AZGARD-9

Beyond Boundaries

Annual Report 2008

Azgard Nine

The Origins and the inception

In the ancient legend "Azgard" was one of nine worlds in Norse mythology- it was protected by "Heimdall" the son of nine different mothers each attributing him with a particular skill and power- and thus he would protect Azgard from the powers that be.

The significance of Nine for our company is not just based on this mythology but also connected with the auspicious nature of this number throughout many different elements in and out of the world today that affect humans and their behaviours. The number Nine is considered to be an auspicious and important number in Indian, Chinese, Japanese and Greek cultures for various different reasons.

In Chinese culture the number Nine represents 'Change' and 'Transformation', as is the case with Azgard Nine which is changing and transforming itself into an entity with new goals, aspirations and targets.

Nine in much of ancient Greek mythology also has represented gestation and fulfilment of creation as it does for us at Azgard Nine. The 'fulfilment of creation' for us being the forming of this global entity by nine members on the ninth day of February sowing the seeds for an auspicious and rewarding future.

	Vision	Mission	Cultural Pillar
Textile & Apparel	To become a major global Fashion Apparel Company	To retain a leadership position as the largest value added denim products company in Pakistan	The High Speed Passionate Pursuit of Progress through Teamwork
Fertilizers	To become a major regional diversified Fertilizer Company	To become a diversified manufacturer of both Nitrogenous and Phosphatic Fertilizers, significantly contributing to the development of the Agriculture sector in Pakistan	

Contents

" Treat the Earth well. It was not given to you by your parents.
It was loaned to you by your children "

Kenyan Proverb

Company Information



BOARD OF DIRECTORS
Mr. Mueen Afzal
Chairman
Mr. Ahmed H. Shaikh
Chief Executive
Chief Justice (Retd.) Mian Mahboob Ahmad
Mr. Aehsun M.H. Shaikh
Mr. Ali J. Siddiqui
Mr. Khalid A.H. Al-Sagar
Mr. Mohammed Khaishgi

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 J. Siddiqui
Mr. Khalid A.H. Al-Sagar

FINANCE COMMITTEE
Mr. Ahmed H. Shaikh
Mr. Ali J. Siddiqui
Mr. Tariq Mohammad Khan

MANAGEMENT TEAM
Mr. Ahmed H. Shaikh
Mr. Atif Farooqi
Mr. Ahmed Jaudet Bilal
Mr. Tariq Mohammad Khan
Mr. Abid Amin
Mr. Aamer Ghias
Mr. Irfan Nazir
Ms. Maliha Azam
Mr. Tahir Munir
Mr. Usman Rasheed
Mr. Salim Khan

HUMAN RESOURCE COMMITTEE
Mr. Ahmed H. Shaikh
Mr. Tariq Mohammad Khan
Mr. Salim Khan

LEGAL ADVISORS
Hamid Law Associates

AUDITORS
Rahman Sarfaraz Rahim Iqbal Rafiq
Chartered Accountants
A member firm of Russell Bedford International

BANKERS
JS Bank Limited
MCB Bank Limited
Citibank N.A.
Royal Bank of Scotland
Faysal Bank Limited
Habib Bank Limited
Saudi Pak Industrial & Agricultural
Investment Company Limited
HSBC Bank (Middle East) Limited
United Bank Limited
Standard Chartered Bank (Pakistan) Limited
NIB Bank Limited
National Bank of Pakistan
Allied Bank Limited
My Bank Limited
KASB Bank Limited
Pak Oman Investment Company Limited
Saudi Pak Commercial Bank Limited
Atlas Bank Limited
Emirates Global Islamic Bank Limited
Habib Metropolitan Bank Limited

REGISTERED OFFICE
Ismail Aiwan-e-Science
Off Shahrah-e-Roomi Lahore, 54600
Ph: +92 (0)42 111-786-645
Fax: +92 (0)42 576-1791

PROJECT LOCATIONS

Textile & Apparel

Unit I
2.5 KM off Manga, Raiwind Road,
District Kasur.
Ph: +92 (0)42 5384081
Fax: +92 (0)42 5384093

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

Unit III
20 KM off Ferozepur Road,
6 KM Badian Road on Ruhi Nala,
Der Khurd, Lahore.
Ph: +92 (0)42 8460333, 8488862

Fertilizer

Unit I
Pak American Fertilizers Ltd.
Iskanderabad,
District Mianwali.
Ph: +92 (0)459 392346-49

Unit II
Hazara Phosphate Fertilizers (Pvt.) Ltd.
Hattar Road,
Haripur.
Ph: +92 (0)995 616124-5

Pak American Fertilizers Limited.

