPLY WITH THE CONDITIONS ASSOCIATED WITH THE GRANT.

2.16 FINANCE COST

BORROWING COSTS DIRECTLY ATTRIBUTABLE TO THE ACQUISITION, CONSTRUCTION OR PRODUCTION OF QUALIFYING ASSETS, WHICH ARE ASSETS THAT NECESSARILY TAKES 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.

2.17 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.

2.18 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 RECOGNIZED 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.

2.19 CHANGE IN ACCOUNTING POLICIES

THERE HAVE BEEN NO CHANGE IN ACCOUNTING POLICIES EXCEPT FOR THOSE STATED IN NOTES 2.8, 2.9 AND 2.10.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

		31 DECEMBER, 06 RUPEES	31 DECEMBER, 05 RUPEES
3	SHARE CAPITAL		
3.1	AUTHORISED CAPITAL		
	1,500,000,000 (2005: 300,000,000)		
	ORDINARY AND PREFERENCE SHARES OF Rs. 10/- EACH	15,000,000,000	3,000,000,000

THE COMPANY INTRODUCED A NEW CLASS OF ORDINARY SHARES (NON-VOTING) HAVING NO RIGHT TO RECEIVE NOTICE OF, ATTEND, OR VOTE AT ANY GENERAL MEETING EXCEPT AS OTHERWISE PROVIDED IN THE ORDINANCE, BY PASSING A SPECIAL RESOLUTION IN EXTRA ORDINARY GENERAL MEETING HELD ON MAY 12, 2006. AUTHORIZED CAPITAL OF THE COMPANY IS Rs. 15,000,000,000 DIVIDED INTO 900,000,000 (2005: 153,000,000) ORDINARY SHARES OF Rs.10 EACH, 300,000,000 (2005: 60,000,000) ORDINARY SHARES (NON-VOTING) OF Rs.10 EACH AND 300,000,000 (2005 : 87,000,000) PREFERENCE SHARES OF Rs.10 EACH.

3.2 ISSUED, SUBSCRIBED AND PAID UP CAPITAL:

2006 NUMBERS	2005 NUMBERS	NOTE	2006 RUPEES	2005 RUPEES
249,621,992	23,777,369	ORDINARY SHARES OF Rs.10/- EACH FULLY PAID IN CASH	2,496,219,920	237,773,690
12,276,073	12,276,073	ISSUED AS CONSIDERATION FOR MACHINERY	122,760,730	122,760,730
50,811,992	50,811,992	ISSUED AS CONSIDERATION FOR MERGER	508,119,920	508,119,920
312,710,057	86,865,434	3.3	3,127,100,570	868,654,340
66,173,833	86,865,434	PREFERENCE SHARES OF Rs. 10/- EACH FULLY PAID IN CASH	661,738,330	868,654,340
378,883,890	173,730,868		3,788,838,900	1,737,308,680

3.3 MOVEMENT DURING THE YEAR

2006 NUMBERS	2005 NUMBERS		2006 RUPEES	2005 RUPEES
ORDINARY SHARES				
86,865,434	86,865,434	AS AT 01 JANUARY, CONVERSION OF PREFERENCE SHARES TO ORDINARY SHARES IN THE RATIO OF 6.8 ORDINARY SHARES FOR 10 PREFERENCE SHARES HELD	868,654,340	868,654,340
14,070,288	-	ORDINARY SHARES OF Rs.10 EACH ISSUED DURING THE YEAR AS RIGHT SHARES IN THE RATIO OF 21 SHARES FOR EVERY 10 SHARES HELD, FULLY PAID IN CASH	140,702,880	-
211,774,335	-		2,117,743,350	-
312,710,057	86,865,434		3,127,100,570	868,654,340

3.4 PREFERENCE SHARES

86,865,434	86,865,434	AS AT 01 JANUARY, CONVERSION OF PREFERENCE SHARES TO ORDINARY SHARES IN THE RATIO OF 6.8 ORDINARY SHARES FOR 10 PREFERENCE SHARES HELD	868,654,340	868,654,340
(20,691,601)	-		(206,916,010)	-
66,173,833	86,865,434		661,738,330	868,654,340

THE COMPANY ISSUED CUMULATIVE PREFERENCE SHARES DURING THE YEAR ENDED 30 SEPTEMBER, 2004. THESE ARE NON-VOTING, NON-PARTICIPATORY, PARTLY CONVERTIBLE AND ARE REDEEMABLE IN 6 YEARS FROM THE DATE OF ISSUANCE. THESE ARE LISTED ON KARACHI STOCK EXCHANGE (GUARANTEE) LIMITED. THE TERMS AND CONDITIONS OF ISSUE ARE AS FOLLOWS:

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

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.

REDEMPTION OPTION AND TIMING

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

- 50% OF THE ISSUED AMOUNT AT THE END OF FIFTH (5TH) YEAR OF ISSUANCE/ALLOTMENT;
- 50% OF THE ISSUED AMOUNT AT THE END OF SIXTH (6TH) YEAR OF ISSUANCE/ALLOTMENT;

CONVERSION/ SWAP

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

REDEMPTION RESERVE

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

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

PREFERENCE SHARES HAVE BEEN CLASSIFIED AS PART OF EQUITY CAPITAL IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF ISSUE, TAKING INTO CONSIDERATION THE IMPLIED CLASSIFICATION OF SHARE CAPITAL AS INHERENT IN THE VARIOUS PROVISIONS OF THE COMPANIES ORDINANCE, 1984. FURTHER THE CONTRADICTIONS BETWEEN IMPLIED CLASSIFICATION OF SHARE CAPITAL INHERENT IN THE VARIOUS PROVISIONS OF THE COMPANIES ORDINANCE, 1984 AND IFRSs ARE PENDING CLARIFICATION AND RESOLUTION WITH SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

	NOTE	31 DECEMBER, 06 RUPEES	31 DECEMBER, 05 RUPEES
4 RESERVES			
CAPITAL RESERVES			
SHARE PREMIUM ON ORDINARY SHARES	4.1	2,633,371,139	71,657,838
PREFERENCE SHARES REDEMPTION RESERVE		313,500,000	212,500,000
RESERVE ON MERGER		105,152,005	105,152,005
		3,052,023,144	389,309,843
SURPLUS ON REVALUATION OF INVESTMENTS		2,580,401	562,710
HEDGING RESERVE	4.2		
AT THE BEGINNING OF THE YEAR		13,458,916	-
INCREASE IN THE FAIR VALUE OF CASH FLOW HEDGING DERIVATIVES		510,199,721	13,458,916
		523,658,637	13,458,916
		3,578,262,182	403,331,469
4.1 SHARE PREMIUM ON ORDINARY SHARES			
AT THE BEGINNING OF THE YEAR		71,657,838	106,433,368
PREMIUM ON RIGHT ISSUE AT THE RATE OF RS.1 1.95 PER SHARE		2,530,703,303	-
PREMIUM ON RIGHT CONVERSION OF PREFERENCE SHARES AT THE RATE OF RS.3.20 PER SHARE		66,213,130	-
		2,668,574,271	106,433,368
EXPENSES INCURRED ON ISSUE OF COMPANY'S SECURITIES		35,203,132	34,775,530
		2,633,371,139	71,657,838
4.2 HEDGING RESERVE			

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

THE INCREASE IN FAIR VALUE OF INTEREST RATE SWAP CONTRACTS HAS BEEN RECOGNISED IN THE STATEMENT OF CHANGES IN EQUITY AS HEDGING RESERVE. BREAK-UP OF FAIR VALUES OF SWAP CONTRACTS AS AT 31 DECEMBER, 2006 IS AS FOLLOWS:

FINANCE OBTAINED FROM PRIVATELY PLACED TFCs	SWAPPED WITH CITI BANK N.A	6.1	(621,936)
CITI BANK N.A	STANDARD CHARTERED BANK	7.3	(1,128,096)
CITI BANK N.A	CITI BANK N.A	7.3	(722,198)
CITI BANK N.A	CITI BANK N.A	11.2	(29,549,376)
			(32,021,606)
PRIVATELY PLACED TFCs	STANDARD CHARTERED BANK	6.1	11,998,746
TERM FINANCE CERTIFICATES	ABN AMRO	6.2	308,757,130
UNITED BANK LIMITED	STANDARD CHARTERED BANK	7.2	4,400,130
NATIONAL BANK OF PAKISTAN	CITI BANK N.A	7.5	138,900,571
DEUTSCHE INVESTITIONS -UND MBH	CITI BANK N.A	7.6	91,623,667
			555,680,244

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER, 2006

	NOTE	31 DECEMBER, 06 RUPEES	31 DECEMBER, 05 RUPEES
5	SURPLUS ON REVALUATION OF PROPERTY PLANT AND EQUIPMENT		
	OPENING BALANCE	278,943,671	306,564,511
	SURPLUS TRANSFERRED TO UNAPPROPRIATED PROFIT RELATING TO:		
	- CURRENT YEAR DEPRECIATION	17,583,248	27,392,552
	- DISPOSAL OF REVALUED FIXED ASSETS	3,999,556	228,288
		21,582,804	27,620,840
		257,360,867	278,943,671

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

6	REDEEMABLE CAPITAL		
	TERM FINANCE CERTIFICATES (TFCs) - I	6.1	187,500,000
	TERM FINANCE CERTIFICATES (TFCs) - II	6.2	2,142,812,532
			2,330,312,532
	CURRENT MATURITY GROUPED UNDER CURRENT LIABILITIES		63,357,468
			2,266,955,064

6.1 TFCs HAVE BEEN ISSUED BY WAY OF PRIVATE PLACEMENTS WITH A CONSORTIUM OF INSTITUTIONAL INVESTORS. THE TOTAL ISSUE COMPRISES OF 250 TFCs HAVING FACE VALUE 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 AND SUBSEQUENTLY TWO DAYS PRIOR TO START OF EACH SEMI ANNUAL PERIOD IN RESPECT OF WHICH PROFIT PAYMENT DUE AT THE END OF THAT PERIOD PLUS MARGIN OF 1.75%.

TRUSTEE

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

IN CASE THE 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.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

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

TERMS OF REPAYMENT

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

PROFIT RATE AND PAYMENT

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

CONVERSION OPTION

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

SECURITY

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

TRUSTEE

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

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

	NOTE	31 DECEMBER, 06 RUPEES	31 DECEMBER, 05 RUPEES	
7	LONG TERM FINANCING – SECURED			
	HABIB BANK LIMITED (HBL)	7.1	200,000,000	250,000,000
	UNITED BANK LIMITED (UBL)	7.2	200,000,000	200,000,000
	CITI BANK N.A			
	– FINANCE 1	7.3	133,333,334	200,000,000
	– FINANCE 2	7.4	600,000,000	–
	NATIONAL BANK OF PAKISTAN (NBP)	7.5	1,500,000,000	–
	DEUTSCHE INVESTITIONS-UND MBH	7.6	1,207,350,000	–
	FAYSAL BANK LIMITED (FBL)	7.7	17,446,722	–
			3,858,130,056	650,000,000
	CURRENT MATURITY GROUPED UNDER CURRENT LIABILITIES		338,913,068	302,080,000
			3,519,216,988	347,920,000

- 7.1 THE COMPANY OBTAINED THIS FINANCE FROM CONSORTIUM OF BANKS LEAD BY HBL WHICH IS REPAYABLE IN 10 EQUAL HALF YEARLY INSTALLMENTS COMMENCING FROM DECEMBER, 2003. THE FINANCE CARRIES MARK-UP BASED ON 6 MONTHS OFFER RATE OF KIBOR PLUS 280 BPS WITH NO FLOOR NO CAP. IT IS SECURED BY WAY OF FIRST PARI PASSU CHARGE ON THE PROJECT THROUGH EQUITABLE MORTGAGE ON LAND AND BUILDING AND HYPOTHECATION OF PLANT AND MACHINERY.

THE LOAN INCLUDES SHARE OF SAUDI PAK COMMERCIAL BANK OF RS. 20 MILLION. IN DECEMBER 2006, SHARE OF SAUDI PAK COMMERCIAL BANK HAS BEEN SWAPPED UNDER SBP'S LTF EOP SCHEME. THE LOAN NOW CARRIES MARK-UP OF 7%.

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

- 7.2** THE FACILITY CARRIES MARK-UP AT THE RATE OF KIBOR AT THE BEGINNING OF EACH CALENDAR QUARTER PLUS 1.75%. THE FACILITY IS REPAYABLE IN 8 EQUAL SEMI ANNUAL INSTALLMENTS COMMENCING FROM DECEMBER 2005 WITH MARK-UP BEING PAYABLE ON QUARTERLY BASIS COMMENCING SEPTEMBER 2005. THE FACILITY IS SECURED AGAINST 1ST PARI PASSU CHARGE ON FIXED ASSETS AND DEMAND PROMISSORY NOTES.
- THIS FACILITY HAS BEEN SWAPPED UNDER SBP'S LTF EOP SCHEME IN DECEMBER 2006. THE FACILITY NOW CARRIES MARK UP RATE OF 7%.
- 7.3** THE FACILITY CARRIES MARK-UP AT THE RATE OF 8% PER ANNUM AND IS REPAYABLE IN 6 EQUAL HALF YEARLY INSTALLMENTS COMMENCING FROM FEBRUARY 2006. THE FACILITY IS SECURED BY WAY OF HYPOTHECATION AND/OR HYPOTHECATION OVER THE PRESENT AND FUTURE FIXED ASSETS OF THE COMPANY AND DEMAND PROMISSORY NOTES.
- THIS FACILITY HAS BEEN SWAPPED UNDER SBP'S LTF EOP SCHEME IN FEBRUARY 2007. THE FACILITY NOW CARRIES MARK UP RATE OF 6%.
- 7.4** THE FACILITY CARRIES MARK-UP BASED ON 6 MONTHS KIBOR PLUS 3.25% WITH NO FLOOR NO CAP. THIS FACILITY IS REPAYABLE IN 16 EQUAL QUARTERLY INSTALLMENTS COMMENCING OCTOBER, 2007. IT IS SECURED BY WAY OF FIRST PARI PASSU CHARGE OVER ALL PRESENT AND FUTURE FIXED ASSETS, INVESTMENTS OF THE COMPANY, MORTGAGE OVER LAND AND BUILDING AND PLEDGE OF SECURITIES.
- THIS FACILITY HAS BEEN SWAPPED WITH CITIBANK BAHRAIN FOR \$ 10,000,000 IN FEBRUARY 2007. THE FACILITY NOW CARRIES MARK UP OF 6 MONTHS LIBOR PLUS 4%.
- 7.5** THE FACILITY CARRIES MARK-UP BASED ON 6 MONTHS KIBOR PLUS 3.25% AND IS REPAYABLE IN 12 EQUAL HALF YEARLY INSTALLMENTS COMMENCING JANUARY, 2008 WITH MARK-UP BEING PAYABLE ON HALF YEARLY BASIS COMMENCING JANUARY, 2007. IT IS SECURED BY WAY OF FIRST CHARGE OVER THE HYPOTHECATED FIXED ASSETS, RANKING CHARGE OVER THE HYPOTHECATED CURRENT ASSETS OF THE COMPANY, MORTGAGE OVER LAND AND BUILDING, PLEDGE OF SECURITIES
- COMPANY HAS ENTERED INTO CROSS CURRENCY SWAP AGREEMENT WITH CITIBANK NA. AS PER SWAP AGREEMENT LIABILITY HAS BEEN CONVERTED INTO US DOLLARS AND COMPANY IS LIABLE TO PAY MARK-UP BASED ON LIBOR PLUS 4.75%.
- 7.6** THE COMPANY DURING THE PREVIOUS YEAR ENTERED INTO A FINANCING AGREEMENT TO THE TUNE OF EURO 15 MILLION WITH DEUTSCHE INVESTITIONS-UND MBH A FINANCIAL INSTITUTION INCORPORATED UNDER THE LAWS OF GERMANY. FUNDS HAVE BEEN USED TO FINANCE THE INSTALLATION OF NEW SPINNING, DENIM AND GARMENT PROJECTS. THE FACILITY CARRIES INTEREST AT SIX MONTHS EURIBOR PLUS 3.25% PER ANNUM AND IS REPAYABLE IN 10 EQUAL HALF YEARLY INSTALLMENTS COMMENCING AUGUST 15, 2008. THIS LOAN IS SECURED BY FIRST PARI PASSU CHARGE OVER LAND, BUILDINGS AND ALL MOVABLE ASSETS, AND PROMISSORY NOTE.
- COMPANY HAS ENTERED INTO CROSS CURRENCY SWAP AGREEMENT WITH CITIBANK NA. AS PER SWAP AGREEMENT LIABILITY HAS BEEN CONVERTED INTO SWISS FRANC AND COMPANY IS LIABLE TO PAY MARK-UP BASED ON CHF LIBOR PLUS 3.55%.
- 7.7** THE COMPANY OBTAINED THIS FINANCE FROM FBL UNDER STATE BANK OF PAKISTAN'S LTF-EOP SCHEME AS A CONVERSION OF LEASE FINANCES INTO LTF. THIS FACILITY CARRIES MARK-UP AT THE RATE OF 6% PER ANNUM PAYABLE ON QUARTERLY BASIS. THIS FINANCE IS REPAYABLE ON QUARTERLY BASIS IN SEVEN UNEQUAL INSTALLMENTS COMMENCING MARCH, 2007.
- 7.8** IN ORDER TO PROTECT ITSELF FROM ADVERSE INTEREST RATE MOVEMENTS, IN RESPECT OF ABOVE FINANCING, THE COMPANY HAS ENTERED INTO INTEREST RATE SWAP AGREEMENTS, CURRENCY SWAP AGREEMENTS AND FOREIGN EXCHANGE OPTIONS WITH VARIOUS BANKS.
- OUT OF TOTAL OUTSTANDING REDEEMABLE CAPITAL AND LOANS, RS. 5,600 MILLION HAS BEEN HEDGED USING ABOVEMENTIONED DERIVATIVES.

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER, 2006

	NOTE	31 DECEMBER, 06 RUPEES	31 DECEMBER, 05 RUPEES
8	LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE - SECURED		
	GROSS MINIMUM LEASE PAYMENTS NOT LATER THAN ONE YEAR	53,918,509	81,542,809
	LATER THAN ONE YEAR BUT NOT LATER THAN FIVE YEARS	10,903,125	48,714,073
		64,821,634	130,256,882
	LESS: FINANCIAL CHARGES ALLOCATED TO FUTURE PERIODS	3,457,477	10,097,006
		61,364,157	120,159,876
	LESS: SECURITY DEPOSITS ADJUSTABLE ON EXPIRY OF LEASE TERMS	3,964,950	11,642,598
		57,399,207	108,517,278
	LESS: CURRENT MATURITY GROUPED UNDER CURRENT LIABILITIES	47,776,589	68,343,306
		9,622,618	40,173,972
	PRESENT VALUE OF MINIMUM LEASE PAYMENTS NOT LATER THAN ONE YEAR	47,776,589	68,343,306
	LATER THAN ONE YEAR BUT NOT LATER THAN FIVE YEARS	9,622,618	40,173,972
		57,399,207	108,517,278

THE COMPANY HAS ACQUIRED PLANT AND MACHINERY AND VEHICLES FROM VARIOUS LEASING COMPANIES. RENTALS ARE PAYABLE IN MONTHLY/QUARTERLY INSTALLMENTS UPTO SEPTEMBER, 2010. THE DISCOUNT FACTORS APPLIED RANGE BETWEEN 5.50% TO 13.46% 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.

DURING THE YEAR AN AMOUNT OF Rs.17,446,222 HAS BEEN CONVERTED INTO LONG TERM FINANCE AS DETAILED IN NOTE 7.7.

9 LONG TERM DEPOSITS - UNSECURED

THIS INCLUDES DEPOSITS RECEIVED FROM CUSTOMERS AND RETENTION MONEY PAYABLE TO CONTRACTORS DUE AFTER TWELVE MONTHS.

10 CURRENT PORTION OF LONG TERM LIABILITIES

REDEEMABLE CAPITAL	6	63,357,468	63,357,468
LONG TERM FINANCING	7	338,913,068	302,080,000
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE	8	47,776,589	68,343,306
		450,047,125	433,780,774

11 SHORT TERM BORROWINGS

SECURED

SHORT TERM PRIVATELY PLACED TERM FINANCE CERTIFICATES	11.1	2,500,000,000	-
SHORT TERM FINANCES	11.2	2,523,729,661	2,395,697,717
SHORT TERM RUNNING FINANCES	11.3	912,969,656	702,820,703

5,936,699,317 3,098,518,420

UNSECURED

TEMPORARY OVERDRAFT	11.4	69,418,313	43,883,904
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6,006,117,630 3,142,402,324

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

- 11.1 TFCs HAVE BEEN ISSUED BY WAY OF PRIVATE PLACEMENTS WITH A CONSORTIUM OF INSTITUTIONAL INVESTORS. THE TOTAL ISSUE COMPRISES OF 500,000 TFCs HAVING FACE VALE OF Rs. 5,000 EACH.

TERMS OF REPAYMENT

CALL OPTION

THE COMPANY MAY REDEEM THE TFCs BY WAY OF EXERCISE OF THE CALL OPTION BY GIVING WRITTEN NOTICE TO THE TFC HOLDERS AND THE TRUSTEE OF NOT LESS THAN ONE DAY.

RATE OF RETURN

THE RETURN ON TFCs IS PAYABLE ON QUARTERLY BASIS. THIS IS CALCULATED AT SIX MONTHS KIBOR PREVAILING ON THE ISSUE DATE AND SUBSEQUENTLY ON THE FIRST BUSINESS DAY AT THE BEGINNING OF EVERY ALTERNATE QUARTER IN RESPECT OF WHICH PROFIT PAYMENT IS DUE ON THE TWO SUBSEQUENT REDEMPTION DATES PLUS MARGIN OF 3.00%.

TRUSTEE

IN ORDER TO PROTECT THE INTERESTS OF TFC HOLDERS, JAHANGIR SIDDIQUI INVESTMENT BANK LIMITED HAS BEEN APPOINTED AS TRUSTEE UNDER A TRUST DEED DATED 5TH JULY, 2006.

SECURITY

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

- 11.2 THESE REPRESENT SHORT-TERM FINANCING FACILITIES AVAILABLE FROM VARIOUS BANKS AMOUNTING TO Rs.4,260.00 MILLION (2005: Rs.4,380.29 MILLION) INCLUDING US \$ 27.84 MILLION (2005: US \$ 15.83 MILLION). THESE FACILITIES CARRY MARK-UP AT THE RATES RANGING BETWEEN Re.0.14 TO Re.0.39 PER Rs. 1,000 PER DAY.

L/C LIMITS AVAILABLE FOR OPENING LETTERS OF CREDIT/GUARANTEE AGGREGATE Rs.1,646.00 MILLION (2005: Rs.2,369.48 MILLION) OF WHICH THE AMOUNT REMAINING UN-UTILIZED AT THE YEAR END WAS Rs.851.39 MILLION (2005: Rs.1,586.81 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 AND LIEN ON DOCUMENTS OF THE TITLE OF GOODS.

THESE INCLUDE FOREIGN CURRENCY LIABILITY OF US \$ 6.13 MILLION (2005: US \$ 4.13 MILLION) WHICH HAVE BEEN CONVERTED INTO PAK RUPEES AT THE EXCHANGE RATE PREVAILING ON THE BALANCE SHEET DATE I.E. US \$1 = Rs.60.98 (2005: U.S.\$ 1 = Rs.59.93).

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

- 11.3 SHORT TERM RUNNING FINANCE FACILITIES AVAILABLE FROM VARIOUS BANKS UNDER MARK UP ARRANGEMENTS AMOUNT TO Rs.1,065.50 MILLION (2005:Rs. 912.50 MILLION). THESE FACILITIES CARRIES MARK-UP AT THE RATES RANGING BETWEEN Re.0.26 TO Re.0.39 PER Rs. 1,000 PER DAY.

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.

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

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER, 2006

	NOTE	31 DECEMBER, 06 RUPEES	31 DECEMBER, 05 RUPEES
12	CREDITORS, ACCRUED AND OTHER LIABILITIES		
CREDITORS	12.1	349,275,492	104,837,013
PAYABLE TO A SUBSIDIARY COMPANY		213,380,444	-
BILLS PAYABLE - SECURED		195,065,104	394,601,913
ACCRUED LIABILITIES		113,135,650	76,380,977
WORKERS' WELFARE FUND		20,000	20,000
ADVANCES FROM CUSTOMERS		30,905,697	15,045,683
MARK-UP ACCRUED ON:			
LONG TERM FINANCES INCLUDING TFCs		222,520,303	96,071,732
SHORT TERM BORROWINGS		73,858,235	58,717,720
LEASE FINANCE CHARGES		863,999	1,414,929
WORKER'S PROFIT PARTICIPATION FUND	12.2	7,768,786	24,509,700
TAX DEDUCTED AT SOURCE		22,143,171	15,470,450
OTHER LIABILITIES		14,651,186	4,571,055
		1,243,588,067	791,641,172
12.1	THIS INCLUDES RS.130 MILLION PAYABLE AGAINST PURCHASE OF GARMENT UNIT.		
12.2	WORKERS' PROFIT PARTICIPATION FUND		
OPENING BALANCE		24,509,700	20,803,281
ADD: INTEREST ON FUNDS UTILIZED BY THE COMPANY		1,014,852	326,582
		25,524,552	21,129,863
LESS: PAYMENTS MADE DURING THE YEAR		25,508,932	21,127,936
DEPOSITED IN GOVERNMENT TREASURY		-	1,927
		25,508,932	21,129,863
		15,620	-
ADD: CONTRIBUTION FOR THE YEAR		7,753,166	24,509,700
		7,768,786	24,509,700
13	PROVISION FOR TAXATION		
13.1	CURRENT		
OPENING BALANCE		79,679,935	64,824,871
ADD: PROVISION MADE DURING THE YEAR			
- CURRENT YEAR		115,569,082	47,843,698
- PRIOR YEARS		-	2,999,573
		115,569,082	50,843,271
		195,249,017	115,668,142
LESS: ADJUSTED AGAINST COMPLETED ASSESSMENTS		-	35,988,207
		195,249,017	79,679,935

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

13.2 CURRENT STATUS OF PENDING TAX ASSESSMENTS

13.2.1 INCOME TAX ASSESSMENTS OF AZGARD NINE LIMITED HAVE BEEN COMPLETED UP TO THE ASSESSMENT YEAR 2002-03. CENTRAL BOARD OF REVENUE HAS SELECTED TAX YEARS 2003, 2004, 2005, 2006 FOR DETAILED AUDIT. THE COMPANY'S APPEALS FOR ASSESSMENT YEARS 1996-1997, 1998-1999, 1999-2000, 2000-2001 & 2001-2002 BEFORE THE LAHORE HIGH COURT ARE PENDING FOR ADJUDICATION AND ASSESSMENT YEAR 2002-03 IS PENDING BEFORE CIT APPEALS.

13.2.2 THE COMPANY HAS FILED APPEALS PERTAINING TO CASES OF NAFEEES COTTON MILLS (NOW MERGED INTO THE COMPANY) BEFORE THE INCOME TAX APPELLATE TRIBUNAL FOR THE ASSESSMENT YEARS 1999-2000, 2000-2001, 2001-2002, 2002-2003 WHICH ARE PENDING FOR ADJUDICATION. THE COMPANY HAS ALSO FILED APPEAL BEFORE THE COMMISSIONER OF INCOME TAX (APPEALS) FOR THE TAX YEAR 2003, WHICH IS PENDING FOR ADJUDICATION.

13.2.3 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 AND SECTION 5 OF THE ORDINANCE.

13.3 DEFERRED TAX

THE EXPORT SALES (INCLUDING INDIRECT EXPORTS) DURING THE YEAR ENDING DECEMBER 31, 2006 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.

