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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. Muhammad Mukarram  
Mr. Abdul Rasheed Zahid Grewal  
Mr. Khalid A.H. Al-Sagar

*Chairman*  
*Chief Executive*

### SECRETARY

Mrs. Naheed Amer

### CHIEF FINANCIAL OFFICER

Ms. Bushra Naz Malik

### AUDIT COMMITTEE

Chief Justice (Retd) Mian Mahboob Ahmad - *Chairman*  
Mr. Mueen Afzal  
Mr. Christopher William Knight

### BANKERS

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

### LEGAL ADVISORS

Hamid Law Associates  
Advocates  
  
Hassan & Hassan  
Advocates

### AUDITORS

M. Yousaf Adil Saleem & Co.  
Chartered Accountants

### TAX ADVISORS

Ford Rhodes Sidat Hyder & Co.  
Chartered Accountants  
  
Hameed Chaudhri & Co.  
Chartered Accountants

### MANAGEMENT TEAM

Mr. Ahmed H. Shaikh  
Mr. Aehsun M.H. Shaikh  
Ms. Bushra Naz Malik  
Mr. Muhammad Talib  
Mr. Aamir Usman  
Mr. Mazhar Hussain Mirza  
Ms. Bushra Faryal

### REGISTERED OFFICE

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

### PROJECT LOCATIONS

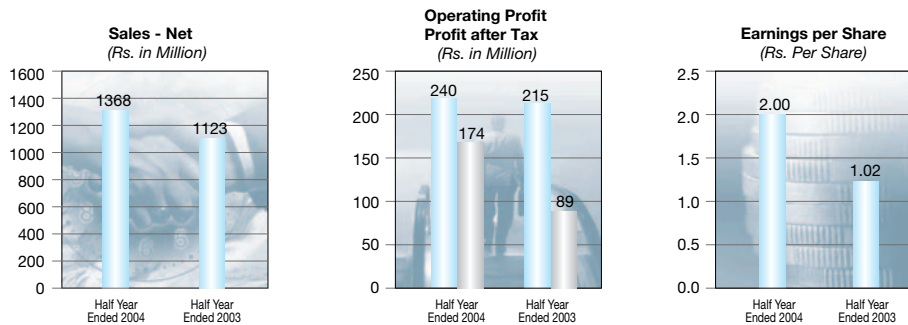
**Unit I**  
2.5 KM off Managa, Raiwind Road,  
District Kasur.  
Ph: +92 (0)4951 384081-2  
Fax: +92 (0)4951 384093

### Unit II

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

## DIRECTORS' REVIEW

By the Grace of God, the Directors of your company feel immense pleasure in presenting the six months financial statements for the half-year ended March 31, 2004.



### GENERAL MARKET CONDITIONS

General conditions remained tough during the current period due to following reasons:

- Cotton prices hit a five year high due to a shortfall of cotton production in China.
- However sales rates remained under pressure making it harder to pass on the increased cost of cotton.
- The geopolitical situation in the Gulf and particularly in Iraq has had a negative impact on the business activity. Oil prices have gone up, increasing freight rates and affecting margins.
- Appreciating Pak Rupee also eroded the profit .
- Denim remains in the down part of its cycle. Now it is beginning to come out. We have discovered that this cycle is up two years followed by down two years.
- These difficult conditions are providing a serious challenge to the textile industry as a whole.

### OPERATING RESULTS OF THE COMPANY

In spite of the abovementioned difficulties our company continued to perform well. The major highlights as compared to the last corresponding period are as follows:

#### TURNOVER

The company's turnover increased by 22%. However, sales growth is below expectations.

The targeted turnover was Rs.1.50 billion, the achieved is Rs.1.37 billion which is 9% less than the expectations due to following reasons:

- Slow denim market conditions resulting in under utilization of the production capacity.
- Slower than projected build up of the new garment production capacity.

#### PROFITABILITY

The profitability of the company, however, has improved. Net margin after tax has increased from 7.9% to 12.72% of net sales.

The two major factors for this have been:

- Financial charges have decreased from 9.95% to 3.84% of net sales.
- Tax rate has gone down from 0.87% to 0.62% of net sales.