Board of Directors

Mr. Mueen Afzal
Chairman

Mr. Mueen Azfal is Chairman of the Azgard Nine Board since March 2004. He also serves on the boards of ICI Pakistan Limited, Pakistan Tobacco Co. Ltd., Murree Brewery Co. Ltd., Al-Shifa Trust, Pakistan Philanthropy Centre, Pakistan Poverty Alleviation Fund, Sanjan Nagar Trust, Beaconhouse National University Foundation and previously PIA Corporation. He has extensive experience in the Civil Services of Pakistan, acting as Health Secretary and Finance Secretary in his tenure. He holds an M.A. in Philosophy, Political Science and Economics from Oxford University.

Mr. Ahmed H. Shaikh
CEO

Mr. Ahmed H. Shaikh is a director of Azgard Nine as well as PAFL, and is Azgard Nine's Chief Executive Officer, positions he has held since January 2003. He has been associated with Azgard Nine since its inception in 1992.

Mr. Shaikh holds a B.A. in Economics from Brown University.

Mr. Aehsun M.H. Shaikh
Director

Mr. Aehsun M.H. Shaikh is a director of Azgard Nine as well as PAFL and is Azgard Nine's Creative Director, positions he has held since January 1993. He has previously worked with Burke Mills Inc., USA as Director from 1998 to 2000.

Mr. Shaikh holds an M.A. in Architecture from the Architectural Association School of Architecture, London , UK.

Mr. Ali J. Siddiqui
Director

Mr. Ali J. Siddiqui is the Managing Partner of JS Private Equity, Pakistan's largest private equity firm. From 2002-03 he was an Executive Director of JS Investments Ltd. Prior to JS Group, Mr. Siddiqui was a Director with Crosby Capital Partners, an investment firm, and was based in Hong Kong. He is a member of the Board of Directors of a number of large private sector companies in Pakistan including Jehangir Siddiqui & Company, Airblue, Pakistan Reinsurance Company, Pakistan International Container Terminal and chairs the Board of Pak American Fertilizers Limited. Mr. Siddiqui holds a B.A. in Economics from Cornell University.

Chief Justice (Retd.) Mian Mehboob Ahmad
Director

Chief Justice (Retired) Mian Mahboob Ahmad is a director of Azgard Nine since March 2004. He is Chairman of the boards of Liaqat National Hospital and Sir Ganga Ram Trust Hospital and also serves on the boards of Bank Islami Pakistan Limited, East West Insurance Co. Ltd., Metropolitan Life Assurance Co. of Pakistan Ltd. and Jahangir Siddiqui & Co. Ltd. He has been associated with the judiciary in Pakistan for over 30 years, having served in various positions including as Chief Justice of the Lahore High Court and the Federal Shariah Court and as the Acting Governor of Punjab. Chief Justice Ahmad holds a B.A. in Law from the University of Punjab in Lahore, Pakistan.

Mr. Khalid A.H. Al-Sagar
Director

Mr. Khalid A.H. Al-Sagar has been a director of Azgard Nine since October 1997. He also serves on the boards of Kuwait Portland Cement Company, Kuwait Supply Company, Tele-Card Egypt, First National Bank (Lebanon) and Bahrain Flour Mills Co. Mr. Al-Sagar is a graduate of Bonn University, Germany and belongs to one of the most eminent business families of Kuwait.

Mr. Mohammad Khaishgi
Director

Mr. Mohammad Khaishgi is Chief Operating Officer of TRG, Pakistan's largest business process outsourcing company. Prior to co-founding TRG, Mr. Khaishgi was Senior Director for Customer Relationship Management for Align Technology. Prior to Align, he spent five years at the International Finance Corporation (IFC), the private investment arm of the World Bank as Senior Investment Officer. Prior to IFC, he was a consultant for Arthur D. Little in its Middle East practice, where he assisted several Fortune 500 companies in developing market entry strategies for the region. Mr. Kaishgi holds an M.B.A. from Harvard Business School and an M.A. in Philosophy, Politics and Economics from Oxford University , Oxford , UK.

Mr. Humayun N. Shaikh
Chairman Emeritus

Mr. Humayun Naseer Shaikh graduated from the Government College, Lahore. He then proceeded to Cambridge University, England to pursue his Economics Tripos. At Cambridge he proved to be an avid sportsman and demonstrated a keen proficiency in polo, going on to become the Captain of the Cambridge University Polo team, and wore his blue defeating Oxford. He joined his family business in 1965 and established many businesses in Europe, the UAE, USA, and Mexico. Mr Shaikh continues an active involvement with many social and non profit organizations around the world.