13.4 SINCE THE COMPANY'S PROFITS ARE SUBJECT TO TAXATION UNDER PRESUMPTIVE TAX REGIME, NO NUMERICAL RECONCILIATION OF THE TAX RATE HAS BEEN GIVEN.

14 CONTINGENCIES AND COMMITMENTS

CONTINGENCIES

14.1 THE COMPANY WAS DENIED EXEMPTION BY THE CUSTOMS DEPARTMENT UNDER SRO 484(I)/92 FROM LEVY OF CUSTOMS DUTY AND SALES TAX ON CERTAIN PLANT AND MACHINERY. THE COMPANY FILED AN APPEAL IN THE HIGH COURT, WHICH WAS DECIDED IN ITS FAVOUR. THE DEPARTMENT HAS FILED AN APPEAL AGAINST THE SAME IN THE SUPREME COURT. IN CASE OF ADVERSE DECISION THE MAXIMUM LIABILITY IS LIKELY TO RISE TO Rs.9.40 MILLION APPROXIMATELY. NO PROVISION HAS BEEN MADE IN THESE ACCOUNTS SINCE THE COMPANY EXPECTS A FAVORABLE OUTCOME.

14.2 THE COMPANY IMPORTED TEXTILE MACHINERY AVAILING EXEMPTION FROM CUSTOMS DUTY AND SALES TAX ON IMPORTATION THEREOF UNDER VARIOUS SROs. THE CLAIM SUBJECT TO FULFILLMENT OF CERTAIN CONDITIONS AGGREGATES Rs.45.739 MILLION (2005: Rs. 68.156 MILLION).

14.3 REFER TO CONTENTS OF NOTE 3.4 RELATING TO DIVIDENDS PAYABLE ON PREFERENCE SHARES.

COMMITMENTS

14.4 COUNTER GUARANTEES GIVEN BY THE COMPANY TO ITS BANKERS OUTSTANDING AS AT 31 DECEMBER, 2006 WERE FOR Rs.80 MILLION (2005: Rs. 24 MILLION).

14.5 COMMITMENTS AGAINST IRREVOCABLE LETTERS OF CREDIT OUTSTANDING FOR PURCHASE OF RAW MATERIALS AS AT 31ST DECEMBER, 2006 AMOUNTING TO Rs.193.94 MILLION (2005:Rs.126.89 MILLION).

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER, 2006

15. OPERATING FIXED ASSETS

PARTICULARS	COST / REVALUATION					RATE %	DEPRECIATION				NET BOOK VALUE AS AT 31 DECEMBER, 2006
	AS AT 01 JANUARY, 2006	ADDITIONS DURING THE PERIOD	LEASED ASSETS TRANSFERS	DISPOSALS	AS AT 31 DECEMBER, 2006		AS AT 01 JANUARY, 2006	FOR THE PERIOD	ON DISPOSALS/ TRANSFERS	AS AT 31 DECEMBER, 2006	
OWNED:											
FREEHOLD LAND											
- COST	361,012,241	148,184,868	-	-	509,197,109	-	-	-	-	509,197,109	
- REVALUATION	8,442,352	-	-	-	8,442,352	-	-	-	-	8,442,352	
	369,454,593	148,184,868	-	-	517,639,461	-	-	-	-	517,639,461	
BUILDINGS ON FREEHOLD LAND											
- COST	390,221,160	1,124,124,020	-	-	1,514,345,180	5.0	107,563,909	21,693,677	-	1,29,257,586	
- REVALUATION	19,455,864	-	-	-	19,455,864	5.0	3,405,916	806,017	-	4,211,933	
	409,677,024	1,124,124,020	-	-	1,533,801,044		110,969,825	22,499,694	-	1,33,469,519	
PLANT AND MACHINERY											
- COST	2,828,182,043	3,338,783,614	42,900,000	22,890,903	6,186,974,754	7.5	953,326,027	175,116,227	(8,160,780)	1,132,070,118	
- REVALUATION	385,911,486	-	-	5,983,667	379,927,819	7.5	131,460,115	16,777,231	(1,984,111)	146,253,235	
	3,214,093,529	3,338,783,614	42,900,000	28,874,570	6,566,902,573		1,084,786,142	191,893,458	1,643,753	1,278,323,353	
										5,288,579,220	
FURNITURE AND FITTINGS											
VEHICLES	22,941,284	25,142,154	-	818,492	47,264,946	10.0	7,762,861	2,087,659	(592,308)	9,258,212	
	24,489,840	4,115,565	2,550,000	2,577,167	28,578,238	20.0	17,174,971	1,605,281	(1,485,420)	18,916,427	
									1,621,595	9,661,811	
TOOLS AND EQUIPMENT											
OFFICE EQUIPMENTS	12,200,839	52,865,647	-	-	65,066,486	10.0	4,526,529	2,118,642	-	6,645,171	
ELECTRICAL INSTALLATIONS	71,307,284	19,495,901	-	-	90,803,185	10.0	17,847,966	6,298,433	-	24,146,399	
	75,389,307	38,762,454	-	-	114,151,761	10.0	24,677,625	5,835,789	-	30,513,414	
										83,638,347	
	4,199,553,700	4,751,474,223	45,450,000	32,270,229	8,964,207,694		1,267,745,919	232,338,956	1,187,620	1,501,272,495	
										7,462,935,199	
LEASED:											
PLANT AND MACHINERY	219,765,143	-	(42,900,000)	-	176,865,143	7.5	44,662,531	11,833,881	(11,788,644)	44,707,768	
VEHICLES	12,351,499	3,088,960	(2,550,000)	-	12,890,459	20.0	6,218,860	1,489,902	(1,621,595)	6,087,167	
	232,116,642	3,088,960	(45,450,000)	-	189,755,602		50,881,391	13,323,783	(13,410,239)	50,794,935	
										138,960,667	
2006 RUPEES	4,431,670,342	4,754,563,183	-	32,270,229	9,153,963,296		1,318,627,310	245,662,739	(12,222,619)	1,552,067,430	
2005 RUPEES	3,913,800,722	541,451,599	-	23,581,979	4,431,670,342		1,065,864,321	264,030,365	(11,267,376)	1,318,627,310	
										3,113,043,032	

- 15.1 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.
- 15.2 THE METHOD FOR CHARGE OF DEPRECIATION HAS BEEN CHANGED FROM FULL YEAR DEPRECIATION ON ADDITIONS DURING THE YEAR AND NO DEPRECIATION ON DISPOSALS DURING THE YEAR, WITH THE EXCEPTION OF MAJOR ADDITIONS OR EXTENSIONS TO PRODUCTION FACILITIES, EFFECTED BY CAPITALIZATION, OUT OF CAPITAL WORK IN PROGRESS ARE DEPRECIATED ON A PRO RATA BASIS, TO DEPRECIATION ON ADDITIONS IS CHARGED FROM THE MONTH IN WHICH PROPERTY, PLANT AND EQUIPMENT IS AVAILABLE FOR USE WHILE NO DEPRECIATION IS CHARGED FOR THE MONTH IN WHICH PROPERTY, PLANT AND EQUIPMENT IS DISPOSED OFF. THERE IS NO MATERIAL IMPACT DUE TO CHANGE IN ACCOUNTING ESTIMATE.
- 15.3 DISPOSAL OF OPERATING FIXED ASSETS.

PARTICULARS	COST	ACCUMULATED DEPRECIATION	BOOK VALUE	SALE PROCEEDS	GAIN	MODE OF DISPOSAL	PARTICULARS OF PURCHASER
VEHICLES							
SUZUKI BALEND	675,667	376,662	299,005	414,000	114,995	NEGOTIATION	MR. IRFAN KHURSHID
TOYOTA COROLLA	699,000	627,758	71,242	510,000	438,758	NEGOTIATION	MR. MATI UR REHMAN
TOYOTA COROLLA	1,202,500	481,000	721,500	800,000	78,500	NEGOTIATION	DR. MASOOD IQBAL SAJJID
	2,577,167	1,485,420	1,091,747	1,724,000	632,253		
MACHINERY							
SINGLE NEEDLE STITCH MACHINE	5,241,794	2,416,745	2,825,049				
SINGLE NEEDLE STITCH MACHINE	1,602,573	716,356	886,217				
DOUBLE NEEDLE STITCH MACHINE	7,997,672	3,552,611	4,445,061				
SINGLE NEEDLE STITCH MACHINE	748,852	342,563	406,289				
WASTE BEND MACHINE	549,150	178,777	370,373				
COVER STITCH MACHINE	195,989	63,803	132,186				
BOTTOM HEM MACHINE	66,581	18,826	47,755				
SINGLE NEEDLE STITCH MACHINE	212,175	47,653	164,522				
SAFETY OVER LOCK MACHINE	535,822	277,229	258,594				
MOCK STITCH MACHINE	93,453	40,402	53,051				
BARTAK MACHINE	1,447,913	625,302	822,611				
SINGLE NEEDLE STITCH MACHINE	228,000	36,872	191,128				
FEEDO ARM	952,573	154,048	798,524				
	19,872,547	8,471,187	11,401,360	11,474,500	73,140	NEGOTIATION	M. ASHRAF & CO.
WASHING MACHINE							
HYDRO EXTRACTOR	195,000	43,795	151,205				
HYDRO EXTRACTOR	500,000	112,295	387,705				
HYDRO EXTRACTOR	475,000	106,680	368,320				
	1,170,000	262,770	907,230	203,896	(703,334)	NEGOTIATION	MASTER KHALIL
DRAW FRAMES - 3							
CARD MACHINES - B (HERGTH SHOOT FEED)	3,916,012	695,402	3,220,609	1,800,000	(1,420,609)	NEGOTIATION	SHADMAN COTTON MILLS, LAHORE
	3,916,012	715,531	3,200,481	4,680,000	1,479,519	NEGOTIATION	SHOAB SALMAN TEXTILE MILLS, LAHORE
	28,874,570	10,144,891	18,729,680	18,158,396	(571,284)		
FURNITURE							
CHAIRS, TABLES AND RACKS	818,492	592,308	226,183	117,000	(109,184)	NEGOTIATION	MR. SHAHZADA SAMUEL
RUPEES	32,270,229	12,222,619	20,047,610	19,999,396	(48,215)		

15.4 DEPRECIATION FOR THE PERIOD HAS BEEN APPORTIONED AS UNDER:

	2006 RUPEES	2005 RUPEES
COST OF SALES	238,492,943	253,998,842
ADMINISTRATIVE AND SELLING EXPENSES	7,169,796	10,031,523
	245,662,739	264,030,365

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER, 2006

	NOTE	31 DECEMBER, 06 RUPEES	31 DECEMBER, 05 RUPEES
16 CAPITAL WORK IN PROGRESS			
CIVIL WORK		1 12,534,012	468,326,483
PLANT AND MACHINERY		38,116,465	1,975,292,610
ELECTRIC INSTALLATIONS		-	15,920,713
OFFICE EQUIPMENT FITTING AND OTHERS		-	116,100
		1 50,650,477	2,459,655,906
17 INTANGIBLE ASSETS			
DEVELOPMENT COSTS	17.1	47,948,625	64,221,974
ERP - ORACLE FINANCIAL	17.2	12,596,184	9,715,302
		60,544,809	73,937,276
17.1 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.			
COST		81,187,908	81,187,908
AMORTISATION			
AS ON 01 JANUARY, / 01 OCTOBER,		16,965,934	16,965,934
FOR THE YEAR / PERIOD		16,273,349	
AS ON 31 DECEMBER,		33,239,283	16,965,934
		47,948,625	64,221,974
17.2 THIS REPRESENTS COST RELATING TO IMPLEMENTATION OF ORACLE FINANCIAL, WHICH IS UNDER PROCESS AS AT BALANCE SHEET DATE.			
18 LONG TERM INVESTMENTS			
18.1 RELATED PARTIES			
INVESTMENT IN FOREIGN SUBSIDIARY NAFEES INTERNATIONAL TEKSTIL SANAYS VE TICARET ANONIM SIRKET 10 BILLION LIRA FULLY PAID ORDINARY SHARES OF TURKISH LIRA 1 MILLION EACH EQUITY HELD 51%			
COST		1,650,720	1,650,720
APPRECIATION IN VALUE OF INVESTMENT		201,735	-
FAIR VALUE (2005: COST)		1,852,455	1,650,720
INVESTMENT IN LOCAL SUBSIDIARIES AZSOFT (PVT.) LTD. 19,980 FULLY PAID ORDINARY SHARES OF RS.100/- EACH EQUITY HELD 99.90%			
COST		1,998,000	1,998,000
APPRECIATION IN VALUE OF INVESTMENT		55,916	-
FAIR VALUE (2005: COST)		2,053,916	1,998,000
PAK AMERICAN FERTILIZERS LIMITED (PAFL) 39,243,000 FULLY PAID ORDINARY SHARES OF RS.100/- EACH EQUITY HELD 100%	18.3		
COST		7,986,113,366	-
APPRECIATION IN VALUE OF INVESTMENT		1,735,602	-
FAIR VALUE		7,987,848,968	-
HELD FOR SALE PORTION CLASSIFIED UNDER SHORT TERM INVESTMENTS	18.5	(3,700,814,821)	-
		4,287,034,147	-
2,100 FULLY PAID PRIVATELY PLACED TERM FINANCE CERTIFICATES OF RS.1,000,000/- EACH CURRENT MATURITY GROUPED UNDER CURRENT ASSETS	18.6		
		2,100,000,000	-
		(87,500,700)	-
		2,012,499,300	-

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER, 2006

	NOTE	31 DECEMBER, 06 RUPEES	31 DECEMBER, 05 RUPEES
18.2	OTHERS		
	AVAILABLE FOR SALE		
	QUOTED		
	COLONY TEXTILE MILLS LTD.		
	4,332 (2005:456) ORDINARY SHARES INCLUDING 3,876 BONUS SHARES OF RS.10 EACH APPRECIATION IN VALUE OF INVESTMENT	8,664 29,024	8,664 2,736
	MARKET VALUE RS.8.70 PER SHARE (2005: RS.25.00)	37,688	11,400
	BSJS BALANCED FUND LTD.		
	1,000 ORDINARY SHARES OF RS. 10 EACH. APPRECIATION IN VALUE OF INVESTMENT	10,000 1,400	10,000 3,250
	MARKET VALUE RS.11.40 PER SHARE (2005: RS.13.25)	11,400	13,250
	UNQUOTED		
	NATIONAL SECURITY INSURANCE CO. LTD. 221,504 ORDINARY SHARES OF RS.10 EACH PROVISION FOR IMPAIRMENT	996,768 (996,768)	996,768 -
		-	996,768
		6,303,488,906	4,670,138
18.3	MOVEMENT IN THE INVESTMENT OF PAFL SHARES AS FOLLOWS:	SHARES	
	ACQUIRED THROUGH PRIVATISATION PROCESS ON 15 TH JULY, 2006	30,000,000	-
	SOLD TO DOMINION FERTILIZERS (PVT.) LIMITED (DFL)	(20,757,000)	-
	NEW SHARES ISSUED ON MERGER OF DFL WITH PAFL	20,000,000	-
	RIGHT SHARES ISSUED BY PAFL	10,000,000	-
		39,243,000	-
18.4	DUE TO SUPPLEMENTARY AGREEMENT THE SHARES SOLD TO DFL ON MERGER OF DFL INTO PAFL WERE REVERTED BACK TO ANL.		
18.5	A PORTION OF INVESTMENT IN PAK-AMERICAN FERTILIZERS LIMITED HAS BEEN CLASSIFIED AS SHORT TERM INVESTMENT BASED ON MANAGEMENT'S INTENTION TO SELL IT IF REQUIRED TO MEET LIQUIDITY NEEDS.		
18.6	THESE ARE PLEDGED AS SECURITY AGAINST FINANCE FACILITIES AVAILABLE TO THE COMPANY.		
19	LONG TERM DEPOSITS		
	OPENING BALANCE	29,745,135	18,517,830
	COSTS INCURRED DURING THE YEAR	230,922	11,227,305
	REFUND RECEIVED	(10,069,300)	-
		19,906,757	29,745,135
19.1	THESE INCLUDE SECURITY DEPOSITS FOR ELECTRICITY RS. 5,327,400 AND WITH SUI NORTHERN GAS PIPE LINES LTD. RS.5,235,500 (2005: RS.15,265,300).		
20	STORES, SPARES AND LOOSE TOOLS		
	STORE	65,423,804	60,280,813
	SPARES	34,857,431	27,069,375
	LOOSE TOOLS	1,481,251	440,167
		101,762,486	87,790,355

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER, 2006

20.1 INCLUDED IN STORES AND SPARES ARE ITEMS IN TRANSIT VALUING Rs.3.273 MILLION (2005: Rs.0.662 MILLION).

20.2 THE COMPANY DOES NOT HOLD ANY STORES AND SPARES FOR SPECIFIC CAPITALIZATION.

20.3 THE VALUE OF SLOW MOVING STORES AND SPARES IS NOT MATERIAL AND HENCE NO PROVISION IS MADE IN THESE FINANCIAL STATEMENTS.

	NOTE	31 DECEMBER, 06 RUPEES	31 DECEMBER, 05 RUPEES
21	STOCK IN TRADE		
	RAW MATERIALS	1,302,466,823	1,507,912,595
	WORK IN PROCESS	342,640,598	227,469,465
	WORK IN PROCESS - TRIAL RUN	-	10,272,756
	FINISHED GOODS	377,280,784	264,903,136
	FINISHED GOODS - TRIAL RUN	-	23,446,575
	WASTE	122,719	176,023
		<u>2,022,510,924</u>	<u>2,034,180,550</u>

21.1 INCLUDED IN RAW MATERIALS ARE STOCKS IN TRANSIT VALUING Rs.14.967 MILLION (2005:Rs.62.030 MILLION) AND STOCKS IN CUSTOMS BOND NIL (2005:Rs.7.293 MILLION).

21.2 STOCKS AMOUNTING TO Rs.1,033 MILLION (2005: Rs.1,044.249 MILLION) HAVE BEEN PLEDGED AS SECURITY WITH VARIOUS BANKS AGAINST FINANCING FACILITIES.

22 TRADE DEBTS

CONSIDERED GOOD:

SECURED	22.1	612,532,020	498,892,591
UN-SECURED		522,365,129	514,990,993
CONSIDERED DOUBTFUL		4,249,348	4,249,348
		<u>1,139,146,497</u>	<u>1,018,132,932</u>
LESS: PROVISION FOR DOUBTFUL DEBTS		4,249,348	4,249,348
		<u>1,134,897,149</u>	<u>1,013,883,584</u>

22.1 THESE ARE SECURED BY LETTER OF CREDIT AND INCLUDE RECEIVABLE FROM NAFEEES INTERNATIONAL TEKSTIL SNAYI VE TICARET ANONIM SIRKETI AMOUNTING TO Rs.79,125,215 (2005: Rs.75,889,879).

23 ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

ADVANCES - UNSECURED CONSIDERED GOOD			
TO EMPLOYEES	23.1 & 23.2	33,022,422	31,059,330
TO SUPPLIERS, CONTRACTORS AND OTHERS		266,838,558	407,631,218
SECURITY DEPOSITS		7,523,215	3,115,165
MARGIN DEPOSITS	23.3	8,053,085	2,297,956
PREPAYMENTS		7,720,379	9,144,119
EXPORT REBATE RECEIVABLE		43,340,387	56,947,188
ACCRUED MARK-UP ON PRIVATELY PLACED TERM FINANCE CERTIFICATES		104,725,479	-
SALES TAX RECOVERABLE		106,264,996	81,783,885
LETTERS OF CREDIT		74,673,154	175,710,254
TAX DEDUCTED AT SOURCE / TAX REFUNDABLE		198,591,085	107,676,585
INSURANCE CLAIM		4,107,165	14,462,187
OTHER RECEIVABLES - UNSECURED, CONSIDERED GOOD		2,884,379	5,979,992
		<u>857,744,304</u>	<u>895,807,879</u>

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

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

23.3 IT REPRESENTS DEPOSITS AGAINST LETTERS OF CREDIT AND OTHER WORKING CAPITAL UTILIZED.

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER, 2006

	NOTE	31 DECEMBER, 06 RUPEES	31 DECEMBER, 05 RUPEES
24	SHORT TERM INVESTMENTS		
	HELD FOR TRADING QUOTED		
	BANK OF PUNJAB		
	13,000 ORDINARY SHARES OF RS.10 EACH	-	1,358,399
	DIMINUTION IN VALUE OF INVESTMENT	-	(26,549)
	MARKET VALUE RS.102.45 PER SHARE	-	1,331,850
	NATIONAL BANK OF PAKISTAN		
	160,100 ORDINARY SHARES OF RS.10 EACH	-	32,242,667
	DIMINUTION IN VALUE OF INVESTMENT	-	(310,722)
	MARKET VALUE RS.199.45 PER SHARE	-	31,931,945
	MUSLIM COMMERCIAL BANK LTD.		
	30,000 ORDINARY SHARES OF RS.10 EACH	-	5,428,051
	DIMINUTION IN VALUE OF INVESTMENT	-	(394,051)
	MARKET VALUE RS.167.80 PER SHARE	-	5,034,000
	ABAMCO CAPITAL FUND		
	4,897,000 ORDINARY SHARES OF RS.10 EACH	-	39,910,550
	APPRECIATION IN VALUE OF INVESTMENT	-	26,198,950
	MARKET VALUE RS.13.50 PER SHARE	-	66,109,500
	ASKARI COMMERCIAL BANK LIMITED		
	189,500 ORDINARY SHARES OF RS.10 EACH	-	24,089,087
	DIMINUTION IN VALUE OF INVESTMENT	-	(60,487)
	MARKET VALUE RS.126.80 PER SHARE	-	24,028,600
	FAUJI FERTILIZERS LTD.		
	65,100 ORDINARY SHARES OF RS.10 EACH	-	8,260,593
	APPRECIATION IN VALUE OF INVESTMENT	-	658,107
	MARKET VALUE RS.137.00 PER SHARE	-	8,918,700
	ATTOCK REFINERY LIMITED		
	46,000 ORDINARY SHARES OF RS.10 EACH	-	8,054,170
	APPRECIATION IN VALUE OF INVESTMENT	-	1,513,830
	MARKET VALUE RS.208.00 PER SHARE	-	9,568,000
	FAYSAL BANK LTD		
	183,800 ORDINARY SHARE OF RS.10 EACH	-	35,425,806
	APPRECIATION IN VALUE OF INVESTMENT	-	4,627,097
	MARKET VALUE RS.217.92 PER SHARE	-	40,052,903
	ADAMJEE INSURANCE CO. LTD.		
	765,700 ORDINARY SHARES OF RS.10 EACH	-	22,375,803
	APPRECIATION IN VALUE OF INVESTMENT	-	2,804,797
	MARKET VALUE RS 32.88 PER SHARE	-	25,180,600
	LUCKY CEMENT		
	20,000 ORDINARY SHARES OF RS.10 EACH	-	1,584,958
	APPRECIATION IN VALUE OF INVESTMENT	-	93,042
	MARKET VALUE RS.83.90 PER SHARE	-	1,678,000
	PAKISTAN STATE OIL COMPANY LTD.		
	6,500 ORDINARY SHARES OF RS.10 EACH	-	2,761,576
	DIMINUTION IN VALUE OF INVESTMENT	-	(52,051)
	MARKET VALUE RS.416.85 PER SHARE	-	2,709,525
	BALANCE CARRIED FORWARD	-	216,543,623

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER, 2006

	NOTE	31 DECEMBER, 06 RUPEES	31 DECEMBER, 05 RUPEES
BALANCE BROUGHT FORWARD		-	216,543,623
PAKISTAN INDUSTRIAL CREDIT AND INVESTMENT CORPORATION 4,000 ORDINARY SHARES OF RS.10 EACH		-	271,724
DIMINUTION IN VALUE OF INVESTMENT MARKET VALUE RS.64.80 PER SHARE		-	(12,524)
		-	259,200
HELD FOR SALE	24.1		
CHANDA OIL & GAS SECURITIZATION CO. LTD 12,895 SCRIPS OF RS.5,000 EACH		-	61,638,100
NAIMAT BASAL OIL 3,913 SCRIPS OF RS.5,000 EACH		-	18,275,160
TELECARD LIMITED - TFC 3,715 SCRIPS OF RS.5,000 EACH		-	18,571,285
PAK-AMERICAN FERTILIZERS LIMITED 18,181,500 SHARES OF PAR VALUE OF RS.100 EACH	18.5	3,700,814,821	-
HELD TO MATURITY			
CURRENT PORTION OF INVESTMENT IN PRIVATELY PLACED TERM FINANCE CERTIFICATES OF PAK-AMERICAN FERTILIZERS LIMITED	18	87,500,700	-
TERM DEPOSIT RECEIPT	24.2	-	454,124,227
		3,788,315,521	769,411,595

24.1 THESE INVESTMENTS WERE PREVIOUSLY CLASSIFIED AS LONG TERM INVESTMENTS HOWEVER THESE HAVE BEEN RECLASSIFIED AS SHORT TERM INVESTMENT AFTER BEING SOLD DURING THE CURRENT PERIOD AND ALL THE INFORMATION GIVEN UP RELATES TO YEAR 2005.

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

25 CASH AND BANK BALANCES

CASH IN HAND	4,902,546	1,497,894
CASH WITH BANKS IN:		
CURRENT ACCOUNTS	573,244,007	34,116,304
SAVING ACCOUNTS	2,759,071	10,028,160
	576,003,078	44,144,464
	580,905,624	45,642,358

25.1 CASH AT BANKS ON CURRENT AND SAVING ACCOUNTS INCLUDE FOREIGN CURRENCY BALANCES OF US \$ 174,635.08 (2005: US \$ 158,205.83) & EURO 5,651,161.86 (2005: EURO 35,396.97) WHICH HAVE BEEN CONVERTED INTO PAK RUPEES AT THE EXCHANGE RATE PREVAILING ON THE BALANCE SHEET DATE I.E. US \$ 1 = RS.60.78 (2005: US \$ 1 = RS. 59.73) AND EURO 1 = RS.80.23 (2005: EURO 1 = RS.70.71)

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER, 2006

	NOTE	01 JANUARY, 06 TO 31 DECEMBER, 06 RUPEES	01 OCTOBER, 04 TO 31 DECEMBER, 05 RUPEES
26 SALES			
LOCAL		756,302,505	750,216,920
EXPORT-(INCLUDING INDIRECT EXPORT) – NET OF EXPORT DEVELOPMENT SURCHARGE AMOUNTING TO Rs.6,018,082 TO (2005: Rs.5,730,404) AND EXCHANGE GAIN OF Rs.51,671,051 (2005:Rs.14,794,775).		4,128,678,827	3,832,200,523
WASTE		61,403,398	41,428,012
		4,946,384,730	4,623,845,455
LESS: COMMISSION TO SELLING AGENTS – LOCAL		19,785,186	34,860,167
– EXPORT		23,033,477	19,377,300
SALES TAX		991,696	136,731,073
BROKERAGE AND DISCOUNTS		12,892,405	10,404,558
		56,702,764	201,373,098
		4,889,681,966	4,422,472,357
27 COST OF SALES			
RAW MATERIALS AND OTHER DIRECT MATERIALS CONSUMED		2,525,051,205	1,820,580,742
SALARIES, WAGES AND BENEFITS	27.1	510,904,024	354,746,907
FUEL AND POWER		323,569,253	333,090,255
STORE AND SPARES CONSUMED		111,348,583	152,724,507
TRAVELING, CONVEYANCE AND ENTERTAINMENT		46,802,918	9,220,631
RENT, RATES AND TAXES		10,172,160	5,141,456
INSURANCE		18,768,415	8,064,020
REPAIR AND MAINTENANCE		36,763,527	22,665,131
PROCESSING CHARGES		29,898,239	22,330,528
DEPRECIATION	15.3	238,492,943	253,998,842
R & D AMORTIZATION		16,273,349	16,965,934
PRINTING & STATIONERY		3,732,388	3,797,218
COMMUNICATIONS		2,813,485	1,872,407
OTHERS		22,547,063	17,745,768
		3,897,137,552	3,022,944,346
ADJUSTMENT OF WORK IN PROCESS			
OPENING		227,469,465	220,379,606
RECEIVED FROM TRIAL RUN OPERATIONS		10,272,756	–
CLOSING		(342,640,598)	(227,469,465)
		(104,898,377)	(7,089,859)
COST OF GOODS MANUFACTURED		3,792,239,175	3,015,854,487
ADJUSTMENT OF FINISHED GOODS			
OPENING		265,079,159	538,010,735
RECEIVED FROM TRIAL RUN OPERATIONS		23,446,575	–
CLOSING		(377,403,503)	(265,079,159)
		(88,877,769)	272,931,576
		3,703,361,406	3,288,786,063
27.1 SALARIES, WAGES AND BENEFITS INCLUDES CONTRIBUTIONS IN RESPECT OF STAFF RETIREMENT BENEFITS AMOUNTING TO Rs.11,334,099 (2005: Rs.24,325,377).			