Consequently the EPS has improved to Rs.2.00 from Rs.1.02 during six months . The Market capitalization has doubled in the last 6 months, the share price has gone up from around Rs.14/share to over Rs.28/share.



### **FUTURE OUTLOOK**

Normally the financial performance in the first half is worse than the second half of the year. The company in the 2nd half is looking forward to somewhat improved earnings. The management is making best efforts to improve margins through value addition and maximizing the mills efficiencies by balancing and modernization.

### **PREFERENCE SHARES**

SECP has granted approval for issuance of preference shares, the issue is expected to close during the second half.

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

On behalf of the Board

**Lahore: May 30, 2004**

**Chief Executive**

## REVIEW REPORT TO THE MEMBERS

We have reviewed the annexed balance sheet of **Azgard Nine Limited (formerly Legler Nafees Denim Mills Limited)** as at March 31, 2004 and the related profit and loss account, statement of changes in equity and cash flow statement together with the notes forming part thereof (here-in-after referred to as “financial statements”), for the half year then ended. These financial statements are the responsibility of the company’s management. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with the International Standard on Auditing applicable to review engagements. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the annexed financial statements are not presented fairly, in all material respect, in accordance with approved accounting standards as applicable in Pakistan.

**Lahore**  
**Date: May 30, 2004**

**M. Yousuf Adil Saleem & Co.**  
**Chartered Accountants**

## BALANCE SHEET (Unaudited)

as at March 31, 2004

	Note	March 31, 2004 Rupees	September 30, 2003 Rupees
<b>SHARE CAPITAL AND RESERVES</b>			
Share capital	4	868,654,340	868,654,340
Reserves		249,422,590	251,042,854
Accumulated profit		347,606,945	161,710,634
		1,465,683,875	1,281,407,828
<b>SURPLUS ON REVALUATION OF FIXED ASSETS</b>			
		318,407,017	330,249,524
<b>REDEEMABLE CAPITAL - Secured</b>	5	709,920,645	650,000,000
<b>LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE</b>			
		119,612,206	153,859,601
<b>DEFERRED LIABILITY - Staff Gratuity</b>		28,633,691	25,512,837
<b>LONG TERM DEPOSITS</b>		6,276,794	6,388,502
<b>CURRENT LIABILITIES</b>			
Current portion of:			
Redeemable capital-secured		100,000,000	100,000,000
Liabilities against assets subject to finance lease		61,427,827	60,798,533
Short term finances	6	1,932,266,900	1,428,656,101
Creditors, accruals and other payables		665,754,702	748,025,524
Taxation		57,638,814	44,824,871
		2,817,088,243	2,382,305,029
<b>CONTINGENCIES AND COMMITMENTS</b>	7	-	-
		<u>5,465,622,471</u>	<u>4,829,723,321</u>
<b>FIXED CAPITAL EXPENDITURE</b>			
Operating fixed assets	8	2,400,059,170	2,251,337,991
Capital work in progress	9	299,749,540	82,415,024
<b>LONG TERM INVESTMENTS</b>	10	19,658,840	2,664,888
<b>LONG TERM DEPOSITS AND DEFERRED COSTS</b>	11	34,735,976	14,548,996
<b>CURRENT ASSETS</b>			
Stores, spares and loose tools		60,110,582	45,777,796
Stock-in-trade		1,497,984,506	1,265,777,101
Trade debtors		620,442,673	536,616,084
Advances, deposits, prepayments and other receivables		503,519,519	608,983,691
Cash and bank balances		29,361,665	21,601,750
		2,711,418,945	2,478,756,422
		<u>5,465,622,471</u>	<u>4,829,723,321</u>