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER, 2006

	NOTE	01 JANUARY, 06 TO 31 DECEMBER, 06 RUPEES	01 OCTOBER, 04 TO 31 DECEMBER, 05 RUPEES
28 ADMINISTRATIVE AND SELLING EXPENSES			
SALARIES AND BENEFITS	28.1	125,951,704	97,413,171
TRAVELING AND CONVEYANCE INCLUDING CHIEF EXECUTIVE/DIRECTORS' TRAVELING OF Rs.3,786,603 (2005:Rs.22,367,701)		65,821,574	54,340,963
POWER AND FUEL		5,135,713	3,303,763
REPAIR AND MAINTENANCE		5,835,059	3,581,988
RENT, RATES AND TAXES		3,429,834	760,014
INSURANCE		2,374,346	1,764,074
FREIGHT AND CLEARING CHARGES		113,662,864	80,684,019
PRINTING AND STATIONERY		3,648,302	3,449,924
COMMUNICATIONS		22,178,413	19,112,928
ADVERTISEMENT AND SALES PROMOTION		7,543,790	4,501,610
LEGAL AND PROFESSIONAL CHARGES	28.2	8,685,373	6,452,585
DEPRECIATION	15.3	7,169,796	10,031,523
AMORTIZATION OF TEXTILE QUOTA		-	23,564,403
FEES AND SUBSCRIPTION		8,032,648	3,441,908
OTHERS		11,820,922	8,220,010
		391,290,338	320,622,883
28.1 SALARIES, WAGES AND BENEFITS INCLUDES CONTRIBUTIONS IN RESPECT OF STAFF RETIREMENT BENEFITS AMOUNTING TO Rs.4,897,165 (2005: Rs.2,886,353).			
28.2 LEGAL AND PROFESSIONAL CHARGES			
THE CHARGES FOR PROFESSIONAL SERVICES INCLUDE THE FOLLOWING IN RESPECT OF AUDITOR'S SERVICES FOR:			
ANNUAL AUDIT FEE		200,000	125,000
HALF YEARLY REVIEW FEE		55,000	35,000
REVIEW REPORT ON CODE OF CORPORATE GOVERNANCE		35,000	25,000
CERTIFICATION AND OTHER SERVICES		315,000	161,250
		605,000	346,250
29 GOVERNMENTS GRANTS			
THE COMPANY DURING THE PERIOD HAS LODGED CLAIMS AMOUNTING FOR Rs.94,204,206 (2005: Rs.53,036,367) AS RESEARCH & DEVELOPMENT REBATE WHICH HAS BEEN TREATED AS GOVERNMENT GRANT IN ACCORDANCE WITH IAS-20, "GOVERNMENT GRANT" AND IT HAS BEEN DEDUCTED IN REPORTING EXPENSES RELATING TO HIRING THE CONSULTANTS FOR ADOPTION OF NEW TECHNOLOGIES, INNOVATION AND SALES PROMOTION.			
30 OTHER INCOME			
FINANCIAL ASSETS			
GAIN ON SALE OF INVESTMENTS		58,478,149	199,442,372
UNREALIZED GAIN ON INVESTMENTS HELD FOR TRADING		-	35,039,438
MARK-UP ON TERM FINANCE CERTIFICATES		4,206,768	29,038,697
DIVIDEND INCOME		1,058,711,503	38,934,462
MISCELLANEOUS		1,205,236	2,992,762
		1,122,601,656	305,447,731
31 FINANCE COST			
INTEREST ON:			
WORKERS' PROFIT PARTICIPATION FUND		1,014,852	326,582
MARK UP ON:			
LONG TERM FINANCING - SECURED		307,238,912	93,647,624
SHORT TERM BORROWINGS -SECURED		302,086,679	176,264,632
LEASE FINANCE CHARGES		7,795,623	9,724,293
GUARANTEE COMMISSION AND BANK CHARGES		37,928,519	28,511,524
LESS: RETURN ON BANK DEPOSITS		(7,414,660)	(17,966,099)
		648,649,925	290,508,556
31.1 BORROWING COST AMOUNTING Rs.295 MILLION (2005: Rs.92 MILLION) WERE CAPITALISED DURING THE YEAR.			

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

32 OTHER CHARGES

LOSS ON DISPOSAL OF FIXED ASSETS		48,215	6,661,778
DONATIONS	32.1	100,000	4,694,172
IMPAIRMENT LOSS ON LONG TERM INVESTMENT		996,768	-
		<u>1,144,983</u>	<u>11,355,950</u>

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

33 EARNINGS PER SHARE (EPS)

BASIC			
NET PROFIT AFTER TAX ATTRIBUTABLE TO ORDINARY SHAREHOLDERS		1,085,289,142	644,112,961
		<u>NO. OF SHARES</u>	<u>NO. OF SHARES</u>
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES		218,226,289	86,865,434
		<u>RUPEES</u>	<u>RUPEES</u>
EPS		4.97	7.42
DILUTED			
NET PROFIT AFTER TAX ATTRIBUTABLE TO ORDINARY SHAREHOLDERS		1,085,289,142	644,112,961
EFFECT OF DILUTIVE POTENTIAL ORDINARY SHARES:			
INTEREST ON CONVERTIBLE TFCS		60,641,595	16,478,929
PREFERENCE DIVIDEND		623,667	24,295,176
EARNINGS FOR THE PURPOSES OF DILUTED EARNING PER SHARE		1,146,554,404	684,887,066
		<u>NO. OF SHARES</u>	<u>NO. OF SHARES</u>
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES FOR BASIC EPS		218,226,289	86,865,434
EFFECT OF DILUTIVE POTENTIAL ORDINARY SHARES:			
CONVERTIBLE TFCS		26,389,317	14,767,124
PREFERENCE SHARES		696,835	4,203,110
WEIGHTED AVERAGE NO. OF ORDINARY SHARES FOR THE PURPOSES OF DILUTED EARNING PER SHARE		245,312,441	105,835,668
		<u>RUPEES</u>	<u>RUPEES</u>
EPS		4.67	6.47

34 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	
	2006 RUPEES	2005 RUPEES	2006 RUPEES	2005 RUPEES	2006 RUPEES	2005 RUPEES
MANAGERIAL REMUNERATION						
BASIC SALARY	2,400,000	2,400,000	4,046,253	3,625,005	42,150,996	8,869,326
HOUSE RENT	960,000	960,000	1,618,529	1,450,050	14,397,931	3,570,688
UTILITIES	240,000	240,000	404,546	362,505	4,413,057	853,851
FOOD ALLOWANCE	-	-	-	-	121,521	-
EDUCATION ALLOWANCE	-	-	-	-	600	-
MEDICAL FUND	-	-	-	-	1,577,654	-
RETIREMENT BENEFITS	204,000	102,000	204,000	-	3,582,835	697,790
BONUS	-	-	-	-	-	185,396
	<u>3,804,000</u>	<u>3,702,000</u>	<u>6,273,328</u>	<u>5,437,560</u>	<u>66,244,594</u>	<u>14,177,051</u>
NUMBER OF PERSONS	1	1	6	5	40	11

34.1 IN ADDITION TO ABOVE THE CHIEF EXECUTIVE HAS BEEN PROVIDED WITH FREE USE OF THE COMPANY MAINTAINED CAR.

34.2 NO FEE HAS BEEN PAID TO THE DIRECTORS DURING THE YEAR (2005: NIL).

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER, 2006

NOTE	01 JANUARY, 06 TO 31 DECEMBER, 06 RUPEES	01 OCTOBER, 04 TO 31 DECEMBER, 05 RUPEES
35 TRANSACTIONS WITH RELATED PARTIES		
SUBSIDIARIES:		
SALES	-	13,180,001
DIVIDEND RECEIVED	1,052,631,579	-
ASSOCIATES:		
UNDERWRITING FEE	13,864,624	-
BROKERAGE	-	4,834,233
MARK-UP PAID	-	6,604,158
PURCHASES	9,033,908	48,617,868
MISC. EXPENSES	3,235,336	731,800

THERE WERE NO RECEIVABLES OR PAYABLES AND OTHER TRANSACTIONS TO RELATED PARTIES OTHER THAN THOSE REFERRED IN NOTES 12, 18.3, 22.1 AND 23.2.

36 CAPACITY AND PRODUCTION

SPINNING			
NO. OF ROTORS INSTALLED		1,752	1,290
PLANT CAPACITY ON THE BASIS OF UTILIZATION CONVERTED INTO 6.5s COUNT (BASED ON 3 SHIFTS PER DAY)	-KGS.	10,490,946	9,331,418
ACTUAL PRODUCTION CONVERTED INTO 6.5s COUNT	36.1 -KGS.	7,938,061	7,566,724
NO. OF SPINDLES INSTALLED		53,520	40,776
PLANT CAPACITY ON THE BASIS OF UTILIZATION CONVERTED INTO 20s COUNT (BASED ON 3 SHIFTS PER DAY)	-KGS.	15,224,439	14,777,085
ACTUAL PRODUCTION CONVERTED INTO 20s COUNT	36.2 -KGS.	12,085,687	12,136,950
WEAVING			
NO. OF LOOMS INSTALLED		166	102
ANNUAL RATED CAPACITY ON THE BASIS OF UTILIZATION - AT 38 PICKS (BASED ON 3 SHIFTS PER DAY)	-MTRS.	23,608,088	21,433,949
ACTUAL PRODUCTION - AT 38 PICKS	-MTRS.	14,126,437	15,951,677
GARMENTS			
NO. OF STITCHING MACHINES INSTALLED		1,144	537
ANNUAL CAPACITY ON THE BASIS OF UTILIZATION (BASED ON 2 SHIFTS PER DAY)	-PCS.	7,566,326	4,150,000
ACTUAL PRODUCTION	-PCS.	3,094,111	2,261,959

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

36.2 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.

37 CHANGES IN WORKING CAPITAL

(INCREASE) IN CURRENT ASSETS		
STORES, SPARES AND LOOSE TOOLS	(13,972,131)	(15,181,662)
STOCK IN TRADE	11,669,626	(639,451,220)
TRADE DEBTS	(121,013,565)	(68,771,728)
ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (EXCLUDING INCOME TAX)	128,978,074	(186,032,094)
(DECREASE)/INCREASE IN CURRENT LIABILITIES		
CREDITORS, ACCRUED AND OTHER LIABILITIES (EXCLUDING ACCRUED FINANCIAL CHARGES)	310,908,740	(28,463,606)
	<u>316,570,744</u>	<u>(937,900,310)</u>

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

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

38 FINANCIAL INSTRUMENTS

38.1 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 DECEMBER 31, 2006 THE NET FAIR VALUE OF ALL FINANCIAL INSTRUMENTS HAS BEEN BASED ON THE VALUATION METHODOLOGY OUTLINED BELOW:

LONG-TERM DEPOSITS

LONG TERM DEPOSITS DOES NOT CARRY ANY RATE OF RETURN. THEIR FAIR VALUE OF 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.

38.2 FINANCIAL ASSETS AND LIABILITIES

	INTEREST/ MARK-UP RATES RANGE % PER ANNUM	INTEREST / MARK-UP BEARING			NON INTEREST / MARK-UP BEARING			TOTAL
		MATURITY UPTO ONE YEAR	MATURITY AFTER ONE YEAR	SUB-TOTAL	MATURITY UPTO ONE YEAR	MATURITY AFTER ONE YEAR	SUB-TOTAL	
(R U P E E S)								
FINANCIAL ASSETS:								
LONG TERM INVESTMENTS				-	6,303,488,906	6,303,488,906	6,303,488,906	
LONG TERM DEPOSITS				-	19,906,757	19,906,757	19,906,757	
TRADE DEBTORS				-	1,134,897,149	1,134,897,149	1,134,897,149	
DERIVATIVE FINANCIAL INSTRUMENT				-	555,680,244	555,680,244	555,680,244	
ADVANCES, DEPOSITS AND OTHER RECEIVABLES				-	58,385,017	58,385,017	58,385,017	
SHORT TERM INVESTMENTS	2.60% TO 9.00%	-		-	3,788,315,521	3,788,315,521	3,788,315,521	
CASH AND BANK BALANCES	1% TO 3.5%	2,759,071		2,759,071	578,146,553	578,146,553	580,905,624	
2006		2,759,071	-	2,759,071	6,115,424,484	6,323,395,663	12,438,820,147	12,441,579,218
2005		473,789,508	88,847,424	562,636,932	1,359,446,844	34,415,273	1,393,862,117	1,956,499,049
FINANCIAL LIABILITIES:								
PREFERENCE SHARES	8.95 %	-	661,738,330	661,738,330	-	-	-	661,738,330
LONG TERM FINANCING	5.00% TO 12.65%	338,913,068	3,519,216,988	3,858,130,056	-	-	-	3,858,130,056
LIABILITIES AGAINST ASSETS								
SUBJECT TO FINANCE LEASE	5.50% TO 13.46%	47,776,589	9,622,618	57,399,207	-	-	-	57,399,207
LONG TERM DEPOSITS AND PAYABLES								
SHORT TERM BORROWINGS	5.11% TO 14.24%	-	-	-	6,006,117,630	-	6,006,117,630	6,006,117,630
FAIR VALUE OF OBLIGATION UNDER SWAP CONTRACTS								
CREDITORS, ACCRUED AND OTHER LIABILITIES	11%	7,768,786	-	7,768,786	1,235,819,281	-	1,235,819,281	1,243,588,067
UNCLAIMED DIVIDEND				-	22,312,061	-	22,312,061	22,312,061
2006		394,458,443	4,190,577,936	4,585,036,379	7,296,270,579	1,643,889	7,297,914,468	11,882,950,847
2005		458,290,474	3,587,060,844	4,045,351,318	3,912,803,501	-	3,912,803,501	7,958,154,819
OFF BALANCE SHEET ITEMS:								
COMMITMENTS		-	-	-	193,940,000	-	193,940,000	193,940,000
GUARANTEE		-	-	-	80,000,000	-	80,000,000	80,000,000
2006		-	-	-	273,940,000	-	273,940,000	273,940,000
2005		-	-	-	300,102,000	-	300,102,000	300,102,000

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

38.3 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.

38.4 CONCENTRATION OF CREDIT RISK

CREDIT RISK REPRESENTS THE ACCOUNTING LOSS THAT WOULD BE RECOGNIZED 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. 23,724 MILLION (2005: Rs.1,956 MILLION), THE FINANCIAL ASSETS WHICH ARE SUBJECT TO CREDIT RISK AGGREGATED Rs.1,276 MILLION (2005: Rs.521 MILLION). THE COMPANY BELIEVES THAT IT IS NOT EXPOSED TO MAJOR CONCENTRATION OF CREDIT RISK.

38.5 INTEREST RISK MANAGEMENT

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

38.6 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.

39 DIVIDEND

DIRECTORS HAVE PROPOSED 11% CASH DIVIDEND I.E. Rs.1.10 PER ORDINARY SHARE TO BE APPROVED BY THE SHAREHOLDERS IN ENSUING ANNUAL GENERAL MEETING TO BE HELD ON 28 JUNE, 2007. TOTAL AMOUNT OF CASH DIVIDEND TO BE PAID Rs.343,981,063 WHICH HAS NOT BEEN ACCOUNTED FOR AS LIABILITY IN THESE FINANCIAL STATEMENTS.

40 DATE OF AUTHORISATION FOR ISSUE

THESE FINANCIAL STATEMENTS WERE AUTHORIZED FOR ISSUE ON 28 APRIL, 2007 BY THE BOARD OF DIRECTORS OF THE COMPANY.

41 FIGURES

41.1 FOLLOWING REARRANGEMENTS HAVE BEEN MADE IN COMPARATIVE FIGURES TO REFLECT THE TRUE FORM OF THE BALANCES AND TRANSACTIONS:

CURRENT CLASSIFICATION	PREVIOUS CLASSIFICATION	NOTE	AMOUNT RUPEES
REDEEMABLE CAPITAL	LONG TERM FINANCING	6	347,920,000
SHORT TERM INVESTMENTS	LONG TERM INVESTMENTS	24.1	88,847,424
SHORT TERM INVESTMENTS	CURRENT MATURITY LONG TERM INVESTMENTS	24.1	9,637,121

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



AZGARD-9



CONSOLIDATED FINANCIAL STATEMENTS

AUDITORS' REPORT TO THE MEMBERS

WE HAVE AUDITED THE ANNEXED CONSOLIDATED FINANCIAL STATEMENTS COMPRISING CONSOLIDATED BALANCE SHEET OF AZGARD NINE LIMITED AS AT DECEMBER 31, 2006 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 THEN ENDED. WE HAVE ALSO EXPRESSED SEPARATE OPINION ON THE FINANCIAL STATEMENTS FOR THE SAME PERIOD OF AZGARD NINE LIMITED. THE FINANCIAL STATEMENTS OF SUBSIDIARY COMPANIES NAFEEES INTERNATIONAL TEKSTIL SANAYS VE TICARET ANONIM SIRKET, PAK AMERICAN FERTILIZERS LIMITED AND AZSOFT (PVT) LIMITED WERE AUDITED BY ANOTHER FIRM OF CHARTERED ACCOUNTANTS, WHOSE REPORTS HAVE BEEN FURNISHED TO US AND OUR OPINION IN SO FAR AS IT RELATED TO THE AMOUNTS INCLUDED FOR SUCH COMPANIES, IS BASED SOLELY ON THE REPORTS OF OTHER AUDITORS.

THESE FINANCIAL STATEMENTS ARE THE RESPONSIBILITY OF THE COMPANY'S MANAGEMENT. OUR RESPONSIBILITY IS TO EXPRESS OUR OPINION ON THESE FINANCIAL 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.

IN OUR OPINION, THE CONSOLIDATED FINANCIAL STATEMENTS PRESENT FAIRLY THE FINANCIAL POSITION OF AZGARD NINE LIMITED AS AT DECEMBER 31, 2006 AND THE RESULTS OF ITS OPERATIONS, ITS CASH FLOWS AND CHANGES IN EQUITY FOR THE YEAR THEN ENDED IN ACCORDANCE WITH THE APPROVED ACCOUNTING STANDARDS AS APPLICABLE IN PAKISTAN.

WE DRAW ATTENTION TO NOTE 38 TO THE FINANCIAL STATEMENTS REGARDING CONSOLIDATION OF PAK AMERICAN FERTILIZERS LIMITED.

LAHORE

DATE: APRIL 28, 2007

RAHMAN SARFRAZ & CO.
CHARTERED ACCOUNTANTS

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2006

	NOTE	31 DECEMBER, 2006 RUPEES	31 DECEMBER, 2005 RUPEES
SHARE CAPITAL AND RESERVES			
AUTHORISED	3	15,000,000,000	3,000,000,000
ISSUED, SUBSCRIBED AND PAID UP	3	3,788,838,900	1,737,308,680
RESERVES	4	3,576,296,807	403,359,347
UNAPPROPRIATED PROFIT		586,927,934	953,107,592
		7,952,063,641	3,093,775,619
MINORITY INTEREST	5	1,763,586	1,759,518
SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT	6	257,360,867	278,943,671
REDEEMABLE CAPITAL	7	7,712,953,464	2,330,312,532
LONG TERM FINANCING	8	3,519,216,988	347,920,000
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE	9	17,084,358	40,173,972
LONG TERM DEPOSITS	10	1,643,889	2,907,643
DEFERRED TAX LIABILITY	11	1,451,288,758	-
CURRENT LIABILITIES			
CURRENT PORTION OF LONG TERM LIABILITIES	12	1,491,041,799	433,780,774
SHORT TERM BORROWINGS	13	6,456,117,630	3,142,402,324
FAIR VALUE OF OBLIGATIONS UNDER SWAP CONTRACTS	4.2	32,021,607	-
CREDITORS, ACCRUED AND OTHER LIABILITIES	14	1,737,473,662	831,880,184
PROVISION FOR TAXATION	15	195,263,888	79,684,435
UNCLAIMED DIVIDENDS		22,312,061	362,062
		9,934,230,647	4,488,109,779
CONTINGENCIES AND COMMITMENTS	16		
		30,847,606,198	10,583,902,734

THE ANNEXED NOTES 1 TO 46 FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CHIEF EXECUTIVE

	NOTE	31 DECEMBER, 2006 RUPEES	31 DECEMBER, 2005 RUPEES
NON-CURRENT ASSETS			
PROPERTY, PLANT AND EQUIPMENT	17	19,835,155,084	3,114,554,527
CAPITAL WORK IN PROGRESS	18	178,722,973	2,479,903,660
INTANGIBLE ASSETS	19	3,771,067,757	73,937,276
		23,784,945,814	5,668,395,463
LONG TERM INVESTMENTS	20	49,088	1,021,418
LONG TERM ADVANCES AND DEPOSITS	21	33,156,512	29,745,135
CURRENT ASSETS			
STORES, SPARES AND LOOSE TOOLS	22	786,465,317	87,790,355
STOCK IN TRADE	23	2,117,533,944	2,035,875,069
TRADE DEBTS	24	1,520,389,291	1,034,669,395
FAIR VALUE DERIVATIVE FINANCIAL INSTRUMENTS	4.2	555,680,244	13,458,916
ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES	25	916,419,027	897,252,727
SHORT TERM INVESTMENTS	26	-	769,411,595
CASH AND BANK BALANCES	27	1,132,966,961	46,282,661
		7,029,454,784	4,884,740,718
		30,847,606,198	10,583,902,734

DIRECTOR

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER, 2006

	NOTE	01 JANUARY, 06 TO 31 DECEMBER, 2006 RUPEES	01 OCTOBER, 04 TO 31 DECEMBER, 2005 RUPEES
SALES – NET	28	6,504,962,162	4,460,828,929
COST OF SALES	29	4,612,158,172	3,322,348,339
GROSS PROFIT		1,892,803,990	1,138,480,590
ADMINISTRATIVE AND SELLING EXPENSES	30	553,995,871	327,483,372
OPERATING PROFIT		1,338,808,119	810,997,218
OTHER INCOME	32	71,554,190	305,447,731
OTHER CHARGES		1,410,362,309	1,116,444,949
FINANCE COST	33	1,187,223,953	290,509,378
WORKERS' PROFIT PARTICIPATION FUND	14.2	8,099,197	24,509,700
OTHERS	34	1,057,600	11,355,950
		1,196,380,750	326,375,028
PROFIT BEFORE TAXATION		213,981,559	790,069,921
PROVISION FOR TAXATION	15.1	58,457,297	50,857,877
PROFIT AFTER TAXATION		155,524,262	739,212,044
MINORITY INTEREST		4,068	(985,042)
PROFIT ATTRIBUTABLE TO HOLDING COMPANY		155,520,194	740,197,086
EARNINGS PER SHARE – BASIC	36	0.44	7.40
– DILUTED		–	6.46

THE ANNEXED NOTES 1 TO 46 FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CHIEF EXECUTIVE

DIRECTOR

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER, 2006

	NOTE	01 JANUARY, 06 TO 31 DECEMBER, 2006 RUPEES	01 OCTOBER, 04 TO 31 DECEMBER, 2005 RUPEES
CASH FLOW FROM OPERATING ACTIVITIES			
PROFIT BEFORE TAXATION		213,981,559	790,069,921
ADJUSTMENT FOR:			
DEPRECIATION		535,227,563	264,284,035
AMORTIZATION OF INTANGIBLE ASSETS		16,273,349	40,530,337
GAIN ON SALE OF INVESTMENTS		(58,478,149)	(199,442,372)
UNREALIZED GAIN ON INVESTMENTS		-	(35,039,438)
MARK-UP ON TERM FINANCE CERTIFICATES		(4,206,768)	(29,038,697)
DIVIDEND INCOME		(6,079,924)	(38,934,462)
EXCHANGE ADJUSTMENT		-	27,878
(GAIN)/LOSS ON DISPOSAL OF FIXED ASSETS		(39,168)	6,661,778
FAIR VALUE ADJUSTMENT OF LONG TERM INVESTMENT		996,768	-
INTEREST INCOME		(18,313,547)	(17,966,099)
FINANCIAL CHARGES		1,205,537,500	308,475,477
		1,670,917,624	299,558,437
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES		1,884,899,183	1,089,628,358
CHANGES IN WORKING CAPITAL	41	(73,958,338)	(920,807,188)
CASH FLOW FROM OPERATIONS		1,810,940,845	168,821,170
FINANCIAL CHARGES PAID		(788,271,817)	(180,351,891)
EXPENSES ON ISSUE OF COMPANY'S SECURITIES		(35,203,132)	(34,775,530)
LONG TERM ADVANCES AND DEPOSITS		43,923,399	(11,227,305)
LONG TERM DEPOSITS PAYABLE		(1,263,753)	1,759,914
TAXES PAID		(83,852,571)	(57,920,459)
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES		946,272,971	(113,694,101)
CASH FLOW FROM INVESTING ACTIVITIES			
FIXED CAPITAL EXPENDITURE		(2,447,405,767)	(2,933,361,297)
INTANGIBLE ASSETS		(2,880,882)	(1,174,441)
SALE PROCEEDS OF FIXED ASSETS		20,484,011	5,652,825
ACQUISITION OF PAK-AMERICAN FERTILIZERS LIMITED (PAFL) NET OF CASH ACQUIRED	38.3	(15,403,434,688)	-
LOSSES INCURRED BY DOMINION FERTILIZERS LIMITED BEFORE MERGER WITH (PAFL)		(231,789,693)	-
LONG TERM INVESTMENTS		-	(98,484,545)
INFLOW FROM MINORITY ON FORMATION OF NEW SUBSIDIARY		-	2,000
SHORT TERM INVESTMENTS		827,889,745	(327,296,309)
MARK-UP RECEIVED ON TERM FINANCE CERTIFICATES		4,206,768	29,038,697
DIVIDEND INCOME		6,079,924	38,934,462
INTEREST RECEIVED		18,313,547	17,966,099
NET CASH USED IN INVESTING ACTIVITIES		(17,208,537,035)	(3,268,722,509)
CASH FLOW FROM FINANCING ACTIVITIES			
ORDINARY SHARES ISSUED		4,648,446,653	-
REDEEMABLE CAPITAL OBTAINED		6,486,000,000	2,143,670,000
REPAYMENT OF REDEEMABLE CAPITAL		(63,357,468)	-
LONG TERM FINANCES OBTAINED		3,307,350,000	-
REPAYMENT OF LONG TERM FINANCES		(116,666,666)	(150,000,000)
FINANCE LEASE LIABILITIES PAID		(37,996,495)	(71,068,422)
SHORT TERM FINANCES- NET		3,313,715,305	1,649,492,432
DIVIDEND PAID		(188,542,965)	(164,343,349)
NET CASH INFLOW FROM FINANCING ACTIVITIES		17,348,948,364	3,407,750,661
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,086,684,300	25,334,051
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		46,282,661	20,948,610
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		1,132,966,961	46,282,661

THE ANNEXED NOTES 1 TO 46 FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CHIEF EXECUTIVE