Chief Executive

Director

## PROFIT AND LOSS ACCOUNT (Unaudited)

for the Half Year Ended March 31, 2004

	Note	Quarter ended March 31, 2004 Rupees	Half year ended March 31, 2004 Rupees	Quarter ended March 31, 2003 Rupees	Half year ended March 31, 2003 Rupees
SALES - Net		782,198,297	1,368,096,299	620,307,921	1,123,451,294
COST OF SALES	12	<u>627,478,180</u>	<u>1,046,686,677</u>	<u>459,672,864</u>	<u>818,659,013</u>
GROSS PROFIT		154,720,117	321,409,622	160,635,057	304,792,281
ADMINISTRATIVE AND SELLING EXPENSES		<u>46,750,014</u>	<u>81,334,581</u>	<u>49,903,895</u>	<u>89,317,799</u>
OPERATING PROFIT		107,970,103	240,075,041	110,731,162	215,474,482
OTHER INCOME		<u>219,011</u>	<u>351,244</u>	<u>73,395</u>	<u>141,289</u>
		108,189,114	240,426,285	110,804,557	215,615,771
FINANCIAL & OTHER CHARGES - Net		<u>25,859,701</u>	<u>57,872,481</u>	<u>67,022,286</u>	<u>117,066,081</u>
PROFIT BEFORE TAXATION		<u>82,329,413</u>	<u>182,553,804</u>	<u>43,782,271</u>	<u>98,549,690</u>
TAXATION		<u>3,574,780</u>	<u>8,500,000</u>	<u>4,066,336</u>	<u>9,828,669</u>
PROFIT AFTER TAXATION		<u>78,754,633</u>	<u>174,053,804</u>	<u>39,715,935</u>	<u>88,721,021</u>
EARNINGS PER SHARE		<u>0.91</u>	<u>2.00</u>	<u>0.46</u>	<u>1.02</u>

The annexed notes form an integral part of these accounts.

Chief Executive

Director

## CASH FLOW STATEMENT (Unaudited)

for the Half Year Ended March 31, 2004

	<b>March 2004 Rupees</b>	<b>March 2003 Rupees</b>
<b>A. CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit before taxation	182,553,804	101,178,498
Items not involving movement of funds	134,327,860	183,136,288
Long term deposits and deferred cost	(21,048,162)	-
Operating profit before changes in working capital	295,833,502	284,314,786
Changes in working capital	(294,978,364)	(388,785,740)
Operating profit after changes in working capital	855,138	(104,470,954)
Financial charges paid	(52,600,433)	(118,842,335)
Taxes paid	(7,836,892)	(9,348,241)
Dividend paid	(269)	(21,266)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(59,582,456)</b>	<b>(232,682,796)</b>
<b>B. CASH FLOW FROM INVESTING ACTIVITIES</b>		
Fixed capital expenditures	(462,725,746)	(196,825,393)
Sale proceed of fixed assets	276,480	-
Purchase of investment	(10,000)	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(462,459,266)</b>	<b>(196,825,393)</b>
<b>C. CASH FLOW FROM FINANCING ACTIVITIES</b>		
Redeemable capital -net	59,920,646	(621,873)
Long term loans-net	-	38,901,514
Finance lease liabilities-net	(33,618,100)	5,107,507
Long term deposits	(111,708)	790,075
Short term finances-net	503,610,799	378,960,967
Interest received	-	439,076
<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>529,801,637</b>	<b>423,577,266</b>
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C)</b>	<b>7,759,915</b>	<b>(5,930,923)</b>
<b>CASH AND CASH EQUIVALENT AT THE BEGINNING OF THE PERIOD</b>	<b>21,601,750</b>	<b>23,476,815</b>
<b>CASH AND CASH EQUIVALENT AT THE END OF THE PERIOD</b>	<b>29,361,665</b>	<b>17,545,892</b>

The annexed notes form an integral part of these accounts.