DIRECTOR



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER, 2006

	RESERVES					UNAPPROPRIATED PROFIT	TOTAL EQUITY	SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT			
	SHARE CAPITAL ISSUED, SUBSCRIBED AND PAID-UP	SHARE PREMIUM	HEDGING RESERVE	EXCHANGE DIFFERENCE ON TRANSLATION OF FOREIGN SUBSIDIARY	RESERVE ON MERGER				PREFERENCE SHARE REDEMPTION RESERVE	SURPLUS ON REVALUATION OF INVESTMENTS	TOTAL
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
PROFIT FOR THE PERIOD									740,197,086	740,197,086	-
PREFERENCE SHARES ISSUED											
SURPLUS ON REVALUATION OF FIXED ASSETS TRANSFERRED TO RETAINED EARNINGS DURING THE YEAR									27,392,552	27,392,552	(27,392,552)
- RELATING TO INCREMENTAL DEPRECIATION									228,288	228,288	(228,288)
- RELATING TO DISPOSAL OF REVALUED ASSET									(62,500,000)	(62,500,000)	(34,775,530)
PREFERENCE SHARES REDEMPTION RESERVE		(34,775,530)				62,500,000		(34,775,530)			(86,865,434)
ORDINARY SHARE DIVIDEND									(77,744,563)	(77,744,563)	(13,458,916)
PREFERENCE SHARE DIVIDEND			13,458,916					13,458,916			5,842
NET INCREASE IN FAIR VALUE OF INVESTMENTS							5,842	5,842			27,878
APPRECIATION IN VALUE OF INVESTMENTS				27,878				27,878			
EXCHANGE GAIN ON TRANSLATION OF FOREIGN SUBSIDIARY											
BALANCE AS AT DECEMBER 31, 2005	1,737,308,680	71,657,838	13,458,916	27,878	105,152,005	212,500,000	562,710	403,359,347	953,107,592	3,093,775,619	278,943,671
FURTHER ISSUE DURING THE YEAR	2,117,743,350	2,530,703,303						2,530,703,303	4,648,446,653		
CONVERSION OF PREFERENCE SHARES	(66,213,130)	66,213,130						66,213,130			
PROFIT FOR THE YEAR									155,520,194	155,520,194	
LOSSES OF DOMINION FERTILIZER AT THE TIME OF MERGER WITH PAK-AMERICAN FERTILIZERS LIMITED									(231,789,693)	(231,789,693)	
SURPLUS ON REVALUATION OF FIXED ASSETS TRANSFERRED TO RETAINED EARNINGS DURING THE YEAR									17,583,248	17,583,248	(17,583,248)
- RELATING TO INCREMENTAL DEPRECIATION									3,999,556	3,999,556	(3,999,556)
- RELATING TO DISPOSAL OF REVALUED ASSET									(101,000,000)	(101,000,000)	(35,203,132)
PREFERENCE SHARES REDEMPTION RESERVE		(35,203,132)				101,000,000		(35,203,132)			(151,267,383)
EXPENSES INCURRED ON ISSUE OF COMPANY'S SHARES									(59,225,581)	(59,225,581)	510,199,721
ORDINARY SHARE DIVIDEND											24,438
PREFERENCE SHARE DIVIDEND			510,199,721					510,199,721			
NET INCREASE IN FAIR VALUE OF INVESTMENTS							24,438	24,438			
APPRECIATION IN VALUE OF INVESTMENTS											
BALANCE AS AT DECEMBER 31, 2006	3,788,838,900	2,633,371,139	523,658,637	27,878	105,152,005	313,500,000	587,148	3,576,296,807	586,927,934	7,952,063,641	257,360,867

THE ANNEXED NOTES 1 TO 46 FORM AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CHIEF EXECUTIVE

DIRECTOR

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

1 STATUS AND ACTIVITIES

THE GROUP CONSISTS OF:

HOLDING COMPANY

– AZGARD NINE LIMITED (ANL)

ANL WAS INCORPORATED IN PAKISTAN AS A PUBLIC LIMITED COMPANY AND ITS SHARES ARE QUOTED AT KARACHI STOCK EXCHANGE (GUARANTEE) LIMITED. THE HOLDING COMPANY IS A COMPOSITE SPINNING, WEAVING, DYEING AND STITCHING UNIT ENGAGED IN THE MANUFACTURING OF YARN, DENIM AND DENIM PRODUCTS. THE REGISTERED OFFICE OF THE HOLDING COMPANY IS SITUATED AT ISMAIL AIWAN-E-SCIENCE, OFF SHAHRAH-E-ROOMI, LAHORE.

SUBSIDIARIES COMPANIES, I.E. EACH OF THOSE COMPANIES IN WHICH THE HOLDING COMPANY OWNS OVER 50% OF VOTING RIGHTS, OR COMPANIES CONTROLLED BY THE HOLDING COMPANY.

– PAK-AMERICAN FERTILIZERS LIMITED (PAFL)

PAFL WAS INCORPORATED ON DECEMBER 15, 1959 AS AN UNQUOTED PUBLIC LIMITED COMPANY, WHICH WAS WHOLLY OWNED SUBSIDIARY OF NATIONAL FERTILIZER CORPORATION OF PAKISTAN (PVT.) LTD (NFC), A GOVERNMENT OWNED CORPORATION. UPTILL JULY 15, 2006. SUBSEQUENT TO THAT DATE 100% SHARES OF THE COMPANY HAVE BEEN SOLD TO ANL, AS A PART OF PRIVATIZATION PROCESS OF THE GOVERNMENT OF PAKISTAN AS STIPULATED IN THE SHARE PURCHASE AGREEMENT DATED JULY 15, 2006. THE FACTORY AND REGISTERED OFFICE OF THE COMPANY IS SITUATED AT ISKANDERABAD (DAUD KHEL), DISTRICT MIANWALI. THE PRINCIPAL BUSINESS OF THE COMPANY IS THE PRODUCTION AND SALE OF UREA FERTILIZER. THE DETAIL OF NET ASSETS ACQUIRED AND GOODWILL ARISING THEREON HAS BEEN GIVEN IN NOTE 38.

– NAFEEES INTERNATIONAL TEKSTIL SNAYI VE TICARET ANONIM SIRKETI (NIT)

NIT WAS INCORPORATED IN TURKEY AND PRINCIPAL ACTIVITY OF THE COMPANY IS SALE OF DENIM AND DENIM PRODUCTS. PROPORTION OF OWNERSHIP INTEREST HELD BY HOLDING COMPANY IS 51 %.

– AZSOFT (PVT) LIMITED (APL)

APL WAS INCORPORATED IN PAKISTAN AND PRINCIPAL ACTIVITY OF THE COMPANY IS DEVELOPMENT, IMPLEMENTATION AND SALE OF SOFTWARE PRODUCTS AND PROVIDING RELATED SERVICES. PROPORTION OF OWNERSHIP INTEREST HELD BY HOLDING COMPANY IS 99.90 %.

1.1 CHANGE IN FINANCIAL YEAR

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

2 SIGNIFICANT ACCOUNTING POLICIES

THE SIGNIFICANT ACCOUNTING POLICIES ADOPTED IN PREPARATION OF FINANCIAL STATEMENTS ARE SET OUT BELOW.

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 FINANCIAL REPORTING STANDARDS (IFRSs) / INTERNATIONAL ACCOUNTING STANDARDS (IASs) 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.

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

2.2 ACCOUNTING CONVENTION

THESE FINANCIAL STATEMENTS HAVE BEEN PREPARED UNDER THE HISTORICAL COST CONVENTION EXCEPT FOR FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS ACCOUNT, DERIVATIVE FINANCIAL INSTRUMENTS, AVAILABLE FOR SALE FINANCIAL ASSETS ARE MEASURED AT FAIR VALUE AND CERTAIN PROPERTY, PLANT AND EQUIPMENT AT REVALUED AMOUNT.

THE PREPARATION OF FINANCIAL STATEMENTS IN CONFORMITY WITH APPROVED ACCOUNTING STANDARDS REQUIRES MANAGEMENT TO MAKE JUDGMENTS, ESTIMATES AND ASSUMPTIONS THAT AFFECT THE APPLICATION OF POLICIES AND REPORTED AMOUNTS OF ASSETS AND LIABILITIES, INCOME AND EXPENSES. THE ESTIMATES AND ASSOCIATED ASSUMPTIONS AND JUDGEMENTS ARE BASED ON HISTORICAL EXPERIENCE AND VARIOUS OTHER FACTORS THAT ARE BELIEVED TO BE REASONABLE UNDER THE CIRCUMSTANCES, THE RESULT OF WHICH FORM THE BASIS OF MAKING THE JUDGEMENTS ABOUT CARRYING VALUES OF ASSETS AND LIABILITIES THAT ARE NOT READILY APPARENT FROM OTHER SOURCES. ACTUAL RESULTS MAY DIFFER FROM THESE ESTIMATES.

THE ESTIMATES AND UNDERLYING ASSUMPTIONS ARE REVIEWED ON AN ONGOING BASIS. REVISION TO ACCOUNTING ESTIMATES ARE RECOGNIZED IN THE PERIOD IN WHICH THE ESTIMATE IS REVISED IF THE REVISION EFFECTS ONLY THAT PERIOD, OR IN THE PERIOD OF REVISION AND FUTURE PERIODS IF THE REVISION AFFECTS BOTH CURRENT AND FUTURE PERIODS. THE AREAS WHERE VARIOUS ASSUMPTIONS AND ESTIMATES ARE SIGNIFICANT TO COMPANY'S FINANCIAL STATEMENTS OR WHERE JUDGEMENTS WERE EXERCISED IN APPLICATION OF ACCOUNTING POLICIES ARE AS FOLLOWS:

- USEFUL LIFE OF DEPRECIABLE ASSETS
- TAXATION
- PROVISIONS AND CONTINGENCIES
- FAIR VALUE OF INVESTMENTS, DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

2.3 BASIS OF CONSOLIDATION

2.3.1 THE CONSOLIDATED FINANCIAL STATEMENTS INCLUDE THE FINANCIAL STATEMENTS OF THE ANL AND ITS SUBSIDIARIES FOR THE YEAR / PERIOD ENDED DECEMBER, 31 2006. RESULTS OF PAFL HAVE BEEN CONSOLIDATED FROM 1 JULY, 2006.(SEE NOTE 38).

2.3.2 SUBSIDIARY COMPANIES ARE CONSOLIDATED FROM THE DATE ON WHICH MORE THAN 50% VOTING RIGHTS ARE TRANSFERRED TO THE GROUP OR POWER TO CONTROL THE COMPANY IS ESTABLISHED AND ARE EXCLUDED FROM CONSOLIDATION FROM THE DATE OF DISPOSAL.

2.3.3 THE ASSETS AND LIABILITIES OF SUBSIDIARY COMPANIES HAVE BEEN CONSOLIDATED ON A LINE-BY-LINE BASIS AND THE CARRYING VALUE OF INVESTMENT HELD BY THE HOLDING COMPANY IS ELIMINATED AGAINST THE SUBSIDIARIES' SHARE CAPITAL AND PRE-ACQUISITION RESERVES IN THE CONSOLIDATED FINANCIAL STATEMENTS.

2.3.4 ALL INTRA-GROUP TRANSACTIONS AND BALANCES ARE ELIMINATED.

2.3.5 MINORITY INTERESTS ARE THAT PART OF NET RESULTS OF OPERATIONS AND OF NET ASSETS OF SUBSIDIARY COMPANIES ATTRIBUTABLE TO INTEREST WHICH ARE NOT OWNED BY THE HOLDING COMPANY.

2.3.6 WHERE NECESSARY, ACCOUNTING POLICIES FOR SUBSIDIARY COMPANIES HAVE BEEN CHANGED TO ENSURE CONSISTENCY WITH POLICIES ADOPTED BY THE HOLDING COMPANY.

2.4 SEGMENT REPORTING

A BUSINESS SEGMENT IS A GROUP OF ASSETS AND OPERATIONS ENGAGED IN PROVIDING PRODUCTS OR SERVICES THAT ARE SUBJECT TO RISKS AND RETURNS THAT ARE DIFFERENT FROM THOSE OF OTHER SEGMENTS.

2.5 STAFF RETIREMENT BENEFITS

HOLDING COMPANY – ANL

– PROVIDENT FUND

THE HOLDING COMPANY OPERATES AN APPROVED DEFINED CONTRIBUTORY PROVIDENT FUND FOR ITS EMPLOYEES EXCLUDING EXPATRIATES. EQUAL CONTRIBUTIONS ARE MADE BY EMPLOYEE AND THE COMPANY @ 8.5 % PER MONTH OF BASIC PAY. INTEREST IS CHARGED @ 8.25% ON THE OUTSTANDING FUND BALANCE AND IS CHARGED TO PROFIT AND LOSS ACCOUNT.

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

PAK-AMERICAN FERTILIZERS LIMITED

– STAFF GRATUITY

THE COMPANY OPERATES AN APPROVED FUNDED GRATUITY SCHEME FOR ALL THOSE CONFIRMED EMPLOYEES WHO ARE NOT MEMBERS OF THE PENSION SCHEME. GRATUITY IS ADMISSIBLE ON COMPLETION OF THE STIPULATED MINIMUM QUALIFYING PERIOD OF SERVICE. AFTER PRIVITAZATION, GRATUITY IS RESTRICTED ONLY TO WORKERS.

– PENSION

THE COMPANY'S CONFIRMED EXECUTIVE EMPLOYEES, EXCEPT THOSE WHO DID NOT OPT FOR THE PENSION SCHEME AT THE TIME OF ITS INTRODUCTION, WERE ELIGIBLE FOR CERTAIN PENSION BENEFITS SUBJECT TO COMPLETION OF STIPULATED MINIMUM PERIOD OF SERVICE. THIS SCHEME WAS MANAGED ON BEHALF OF THE COMPANY BY NFC WHICH HAS BEEN DISCONTINUED W.E.F. 16.07.2006. THE COMPANY'S CONTRIBUTIONS TO THE SCHEME WERE BEING MADE AT 17 PER CENT OF BASIC SALARY AND ARE CHARGED TO THE PROFIT AND LOSS ACCOUNT PRIOR TO THAT DATE. AFTER PRIVITAZATION, PENSION SCHEME HAVE BEEN ABOLISHED.

– PROVIDENT FUND

THE COMPANY OPERATES A RECOGNIZED CONTRIBUTORY PROVIDENT FUND SCHEME WHICH COVERS ALL CONFIRMED EMPLOYEES AT THEIR OPTION. THE COMPANY AND EMPLOYEES MAKES AN EQUAL CONTRIBUTION AT THE RATE OF 10% FOR WORKERS AND 8.33% FOR EXECUTIVE EMPLOYEES.

2.6 TAXATION

INCOME TAX EXPENSES COMPRISES CURRENT AND DEFERRED TAX. INCOME TAX EXPENSE IS RECOGNISED IN PROFIT AND LOSS EXCEPT TO THE EXTENT THAT IT RELATES TO ITEMS RECOGNISED DIRECTLY IN EQUITY, IN WHICH CASE IT IS RECOGNISED IN EQUITY.

CURRENT

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

DEFERRED

DEFERRED TAX IS PROVIDED USING THE BALANCE SHEET 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 IS MEASURED AT THE TAX RATES THAT ARE EXPECTED TO BE APPLIED TO THE TEMPORARY DIFFERENCES WHEN THEY REVERSE, BASED ON THE LAWS THAT HAVE BEEN ENACTED OR SUBSTANTIVELY ENACTED BY THE REPORTING DATE.

DEFERRED TAX ASSETS ARE RECOGNIZED ONLY TO THE EXTENT THAT IT IS PROBABLE THAT FUTURE TAXABLE PROFITS WILL BE AVAILABLE AGAINST WHICH THESE ASSETS CAN BE UTILIZED. DEFERRED TAX ASSETS ARE REVIEWED AT EACH REPORTING DATE AND ARE REDUCED TO THE EXTENT THAT IT IS NO LONGER PROBABLE THAT THE RELATED TAX BENEFIT WILL BE REALISED.

DEFERRED TAX ASSETS AND LIABILITIES ARE CALCULATED AT THE RATES THAT ARE EXPECTED TO APPLY TO THE PERIOD WHEN THE ASSET IS REALIZED OR THE LIABILITY IS SETTLED, BASED ON THE TAX RATES (AND TAX LAWS) THAT HAVE BEEN ENACTED OR SUBSTANTIVELY ENACTED BY THE BALANCE SHEET DATE. DEFERRED TAX IS CHARGED OR CREDITED IN THE INCOME STATEMENT, EXCEPT IN THE CASE OF ITEMS CREDITED OR CHARGED TO EQUITY IN WHICH CASE IT IS INCLUDED IN EQUITY.

2.7 FIXED CAPITAL EXPENDITURE AND DEPRECIATION

PROPERTY, PLANT AND EQUIPMENT

PROPERTY, PLANT AND EQUIPMENT, EXCEPT FREEHOLD LAND, ARE STATED AT COST OR REVALUED AMOUNTS LESS ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSS, IF ANY. FREEHOLD LAND IS STATED AT REVALUED AMOUNT LESS IDENTIFIED IMPAIRMENT LOSS, IF ANY. COST IN RELATION TO SELF CONSTRUCTED ASSETS INCLUDES DIRECT COST OF MATERIAL, LABOUR AND ANY OTHER COSTS DIRECTLY ATTRIBUTABLE TO BRINGING THE ASSET TO A WORKING CONDITIONS OF ITS INTENDED USE.

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

THE COST OF REPLACING THE PART OF AN ITEM OF PROPERTY, PLANT AND EQUIPMENT IS RECOGNIZED IN THE CARRYING AMOUNT OF THE THE ITEMS IF IT IS PROBABLE THAT THE FUTURE ECONOMIC BENEFITS EMBODIES WITHIN PARTS WILL FLOW TO THE COMPANY AND ITS COST CAN BE MEASURED RELIABLY.

DIFFERENT ESTIMATES HAVE BEEN USED IN CALCULATING DEPRECIATION OF ASSETS OF PAFL A SUBSIDIARY COMPANY AS COMPARED TO OTHER GROUP COMPANIES KEEPING IN VIEW THE NATURE OF BUSINESS AND ASSETS IN USE, COMPARISON IN THIS REGARD IS AS FOLLOWS:

	GROUP COMPANIES REDUCING BALANCE	PAFL STRAIGHT LINE
DEPRECIATION METHOD		
DEPRECIATION RATES	% AGE	YEARS
BUILDINGS ON FREEHOLD LAND	5	20
PLANT AND MACHINERY	7.5	20
JOINT RESIDENTIAL COLONY ASSETS		3 TO 20
FURNITURE AND FITTINGS	10	3 TO 10
VEHICLES	20	
ROAD, RAIL TRANSPORT		5
RAILWAY SIDINGS		20
TOOLS AND EQUIPMENT	10	3 TO 10
OFFICE EQUIPMENTS	10	
ELECTRICAL INSTALLATIONS	10	20
SUI GAS INSTALLATIONS		20
WATER SUPPLY PIPELINE		20
BOOKS AND LITERATURE		10
CATALYSTS		AS DETERMINED BY ENGINEER

DEPRECIATION IS CHARGED TO INCOME WHEREBY COST OF AN ASSET IS WRITTEN OFF OVER ITS ESTIMATED USEFUL LIFE AT THE RATES GIVEN IN NOTE 16. AMOUNT EQUAL TO INCREMENTAL DEPRECIATION CHARGED DURING THE YEAR ON REVALUED AMOUNT OF ASSETS IS TRANSFERRED FROM SURPLUS ON REVALUATION OF FIXED ASSETS TO UNAPPROPRIATED PROFIT/ACCUMULATED LOSS THROUGH STATEMENT OF CHANGES IN EQUITY. THE ADJUSTMENTS MADE IN THIS CONTEXT AND THE AMOUNTS INVOLVED HAVE BEEN DISCLOSED IN NOTE 6 (SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT).

RESIDUAL VALUE AND THE USEFUL LIFE OF AN ASSET ARE REVIEWED AT LEAST AT EACH FINANCIAL YEAR-END.

DEPRECIATION ON ADDITIONS IS CHARGED ON A PRO-RATA BASIS FROM THE MONTH OF USE, WHILE FOR DISPOSALS DEPRECIATION IS CHARGED UP TO THE MONTH OF DISPOSAL. WHERE AN IMPAIRMENT LOSS IS RECOGNIZED, THE DEPRECIATION CHARGE IS ADJUSTED IN THE FUTURE PERIODS TO ALLOCATE THE ASSETS REVISED CARRYING AMOUNT OVER ITS ESTIMATED USEFUL LIFE.

MAINTENANCE AND REPAIRS ARE CHARGED TO INCOME AS AND WHEN INCURRED. MAJOR RENEWALS AND IMPROVEMENTS ARE CAPITALIZED AND THE ASSETS SO REPLACED, IF ANY, ARE RETIRED. GAINS AND LOSSES ON DISPOSALS OF ASSETS ARE INCLUDED IN INCOME. WHEN REVALUED ASSETS ARE SOLD, THE AMOUNTS INCLUDED IN REVALUATION RESERVE IS TRANSFERRED TO RETAINED EARNINGS.

CAPITAL WORK IN PROGRESS

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

2.8 INTANGIBLE ASSETS

2.8.1 RESEARCH AND DEVELOPMENT

EXPENDITURE ON RESEARCH ACTIVITIES, UNDERTAKEN WITH THE PROSPECT OF GAINING NEW SCIENTIFIC OR TECHNICAL KNOWLEDGE AND UNDERSTANDING, IS RECOGNIZED IN PROFIT AND LOSS WHEN INCURRED.

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

COSTS INCURRED ON DEVELOPMENT PROJECTS (RELATING TO DESIGN AND TESTING OF NEW OR IMPROVED PRODUCTS) ARE RECOGNIZED AS INTANGIBLE ASSETS ONLY IF ALL OF THE FOLLOWING CONDITIONS ARE MET;

- DEVELOPMENT COSTS CAN BE MEASURED RELIABLY,
- THE PRODUCT OR PROCESS IS TECHNICALLY AND COMMERCIALY FEASIBLE,
- AND THE THE COMPANY INTENDS TO AND HAS SUFFICIENT RESOURCES TO COMPLETE DEVELOPMENT AND TO USE OR SELL THE ASSET,
- AN ASSET IS CREATED THAT CAN BE IDENTIFIED; AND
- IT IS PROBABLE THAT THE ASSET CREATED WILL GENERATE FUTURE ECONOMIC BENEFITS.

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

CAPITLISED DEVELOPMENT EXPENDITURE IS MEASURED AT COST LESS ACCUMULATED AMORTIZATION AND ACCUMULATED IMPAIRMENT LOSSES.

2.8.2 GOODWILL

GOODWILL REPRESENTS THE DIFFERENCE BETWEEN THE CONSIDERATION PAID FOR ACQUIRING INTERESTS IN A COMPANY AND THE VALUE OF GROUP'S SHARE OF ITS NET ASSETS AT THE DATE OF ACQUISITION.

THE GROUP CARRIES OUT IMPAIRMENT TESTING OF THE GOODWILL IN ACCORDANCE WITH IAS 36, IMPAIRMENT OF ASSETS.

2.8.3 OTHERS

COSTS THAT ARE DIRECTLY ASSOCIATED WITH IDENTIFIABLE SOFTWARE PRODUCTS AND HAVE PROBABLE ECONOMIC BENEFITS BEYOND ONE YEAR ARE RECOGNISED AS INTANGIBLE ASSETS.

SOFTWARES AND OTHER INTANGIBLE ASSETS ARE AMORTIZED OVER THE PERIOD OF THEIR EXPECTED BENEFITS. THE AMORTIZATION PERIOD ADOPTED DOES NOT EXCEED FIVE YEARS.

2.9 ACCOUNTING FOR FINANCE LEASE

OPERATING LEASES

LEASES WHERE A SIGNIFICANT PORTION OF THE RISKS AND REWARDS OF OWNERSHIP ARE RETAINED BY THE LESSOR ARE CLASSIFIED AS OPERATING LEASES. PAYMENTS MADE UNDER OPERATING LEASES (NET OF ANY INCENTIVES RECEIVED FROM THE LESSOR) ARE CHARGED TO THE INCOME STATEMENT ON A STRAIGHT-LINE BASIS OVER THE PERIOD OF THE LEASE.

FINANCE LEASES

LEASES IN TERMS OF WHICH THE COMPANY HAS SUBSTANTIALLY ALL THE RISKS AND REWARDS OF OWNERSHIP ARE CLASSIFIED AS FINANCE LEASES. ASSETS SUBJECT TO FINANCE LEASE ARE STATED AT THE LOWER OF PRESENT VALUE OF MINIMUM LEASE PAYMENTS UNDER THE LEASE AGREEMENTS OR THE FAIR VALUE OF THE ASSETS, LESS ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSS, IF ANY.

THE RELATED RENTAL OBLIGATIONS, NET OF FINANCE COSTS ARE CLASSIFIED AS CURRENT AND LONG TERM DEPENDING UPON THE TIMING OF THE PAYMENT.

MINIMUM LEASE PAYMENTS MADE UNDER FINANCE LEASES ARE APPORTIONED BETWEEN THE FINANCE EXPENSE AND THE REDUCTION OF THE OUTSTANDING LIABILITY. THE FINANCE EXPENSE IS ALLOCATED TO EACH PERIOD DURING THE LEASE TERM SO AS TO PRODUCE A CONSTANT PERIODIC RATE OF INTEREST ON THE REMAINING BALANCE OF THE LIABILITY. CONTINGENT LEASE PAYMENTS , IF ANY ARE ACCOUNTED FOR BY REVISING THE MINIMUM LEASE PAYMENTS OVER THE REMAINING TERM OF THE LEASE WHEN THE LEASE ADJUSTMENT IS CONFIRMED. THE INTEREST ELEMENT OF THE RENTAL IS CHARGED TO INCOME OVER THE LEASE TERM.

ASSETS ACQUIRED UNDER A FINANCE LEASE ARE DEPRECIATED OVER THE ESTIMATED USEFUL LIFE OF THE ASSET AT THE RATES GIVEN IN NOTE 2.7. DEPRECIATION OF LEASED ASSETS IS CHARGED TO INCOME.

RESIDUAL VALUE AND THE USEFUL LIFE OF AN ASSET ARE REVIEWED AT LEAST AT EACH FINANCIAL YEAR-END.

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

2.10 INVESTMENTS

2.10.1 INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

THESE INCLUDE INVESTMENTS CLASSIFIED AS HELD FOR TRADING OR UPON INITIAL RECOGNITION IT IS DESIGNATED BY THE COMPANY AS AT FAIR VALUE THROUGH PROFIT OR LOSS. INVESTMENTS WHICH ARE ACQUIRED PRINCIPALLY FOR THE PURPOSE OF GENERATING A PROFIT FROM SHORT TERM FLUCTUATIONS IN PRICE OR DEALER'S MARGIN ARE CLASSIFIED AS HELD FOR TRADING. AFTER INITIAL RECOGNITION, THESE ARE STATED AT FAIR VALUES WITH ANY RESULTING GAINS AND LOSSES RECOGNIZED DIRECTLY IN INCOME CURRENTLY. FAIR VALUE OF INVESTMENTS IS THEIR QUOTED BID PRICE AT THE BALANCE SHEET DATE.

2.10.2 AVAILABLE FOR SALE

INVESTMENTS WHICH ARE INTENDED TO BE HELD FOR AN INDEFINITE PERIOD OF TIME BUT MAY BE SOLD IN RESPONSE TO THE NEED FOR LIQUIDITY ARE CLASSIFIED AS AVAILABLE-FOR-SALE. AFTER INITIAL RECOGNITION, THESE ARE STATED AT FAIR VALUES UNLESS FAIR VALUE CANNOT BE MEASURED RELIABLY WITH ANY RESULTING GAINS AND LOSSES BEING TAKEN DIRECTLY TO EQUITY UNTIL THE INVESTMENT IS DISPOSED OR IMPAIRED. AT THE TIME OF DISPOSAL, THE RESPECTIVE SURPLUS OR DEFICIT IS TRANSFERRED TO INCOME CURRENTLY. FAIR VALUE OF QUOTED INVESTMENTS IS THEIR BID PRICE AT THE BALANCE SHEET DATE.

2.10.3 HELD TO MATURITY INVESTMENTS

INVESTMENT WITH FIXED MATURITY THAT THE MANAGEMENT HAS THE INTENT AND ABILITY TO HOLD TO MATURITY ARE CLASSIFIED AS HELD TO MATURITY AND ARE INITIALLY RECOGNISED AT COST AND AT SUBSEQUENT REPORTING DATES MEASURED AT AMORTISED COST USING THE EFFECTIVE YIELD METHOD.

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 INVESTMENT. COST OF PURCHASE INCLUDES TRANSACTION COST.

CHANGES IN CARRYING VALUE ARE RECOGNIZED IN EQUITY UNTIL INVESTMENT IS SOLD OR DETERMINED TO BE IMPAIRED AT WHICH TIME THE CUMULATIVE GAIN OR LOSS PREVIOUSLY RECOGNIZED IN EQUITY IS INCLUDED IN PROFIT AND LOSS ACCOUNT FOR THE YEAR.

2.11 STORES, SPARES AND LOOSE TOOLS

USABLE STORES, SPARES AND LOOSE TOOLS GENERALLY HELD FOR INTERNAL USE ARE VALUED PRINCIPALLY AT MOVING AVERAGE COST, WHILE ITEMS CONSIDERED OBSOLETE ARE CARRIED AT NIL VALUE. ITEMS IN TRANSIT ARE VALUED AT COST COMPRISING INVOICE VALUE PLUS OTHER CHARGES PAID THEREIN.

PREVIOUSLY THESE WERE VALUED AT FIRST IN FIRST OUT COST. CHANGE IN POLICY IS BROUGHT INTO EFFECT TO PROPERLY REFLECT THE CONSUMPTION PATTERN AND MATCH IT WITH THE RELATED ECONOMIC BENEFITS DERIVED AND HAS RESULTED IN INCREASE IN VALUE OF STORES, SPARES AND LOOSE TOOLS BY Rs.3,522,597 AND CONSEQUENTLY INCREASE IN PROFIT FOR THE YEAR BY THE SAME AMOUNT. THE CHANGE HAS IMMATERIAL IMPACT ON EARNING PER SHARE. RETROSPECTIVE EFFECT HAS NOT BEEN MADE DUE TO IMMATERIALITY.

2.12 STOCK IN TRADE

BASIS OF VALUATION ARE AS FOLLOWS:

RAW MATERIALS

AT MILLS	- AT LOWER OF WEIGHTED AVERAGE COST AND NET REALIZABLE VALUE
IN-TRANSIT	- AT COST ACCUMULATED TO THE BALANCE SHEET DATE
WORK IN PROCESS	- AT LOWER OF MANUFACTURING COST AND NET REALIZABLE VALUE

FINISHED GOODS	- AT LOWER OF MANUFACTURING COST AND NET REALIZABLE VALUE
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WASTE	- AT NET REALIZABLE VALUE
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AVERAGE MANUFACTURING COST IN RELATION TO WORK IN PROCESS AND FINISHED GOODS INCLUDES PRIME COST AND PROPORTION OF PRODUCTION OVERHEADS.

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

RAW MATERIALS WERE PREVIOUSLY VALUED AT FIRST IN FIRST OUT COST. CHANGE IN POLICY IS BROUGHT INTO EFFECT TO PROPERLY REFLECT THE CONSUMPTION PATTERN AND MATCH IT

NOTES TO THE CONSOLIDATED ACCOUNTS

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WITH THE RELATED ECONOMICS BENEFITS DERIVED AND HAS RESULTED IN INCREASE IN VALUE OF RAW MATERIALS BY Rs.8,342,960 AND CONSEQUENTLY INCREASE IN PROFIT FOR THE YEAR BY THE SAME AMOUNT. THE CHANGE HAS IMMATERIAL IMPACT ON EARNING PER SHARE. RETROSPECTIVE EFFECT HAS NOT BEEN MADE DUE TO IMMATERIALITY.

2.13 FOREIGN CURRENCY TRANSACTIONS

MONETARY ASSETS AND LIABILITIES IN FOREIGN CURRENCIES ARE TRANSLATED INTO PAK RUPEES AT THE RATES OF EXCHANGE PREVAILING AT THE BALANCE SHEET DATE. FOREIGN CURRENCY TRANSACTIONS ARE TRANSLATED INTO PAK RUPEES PREVAILING AT THE DATE OF TRANSACTION. EXCHANGE DIFFERENCES ARE INCLUDED IN CURRENT PROFIT AND LOSS.

2.14 FINANCIAL INSTRUMENTS

2.14.1 FINANCIAL ASSETS

ALL FINANCIAL ASSETS HAVE BEEN STATED IN ACCORDANCE WITH THE REQUIREMENTS OF IAS-39 (FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT). FINANCIAL ASSETS ARE INITIALLY RECOGNIZED 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 RECOGNIZED USING TRADE DATE ACCOUNTING.

2.14.2 FINANCIAL LIABILITIES

ALL FINANCIAL LIABILITIES ARE INITIALLY RECOGNIZED 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 EXCEPT ANY FINANCIAL LIABILITY WHOSE FAIR VALUE CANNOT BE ESTIMATED RELIABLY, AMORTIZED COST OR COST AS THE CASE MAY BE.

2.14.3 DE-RECOGNITION

FINANCIAL ASSETS ARE DE-RECOGNIZED WHEN THE GROUP LOSSES CONTROL OF THE CONTRACTUAL RIGHTS THAT COMPRISE THE FINANCIAL ASSETS.

FINANCIAL LIABILITIES ARE DE-RECOGNIZED 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 PROFIT OR LOSS IN THE PERIOD IN WHICH IT ARISES.

2.14.4 TRADE DEBTORS

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

2.14.5 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.

2.14.6 PROVISIONS

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

2.14.7 OFF SETTING

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

2.14.8 CASH AND CASH EQUIVALENTS

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

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

2.14.9 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

2.15 DIVIDEND

DIVIDEND ON ORDINARY SHARES IS RECOGNIZED IN EQUITY IN THE PERIOD IN WHICH IT IS APPROVED.

2.16 REVENUE RECOGNITION

REVENUE REPRESENTS THE FAIR VALUE OF THE CONSIDERATION RECEIVED OR RECEIVABLE FOR GOODS SOLD, NET OF DISCOUNTS AND SALES TAX. REVENUE IS RECOGNIZED WHEN IT IS PROBABLE THAT THE ECONOMIC BENEFITS ASSOCIATED WITH THE TRANSACTION WILL FLOW TO THE COMPANY AND THE AMOUNT OF REVENUE, AND THE ASSOCIATED COST INCURRED, OR TO BE INCURRED, CAN BE MEASURED RELIABLY.

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

2.17 GOVERNMENT GRANTS

GRANTS THAT COMPENSATE THE COMPANY FOR EXPENSES INCURRED ARE RECOGNISED IN PROFIT AND LOSS ON A SYSTEMATIC BASIS IN THE SAME PERIODS IN WHICH THE EXPENSES ARE RECOGNISED AS STATED IN NOTE 31. GRANTS THAT COMPENSATE THE COMPANY FOR THE COST OF AN ASSET ARE RECOGNISED IN PROFIT AND LOSS ACCOUNT ON A SYSTEMATIC BASIS OVER THE USEFUL LIFE OF THE ASSET. OTHER GOVERNMENT GRANTS ARE RECOGNISED INITIALLY AS DEFERRED INCOME WHEN THERE IS REASONABLE ASSURANCE THAT THEY WILL BE RECEIVED AND THAT THE COMPANY WILL COMPLY WITH THE CONDITIONS ASSOCIATED WITH THE GRANT.

2.18 FINANCE COST

BORROWING COSTS DIRECTLY ATTRIBUTABLE TO THE ACQUISITION, CONSTRUCTION OR PRODUCTION OF QUALIFYING ASSETS, WHICH ARE ASSETS THAT NECESSARILY TAKES 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.

2.19 RELATED PARTY TRANSACTIONS

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

NOTES TO THE CONSOLIDATED ACCOUNTS

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2.20 IMPAIRMENT

THE CARRYING AMOUNT OF THE GROUP'S ASSETS ARE REVIEWED AT EACH BALANCE SHEET DATE TO DETERMINE WHETHER THERE IS ANY INDICATION OF IMPAIRMENT LOSS. IF ANY SUCH INDICATION EXISTS, THE ASSETS ARE WRITTEN DOWN TO THEIR ESTIMATED RECOVERABLE AMOUNT AND IMPAIRMENT LOSSES ARE RECOGNIZED 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.

2.21 CHANGE IN ACCOUNTING POLICIES

THERE HAVE BEEN NO CHANGE IN ACCOUNTING POLICIES EXCEPT FOR THOSE STATED IN NOTES 2.11 AND 2.12.

3	NOTE	31 DECEMBER, 06 RUPEES	31 DECEMBER, 05 RUPEES
3 SHARE CAPITAL			
3.1 AUTHORISED CAPITAL			
	1,500,000,000 (2005: 300,000,000) ORDINARY AND PREFERENCE SHARES OF Rs. 10/- EACH	<u>15,000,000,000</u>	<u>3,000,000,000</u>

THE COMPANY INTRODUCED A NEW CLASS OF ORDINARY SHARES (NON-VOTING) HAVING NO RIGHT TO RECEIVE NOTICE OF, ATTEND, OR VOTE AT ANY GENERAL MEETING EXCEPT AS OTHERWISE PROVIDED IN THE ORDINANCE, BY PASSING A SPECIAL RESOLUTION IN EXTRA ORDINARY GENERAL MEETING HELD ON MAY 12, 2006. AUTHORIZED CAPITAL OF THE COMPANY IS Rs. 15,000,000,000 DIVIDED INTO 900,000,000 (2005: 153,000,000) ORDINARY SHARES OF Rs.10 EACH, 300,000,000 (2005: 60,000,000) ORDINARY SHARES (NON-VOTING) OF Rs.10 EACH AND 300,000,000 (2005 : 87,000,000) PREFERENCE SHARES OF Rs.10 EACH.

3.2 ISSUED, SUBSCRIBED AND PAID UP CAPITAL:

2006 NUMBERS	2005 NUMBERS	NOTE	2006 RUPEES	2005 RUPEES
249,621,992	23,777,369	ORDINARY SHARES OF Rs.10/- EACH FULLY PAID IN CASH	2,496,219,920	237,773,690
12,276,073	12,276,073	ISSUED AS CONSIDERATION FOR MACHINERY	122,760,730	122,760,730
50,811,992	50,811,992	ISSUED AS CONSIDERATION FOR MERGER	508,119,920	508,119,920
<u>312,710,057</u>	<u>86,865,434</u>		<u>3,127,100,570</u>	<u>868,654,340</u>
66,173,833	86,865,434	PREFERENCE SHARES OF Rs. 10/- EACH FULLY PAID IN CASH	661,738,330	868,654,340
<u>378,883,890</u>	<u>173,730,868</u>		<u>3,788,838,900</u>	<u>1,737,308,680</u>

3.3 MOVEMENT DURING THE YEAR

- ORDINARY SHARES

86,865,434	86,865,434	AS AT 01 JANUARY,	868,654,340	868,654,340
14,070,288	-	CONVERSION OF PREFERENCE SHARES TO ORDINARY SHARES IN THE RATIO OF 6.8 ORDINARY SHARES FOR 10 PREFERENCE SHARES HELD	140,702,880	-
211,774,335	-	ORDINARY SHARES OF Rs.10 EACH ISSUED DURING THE YEAR AS RIGHT SHARES IN THE RATIO OF 21 SHARES FOR EVERY 10 SHARES HELD, FULLY PAID IN CASH	2,117,743,350	-
<u>312,710,057</u>	<u>86,865,434</u>		<u>3,127,100,570</u>	<u>868,654,340</u>

3.4 PREFERENCE SHARES

86,865,434	86,865,434	AS AT 01 JANUARY,	868,654,340	868,654,340
(20,691,601)	-	CONVERSION OF PREFERENCE SHARES TO ORDINARY SHARES IN THE RATIO OF 6.8 ORDINARY SHARES FOR 10 PREFERENCE SHARES HELD	(206,916,010)	-
<u>66,173,833</u>	<u>86,865,434</u>		<u>661,738,330</u>	<u>868,654,340</u>

THE COMPANY ISSUED CUMULATIVE PREFERENCE SHARES DURING THE YEAR ENDED 30 SEPTEMBER, 2004. THESE ARE NON-VOTING, NON-PARTICIPATORY, PARTLY CONVERTIBLE AND ARE REDEEMABLE IN 6 YEARS FROM THE DATE OF ISSUANCE. THESE ARE LISTED ON KARACHI STOCK EXCHANGE (GUARANTEE) LIMITED. THE TERMS AND CONDITIONS OF ISSUE ARE AS FOLLOWS:

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

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.

REDEMPTION OPTION AND TIMING

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

- 50% OF THE ISSUED AMOUNT AT THE END OF FIFTH (5TH) YEAR OF ISSUANCE/ALLOTMENT;
- 50% OF THE ISSUED AMOUNT AT THE END OF SIXTH (6TH) YEAR OF ISSUANCE/ALLOTMENT;

CONVERSION/ SWAP

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

REDEMPTION RESERVE

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

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

PREFERENCE SHARES HAVE BEEN CLASSIFIED AS PART OF EQUITY CAPITAL IN ACCORDANCE WITH THE TERMS AND CONDITIONS OF ISSUE, TAKING INTO CONSIDERATION THE IMPLIED CLASSIFICATION OF SHARE CAPITAL AS INHERENT IN THE VARIOUS PROVISIONS OF THE COMPANIES ORDINANCE, 1984. FURTHER THE CONTRADICTIONS BETWEEN IMPLIED CLASSIFICATION OF SHARE CAPITAL INHERENT IN THE VARIOUS PROVISIONS OF THE COMPANIES ORDINANCE, 1984 AND IFRSs ARE PENDING CLARIFICATION AND RESOLUTION WITH SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN.

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

	NOTE	31 DECEMBER, 06 RUPEES	31 DECEMBER, 05 RUPEES
4 RESERVES			
CAPITAL RESERVES			
SHARE PREMIUM ON ORDINARY SHARES	4.1	2,633,371,139	71,657,838
PREFERENCE SHARES REDEMPTION RESERVE		313,500,000	212,500,000
RESERVE ON MERGER		105,152,005	105,152,005
		3,052,023,144	389,309,843
SURPLUS ON REVALUATION OF INVESTMENTS		587,148	562,710
HEDGING RESERVE	4.2		
AT THE BEGINNING OF THE YEAR		13,458,916	-
INCREASE IN THE FAIR VALUE OF CASH FLOW HEDGING DERIVATIVES		510,199,721	13,458,916
		523,658,637	13,458,916
EXCHANGE DIFFERENCE ON TRANSLATION OF FINANCIAL STATEMENTS OF FOREIGN SUBSIDIARY		27,878	27,878
		3,576,296,807	403,359,347
4.1 SHARE PREMIUM ON ORDINARY SHARES			
AT THE BEGINNING OF THE YEAR		71,657,838	106,433,368
PREMIUM ON RIGHT ISSUE AT THE RATE OF RS.11.95 PER SHARE		2,530,703,303	-
PREMIUM ON CONVERSION OF PREFERENCE SHARES TO ORDINARY SHARES AT THE RATE OF RS.3.20 PER SHARE		66,213,130	-
		2,668,574,271	106,433,368
EXPENSES INCURRED ON ISSUE OF COMPANY'S SECURITIES		35,203,132	34,775,530
		2,633,371,139	71,657,838

4.2 HEDGING RESERVE

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

THE INCREASE IN FAIR VALUE OF INTEREST RATE SWAP CONTRACTS HAS BEEN RECOGNISED IN THE STATEMENT OF CHANGES IN EQUITY AS HEDGING RESERVE. BREAK-UP OF FAIR VALUES OF SWAP CONTRACTS AS AT 31 DECEMBER, 2006 IS AS FOLLOWS:

FINANCE OBTAINED FROM PRIVATELY PLACED TFCs	SWAPPED WITH CITI BANK N.A.	7.1	(621,936)
CITI BANK N.A.	STANDARD CHARTERED BANK	8.3	(1,128,096)
CITI BANK N.A.	CITI BANK N.A.	8.3	(722,198)
CITI BANK N.A.	CITI BANK N.A.	13.2	(29,549,376)
			(32,021,607)
PRIVATELY PLACED TFCs	STANDARD CHARTERED BANK	7.1	11,998,746
TERM FINANCE CERTIFICATES	ABN AMRO	7.2	308,757,130
UNITED BANK LIMITED	STANDARD CHARTERED BANK	8.2	4,400,130
NATIONAL BANK OF PAKISTAN	CITI BANK N.A.	8.5	138,900,571
DEUTSCHE INVESTITIONS -UND MBH	CITI BANK N.A.	8.6	91,623,667
			555,680,244

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

	NOTE	31 DECEMBER, 06 RUPEES	31 DECEMBER, 05 RUPEES
5	MINORITY INTEREST		
	OPENING BALANCE	1,759,518	2,742,560
	MINORITY INTEREST ON FORMATION OF AZSOFT (PVT.) LTD. SHARE OF PROFIT/ LOSS) FOR THE YEAR	- 4,068	2,000 (985,042)
		1,763,586	1,759,518
6	SURPLUS ON REVALUATION OF PROPERTY PLANT AND EQUIPMENT		
	OPENING BALANCE	278,943,671	306,564,511
	SURPLUS TRANSFERRED TO UNAPPROPRIATED PROFIT RELATING TO:		
	- CURRENT YEAR DEPRECIATION	17,583,248	27,392,552
	- DISPOSAL OF REVALUED FIXED ASSETS	3,999,556	228,288
		21,582,804	27,620,840
		257,360,867	278,943,671

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

7 REDEEMABLE CAPITAL

HOLDING COMPANY

- TERM FINANCE CERTIFICATES (TFCs) - I	7.1	187,500,000	250,000,000
- TERM FINANCE CERTIFICATES (TFCs) - II	7.2	2,142,812,532	2,143,670,000
SUBSIDIARY COMPANY - PAFL			
- PRIVATELY PLACED TERM FINANCE CERTIFICATES - III	7.3	4,800,000,000	-
- PRIVATELY PLACED TERM FINANCE CERTIFICATES - IV	7.4	1,686,000,000	-
		8,816,312,532	2,393,670,000
CURRENT MATURITY GROUPED UNDER CURRENT LIABILITIES		1,103,359,068	63,357,468
		7,712,953,464	2,330,312,532

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

TERMS OF REPAYMENT

CALL OPTION/ PARTIAL CALL OPTION

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

RATE OF RETURN

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

TRUSTEE

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

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

SECURITY

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

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

TERMS OF REPAYMENT

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

PROFIT RATE AND PAYMENT

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

CONVERSION OPTION

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

SECURITY

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

TRUSTEE

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

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

- 7.3 PPTFCs HAVE BEEN ISSUED BY WAY OF PRIVATE PLACEMENTS WITH A CONSORTIUM OF INVESTORS. THE TOTAL ISSUE COMPRISES OF 6,900 (INCLUDING 2,100 PPTFCs HELD BY HOLDING COMPANY ELIMINATED IN CONSOLIDATION) PPTFCs HAVING FACE VALE OF RS. 1,000,000.

TERMS OF REPAYMENT

CALL OPTION

PAFL MAY REDEEM THE PPTFCs BY WAY OF EXERCISE OF THE CALL OPTION BY GIVING WRITTEN NOTICE TO THE PPTFC HOLDERS AND THE TRUSTEE OF NOT LESS THAN 30 DAYS. CALL OPTION WILL BE EXERCISABLE AFTER EXPIRY OF 6 MONTHS FROM THE DATE OF ISSUE.

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

RATE OF RETURN

THE RETURN ON PPTFCs IS PAYABLE QUARTERLY. THIS IS CALCULATED AT SIX MONTHS KIBOR PLUS MARGIN OF 3.25%.

TRUSTEE

IN ORDER TO PROTECT THE INTERESTS OF PPTFC HOLDERS, FAYSAL BANK LIMITED HAS BEEN APPOINTED AS TRUSTEE UNDER A TRUST DEED DATED 12 JULY, 2006.

SECURITY

THIS FINANCE IS SECURED BY FIRST PARI PASSU CHARGE OVER PRESENT AND FUTURE FIXED ASSETS.

- 7.4 PPTFCs HAVE BEEN ISSUED BY WAY OF PRIVATE PLACEMENTS WITH A CONSORTIUM OF INVESTORS. THE TOTAL ISSUE COMPRISES OF 1,686 PPTFCs HAVING FACE VALE OF Rs. 1,000,000.

TERMS OF REPAYMENT

CALL OPTION

PAFL MAY REDEEM THE PPTFCs BY WAY OF EXERCISE OF THE CALL OPTION BY GIVING WRITTEN NOTICE TO THE PPTFC HOLDERS AND THE TRUSTEE OF NOT LESS THAN 7 DAYS. CALL OPTION WILL BE EXERCISABLE AT ANY TIME FROM THE DATE OF ISSUE.

RATE OF RETURN

THE RETURN ON PPTFCs IS PAYABLE QUARTERLY. THIS IS CALCULATED AT SIX MONTHS KIBOR PLUS MARGIN OF 3.25%.

TRUSTEE

IN ORDER TO PROTECT THE INTERESTS OF PPTFC HOLDERS, FAYSAL BANK LIMITED HAS BEEN APPOINTED AS TRUSTEE UNDER A TRUST DEED DATED 12 JULY, 2006.

SECURITY

THIS FINANCE IS SECURED BY FIRST PARI PASSU CHARGE OVER PRESENT AND FUTURE FIXED ASSETS.

	NOTE	31 DECEMBER, 06 RUPEES	31 DECEMBER, 05 RUPEES
IT INCLUDES PAYABLE TO RELATED PARTIES AS FOLLOWS:			
	PAKISTAN INTERNATIONAL CONTAINER TERMINAL	220,000,000	-
	ALI JAHANGIR SIDDIQUI	226,000,000	-
	AHMED H. SHAIKH	50,000,000	-
	AEHSUN H. SHAIKH	50,000,000	-
		546,000,000	-
8	LONG TERM FINANCING - SECURED		
	HABIB BANK LIMITED (HBL)	8.1 200,000,000	250,000,000
	UNITED BANK LIMITED (UBL)	8.2 200,000,000	200,000,000
	CITI BANK N.A		
	- FINANCE 1	8.3 133,333,334	200,000,000
	- FINANCE 2	8.4 600,000,000	-
	NATIONAL BANK OF PAKISTAN (NBP)	8.5 1,500,000,000	-
	DEUTSCHE INVESTITIONS-UND MBH	8.6 1,207,350,000	-
	FAYSAL BANK LIMITED (FBL)	8.7 17,446,722	-
		3,858,130,056	650,000,000
	CURRENT MATURITY GROUPED UNDER CURRENT LIABILITIES	338,913,068	302,080,000
		3,519,216,988	347,920,000

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

- 8.1** THE HOLDING COMPANY OBTAINED THIS FINANCE FROM CONSORTIUM OF BANKS LEAD BY HBL WHICH IS REPAYABLE IN 10 EQUAL HALF YEARLY INSTALLMENTS COMMENCING FROM DECEMBER, 2003. THE FINANCE CARRIES MARK-UP BASED ON 6 MONTHS OFFER RATE OF KIBOR PLUS 280 BPS WITH NO FLOOR NO CAP. IT IS SECURED BY WAY OF FIRST PARI PASSU CHARGE ON THE PROJECT THROUGH EQUITABLE MORTGAGE ON LAND AND BUILDING AND HYPOTHECATION OF PLANT AND MACHINERY.
- THE LOAN INCLUDES SHARE OF SAUDI PAK COMMERCIAL BANK OF RS. 20 MILLION. IN DECEMBER 2006, SHARE OF SAUDI PAK COMMERCIAL BANK HAS BEEN SWAPPED UNDER SBP'S LTF EOP SCHEME. THE LOAN NOW CARRIES MARK-UP OF 7%.
- 8.2** THE FACILITY CARRIES MARK-UP AT THE RATE OF KIBOR AT THE BEGINNING OF EACH CALENDAR QUARTER PLUS 1.75%. THE FACILITY IS REPAYABLE IN 8 EQUAL SEMI ANNUAL INSTALLMENTS COMMENCING FROM DECEMBER 2005 WITH MARK-UP BEING PAYABLE ON QUARTERLY BASIS COMMENCING SEPTEMBER 2005. THE FACILITY IS SECURED AGAINST 1ST PARI PASSU CHARGE ON FIXED ASSETS AND DEMAND PROMISSORY NOTES.
- THIS FACILITY HAS BEEN SWAPPED UNDER SBP'S LTF EOP SCHEME IN DECEMBER 2006. THE FACILITY NOW CARRIES MARK UP RATE OF 7%.
- 8.3** THE FACILITY CARRIES MARK-UP AT THE RATE OF 8% PER ANNUM AND IS REPAYABLE IN 6 EQUAL HALF YEARLY INSTALLMENTS COMMENCING FROM FEBRUARY 2006. THE FACILITY IS SECURED BY WAY OF HYPOTHECATION AND/OR HYPOTHECATION OVER THE PRESENT AND FUTURE FIXED ASSETS OF THE HOLDING COMPANY AND DEMAND PROMISSORY NOTES.
- THIS FACILITY HAS BEEN SWAPPED UNDER SBP'S LTF EOP SCHEME IN FEBRUARY 2007. THE FACILITY NOW CARRIES MARK UP RATE OF 6%.
- 8.4** THE FACILITY CARRIES MARK-UP BASED ON 6 MONTHS KIBOR PLUS 3.25% WITH NO FLOOR NO CAP. THIS FACILITY IS REPAYABLE IN 16 EQUAL QUARTERLY INSTALLMENTS COMMENCING OCTOBER, 2007. IT IS SECURED BY WAY OF FIRST PARI PASSU CHARGE OVER ALL PRESENT AND FUTURE FIXED ASSETS, INVESTMENTS OF THE HOLDING COMPANY, MORTGAGE OVER LAND AND BUILDING AND PLEDGE OF SECURITIES.
- THIS FACILITY HAS BEEN SWAPPED WITH CITIBANK BAHRAIN FOR \$ 10,000,000 IN FEBRUARY 2007. THE FACILITY NOW CARRIES MARK UP OF 6 MONTHS LIBOR PLUS 4%.
- 8.5** THE FACILITY CARRIES MARK-UP BASED ON 6 MONTHS KIBOR PLUS 3.25% AND IS REPAYABLE IN 12 EQUAL HALF YEARLY INSTALLMENTS COMMENCING JANUARY, 2008 WITH MARK-UP BEING PAYABLE ON HALF YEARLY BASIS COMMENCING JANUARY, 2007. IT IS SECURED BY WAY OF FIRST CHARGE OVER THE HYPOTHECATED FIXED ASSETS, RANKING CHARGE OVER THE HYPOTHECATED CURRENT ASSETS OF THE HOLDING COMPANY, MORTGAGE OVER LAND AND BUILDING, PLEDGE OF SECURITIES
- COMPANY HAS ENTERED INTO CROSS CURRENCY SWAP AGREEMENT WITH CITIBANK NA. AS PER SWAP AGREEMENT LIABILITY HAS BEEN CONVERTED INTO US DOLLARS AND COMPANY IS LIABLE TO PAY MARK-UP BASED ON LIBOR PLUS 4.75%.
- 8.6** THE HOLDING COMPANY DURING THE PREVIOUS YEAR ENTERED INTO A FINANCING AGREEMENT TO THE TUNE OF EURO 15 MILLION WITH DEUTSCHE INVESTITIONS-UND MBH A FINANCIAL INSTITUTION INCORPORATED UNDER THE LAWS OF GERMANY. FUNDS HAVE BEEN USED TO FINANCE THE INSTALLATION OF NEW SPINNING, DENIM AND GARMENT PROJECTS. THE FACILITY CARRIES INTEREST AT SIX MONTHS EURIBOR PLUS 3.25% PER ANNUM AND IS REPAYABLE IN 10 EQUAL HALF YEARLY INSTALLMENTS COMMENCING AUGUST 15, 2008. THIS LOAN IS SECURED BY FIRST PARI PASSU CHARGE OVER LAND, BUILDINGS AND ALL MOVABLE ASSETS, AND PROMISSORY NOTE.
- COMPANY HAS ENTERED INTO CROSS CURRENCY SWAP AGREEMENT WITH CITIBANK NA. AS PER SWAP AGREEMENT LIABILITY HAS BEEN CONVERTED INTO SWISS FRANC AND COMPANY IS LIABLE TO PAY MARK-UP BASED ON CHF LIBOR PLUS 3.55%.
- 8.7** THE HOLDING COMPANY OBTAINED THIS FINANCE FROM FBL UNDER STATE BANK OF PAKISTAN'S LTF-EOP SCHEME AS A CONVERSION OF LEASE FINANCES INTO LTF. THIS FACILITY CARRIES MARK-UP AT THE RATE OF 6% PER ANNUM PAYABLE ON QUARTERLY BASIS. THIS FINANCE IS REPAYABLE ON QUARTERLY BASIS IN SEVEN UNEQUAL INSTALLMENTS COMMENCING MARCH, 2007.
- 8.8** IN ORDER TO PROTECT ITSELF FROM ADVERSE INTEREST RATE MOVEMENTS, IN RESPECT OF ABOVE FINANCING, THE HOLDING COMPANY HAS ENTERED INTO INTEREST RATE SWAP AGREEMENTS, CURRENCY SWAP AGREEMENTS AND FOREIGN EXCHANGE OPTIONS WITH VARIOUS BANKS.
- OUT OF TOTAL OUTSTANDING LOANS, LOANS AMOUNTING TO RS. 5,600 MILLION HAS BEEN HEDGED USING ABOVEMENTIONED DERIVATIVES.