Chief Executive

Director



## STATEMENT OF CHANGES IN EQUITY (Unaudited)

for the Half Year Ended March 31, 2004

	Share Capital		Share Premium	Capital Reserve on Merger	Surplus on Revaluation of Investments	Accumulated Profit/(Loss)	Total Equity	Surplus on Revaluation of Fixed Assets
	Issued and paid-up	Shares under issue						
<b>Balance as at September 30, 2002 restated</b>	<b>360,534,420</b>	<b>508,119,590</b>	<b>143,675,125</b>	<b>105,152,335</b>	-	<b>(92,057,197)</b>	<b>1,025,424,273</b>	<b>355,829,309</b>
Profit for the half year	-	-	-	-	-	91,349,829	91,349,829	-
Issue of shares	508,119,920	(508,119,590)	-	(330)	-	-	-	-
Amortization of capital reserve	-	-	-	-	-	-	-	-
Adjustment of depreciation on incremental value arising on revaluation	-	-	-	-	-	12,789,893	12,789,893	(12,789,893)
<b>Balance as at March 31, 2003</b>	<b>868,654,340</b>	-	<b>143,675,125</b>	<b>105,152,005</b>	-	<b>12,082,525</b>	<b>1,129,563,995</b>	<b>343,039,416</b>
Profit for the half year	-	-	-	-	-	136,838,217	136,838,217	-
Adjustment of depreciation on incremental value arising on revaluation	-	-	-	-	-	12,789,892	12,789,892	(12,789,892)
Revaluation of investment	-	-	-	-	2,215,724	-	2,215,724	-
<b>Balance as at September 30, 2003</b>	<b>868,654,340</b>	-	<b>143,675,125</b>	<b>105,152,005</b>	<b>2,215,724</b>	<b>161,710,634</b>	<b>1,281,407,828</b>	<b>330,249,524</b>
Profit for the half year	-	-	-	-	-	174,053,804	174,053,804	-
Surplus on revaluation of fixed assets transferred to retained earnings during the period	-	-	-	-	-	11,842,507	11,842,507	(11,842,507)
Diminution in the value of investment	-	-	-	-	(1,620,264)	-	(1,620,264)	-
<b>Balance as at March 31, 2004</b>	<b>868,654,340</b>	-	<b>143,675,125</b>	<b>105,152,005</b>	<b>595,460</b>	<b>347,606,945</b>	<b>1,465,683,875</b>	<b>318,407,017</b>

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

CHIEF EXECUTIVE

DIRECTOR

# NOTES TO THE ACCOUNTS

for the Half Year Ended March 31, 2004

## 1. STATUS AND ACTIVITIES

Legler-Nafees Denim Mills Limited has changed its name as on April 7, 2004 to Azgard Nine Limited. The company was incorporated in Pakistan as a public limited company and its shares are quoted at Karachi Stock Exchange (Guarantee) Limited. The company is a composite spinning, weaving, dyeing and stitching unit engaged in the manufacturing of yarn, denim and denim products.

## 2. BASIS OF PREPARATION

These financial statements have been prepared under "Historical Cost Convention" except certain fixed assets that have been included at revaluation, certain exchange differences which have been incorporated in the cost of relevant asset, staff retirement and are in compliance with the International Accounting Standard (IAS) 34 Interim Financial Reporting.

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

## 3. ACCOUNTING POLICIES

The accounting policies adopted for the preparation of these interim financial statements are consistent with those applied in the preparation of the preceding annual published financial statements of the company for the year ended September 30, 2003.

	March 31, 2004 Rupees	September 30, 2003 Rupees
<b>4. SHARE CAPITAL</b>		
<b>4.1 Authorised Capital</b>		
300,000,000 (2003: 117,380,000)		
ordinary shares of Rs.10/- each	<u>3,000,000,000</u>	<u>1,173,800,000</u>
Issued, subscribed and paid up capital		
86,865,434 (2003: 86,865,434) ordinary shares of Rs.10/- each	<u>868,654,340</u>	<u>868,654,340</u>

**4.2** Authorised capital of the company has been increased to Rs 3,000,000,000 divided into 213,000,000 ordinary shares of Rs.10/- each and 87,000,000 preference shares of Rs.10/- each.

## 5. REDEEMABLE CAPITAL - Secured

During the period company has entered into an agreement of bridge finance facility for Rs. 200 M with subsequent issuance of privately placed term finance certificates amounting to Rs. 250 M. Mark-up is charged at the base rate (KIBOR) + margin. It is secured against ranking charge on existing fixed assets of the company.

## 6. SHORT TERM FINANCES

At the end of the period company has aggregate funded and unfunded facilities available of Rs. 3,563.75 M. These have been obtained from banking companies and financial institutions at the mark-up rates ranging from 2.55% to 10% and are secured against current assets of the company and personal guarantees of the directors.

## 7. CONTINGENCIES AND COMMITMENTS

**7.1** Guarantees given by the commercial banks on behalf of the company as at period-end were outstanding for Rs. 0.10 Million. (2003: Rs. 0.10 Million).

**7.2** Commitments against irrevocable letters of credit outstanding as at period ended were for Rs. 106.00 Million (2003: Rs. 334.77 Million).