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

	NOTE	31 DECEMBER, 06 RUPEES	31 DECEMBER, 05 RUPEES
9	LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE – SECURED		
	GROSS MINIMUM LEASE PAYMENTS NOT LATER THAN ONE YEAR	55,992,001	81,542,809
	LATER THAN ONE YEAR BUT NOT LATER THAN FIVE YEARS	20,574,168	48,714,073
		76,566,169	130,256,882
	LESS: FINANCIAL CHARGES ALLOCATED TO FUTURE PERIODS	6,747,198	10,097,006
		69,818,971	120,159,876
	LESS: SECURITY DEPOSITS ADJUSTABLE ON EXPIRY OF LEASE TERMS	3,964,950	11,642,598
		65,854,021	108,517,278
	LESS: CURRENT MATURITY GROUPED UNDER CURRENT LIABILITIES	48,769,663	68,343,306
		17,084,358	40,173,972
	PRESENT VALUE OF MINIMUM LEASE PAYMENTS NOT LATER THAN ONE YEAR	48,769,663	68,343,306
	LATER THAN ONE YEAR BUT NOT LATER THAN FIVE YEARS	17,084,358	40,173,972
		65,854,021	108,517,278

THE GROUP HAS ACQUIRED PLANT AND MACHINERY AND VEHICLES FROM VARIOUS LEASING COMPANIES. RENTALS ARE PAYABLE IN MONTHLY/QUARTERLY INSTALLMENTS UPTO SEPTEMBER, 2010. THE DISCOUNT FACTORS APPLIED RANGE BETWEEN 5.50% TO 13.46% PER ANNUM. THE GROUP 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. DURING THE YEAR AN AMOUNT OF Rs.17,446,222 HAS BEEN CONVERTED INTO LONG TERM FINANCE AS DETAILED IN NOTE 8.7.

10 LONG TERM DEPOSITS – UNSECURED

THIS INCLUDES DEPOSITS RECEIVED FROM CUSTOMERS AND RETENTION MONEY PAYABLE TO CONTRACTORS DUE AFTER TWELVE MONTHS.

11 DEFERRED TAX LIABILITY

THIS RELATES TO A SUBSIDIARY COMPANY – PAF L AND COMPRISES OF THE FOLLOWING:

DEFERRED TAX LIABILITY

DIFFERENCE IN TAX AND ACCOUNTING BASE OF PROPERTY, PLANT & EQUIPMENT

3,045,970,012

–

DEFERRED TAX ASSET

UNUSED TAX LOSSES

(1,594,681,254)

–

1,451,288,758

–

11.1 IT IS EXPECTED THAT TAXABLE PROFITS WILL BE AVAILABLE IN THE FORESEEABLE FUTURE AGAINST WHICH DEFERRED TAX ASSET CAN BE UTILISED.

11.2 THE HOLDING COMPANY'S EXPORT SALES (INCLUDING INDIRECT EXPORTS) DURING THE YEAR ENDING DECEMBER 31, 2006 ACHIEVED THE THRESHOLD OF PRESUMPTIVE TAX AND THE TREND IS EXPECTED TO CONTINUE IN FORESEEABLE FUTURE. ACCORDINGLY, NO PROVISION FOR DEFERRED TAX HAS BEEN MADE.

11.3 THERE ARE NO OTHER MATERIAL TIMING DIFFERENCES EXCEPT FOR THOSE AGAINST WHICH DEFERRED TAX LIABILITY HAS BEEN ACCOUNTED FOR. EFFECTIVE TAX RATE FOR THE CALCULATION OF DEFERRED TAX LIABILITY IS 35%.

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

	NOTE	31 DECEMBER, 06 RUPEES	31 DECEMBER, 05 RUPEES
12	CURRENT PORTION OF LONG TERM LIABILITIES		
	REDEEMABLE CAPITAL	7 1,103,359,068	63,357,468
	LONG TERM FINANCING	8 338,913,068	302,080,000
	LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE	9 48,769,663	68,343,306
		<u>1,491,041,799</u>	<u>433,780,774</u>
13	SHORT TERM BORROWINGS		
	SECURED		
	SHORT TERM PRIVATELY PLACED TERM FINANCE CERTIFICATES	13.1 2,500,000,000	-
	SHORT TERM FINANCES	13.2 2,973,729,661	2,395,697,717
	SHORT TERM RUNNING FINANCES	13.3 912,969,656	702,820,703
		<u>6,386,699,317</u>	<u>3,098,518,420</u>
	UNSECURED		
	TEMPORARY OVERDRAFT	13.4 69,418,313	43,883,904
		<u>6,456,117,630</u>	<u>3,142,402,324</u>

13.1 TFCs HAVE BEEN ISSUED BY WAY OF PRIVATE PLACEMENTS WITH A CONSORTIUM OF INSTITUTIONAL INVESTORS. THE TOTAL ISSUE COMPRISES OF 500,000 TFCs HAVING FACE VALE OF Rs. 5,000 EACH.

TERMS OF REPAYMENT

CALL OPTION

THE HOLDING COMPANY MAY REDEEM THE TFCs BY WAY OF EXERCISE OF THE CALL OPTION BY GIVING WRITTEN NOTICE TO THE TFC HOLDERS AND THE TRUSTEE OF NOT LESS THAN ONE DAY.

RATE OF RETURN

THE RETURN ON TFCs IS PAYABLE ON QUARTERLY BASIS. THIS IS CALCULATED AT SIX MONTHS KIBOR PREVAILING ON THE ISSUE DATE AND SUBSEQUENTLY ON THE FIRST BUSINESS DAY AT THE BEGINNING OF EVERY ALTERNATE QUARTER IN RESPECT OF WHICH PROFIT PAYMENT IS DUE ON THE TWO SUBSEQUENT REDEMPTION DATES PLUS MARGIN OF 3.00%.

TRUSTEE

IN ORDER TO PROTECT THE INTERESTS OF TFC HOLDERS, JAHANGIR SIDDIQUI INVESTMENT BANK LIMITED HAS BEEN APPOINTED AS TRUSTEE UNDER A TRUST DEED DATED 5TH JULY, 2006.

SECURITY

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

13.2 THESE REPRESENT SHORT-TERM FINANCING FACILITIES AVAILABLE FROM VARIOUS BANKS AMOUNTING TO Rs.4,710.00 MILLION (2005: Rs.4,380.29 MILLION) INCLUDING US \$ 27.84 MILLION (2005: US \$ 15.83 MILLION). THESE FACILITIES CARRY MARK-UP AT THE RATES RANGING BETWEEN Re.0.14 TO Re.0.39 PER Rs. 1,000 PER DAY.

L/C LIMITS AVAILABLE FOR OPENING LETTERS OF CREDIT/GUARANTEE AGGREGATE Rs.1,646.00 MILLION (2005: Rs.2,369.48 MILLION) OF WHICH THE AMOUNT REMAINING UN-UTILIZED AT THE YEAR END WAS Rs.851.39 MILLION (2005: Rs.1,586.81 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 AND LIEN ON DOCUMENTS OF THE TITLE OF GOODS.

THESE INCLUDE FOREIGN CURRENCY LIABILITY OF US \$ 6.13 MILLION (2005: US \$ 4.13 MILLION) WHICH HAVE BEEN CONVERTED INTO PAK RUPEES AT THE EXCHANGE RATE PREVAILING ON THE BALANCE SHEET DATE I.E. US \$1 = Rs.60.98 (2005: U.S.\$ 1 = Rs.59.93).

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

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

FACILITIES AVAILABLE TO A SUBSIDIARY COMPANY – PAFL FROM FAYSAL BANK LIMITED AND BANK ALFALAH LIMITED AMOUNTING RS.450 MILLION HAVE BEEN FULLY UTILISED BY THE SUBSIDIARY COMPANY. THESE FACILITIES CARRY MARK-UP AT THE RATE OF KIBOR PLUS 2%. THESE FINANCES ARE SECURED BY 1ST PARI PASSU CHARGE OVER CURRENT ASSETS OF THE SUBSIDIARY COMPANY.

- 13.3 SHORT TERM RUNNING FINANCE FACILITIES AVAILABLE FROM VARIOUS BANKS UNDER MARK UP ARRANGEMENTS AMOUNT TO RS.1,065.50 MILLION (2005:RS.912.50 MILLION). THESE FACILITIES CARRIES MARK-UP AT THE RATES RANGING BETWEEN RE.0.26 TO RE.0.39 PER RS. 1,000 PER DAY.

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.

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

	NOTE	31 DECEMBER, 06 RUPEES	31 DECEMBER, 05 RUPEES
14	CREDITORS, ACCRUED AND OTHER LIABILITIES		
	CREDITORS		
	14.1	528,563,432	134,896,010
	BILLS PAYABLE – SECURED	195,065,104	394,601,913
	ACCRUED LIABILITIES	184,649,939	76,516,977
	PAYABLE TO OPTees OF GOLDEN HAND SHAKE / VOLUNTARY SEPARATION SCHEME	17,082,880	-
	SECURITY DEPOSITs	14,475,526	-
	WORKERS' WELFARE FUND	20,000	20,000
	ADVANCES FROM CUSTOMERS	31,129,299	15,089,698
	MARK-UP ACCRUED ON:		
	LONG TERM FINANCES INCLUDING TERM FINANCE CERTIFICATES	498,747,831	96,071,732
	SHORT TERM BORROWINGS	73,858,235	58,717,720
	LEASE FINANCE CHARGES	863,999	1,414,929
	WORKER'S PROFIT PARTICIPATION FUND	40,465,455	24,509,700
	14.2		
	SALES TAX PAYABLE	29,102,276	-
	TAX DEDUCTED AT SOURCE	22,143,170	15,470,450
	OTHER LIABILITIES	101,306,516	14,571,055
		1,737,473,662	831,880,184
	14.1 THIS INCLUDES RS.130 MILLION PAYABLE AGAINST PURCHASE OF GARMENT UNIT.		
	14.2 WORKERS' PROFIT PARTICIPATION FUND		
	OPENING BALANCE	24,509,700	20,803,281
	LIABILITY OF A SUBSIDIARY – PAFL AT THE TIME OF ACQUISITION	33,548,346	-
	ADD: INTEREST ON FUNDS UTILIZED BY THE GROUP	1,014,852	326,582
		59,072,898	21,129,863
	LESS: PAYMENTS MADE DURING THE YEAR	26,706,640	21,127,936
	DEPOSITED IN GOVERNMENT TREASURY	-	1,927
		26,706,640	21,129,863
		32,366,258	-
	ADD: CONTRIBUTION FOR THE YEAR	8,099,197	24,509,700
		40,465,455	24,509,700

NOTES TO THE CONSOLIDATED ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER, 2006

NOTE	31 DECEMBER, 06 RUPEES	31 DECEMBER, 05 RUPEES
15 PROVISION FOR TAXATION		
15.1 CURRENT		
OPENING BALANCE	79,684,435	64,824,871
ADD: PROVISION MADE DURING THE YEAR		
- CURRENT YEAR		
HOLDING	115,569,082	47,858,304
SUBSIDIARIES	8,070,585	-
- PRIOR YEARS	-	2,999,573
	123,639,667	50,857,877
	203,324,102	115,682,748
LESS: ADJUSTED AGAINST COMPLETED ASSESSMENTS	8,060,214	35,998,313
	195,263,888	79,684,435

15.2 CURRENT STATUS OF PENDING TAX ASSESSMENTS

15.2.1 INCOME TAX ASSESSMENTS OF AZGARD NINE LIMITED HAVE BEEN COMPLETED UP TO THE ASSESSMENT YEAR 2002-03. CENTRAL BOARD OF REVENUE HAS SELECTED TAX YEARS 2003, 2004, 2005, 2006 FOR DETAILED AUDIT. THE COMPANY'S APPEALS FOR ASSESSMENT YEARS 1996-1997, 1998-1999, 1999-2000, 2000-2001 & 2001-2002 BEFORE THE LAHORE HIGH COURT ARE PENDING FOR ADJUDICATION AND ASSESSMENT YEAR 2002-03 IS PENDING BEFORE CIT APPEALS.

15.2.2 THE HOLDING COMPANY HAS FILED APPEALS PERTAINING TO CASES OF NAFEEES COTTON MILLS (NOW MERGED INTO THE HOLDING COMPANY) BEFORE THE INCOME TAX APPELLATE TRIBUNAL FOR THE ASSESSMENT YEARS 1999-2000, 2000-2001, 2001-2002, 2002-2003 WHICH ARE PENDING FOR ADJUDICATION. THE HOLDING COMPANY HAS ALSO FILED APPEAL BEFORE THE COMMISSIONER OF INCOME TAX (APPEALS) FOR THE TAX YEAR 2003, WHICH IS PENDING FOR ADJUDICATION.

15.2.3 PROVISION FOR CURRENT YEAR'S TAXATION OF HOLDING COMPANY 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 AND SECTION 5 OF THE ORDINANCE.

15.2.4 PROVISION FOR CURRENT YEAR'S TAXATION OF SUBSIDIARIES REPRESENTS TAX PAYABLE UNDER SECTION 113 OF THE ORDINANCE.

15.3 AS THE HOLDING COMPANY IS SUBJECT TO FINAL TAXATION AND PROVISION FOR SUBSIDIARY'S TAXATION REPRESENT TAX PAYABLE UNDER SECTION 113 OF THE ORDINANCE, HENCE NO TAX RATE RECONCILIATION HAS BEEN PRESENTED.

16 CONTINGENCIES AND COMMITMENTS

THERE ARE NO CONTINGENCIES AND COMMITMENTS RELATING TO NIT AND APL.

HOLDING COMPANY

CONTINGENCIES

16.1 THE HOLDING COMPANY WAS DENIED EXEMPTION BY THE CUSTOMS DEPARTMENT UNDER SRO 484(I)/92 FROM LEVY OF CUSTOMS DUTY AND SALES TAX ON CERTAIN PLANT AND MACHINERY. THE HOLDING COMPANY FILED AN APPEAL IN THE HIGH COURT, WHICH WAS DECIDED IN ITS FAVOUR. THE DEPARTMENT HAS FILED AN APPEAL AGAINST THE SAME IN THE SUPREME COURT. IN CASE OF ADVERSE DECISION THE MAXIMUM LIABILITY IS LIKELY TO RISE TO Rs.9.40 MILLION APPROXIMATELY. NO PROVISION HAS BEEN MADE IN THESE ACCOUNTS SINCE THE HOLDING COMPANY EXPECTS A FAVORABLE OUTCOME.

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

16.2 THE HOLDING COMPANY IMPORTED TEXTILE MACHINERY AVAILING EXEMPTION FROM CUSTOMS DUTY AND SALES TAX ON IMPORTATION THEREOF UNDER VARIOUS SROs. THE CLAIM SUBJECT TO FULFILLMENT OF CERTAIN CONDITIONS AGGREGATES Rs.45.739 MILLION (2005: Rs. 68.156 MILLION).

16.3 REFER TO CONTENTS OF NOTE 3.4 RELATING TO DIVIDENDS PAYABLE ON PREFERENCE SHARES.

COMMITMENTS

16.4 COUNTER GUARANTEES GIVEN BY THE HOLDING COMPANY TO ITS BANKERS OUTSTANDING AS AT 31 DECEMBER, 2006 WERE FOR Rs.80 MILLION (2005: Rs. 24 MILLION).

16.5 COMMITMENTS AGAINST IRREVOCABLE LETTERS OF CREDIT OUTSTANDING FOR PURCHASE OF RAW MATERIALS AS AT 31ST DECEMBER, 2006 AMOUNT TO Rs.193.94 MILLION (2005:Rs.126.89 MILLION).

SUBSIDIARY COMPANY – PAFL

CONTINGENCIES

16.6 THE CONTRACTOR'S CLAIM AMOUNTING TO Rs.983.260 MILLION AGAINST THE COMPANY NOT ACKNOWLEDGED AS DEBT BECAUSE THE COMPANY ALSO HAS COUNTER CLAIM AMOUNTING TO Rs. 2,555.966 MILLION AGAINST THE CONTRACTOR. THE CLAIMS ARE UNDER SETTLEMENT WITH ARBITRATOR.

16.7 A PETITION HAD BEEN FILED BY THE EX-EMPLOYEES WHO OPTED VOLUNTARY SEPARATION SCHEME IN JULY, 1997 AND DEMANDING THE BENEFITS OF GOLDEN HAND SHAKE SCHEME WHICH WAS INTRODUCED AFTER JULY, 1997. THE COMPANY ESTIMATES THE LIABILITY AMOUNTING TO Rs. 14 MILLION AGAINST SUCH A CLAIM, IN CASE THE DECISION IS MADE AGAINST THE COMPANY. HOWEVER, THE MANAGEMENT IS OF THE OPINION THAT NO SUCH SCHEME WAS PAYABLE TO THOSE EMPLOYEES.

16.10 CERTAIN LABOUR CASES WERE PENDING BEFORE THE LABOUR COURTS, WHERE THE CLAIM CAN NOT BE QUANTIFIED AND ASCERTAINED AT THIS STAGE.

COMMITMENTS

16.11 COMMITMENTS AGAINST IRREVOCABLE LETTERS OF CREDIT OUTSTANDING AS AT 31ST DECEMBER, 2006 AMOUNTING TO Rs.6.127 MILLION.

NOTES TO THE CONSOLIDATED ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER, 2006

17. OPERATING FIXED ASSETS

PARTICULARS	COST / REVALUATION					DEPRECIATION					NET BOOK VALUE AS AT 31 DECEMBER, 2006	
	AS AT 01 JANUARY, 2006	ASSETS OF SUBSIDIARY ON ACQUISITION	ADDITIONS, DURING THE YEAR	LEASED ASSETS TRANSFERS	DISPOSALS	AS AT 31 DECEMBER, 2006	AS AT 01 JANUARY, 2006	DEPRECIATION OF SUBSIDIARY ON ACQUISITION	FOR THE YEAR	ON DISPOSALS / TRANSFERS		AS AT 31 DECEMBER, 2006
OWNED:												
FREEHOLD LAND												
- COST	361,012,241	29,531,584	148,184,868	-	-	538,728,693	-	-	-	-	538,728,693	
- REVALUATION	8,442,352	-	1,810,214,666	-	-	1,818,657,018	-	-	-	-	1,818,657,018	
	369,454,593	29,531,584	1,958,399,534	-	-	2,357,385,711	-	-	-	-	2,357,385,711	
BUILDINGS ON FREEHOLD LAND												
- COST	390,221,160	605,452,700	1,126,472,095	-	448,693	2,121,697,262	107,563,909	266,664,209	33,812,348	(448,683)	407,591,783	1,714,105,479
- REVALUATION	19,455,864	-	429,550,920	-	-	449,006,784	3,405,916	-	7,965,199	-	11,371,115	437,635,669
	409,677,024	605,452,700	1,556,023,015	-	448,693	2,570,704,046	110,969,825	266,664,209	41,777,547	(448,683)	418,962,898	2,151,741,148
PLANT AND MACHINERY												
- COST	2,828,182,043	7,462,708,580	3,338,783,614	42,900,000	22,890,903	13,649,683,334	953,326,027	3,587,270,176	317,816,035	(8,160,780)	4,862,040,102	8,787,643,232
- REVALUATION	385,911,486	-	5,177,890,741	-	5,983,667	5,557,818,560	131,460,115	-	103,075,410	(1,788,644)	232,551,414	5,325,267,146
	3,214,093,529	7,462,708,580	8,516,674,355	42,900,000	28,874,570	19,207,501,894	1,084,786,142	3,587,270,176	420,891,445	1,643,753	5,094,591,516	14,112,910,378
SHARE OF JOINT RESIDENTIAL COLONY ASSETS												
- COST	-	10,000,354	61,116	-	-	10,061,470	-	8,529,953	107,165	-	8,637,118	1,424,352
- REVALUATION	-	-	60,216,186	-	-	60,216,186	-	-	1,003,603	-	1,003,603	59,212,583
	-	10,000,354	60,277,302	-	-	70,277,656	-	8,529,953	1,110,768	-	9,640,721	60,636,935
FURNITURE AND FITTINGS												
VEHICLES	23,449,579	43,004,302	25,664,609	-	841,701	91,276,789	7,836,564	32,114,250	3,686,295	(6,13,510)	43,023,599	48,253,190
	24,489,840	-	4,115,565	2,550,000	2,577,167	28,578,238	17,174,971	-	1,605,281	(1,485,420)	18,916,427	9,661,811
ROAD, RAIL TRANSPORT	-	104,668,210	-	-	2,176,229	102,491,981	-	91,974,725	3,486,033	(1,781,014)	93,679,744	8,812,237
RAILWAY SIDINGS	-	17,709,023	-	-	-	17,709,023	-	9,014,255	328,719	-	9,342,974	8,366,049
TOOLS AND EQUIPMENT	12,200,839	168,447,371	53,240,647	-	-	233,888,857	4,526,529	113,204,668	10,044,982	-	127,776,179	106,112,678
OFFICE EQUIPMENTS	71,842,754	-	19,495,901	-	-	91,338,655	17,925,030	-	6,344,273	-	24,269,303	67,069,352
ELECTRICAL INSTALLATIONS	76,110,707	1,291,635,206	38,762,454	-	-	1,406,508,367	24,780,528	614,405,202	30,830,867	-	670,016,597	736,491,770
SUI GAS INSTALLATIONS	-	13,072,962	-	-	-	13,072,962	-	6,441,379	245,665	-	6,687,044	6,385,918
WATER SUPPLY PIPELINE	-	23,815,011	-	-	-	23,815,011	-	12,830,214	404,430	-	13,234,644	10,580,367
BOOKS AND LITERATURE	-	608,309	-	-	-	608,309	-	322,807	22,608	-	345,415	262,894
CATALYSTS	-	3,943,787	-	-	-	3,943,787	-	985,941	657,300	-	1,643,241	2,300,546
	4,201,318,865	9,774,597,399	12,232,653,382	45,450,000	34,918,360	26,219,101,286	1,267,999,589	4,743,757,779	521,436,213	(1,063,279)	6,532,130,302	19,686,970,984
LEASED:												
PLANT AND MACHINERY	219,765,143	-	-	(42,900,000)	-	176,865,143	44,662,531	-	11,833,881	(11,788,644)	44,707,768	132,157,375
VEHICLES	12,351,499	-	12,779,960	(2,550,000)	-	22,581,459	6,218,860	-	1,957,469	(1,621,595)	6,554,734	16,026,725
	232,116,642	-	12,779,960	(45,450,000)	-	199,446,602	50,881,391	-	13,791,350	(13,410,239)	51,262,502	148,184,100
2006 RUPEES	4,433,435,507	9,774,597,399	12,245,433,342	-	34,918,360	26,418,547,888	1,318,880,980	4,743,757,779	535,227,563	(14,473,518)	6,583,392,804	19,835,155,084
2005 RUPEES	3,913,800,722	-	543,216,764	-	23,581,979	4,433,435,507	1,065,864,321	-	264,284,035	(11,267,376)	1,318,880,980	3,114,554,527

17.1 THE METHOD FOR CHARGE OF DEPRECIATION HAS BEEN CHANGED FROM FULL YEAR DEPRECIATION ON ADDITIONS DURING THE YEAR AND NO DEPRECIATION ON DISPOSALS DURING THE YEAR, WITH THE EXCEPTION OF MAJOR ADDITIONS OR EXTENSIONS TO PRODUCTION FACILITIES, EFFECTED BY CAPITALIZATION, OUT OF CAPITAL WORK IN PROGRESS ARE DEPRECIATED ON A PRO RATA BASIS, TO DEPRECIATION ON ADDITIONS IS CHARGED FROM THE MONTH IN WHICH PROPERTY, PLANT AND EQUIPMENT IS AVAILABLE FOR USE WHILE NO DEPRECIATION IS CHARGED FOR THE MONTH IN WHICH PROPERTY, PLANT AND EQUIPMENT IS DISPOSED OFF. THERE IS NO MATERIAL IMPACT DUE TO CHANGE IN ACCOUNTING ESTIMATE.

17.2 DISPOSAL OF OPERATING FIXED ASSETS.

PARTICULARS	COST	ACCUMULATED DEPRECIATION	BOOK VALUE	SALE PROCEEDS	GAIN	MODE OF DISPOSAL	PARTICULARS OF PURCHASER
BUILDING							
GASIFICATION BUILDING	448,693	448,683	10	75,000	74,990	TENDER	M/S MEHMOOD & CO.
MACHINERY							
SINGLE NEEDLE STITCH MACHINE	5,241,794	2,416,745	2,825,049				
SINGLE NEEDLE STITCH MACHINE	1,602,573	716,356	886,217				
DOUBLE NEEDLE STITCH MACHINE	7,997,672	3,552,611	4,445,061				
SINGLE NEEDLE STITCH MACHINE	748,852	342,563	406,289				
WASTE BEND MACHINE	549,150	178,777	370,373				
COVER STITCH MACHINE	195,989	63,803	132,186				
BOTTOM HEM MACHINE	66,581	18,826	47,755				
SINGLE NEEDLE STITCH MACHINE	212,175	47,653	164,522				
SAFETY OVER LOCK MACHINE	535,822	277,229	258,594				
MOCK STITCH MACHINE	93,453	40,402	53,051				
BARTAK MACHINE	1,447,913	625,302	822,611				
SINGLE NEEDLE STITCH MACHINE	228,000	36,872	191,128				
FEED ARM	952,572	154,049	798,523				
	19,872,546	8,471,188	11,401,359	11,474,500	73,140	NEGOTIATION	M. ASHRAF & CO.
WASHING MACHINE							
HYDRO EXTRACTOR	195,000	43,795	151,205				
HYDRO EXTRACTOR	500,000	112,295	387,706				
HYDRO EXTRACTOR	475,000	106,680	368,320				
	1,170,000	262,770	907,230	203,896	(703,335)	NEGOTIATION	MASTER KHALIL
DRAW FRAMES - 3	3,916,012	695,402	3,220,609	1,800,000	(1,420,609)	NEGOTIATION	SHADMAN COTTON MILLS, LAHORE
CARD MACHINES - 8 (HERGTH SHOOT FEED)	3,916,012	715,531	3,200,481	4,680,000	1,479,519	NEGOTIATION	SHOAB SALMAN TEXTILE MILLS, LAHORE
	28,874,570	10,144,891	18,729,679	18,158,396	(571,285)		
VEHICLES							
SUZUKI BALENO	675,667	376,662	299,005	414,000	114,995	NEGOTIATION	MR. IRFAN KHURSHID
TOYOTA COROLLA	699,000	627,758	71,242	510,000	438,758	NEGOTIATION	MR. MATI UR REHMAN (EMPLOYEE)
TOYOTA COROLLA	1,202,500	481,000	721,500	800,000	78,500	NEGOTIATION	DR. MASOOD IQBAL SAJID
SUZUKI BALENO	512,000	511,990	10	10	-	RETIREMENT BENEFITS	MR. RIAZ A. KHAN
SUZUKI CULTUS	537,654	537,644	10	10	-	RETIREMENT BENEFITS	MR. ABDUL KHALIQ
SUZUKI CULTUS	565,075	226,030	339,045	339,045	-	RETIREMENT BENEFITS	MR. M. ISHAQ KHAN
SUZUKI CULTUS	561,500	505,350	56,150	56,150	-	RETIREMENT BENEFITS	MR. AHMAD DIN
	4,753,396	3,266,434	1,486,962	2,119,215	632,253		
FURNITURE AND FIXTURE							
CHAIRS, TABLES AND RACKS	818,492	592,308	226,184	117,000	(109,184)	NEGOTIATION	MR. SHAHZADA SAMUEL
MISCELLANEOUS FURNITURE	23,013	21,008	2,005	14,200	12,195	RETIREMENT BENEFITS	EX-EMPLOYEES
CROKERY & CUTLERY	196	194	2	200	198	NEGOTIATION	EX-EMPLOYEES
	841,701	613,510	228,191	131,400	(96,791)		
RUPEES	34,918,360	14,473,518	20,444,842	20,484,011	39,168		

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

	NOTE	31 DECEMBER, 06 RUPEES	31 DECEMBER, 05 RUPEES
17.3	DEPRECIATION FOR THE YEAR HAS BEEN APPORTIONED AS UNDER:		
	COST OF SALES	526,663,809	253,998,842
	ADMINISTRATIVE AND SELLING EXPENSES	7,901,890	10,031,523
	AMORTISATION OF CATALYST	657,300	-
	EXPERIMENTAL FARM	4,564	-
		535,227,563	264,030,365
18	CAPITAL WORK IN PROGRESS		
	CIVIL WORK	134,667,619	488,574,237
	PLANT AND MACHINERY	44,055,354	1,975,292,610
	ELECTRIC INSTALLATIONS	-	15,920,713
	OFFICE EQUIPMENT FITTING AND OTHERS	-	116,100
		178,722,973	2,479,903,660
19	INTANGIBLE ASSETS		
	DEVELOPMENT COSTS	47,948,625	64,221,974
	ERP - ORACLE FINANCIAL	12,596,184	9,715,302
	GOODWILL	3,710,522,948	-
		3,771,067,757	73,937,276
19.1	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.		
	COST	81,187,908	81,187,908
	AMORTIZATION		
	AS ON 01 JANUARY, / 01 OCTOBER,	16,965,934	-
	FOR THE YEAR / PERIOD	16,273,349	16,965,934
	AS ON 31 DECEMBER,	33,239,283	16,965,934
		47,948,625	64,221,974
19.2	THIS REPRESENTS COST RELATING TO IMPLEMENTATION OF ORACLE FINANCIAL, WHICH IS UNDER PROCESS AS AT BALANCE SHEET DATE.		
20	LONG TERM INVESTMENTS		
	OTHERS		
	AVAILABLE FOR SALE		
	QUOTED - AT FAIR VALUE		
	COLONY TEXTILE MILLS LTD.		
	4,332 (2005:456) ORDINARY SHARES OF RS.10 EACH	8,664	8,664
	APPRECIATION IN VALUE OF INVESTMENT	29,024	2,736
	MARKET VALUE RS.8.70 PER SHARE (2005: RS.25.00)	37,688	11,400
	BSJS BALANCED FUND LTD.		
	1,000 ORDINARY SHARES OF RS. 10 EACH.	10,000	10,000
	APPRECIATION IN VALUE OF INVESTMENT	1,400	3,250
	MARKET VALUE RS.11.40 PER SHARE (2005: RS.13.25)	11,400	13,250
	UNQUOTED		
	NATIONAL SECURITY INSURANCE CO. LTD.		
	221,504 ORDINARY SHARES OF RS.10 EACH	996,768	996,768
	EQUITY HELD 12.66% (2005: 12.66%)	(996,768)	-
	PROVISION FOR IMPAIRMENT	-	996,768
		49,088	1,021,418

NOTES TO THE CONSOLIDATED ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER, 2006

	NOTE	31 DECEMBER, 06 RUPEES	31 DECEMBER, 05 RUPEES
21	LONG TERM ADVANCES AND DEPOSITS		
	ADVANCES		
	ADVANCES TO STAFF – UNSECURED, CONSIDERED GOOD	10,275,023	–
	ADVANCES TO STAFF – SECURED, CONSIDERED GOOD	2,201,805	–
	LESS: CURRENT PORTION GROUPED UNDER CURRENT ASSET	(3,581,095)	–
		8,895,733	–
	DEPOSITS		
	21.1		
	OPENING BALANCE	29,745,135	18,517,830
	DEPOSITS OF SUBSIDIARY	3,383,297	–
	COSTS INCURRED DURING THE YEAR	1,201,647	11,227,305
	REFUND RECEIVED	(10,069,300)	–
		24,260,779	29,745,135
		33,156,512	29,745,135

21.1 THESE INCLUDE SECURITY DEPOSITS FOR ELECTRICITY Rs. 5,327,400 AND WITH SUI NORTHERN GAS PIPE LINES LTD. Rs.5,235,500 (2005: Rs.15,265,300).

22	STORES, SPARES AND LOOSE TOOLS		
	STORE	129,415,302	60,280,813
	SPARES	653,733,146	27,069,375
	LOOSE TOOLS	3,316,870	440,167
		786,465,317	87,790,355

22.1 INCLUDED IN STORES AND SPARES ARE ITEMS IN TRANSIT VALUING Rs.5.665 MILLION (2005: Rs.0.662 MILLION).

22.2 THE GROUP DOES NOT HOLD ANY STORES AND SPARES FOR SPECIFIC CAPITALIZATION.

22.3 THE VALUE OF SLOW MOVING STORES AND SPARES IS NOT MATERIAL AND HENCE NO PROVISION IS MADE IN THESE FINANCIAL STATEMENTS.

23	STOCK IN TRADE		
	RAW MATERIALS	1,395,795,324	1,507,912,595
	WORK IN PROCESS	342,640,598	227,469,465
	WORK IN PROCESS – TRIAL RUN	–	10,272,756
	FINISHED GOODS	378,975,303	266,597,655
	FINISHED GOODS – TRIAL RUN	–	23,446,575
	WASTE	122,719	176,023
		2,117,533,944	2,035,875,069

23.1 INCLUDED IN RAW MATERIALS ARE STOCKS IN TRANSIT VALUING Rs.14.967 MILLION (2005:Rs.62.030 MILLION) AND STOCKS IN CUSTOMS BOND NIL (2005: Rs.7.293 MILLION).

23.2 STOCKS AMOUNTING TO Rs.1,033 MILLION (2005: Rs.1,044.249 MILLION) HAVE BEEN PLEDGED AS SECURITY WITH VARIOUS BANKS AGAINST FINANCING FACILITIES.

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

	NOTE	31 DECEMBER, 06 RUPEES	31 DECEMBER, 05 RUPEES
24	TRADE DEBTS		
	CONSIDERED GOOD:		
	SECURED	533,406,805	519,678,402
	UN-SECURED	986,982,486	514,990,993
	CONSIDERED DOUBTFUL	4,249,348	4,249,348
		<u>1,524,638,639</u>	<u>1,038,918,743</u>
	LESS: PROVISION FOR DOUBTFUL DEBTS	4,249,348	4,249,348
		<u>1,520,389,291</u>	<u>1,034,669,395</u>
	24.1 THESE ARE SECURED BY LETTER OF CREDIT.		
25	ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		
	ADVANCES – UNSECURED CONSIDERED GOOD		
	TO EMPLOYEES	39,577,648	31,059,330
	CURRENT PORTION OF LONG TERM ADVANCES TO EMPLOYEES	3,581,095	-
	TO SUPPLIERS, CONTRACTORS AND OTHERS	267,849,882	407,631,218
	SECURITY DEPOSITS	7,523,215	3,115,165
	MARGIN DEPOSITS	8,053,085	2,297,956
	PREPAYMENTS	22,643,775	10,064,786
	EXPORT REBATE RECEIVABLE	43,340,387	56,947,188
	ACCRUED MARK-UP	106,074,767	-
	SALES TAX RECOVERABLE	106,264,996	81,783,885
	LETTERS OF CREDIT	74,673,154	175,710,254
	TAX DEDUCTED AT SOURCE / TAX REFUNDABLE	221,622,317	107,828,533
	INSURANCE CLAIM	4,107,165	14,462,187
	OTHER RECEIVABLES – UNSECURED, CONSIDERED GOOD	12,141,006	6,352,225
		<u>917,452,492</u>	<u>897,252,727</u>
	LESS: PROVISION FOR DOUBTFUL ADVANCES	1,033,465	-
		<u>916,419,027</u>	<u>897,252,727</u>

25.1 ADVANCES TO EMPLOYEES ARE AGAINST PURCHASE AND OTHER EXPENSES ON GROUP'S BEHALF.

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

25.3 IT REPRESENTS DEPOSITS AGAINST LETTERS OF CREDIT AND OTHER WORKING CAPITAL UTILIZED.

25.4 THIS INCLUDES AN AMOUNT OF Rs. 1,033,465 RECEIVABLE FROM KARACHI MUNICIPAL CORPORATION, FOR OCTROI FOR WHICH PROVISION FOR DOUBTFUL DEBT HAS BEEN CREATED.

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

26	NOTE	31 DECEMBER, 06 RUPEES	31 DECEMBER, 05 RUPEES
	SHORT TERM INVESTMENTS		
	HELD FOR TRADING		
	QUOTED		
	BANK OF PUNJAB		
	13,000 ORDINARY SHARES OF Rs.10 EACH	-	1,358,399
	DIMINUTION IN VALUE OF INVESTMENT	-	(26,549)
	MARKET VALUE Rs.102.45 PER SHARE	-	1,331,850
	NATIONAL BANK OF PAKISTAN		
	160,100 ORDINARY SHARES OF Rs.10 EACH	-	32,242,667
	DIMINUTION IN VALUE OF INVESTMENT	-	(310,722)
	MARKET VALUE Rs.199.45 PER SHARE	-	31,931,945
	MUSLIM COMMERCIAL BANK LTD.		
	30,000 ORDINARY SHARES OF Rs.10 EACH	-	5,428,051
	DIMINUTION IN VALUE OF INVESTMENT	-	(394,051)
	MARKET VALUE Rs.167.80 PER SHARE	-	5,034,000
	ABAMCO CAPITAL FUND		
	4,897,000 ORDINARY SHARES OF Rs.10 EACH	-	39,910,550
	APPRECIATION IN VALUE OF INVESTMENT	-	26,198,950
	MARKET VALUE Rs.13.50 PER SHARE	-	66,109,500
	ASKARI COMMERCIAL BANK LIMITED		
	189,500 ORDINARY SHARES OF Rs.10 EACH	-	24,089,087
	DIMINUTION IN VALUE OF INVESTMENT	-	(60,487)
	MARKET VALUE Rs.126.80 PER SHARE	-	24,028,600
	FAUJI FERTILIZERS LTD.		
	65,100 ORDINARY SHARES OF Rs.10 EACH	-	8,260,593
	APPRECIATION IN VALUE OF INVESTMENT	-	658,107
	MARKET VALUE Rs.137.00 PER SHARE	-	8,918,700
	ATTOCK REFINERY LIMITED		
	46,000 ORDINARY SHARES OF Rs.10 EACH	-	8,054,170
	APPRECIATION IN VALUE OF INVESTMENT	-	1,513,830
	MARKET VALUE Rs.208.00 PER SHARE	-	9,568,000
	FAYSAL BANK LTD		
	183,800 ORDINARY SHARE OF Rs.10 EACH	-	35,425,806
	APPRECIATION IN VALUE OF INVESTMENT	-	4,627,097
	MARKET VALUE Rs.217.92 PER SHARE	-	40,052,903
	ADAMJEE INSURANCE CO. LTD.		
	765,700 ORDINARY SHARES OF Rs.10 EACH	-	22,375,803
	APPRECIATION IN VALUE OF INVESTMENT	-	2,804,797
	MARKET VALUE Rs 32.88 PER SHARE	-	25,180,600
	LUCKY CEMENT		
	20,000 ORDINARY SHARES OF Rs.10 EACH	-	1,584,958
	APPRECIATION IN VALUE OF INVESTMENT	-	93,042
	MARKET VALUE Rs.83.90 PER SHARE	-	1,678,000
	PAKISTAN STATE OIL COMPANY LTD.		
	6,500 ORDINARY SHARES OF Rs.10 EACH	-	2,761,576
	DIMINUTION IN VALUE OF INVESTMENT	-	(52,051)
	MARKET VALUE Rs.416.85 PER SHARE	-	2,709,525
	BALANCE CARRIED FORWARD	-	216,543,623

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

	NOTE	31 DECEMBER, 06 RUPEES	31 DECEMBER, 05 RUPEES
BALANCE BROUGHT FORWARD		–	216,543,623
PAKISTAN INDUSTRIAL CREDIT AND INVESTMENT CORPORATION 4,000 ORDINARY SHARES OF RS.10 EACH		–	271,724
DIMINUTION IN VALUE OF INVESTMENT MARKET VALUE RS.64.80 PER SHARE		–	(12,524)
		–	259,200
HELD FOR SALE	26.1		
CHANDA OIL & GAS SECURITIZATION CO. LTD 12,895 SCRIPS OF RS.5,000 EACH		–	61,638,100
NAIMAT BASAL OIL 3,913 SCRIPS OF RS.5,000 EACH		–	18,275,160
TELECARD LIMITED – TFC 3,715 SCRIPS OF RS.5,000 EACH		–	18,571,285
HELD TO MATURITY			
TERM DEPOSIT RECEIPT	26.2	–	454,124,227
		–	769,411,595
26.1	THESE INVESTMENTS WERE PREVIOUSLY CLASSIFIED AS LONG TERM INVESTMENTS HOWEVER THESE HAVE BEEN RECLASSIFIED AS SHORT TERM INVESTMENT AFTER BEING SOLD DURING THE CURRENT PERIOD AND THE INFORMATION GIVEN UP RELATES TO YEAR 2005.		
26.2	THE BALANCE OF PREVIOUS YEAR REPRESENT INVESTMENT IN TDRs OF ABN AMRO BANK AMOUNTING TO US \$ 500,000/- FOR A PERIOD OF ONE MONTH AT THE RATE OF 2.60% AND IN TDRs OF NIB BANK AMOUNTING RS.423.943 MILLION FOR A PERIOD OF ONE MONTH AT THE RATE OF 9.00%.		
27	CASH AND BANK BALANCES		
CASH IN HAND		5,249,764	1,504,680
CASH WITH BANKS IN:			
CURRENT ACCOUNTS		1,109,348,922	40,664,598
SAVING ACCOUNTS		18,368,275	4,113,383
		1,127,717,197	44,777,981
		1,132,966,961	46,282,661
27.1	CASH AT BANKS ON CURRENT AND SAVING ACCOUNTS INCLUDE FOREIGN CURRENCY BALANCES OF US \$ 174,635.08 (2005: US \$ 158,205.83) & EURO 5,651,161.86 (2005: EURO 35,396.97) WHICH HAVE BEEN CONVERTED INTO PAK RUPEES AT THE EXCHANGE RATE PREVAILING ON THE BALANCE SHEET DATE I.E. US \$ 1 = RS.60.78 (2005: US \$ 1 = RS. 59.73) AND EURO 1 = RS.80.23 (2005: EURO 1 = RS.70.71).		

NOTES TO THE CONSOLIDATED ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER, 2006

	NOTE	01 JANUARY, 06 TO 31 DECEMBER, 06 RUPEES	01 OCTOBER, 04 TO 31 DECEMBER, 06 RUPEES
28 SALES -NET			
LOCAL		2,420,790,503	750,216,920
EXPORT (INCLUDING INDIRECT EXPORT) - NET OF EXPORT DEVELOPMENT SURCHARGE AMOUNTING TO Rs.6,018,082 TO (2005: Rs.5,730,404) AND EXCHANGE GAIN OF Rs.51,671,051 (2005:Rs.14,794,775).		4,131,916,193	3,870,557,096
WASTE		72,057,099	41,428,012
		6,624,763,795	4,662,202,028
LESS: COMMISSION TO SELLING AGENTS - LOCAL		82,884,055	34,860,167
- EXPORT		23,033,477	19,377,301
SALES TAX		991,696	136,731,073
BROKERAGE AND DISCOUNTS		12,892,405	10,404,558
		119,801,633	201,373,099
		6,504,962,162	4,460,828,929
29 COST OF SALES			
RAW MATERIALS AND OTHER DIRECT MATERIALS CONSUMED		2,752,329,067	1,824,980,048
SALARIES, WAGES AND BENEFITS	29.1	632,755,940	354,746,907
FUEL AND POWER		621,964,605	333,090,255
STORE AND SPARES CONSUMED		120,730,506	152,724,507
TRAVELING, CONVEYANCE AND ENTERTAINMENT		46,802,918	9,220,631
RENT, RATES AND TAXES		10,550,385	5,141,456
INSURANCE		29,653,432	8,064,020
REPAIR AND MAINTENANCE		38,413,582	22,665,131
PROCESSING CHARGES		29,898,239	22,330,528
DEPRECIATION	17.3	526,663,811	253,998,842
R & D AMORTIZATION		16,273,349	16,965,934
PRINTING & STATIONERY		3,732,388	3,797,218
COMMUNICATIONS		2,813,485	1,872,407
OTHERS		38,484,257	17,745,768
		4,871,065,964	3,027,343,652
ADJUSTMENT OF WORK IN PROCESS			
OPENING		227,469,465	220,379,606
STOCK RECEIVED FROM TRIAL RUN OPERATIONS		10,272,756	-
CLOSING		(342,640,598)	(227,469,465)
		(104,898,377)	(7,089,859)
COST OF GOODS MANUFACTURED		4,766,167,587	3,020,253,793
ADJUSTMENT OF FINISHED GOODS			
OPENING		266,773,678	568,868,224
STOCK RECEIVED FROM TRIAL RUN OPERATIONS		23,446,575	-
STOCKS OF A SUBSIDIARY - PAFL AT THE TIME OF ACQUISITION		20,493,020	-
CLOSING		(464,722,688)	(266,773,678)
		(154,009,415)	302,094,546
		4,612,158,172	3,322,348,339
29.1 SALARIES, WAGES AND BENEFITS INCLUDES CONTRIBUTIONS IN RESPECT OF STAFF RETIREMENT BENEFITS AMOUNTING TO Rs.14,746,685 (2005: Rs. 24,325,377).			

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

	NOTE	01 JANUARY, 06 TO 31 DECEMBER, 06 RUPEES	01 OCTOBER, 04 TO 31 DECEMBER, 06 RUPEES
30 ADMINISTRATIVE AND SELLING EXPENSES			
SALARIES AND BENEFITS	30.1	160,585,218	103,970,037
TRAVELING AND CONVEYANCE INCLUDING CHIEF EXECUTIVE/DIRECTORS' TRAVELING OF Rs.3,786,603 (2005:Rs.22,367,701)		70,997,114	54,340,963
POWER AND FUEL		5,135,713	3,303,763
REPAIR AND MAINTENANCE		5,835,059	3,581,988
RENT, RATES AND TAXES		3,429,834	760,014
INSURANCE		2,374,346	1,764,074
FREIGHT AND CLEARING CHARGES		204,240,454	80,684,019
PRINTING AND STATIONERY		3,648,302	3,457,129
COMMUNICATIONS		22,669,475	19,112,928
ADVERTISEMENT AND SALES PROMOTION		7,543,790	4,501,610
LEGAL AND PROFESSIONAL CHARGES	30.2	26,764,515	6,472,585
DEPRECIATION	17.3	7,901,890	10,285,193
AMORTIZATION OF TEXTILE QUOTA		-	23,564,403
FEES AND SUBSCRIPTION		8,032,648	3,441,907
OTHERS		24,837,513	8,242,759
		553,995,871	327,483,372

30.1 SALARIES, WAGES AND BENEFITS INCLUDES CONTRIBUTIONS IN RESPECT OF STAFF RETIREMENT BENEFITS AMOUNTING TO Rs.5,457,261 (2005: Rs.2,886,353).

30.2 LEGAL AND PROFESSIONAL CHARGES

THE CHARGES FOR PROFESSIONAL SERVICES INCLUDE THE FOLLOWING IN RESPECT OF AUDITOR'S SERVICES FOR:

HOLDING	AUDIT FEE	200,000	125,000
	HALF YEARLY REVIEW FEE	55,000	35,000
	REVIEW REPORT ON CODE OF CORPORATE GOVERNANCE	35,000	25,000
	CERTIFICATION AND OTHER SERVICES	315,000	161,250
PAFL	AUDIT FEE	495,225	-
APL	AUDIT FEE	35,000	20,000
		1,135,225	366,250

31 GOVERNMENTS GRANTS

THE COMPANY DURING THE PERIOD HAS LODGED CLAIMS AMOUNTING FOR Rs.94,204,206 (2005: Rs.53,036,367) AS RESEARCH & DEVELOPMENT REBATE WHICH HAS BEEN TREATED AS GOVERNMENT GRANT IN ACCORDANCE WITH IAS-20, "GOVERNMENT GRANT" AND IT HAS BEEN DEDUCTED IN REPORTING EXPENSES RELATING TO HIRING THE CONSULTANTS FOR ADOPTION OF NEW TECHNOLOGIES, INNOVATION AND SALES PROMOTION.

32 OTHER INCOME

FINANCIAL ASSETS			
GAIN ON SALE OF INVESTMENTS		58,478,149	199,442,372
UNREALIZED GAIN ON INVESTMENTS HELD FOR TRADING		-	35,039,438
MARK-UP ON TERM FINANCE CERTIFICATES		4,206,768	29,038,697
MARK UP ON STAFF ADVANCES		743,433	-
DIVIDEND INCOME		6,079,924	38,934,462
MISCELLANEOUS		2,045,916	2,992,762
		71,554,190	305,447,731

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

	NOTE	01 JANUARY, 06 TO 31 DECEMBER, 06 RUPEES	01 OCTOBER, 04 TO 31 DECEMBER, 06 RUPEES
33 FINANCE COST			
INTEREST ON:			
WORKERS' PROFIT PARTICIPATION FUND		1,014,852	326,582
MARK UP ON:			
LONG TERM FINANCING – SECURED		846,475,645	93,647,624
SHORT TERM BORROWINGS – SECURED		303,840,850	176,264,631
LEASE FINANCE CHARGES		7,911,405	9,724,293
GUARANTEE COMMISSION AND BANK CHARGES		46,294,748	28,512,347
LESS: RETURN ON BANK DEPOSITS		(18,313,547)	(17,966,099)
		1,187,223,953	290,509,378

33.1 BORROWING COST AMOUNTING Rs.295 MILLION (2005: Rs.92 MILLION) WERE CAPITALISED DURING THE YEAR.

34 OTHER CHARGES			
LOSS ON DISPOSAL OF FIXED ASSETS		(39,168)	6,661,778
DONATIONS	34.1	100,000	4,694,172
IMPAIRMENT LOSS ON LONG TERM INVESTMENT		996,768	-
		1,057,600	11,355,950

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

35 TAXATION			
CURRENT		123,639,667	50,857,877
DEFERRED		(65,182,370)	-
		58,457,297	50,857,877

36 EARNINGS PER SHARE (EPS)			
BASIC			
NET PROFIT AFTER TAX ATTRIBUTABLE TO ORDINARY SHAREHOLDERS		96,298,681	643,016,382
		NO. OF SHARES	NO. OF SHARES
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES		218,226,289	86,865,434
		RUPEES	RUPEES
		0.44	7.40
DILUTED			
NET PROFIT AFTER TAX ATTRIBUTABLE TO ORDINARY SHAREHOLDERS		96,298,681	643,016,382
EFFECT OF DILUTIVE POTENTIAL ORDINARY SHARES:			
INTEREST ON CONVERTIBLE TFCs		60,641,595	16,478,929
PREFERENCE DIVIDEND		623,667	24,295,176
EARNINGS FOR THE PURPOSES OF DILUTED EARNING PER SHARE		157,563,943	683,790,487
		NO. OF SHARES	NO. OF SHARES
WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES FOR BASIC EPS		218,226,289	86,865,434
EFFECT OF DILUTIVE POTENTIAL ORDINARY SHARES:			
CONVERTIBLE TFCs		26,389,317	14,767,124
PREFERENCE SHARES		696,835	4,203,110
WEIGHTED AVERAGE NO. OF ORDINARY SHARES FOR THE PURPOSES OF DILUTED EARNING PER SHARE		245,312,441	105,835,668
		RUPEES	RUPEES
	36.1	0.64	6.46

36.1 THE EFFECT OF COVERSION OF PREFERENCE SHARES AND TERM FINANCE CERTIFICATES IS ANTI DILUTIVE.

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

37 SEGMENT INFORMATION

PRIMARY REPORTING FORMAT – BUSINESS SEGMENTS

AT 31 DECEMBER 2006, THE GROUP IS ORGANISED INTO THREE MAIN BUSINESS SEGMENTS:

- MANUFACTURE AND SALE OF A TEXTILE PRODUCTS;
- MANUFACTURE AND SALE OF UREA FERTILIZER; AND
- DEVELOPMENT, IMPLEMENTATION AND SALE OF SOFTWARE PRODUCTS AND PROVIDING RELATED SERVICES.

SEGMENT RESULTS FOR THE YEAR ENDED 31 DECEMBER, 2006 ARE AS FOLLOWS:

	TEXTILE	FERTILIZER	SOFTWARE	GROUP
	RUPEES IN THOUSAND			
REVENUE	4,892,919	1,612,043	1,800	6,506,762
INNER SEGMENT REVENUE	-	-	(1,800)	(1,800)
GROUP REVENUE	4,892,919	1,612,043	-	6,504,962
OPERATING PROFIT	795,039	543,935	(166)	1,338,808
OTHER INCOME	69,970	1,584	-	71,554
FINANCE COST	(648,650)	(538,574)	-	(1,187,224)
WORKERS' PROFIT PARTICIPATION FUND	(7,753)	(346)	-	(8,099)
OTHERS	(1,145)	87	-	(1,058)
PROFIT BEFORE TAX	207,461	6,686	(166)	213,981
INCOME TAX EXPENSE	(115,569)	57,122	(10)	(58,457)
PROFIT FOR THE YEAR	91,892	63,808	(176)	155,524

OTHER SEGMENT ITEMS INCLUDED IN THE INCOME STATEMENT ARE AS FOLLOWS:

	TEXTILE	FERTILIZER	SOFTWARE	GROUP
DEPRECIATION	245,663	289,414	151	535,228
AMORTISATION	16,273	-	-	16,273

SEGMENT ASSETS

SEGMENT ASSETS CONSIST PRIMARILY OF PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS, INVESTMENTS IN ASSOCIATES, INVENTORIES, TRADE AND OTHER RECEIVABLES, DERIVATIVES DESIGNATED AS HEDGES OF FUTURE

SEGMENT LIABILITIES

SEGMENT LIABILITIES COMPRISE OPERATING LIABILITIES (INCLUDING DERIVATIVES DESIGNATED AS HEDGES OF FUTURE COMMERCIAL TRANSACTIONS).