# NOTES TO THE ACCOUNTS

for the Half Year Ended March 31, 2004

	<b>March, 31, 2004 Rupees</b>	<b>September, 30, 2003 Rupees</b>
<b>8. OPERATING FIXED ASSETS - Tangible</b>		
Book value as on 1st October, 2003.	2,251,337,991	1,938,067,505
Additions during the period		
Building	20,293,031	52,281,361
Plant and machinery	188,080,745	390,405,959
Electric installations	12,116,589	2,256,743
Tools and equipment	206,028	297,382
Furniture and fixtures	1,305,555	834,371
Office equipment	4,595,586	5,784,286
Vehicles	453,000	11,803,030
	227,050,534	463,663,132
Book values of assets disposed-off during the period	(540,000)	(7,609,435)
Depreciation charge for the period	(77,789,355)	(142,783,211)
Book value as on 31st March 2004.	2,400,059,170	2,251,337,991
<b>9. CAPITAL WORK IN PROGRESS</b>		
Civil work	3,743,435	5,750,000
Plant & machinery	291,263,874	76,665,024
Others	4,742,231	-
	299,749,540	82,415,024

## 10. LONG TERM INVESTMENT

Included in long term investment is cost of investment of Rs. 18,604,216 as expenses for the incorporation of an off-shore company. The incorporation of company was in process as at the balance sheet date.

## 11. LONG TERM DEPOSITS AND DEFERRED COSTS

During the period company has incurred expenses of Rs. 18,304,025 in respect of increase in authorized capital and proposed issue of preference shares, which includes expenses for underwriting arrangements and fees paid to regulatory authorities. The preference shares are expected to be issued during the current calendar year.

## 12. COST OF SALES

	<b>Quarter Ended March 31, 2004 Rupees</b>	<b>Half Year Ended March 31, 2004 Rupees</b>	<b>Quarter Ended March 31, 2003 Rupees</b>	<b>Half Year Ended March 31, 2003 Rupees</b>
Raw materials consumed	400,365,739	737,674,185	317,732,802	602,973,589
Salaries, wages and benefits	51,675,726	117,535,571	55,738,472	104,324,327
Power and fuel	36,370,401	91,697,242	44,627,586	81,883,152
Stores and spare parts consumed	1,130,307	30,267,863	19,160,010	35,696,794
Travelling, conveyance and entertainment	5,279,352	8,427,141	2,444,611	4,275,948
Rent, rates and taxes	399,944	831,805	159,094	271,659
Insurance	1,412,368	3,504,877	1,511,590	2,830,838
Repairs and maintenance	1,031,538	3,610,424	1,720,763	3,242,986
Processing charges	462,539	7,011,849	19,654,820	37,210,336
Depreciation	31,462,890	67,587,827	32,213,830	61,779,486
Printing and stationery	228,370	322,034	523,736	845,988
Communications	721,687	1,066,942	541,662	963,675
Others	846,015	1,217,612	793,805	1,738,543
	531,386,876	1,070,755,372	496,822,781	938,037,321
Adjustment of work in process	1,028,337	(2,614,868)	(3,306,477)	(52,215,372)
Cost of goods manufactured	532,415,213	1,068,140,504	493,516,304	885,821,949
Adjustment of finished goods	95,062,967	(21,453,827)	(33,843,440)	(67,162,936)
	627,478,180	1,046,686,677	459,672,864	818,659,013

# NOTES TO THE ACCOUNTS

for the Half Year Ended March 31, 2004

## 13. BALANCES AND TRANSACTIONS WITH ASSOCIATED UNDERTAKINGS

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

	<b>March 31, 2004 Rupees</b>	<b>March 31, 2003 Rupees</b>
<b>TRANSACTIONS</b>		
- Payments made for placements of Preference shares	11,398,925	-
- Mark-up paid	1,485,066	-

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

## 14. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on May 30, 2004 by the Board of Directors of the company.

## 15. OTHERS

There are no other significant activities since September 30, 2003 affecting the financial statements other than disclosed in the financial statements.

## 16. FIGURES

- Comparative figures relating to balance sheet are of previous year and those of profit and loss account and cash flow statement are of corresponding interim of previous year.

Chief Executive

Director