CAPITAL EXPENDITURE

CAPITAL EXPENDITURE COMPRISES ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT NOTE 17 AND INTANGIBLE ASSETS NOTE 19, INCLUDING ADDITIONS RESULTING FROM ACQUISITIONS THROUGH BUSINESS COMBINATIONS NOTES 17, 19 AND 38.

THE SEGMENT ASSETS AND LIABILITIES AT 31 DECEMBER, 2006 AND CAPITAL EXPENDITURE FOR THE YEAR THEN ENDED ARE AS FOLLOWS:

	TEXTILE	FERTILIZER	SOFTWARE	GROUP
	RUPEES IN THOUSAND			
ASSETS	13,127,577	14,007,591	1,916	27,137,083
GOODWILL				3,710,523
				30,847,606
LIABILITIES	14,042,766	8,852,613	163	22,895,543
CAPITAL EXPENDITURE	2,445,558	1,848	-	2,447,406

38 BUSINESS COMBINATIONS

AZGARD NINE LIMITED (ANL) ACQUIRED 100% SHARES OF PAFL ON JULY 15, 2006 INCLUSIVE OF SHARES OFFERED TO THE EMPLOYEES OF THE PAFL, WHICH WERE DIVESTED BY THE EMPLOYEES IN FAVOR OF ANL. AS PERMITTED BY THE TERMS AND CONDITIONS OF PRIVATIZATION FOR THE PURPOSE OF RAISING FINANCE ANL FORMED A 100% SUBSIDIARY DOMINION FERTILIZERS (PVT.) LTD (DFL), ANL BY VIRTUE OF AN AGREEMENT TRANSFERRED 69.90% SHARES IN PAFL TO DFL. BY VIRTUE OF SUPPLEMENTARY AGREEMENT THE SHARES WERE REVERTED BACK TO ANL ON MERGER OF DFL INTO PAFL UNDER THE COURT ORDER DATED 07 DECEMBER, 2006 AS SUCH EFFECTIVELY ANL CONTINUED TO HOLD 100% SHARES SINCE ACQUISITION. THE RESULTS OF PAFL HAS BEEN CONSOLIDATED FROM 01 JULY, 2006 AS AUDITED ACCOUNTS HAVE NOT BEEN PREPARED FOR THE PERIOD ENDING JULY 14, 2006. FURTHER NO MATERIAL CHANGES IN NET ASSETS OF PAFL BETWEEN JULY 01, 2006 AND JULY 14, 2006 HAVE BEEN ESTIMATED BY THE MANAGEMENT AS SUCH THE GOODWILL HAS BEEN CALCULATED ON THE BASIS OF NET ASSETS DISCLOSED IN AUDITED ACCOUNTS AS OF 30 JUNE, 2006. THE ACQUIRED BUSINESS CONTRIBUTED REVENUES OF Rs.1,612 MILLION AND NET PROFIT OF Rs.64 MILLION TO THE GROUP FOR THE PERIOD FROM 01 JULY, 2006 TO 31 DECEMBER 2006. THESE AMOUNTS HAVE BEEN CALCULATED USING THE GROUP'S ACCOUNTING POLICIES.

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

	NOTE	RUPEES
38.1	DETAILS OF NET ASSETS ACQUIRED AND GOODWILL ARE AS FOLLOWS:	
	38.3	15,403,434,688
	38.2	11,692,911,740
		<u>3,710,522,948</u>

THE GOODWILL IS ATTRIBUTABLE TO THE WORKFORCE OF THE ACQUIRED BUSINESS, HIGH MARKET DEMAND OF UREA FERTILIZER AND THE SIGNIFICANT SYNERGIES EXPECTED TO ARISE AFTER THE GROUP'S ACQUISITION OF PAK-AMERICAN FERTILIZERS LIMITED.

38.2 THE FAIR VALUES OF ASSETS AND LIABILITIES AS OF 01 JULY, 2006 ARISING FROM THE ACQUISITION ARE AS FOLLOWS:

PROPERTY, PLANT AND EQUIPMENT	17	12,508,712,133
CAPITAL WORK IN PROGRESS		6,194,416
LONG TERM LOANS AND ADVANCES		47,134,074
LONG TERM DEPOSITS AND PREPAYMENTS		3,781,797
STORES, SPARES AND LOOSE TOOLS		673,212,341
STOCK IN TRADE		24,445,078
TRADE DEBTS		256,770,942
ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		76,088,388
CREDITORS, ACCRUED AND OTHER LIABILITIES		(386,956,301)
DEFERRED TAX LIABILITY		(1,516,471,128)
		<u>11,692,911,740</u>

38.3	CASH OUTFLOW ON ACQUISITION	
	PURCHASE CONSIDERATION SETTLED IN CASH	16,183,425,401
	CASH AND CASH EQUIVALENTS IN SUBSIDIARY ACQUIRED	(779,990,713)
		<u>15,403,434,688</u>

39 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	
	2006 RUPEES	2005 RUPEES	2006 RUPEES	2005 RUPEES	2006 RUPEES	2005 RUPEES
MANAGERIAL REMUNERATION						
BASIC SALARY	2,400,000	2,400,000	4,046,253	3,625,005	58,981,727	8,869,326
HOUSE RENT	960,000	960,000	1,618,529	1,450,050	14,397,931	3,570,688
UTILITIES	240,000	240,000	404,546	362,505	4,413,057	853,851
FOOD ALLOWANCE	-	-	-	-	121,521	-
EDUCATION ALLOWANCE	-	-	-	-	600	-
MEDICAL FUND	-	-	-	-	1,577,654	-
RETIREMENT BENEFITS	204,000	102,000	204,000	-	4,598,508	697,790
BONUS	-	-	-	-	-	185,396
	<u>3,804,000</u>	<u>3,702,000</u>	<u>6,273,328</u>	<u>5,437,560</u>	<u>84,090,998</u>	<u>14,177,051</u>
NUMBER OF PERSONS	1	1	6	5	64	11

39.1 IN ADDITION TO ABOVE THE CHIEF EXECUTIVE HAS BEEN PROVIDED WITH FREE USE OF THE COMPANY MAINTAINED CAR.

39.2 NO FEE HAS BEEN PAID TO THE DIRECTORS DURING THE YEAR (2005: NIL).

39.3 NONE OF THE DIRECTORS OF THE HOLDING COMPANY HAS BEEN PAID ANY REMUNERATION BY THE SUBSIDIARY COMPANIES.

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

40 TRANSACTIONS WITH RELATED PARTIES

THE GROUP ENTERS INTO TRANSACTIONS WITH RELATED PARTIES IN NORMAL COURSE OF BUSINESS AT ARM'S LENGTH. TRANSACTION WITH RELATED PARTIES OTHER THAN REMUNERATION AND BENEFITS TO KEY MANAGEMENT PERSONNEL UNDER THE TERM OF EMPLOYMENT ARE AS FOLLOWS:

	NOTE	01 JANUARY, 06 TO 31 DECEMBER, 06	01 OCTOBER, 04 TO 31 DECEMBER, 06
ASSOCIATES:			
UNDERWRITING FEE		13,864,624	-
BROKERAGE		-	4,834,233
MARK-UP ON SHORT TERM FINANCES		-	6,604,158
MARK-UP ON TERM FINANCE CERTIFICATES		33,734,548	-
PURCHASES		9,033,908	48,617,868

THERE WERE NO RECEIVABLES OR PAYABLES TO RELATED PARTIES EXCEPT FOR THOSE STATED IN NOTE 7.4, 14, 25.2 AND 38.

41 CAPACITY AND PRODUCTION

SPINNING

NO. OF ROTORS INSTALLED		1,752	1,290
PLANT CAPACITY ON THE BASIS OF UTILIZATION CONVERTED INTO 6.5S COUNT -KGS.		10,490,946	9,331,418
(BASED ON 3 SHIFTS PER DAY)			
ACTUAL PRODUCTION CONVERTED INTO 6.5S COUNT -KGS.	40.1	7,938,061	7,566,724
NO. OF SPINDLES INSTALLED		53,520	40,776

PLANT CAPACITY ON THE BASIS OF UTILIZATION CONVERTED INTO 20S COUNT -KGS.		15,224,439	14,777,085
(BASED ON 3 SHIFTS PER DAY)			
ACTUAL PRODUCTION CONVERTED INTO 20S COUNT -KGS.	40.2	12,085,687	12,136,950

WEAVING

NO. OF LOOMS INSTALLED		166	102
ANNUAL RATED CAPACITY ON THE BASIS OF UTILIZATION - AT 38 PICKS -MTRS.		23,608,088	21,433,949
(BASED ON 3 SHIFTS PER DAY)			
ACTUAL PRODUCTION - AT 38 PICKS -MTRS.		14,126,437	15,951,677

GARMENTS

NO. OF STITCHING MACHINES INSTALLED		1,144	537
ANNUAL CAPACITY ON THE BASIS OF UTILIZATION -PCS.		7,566,326	4,150,000
(BASED ON 2 SHIFTS PER DAY)			
ACTUAL PRODUCTION -PCS.		3,094,111	2,261,959

01 JULY, 06
TO
31 DECEMBER, 06

FERTILIZER

UREA			
RATED CAPACITY ON THE BASIS OF UTILIZATION	M. TONS PER DAY		1,050
ACTUAL PRODUCTION	M. TONS		194,759

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

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

NOTES TO THE CONSOLIDATED ACCOUNTS
FOR THE YEAR ENDED 31 DECEMBER, 2006

NOTE	01 JANUARY, 06 TO 31 DECEMBER, 06 RUPEES	01 OCTOBER, 04 TO 31 DECEMBER, 06 RUPEES
42 CHANGES IN WORKING CAPITAL		
(INCREASE) IN CURRENT ASSETS		
STORES, SPARES AND LOOSE TOOLS	(25,462,622)	(15,181,662)
STOCK IN TRADE	(57,213,797)	(639,451,220)
TRADE DEBTS	(228,948,954)	(68,771,728)
ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES (EXCLUDING INCOME TAX)	136,295,541	(186,032,094)
(DECREASE)/INCREASE IN CURRENT LIABILITIES CREDITORS, ACCRUED AND OTHER LIABILITIES (EXCLUDING ACCRUED FINANCIAL CHARGES)	101,371,495	(28,463,606)
	<u>(73,958,338)</u>	<u>(937,900,310)</u>

43 FINANCIAL INSTRUMENTS

43.1 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 DECEMBER 31, 2006 THE NET FAIR VALUE OF ALL FINANCIAL INSTRUMENTS HAS BEEN BASED ON THE VALUATION METHODOLOGY OUTLINED BELOW:

LONG-TERM DEPOSITS

LONG TERM DEPOSITS DOES NOT CARRY ANY RATE OF RETURN. THEIR FAIR VALUE OF 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.

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

43.2 FINANCIAL ASSETS AND LIABILITIES

INTEREST/ MARK-UP RATES RANGE % PER ANNUM	INTEREST / MARK-UP BEARING			NON INTEREST / MARK-UP BEARING			TOTAL
	MATURITY UPTO ONE YEAR	MATURITY AFTER ONE YEAR	SUB-TOTAL	MATURITY UPTO ONE YEAR	MATURITY AFTER ONE YEAR	SUB-TOTAL	
	(R U P E E S)						
FINANCIAL ASSETS:							
LONG TERM INVESTMENTS			-		49,088	49,088	49,088
LONG TERM DEPOSITS			-		33,156,512	33,156,512	33,156,512
TRADE DEBTORS			-	1,520,389,291		1,520,389,291	1,520,389,291
DERIVATIVE FINANCIAL INSTRUMENT			-	555,680,244		555,680,244	555,680,244
ADVANCES, DEPOSITS AND OTHER RECEIVABLES			-	67,641,643		67,641,643	67,641,643
SHORT TERM INVESTMENTS	2.60% TO 9.00%	-	-	-	-	-	-
CASH AND BANK BALANCES	1% TO 3.5%	18,368,275	18,368,275	1,114,598,686		1,114,598,686	1,132,966,958
2006		18,368,275	-	18,368,275	3,258,309,864	33,205,600	3,291,515,464
2005		473,789,508	88,847,424	562,636,932	1,359,446,844	34,415,273	1,393,862,117
FINANCIAL LIABILITIES:							
PREFERENCE SHARES	8.95 %	-	661,738,330	661,738,330	-	-	661,738,330
LONG TERM FINANCING	5.00% TO 12.65%	338,913,068	3,519,216,988	3,858,130,056	-	-	3,858,130,056
LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE	5.50% TO 13.46%	48,769,663	17,084,358	65,854,021	-	-	65,854,021
LONG TERM DEPOSITS AND PAYABLES					-	1,643,889	1,643,889
SHORT TERM BORROWINGS	5.11% TO 14.24%	-	-	-	6,456,117,630	-	6,456,117,630
FAIR VALUE OF OBLIGATION UNDER SWAP CONTRACTS					-	32,021,607	32,021,607
CREDITORS, ACCRUED AND OTHER LIABILITIES	11%	40,465,455	-	40,465,455	1,697,008,207	-	1,697,008,207
UNCLAIMED DIVIDEND					22,312,061	-	22,312,061
2006		428,148,186	4,198,039,676	4,626,187,862	8,207,459,505	1,643,889	8,209,103,394
2005		458,290,474	3,587,060,844	4,045,351,318	3,912,803,501	-	3,912,803,501
OFF BALANCE SHEET ITEMS:							
COMMITMENTS	ANL PAFL	-	-	-	193,940,000	-	193,940,000
					6,127,000	-	6,127,000
GUARANTEE		-	-	-	80,000,000	-	80,000,000
2006		-	-	-	280,067,000	-	280,067,000
2005		-	-	-	300,102,000	-	300,102,000

43.3 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.

43.4 CONCENTRATION OF CREDIT RISK

CREDIT RISK REPRESENTS THE ACCOUNTING LOSS THAT WOULD BE RECOGNIZED 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. 12,376 MILLION (2005: Rs.1,956 MILLION), THE FINANCIAL ASSETS WHICH ARE SUBJECT TO CREDIT RISK AGGREGATED Rs.1,276 MILLION (2005: Rs.521 MILLION). THE COMPANY BELIEVES THAT IT IS NOT EXPOSED TO MAJOR CONCENTRATION OF CREDIT RISK.

43.5 INTEREST RISK MANAGEMENT

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

NOTES TO THE CONSOLIDATED ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER, 2006

43.6 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.

44 DIVIDEND

DIRECTORS HAVE PROPOSED 11% CASH DIVIDEND I.E. RS.1.10 PER ORDINARY SHARE TO BE APPROVED BY THE SHAREHOLDERS IN ENSUING ANNUAL GENERAL MEETING TO BE HELD ON 28 JUNE, 2007. TOTAL AMOUNT OF CASH DIVIDEND TO BE PAID RS.343,981,063 WHICH HAS NOT BEEN ACCOUNTED FOR AS LIABILITY IN THESE FINANCIAL STATEMENTS.

45 DATE OF AUTHORISATION FOR ISSUE

THESE FINANCIAL STATEMENTS WERE AUTHORIZED FOR ISSUE ON 28 APRIL, 2007 BY THE BOARD OF DIRECTORS OF THE COMPANY.

46 FIGURES

46.1 FOLLOWING REARRANGEMENTS HAVE BEEN MADE IN COMPARATIVE FIGURES TO REFLECT THE TRUE FORM OF THE BALANCES AND TRANSACTIONS:

CURRENT CLASSIFICATION	PREVIOUS CLASSIFICATION	NOTE	AMOUNT RUPEES
REDEEMABLE CAPITAL	LONG TERM FINANCING	7	347,920,000
SHORT TERM INVESTMENTS	LONG TERM INVESTMENTS	26.1	88,847,424
SHORT TERM INVESTMENTS	CURRENT MATURITY LONG TERM INVESTMENTS	26.1	9,637,121

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

PATTERN OF SHAREHOLDING (ORDINARY SHARES)

AS AT DECEMBER 31, 2006

NUMBER OF SHAREHOLDERS	FROM	SHAREHOLDING	TO	TOTAL SHARES HELD
251	1	-	100	15,570
765	101	-	500	326,997
915	501	-	1000	874,823
1852	1001	-	5000	5,125,704
479	5001	-	10000	3,780,238
160	10001	-	15000	2,058,299
112	15001	-	20000	1,987,599
66	20001	-	25000	1,517,746
33	25001	-	30000	910,015
39	30001	-	35000	1,260,680
21	35001	-	40000	792,607
13	40001	-	45000	555,514
27	45001	-	50000	1,318,730
8	50001	-	55000	422,572
12	55001	-	60000	693,977
6	60001	-	65000	372,851
8	65001	-	70000	548,754
6	70001	-	75000	446,345
10	75001	-	80000	780,094
6	80001	-	85000	497,372
7	85001	-	90000	612,022
4	90001	-	95000	367,650
16	95001	-	100000	1,598,000
18	100001	-	125000	2,021,101
8	125001	-	150000	1,086,278
6	150001	-	175000	976,264
8	175001	-	200000	1,504,662
5	200001	-	225000	1,067,350
4	225001	-	250000	961,933
1	250001	-	275000	254,900
2	275001	-	300000	570,953
2	300001	-	325000	612,500
1	350001	-	375000	351,500
3	375001	-	400000	1,170,046
1	400001	-	425000	402,900
1	450001	-	475000	465,000
2	475001	-	500000	980,000
1	500001	-	525000	525,000
2	525001	-	550000	1,087,000
1	550001	-	575000	561,518
2	600001	-	625000	1,237,421
1	625001	-	650000	648,000
1	675001	-	700000	676,500

PATTERN OF SHAREHOLDING (ORDINARY SHARES)

AS AT DECEMBER 31, 2006

NUMBER OF SHAREHOLDERS	FROM	SHAREHOLDING	To	TOTAL SHARES HELD
2	725001	-	750000	1,484,500
1	800001	-	825000	812,200
1	850001	-	875000	871,100
1	1025001	-	1050000	1,035,500
1	1175001	-	1200000	1,190,000
1	1250001	-	1275000	1,270,500
1	1325001	-	1350000	1,342,000
1	1350001	-	1375000	1,359,500
1	1400001	-	1425000	1,470,400
1	1650001	-	1675000	1,659,321
1	1700001	-	1725000	1,721,000
1	2125001	-	2150000	2,140,500
1	2700001	-	2725000	2,724,090
1	3025001	-	3050000	3,026,867
1	4525001	-	4550000	4,545,421
1	4975001	-	5000000	5,000,000
3	5500001	-	6000000	17,414,109
1	6500001	-	7000000	6,526,461
1	7000001	-	7500000	7,307,000
1	8500001	-	9000000	8,706,350
1	9000001	-	9500000	9,431,006
1	9500001	-	10000000	10,000,000
1	10000001	-	10500000	10,072,669
1	12000001	-	12500000	12,217,904
1	14000001	-	14500000	14,025,000
1	17500001	-	18000000	17,672,270
1	28000001	-	28500000	28,072,270
1	36000001	-	36500000	36,385,307
1	59000001	-	59500000	59,264,827
4918				312,710,057

SHAREHOLDER'S CATEGORY	NUMBER OF SHAREHOLDERS	NUMBER OF SHARES HELD	PERCENTAGE
INDIVIDUAL	4778	188,024,277	60.13
INVESTMENT COMPANIES	4	90,000	0.03
INSURANCE COMPANIES	8	2,340,621	0.75
JOINT STOCK COMPANIES	93	79,722,775	25.49
FINANCIAL INSTITUTIONS	30	42,266,566	13.52
MODARABA & MODARABA COMPANIES	5	265,818	0.08
TOTAL	4918	312,710,057	100.00

CATEGORIES OF SHAREHOLDERS (ORDINARY SHARES)

AS AT DECEMBER 31, 2006

CATEGORIES OF SHAREHOLDERS	NUMBER OF SHAREHOLDERS	NUMBER OF SHARES HELD
ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES	NIL	NIL
NIT AND ICP	1	14,929
DIRECTORS, CHIEF EXECUTIVE OFFICER AND THEIR SPOUSES AND MINOR CHILDREN		
MR. MUEEN AFZAL	CHAIRMAN	1
MR. AHMED H. SHAIKH	CEO	28,072,270
MR. AEHSUN M. H. SHAIKH	DIRECTOR	17,672,270
MR. KHALID A.H. AL-SAGAR	DIRECTOR	4,545,421
CHIEF JUSTICE (R) MIAN MAHBOOB AHMAD	DIRECTOR	1
MR. ALI JEHANGIR SIDDIQUI	DIRECTOR	1
MR. MOHAMMED KHAISHGI	DIRECTOR	1
EXECUTIVES	NIL	NIL
PUBLIC SECTOR COMPANIES AND CORPORATION	93	79,722,775
BANKS, DFIS, NBFIs, INSURANCE COMPANIES LEASING COMPANIES, MODARABAS & MUTUAL FUNDS	47	44,963,005
SHAREHOLDERS HOLDINGS TEN PERCENT OR MORE VOTING INTEREST OF THE COMPANY		
MRS. NASREEN H. SHAIKH	1	55,369,989
DETAIL OF TRADING IN SHARES BY THE DIRECTORS, CEO, CFO, COMPANY SECRETARY, THEIR SPOUSES AND MINOR CHILDREN.		NIL

PATTERN OF SHAREHOLDING (PREFERENCE SHARES)

AS AT DECEMBER 31, 2006

NUMBER OF SHAREHOLDERS	FROM	SHAREHOLDING	To	TOTAL SHARES HELD
8	1	-	100	288
41	101	-	500	15,374
21	501	-	1000	19,400
39	1001	-	5000	104,435
16	5001	-	10000	128,944
1	10001	-	15000	11,178
3	15001	-	20000	55,750
2	20001	-	25000	45,750
3	25001	-	30000	83,220
1	30001	-	35000	31,663
1	35001	-	40000	38,625
1	45001	-	50000	50,000
1	50001	-	55000	50,250
1	70001	-	75000	75,000
2	75001	-	80000	159,734
1	85001	-	90000	85,875
2	90001	-	95000	187,984
4	95001	-	100000	400,000
1	150001	-	175000	151,875
1	200001	-	225000	225,000
1	225001	-	250000	244,125
1	275001	-	300000	277,000
1	650001	-	675000	656,625
1	775001	-	800000	799,345
1	850001	-	875000	853,500
1	950001	-	975000	954,142
1	1150001	-	1175000	1,160,241
1	2225001	-	2250000	2,250,000
1	2750001	-	2775000	2,775,000
1	2975001	-	3000000	2,988,577
1	3000001	-	3025000	3,003,625
1	3075001	-	3100000	3,090,793
1	6500001	-	7000000	6,512,632
1	9000001	-	9500000	9,160,542
1	12500001	-	13000000	12,605,042
1	1650001	1	17000000	16,922,299
166				66,173,833

SHAREHOLDER'S CATEGORY	NUMBER OF SHAREHOLDERS	NUMBER OF SHARES HELD	PERCENTAGE
INDIVIDUAL	153	33,880,320	51.20
INVESTMENT COMPANIES	0		
INSURANCE COMPANIES	0		
JOINT STOCK COMPANIES	6	21,770,632	32.90
FINANCIAL INSTITUTION	6	9,568,739	14.46
MODARABA COMPANIES	0		
OTHER	1	954,142	1.44
	166	66,173,833	100.00

CATEGORIES OF SHAREHOLDERS (PREFERENCE SHARES)

AS AT DECEMBER 31, 2006

CATEGORIES OF SHAREHOLDERS	NUMBER OF SHAREHOLDERS	NUMBER OF SHARES HELD
ASSOCIATED COMPANIES, UNDERTAKINGS AND RELATED PARTIES		
AND RELATED PARTIES	NIL	NIL
NIT AND ICP	1	849
DIRECTORS, CHIEF EXECUTIVE OFFICER AND THEIR SPOUSES AND MINOR CHILDREN		
DIRECTORS, CHIEF EXECUTIVE OFFICER AND THEIR SPOUSES AND MINOR CHILDREN	NIL	NIL
EXECUTIVES		
EXECUTIVES	NIL	NIL
PUBLIC SECTOR COMPANIES AND CORPORATION		
PUBLIC SECTOR COMPANIES AND CORPORATION	6	21,770,632
BANKS, DFIS, NBFIs, INSURANCE COMPANIES LEASING COMPANIES, MODARABAS & MUTUAL FUNDS		
BANKS, DFIS, NBFIs, INSURANCE COMPANIES LEASING COMPANIES, MODARABAS & MUTUAL FUNDS	7	10,522,881
SHAREHOLDERS HOLDINGS TEN PERCENT OR MORE VOTING INTEREST OF THE COMPANY		
MRS. NASREEN H. SHAIKH	1	16,922,299
JAHANGIR SIDDIQUI & COMPANY LIMITED	1	12,605,042
JAHANGIR SIDDIQUI SECURITY SERVICES LTD.	1	9,160,542
DETAIL OF TRADING IN SHARES BY THE DIRECTORS, CEO, CFO, COMPANY SECRETARY, THEIR SPOUSES AND MINOR CHILDREN.		NIL



FORM OF PROXY
AZGARD NINE LIMITED

I/WE _____
 SON/DAUGHTER OF _____ A MEMBER/MEMBERS OF AZGARD NINE LIMITED AND HOLDER
 OF = _____ = SHARES AS PER REGISTERED FOLIO # _____
 DO HEREBY APPOINT MR./MS. _____
 SON/DAUGHTER OF _____ OR FAILING HIM/HER MR. MS. _____
 SON/DAUGHTER OF _____ WHO IS ALSO MEMBER OF THE COMPANY VIDE REGISTERED FOLIO
 NO. _____ AS MY/OUR PROXY TO ATTEND, SPEAK AND VOTE FOR ME/US AND ON MY/OUR BEHALF AT THE ANNUAL
 GENERAL MEETING OF THE COMPANY TO BE HELD ON THURSDAY THE JUNE 28, 2007 AT 10:00 A.M AT THE REGISTERED
 OFFICE OF THE COMPANY ISMAIL AIWAN-I-SCIENCE, OFF SHAHRAH-I-ROOMI, LAHORE AND AT ANY ADJOURNMENT THEREOF.

AS WITNESS WHEREPF ON THIS _____ DAY OF _____ 2006.

WITNESSES:

1. SIGNATURE: _____

NAME _____

ADDRESS _____

NIC: _____

AFFIX REVENUE
STAMP OF RS. 5/-

SIGNATURE OF MEMBER(S)

2. SIGNATURE: _____

NAME _____

ADDRESS _____

NIC: _____

AFFIX REVENUE
STAMP OF RS. 5/-

SIGNATURE OF MEMBER(S)

NOTE:

1. THE FORM OF PROXY SHOULD BE DEPOSITED AT THE REGISTERED OFFICE OF THE COMPANY NOT LATER THAN 48 HOURS BEFORE THE TIME FOR HOLDING THE MEETING.
2. CDC SHAREHOLDERS, ENTITLED TO ATTEND AND VOTE AT THIS MEETING, MUST BRING WITH THEM THEIR NATIONAL IDENTITY CARDS/PASSPORT IN ORIGINAL TO PROVIDE HIS/HER IDENTITY, AND IN CASE OF PROXY, MUST ENCLOSED AN ATTESTED COPY OF HIS/HER NIC OR PASSPORT. REPRESENTATIVES OF CORPORATE MEMBERS SHOULD BRING THE USUAL DOCUMENTS FOR SUCH PURPOSE.

AFFIX
CORRECT
POSTAGE

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