Directors' Report to the Shareholders

The Directors along with the management team of Azgard Nine Limited, ("the Company") are pleased to present the Company's annual management report along with the audited financial statements for the year ended 31 December 2008.

In compliance with the Code of Corporate Governance, these financial statements have been endorsed by the Chief Executive Officer and Chief Financial Officer of the Company, recommended for approval by the Audit Committee of the Board and approved by the Board of Directors for presentation.

Principal activities

The Company's main business is the manufacture and marketing of Denim focused Textile and Apparel products from raw cotton to retail ready goods, and is the largest Denim Products Company by sales in Pakistan.

Azgard Nine, through its subsidiaries, is also engaged in the manufacture and marketing of both Nitrogenous and Phosphatic fertilizers.

Overall market scenario and future outlook

The year presented unprecedented challenges. The global economic downturn resulted in a rapidly deteriorating trade and financial environment. This was followed by an unprecedented international financial crisis.

Domestically the financial markets became completely illiquid as a result of macroeconomic imbalance during the last quarter of the year. The rupee devalued approximately 30% during the year. Interest rates increased with lending rates crossing 17 ~ 18%. Inflation ranged between 20 ~ 25% while the fiscal deficit at one stage was over 7% of the GDP. Oil prices reached a level of $ 145, and as the government started passing energy costs on to the consumer, the impact on inflation was compounded. All of these factors made trading and business conditions very volatile and extremely difficult to navigate.

Textile and Apparel

Despite the aforesaid adverse conditions, the company managed to continue to grow. In our Textile Apparel business, the Company successfully concluded the acquisition of the Italian company, Montebello S.r.l, near Milan, making it the first company of Pakistani origin to become a true multinational in the sector. Montebello S.r.l sells and markets fabrics and jeans under its own brands.

Fertilizers

Pak American Fertilizers Limited, a 100% owned subsidiary of the Company, successfully completed the acquisition of Hazara Phosphate Fertilizers (Pvt.) Limited from the Government of Pakistan as part of its ongoing privatization initiative. Now the Company (through its subsidiaries) owns and operates the country's newest and most efficient urea plant, Pak American Fertilizers Limited, and also the largest Single Super Phosphate (SSP) manufacturing plant in the country, Hazara Phosphate Fertilizers (Pvt.) Limited. This completes the Company's vitally important strategic goal to become a diversified fertilizer manufacturer producing both nitrogenous and phosphatic fertilizers.

Hence, this year marks the fulfilment of the two missions of the company.

Textile & Apparel	*To achieve our target of becoming Pakistan's largest denim products company by sales.*
Fertilizers	*To become a diversified manufacturer of both Nitrogenous and Phosphatic Fertilizers.*

Operating Financial Results of Azgard Nine Limited. (Stand alone).

	2008	2007	Change
Sales - Net	10,113,499,351	6,628,341,926	53%
Operating Profit	2,849,745,841	1,572,167,903	81%
Finance Cost	2,470,391,655	1,061,933,212	133%
Profit before Tax	999,502,775	1,151,459,574	(13%)
Profit after Tax	897,283,923	1,079,452,501	(17%)
Earning per share	2.65	3.26	(19%)

Consolidated Results Including Subsidiaries

	2008	2007	Change
Sales - Net	19,737,423,815	12,308,604,885	60%
Operating Profit	5,586,657,390	3,732,582,148	50%
Finance Cost	4,617,259,155	2,152,438,490	115%
Profit before Tax	1,629,430,415	1,916,323,994	(15%)
Profit after Tax	1,397,393,138	1,453,488,184	(4%)
Earning per share	4.22	4.46	(5%)

While the aforementioned challenging and volatile trading conditions had an impact on our performance, topline growth remained robust both on a standalone and consolidated basis and the operating performance of the businesses also depicted a healthy growth trend.

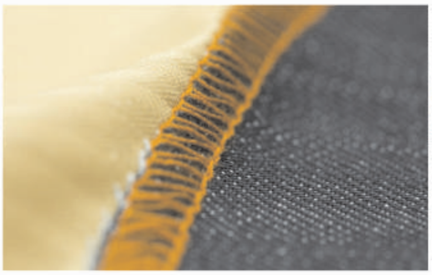
However, the increase in financial costs was greater than the growth in income which significantly affected the bottom line. These very high costs are partly due to the effect of the rapid devaluation of Pakistani Rupee in the second half of the year as well as the escalation in interest rates domestically.

The Company had borrowings in foreign currencies either through foreign currency loans or through rupee loans swapped into foreign currencies, causing it to suffer increased financial charges due to the said devaluation of the Pakistani Rupee. Subsequently, in response, however, the company unwound most of these contracts and therefore does not expect to face the same situation again.

Furthermore, following the said devaluation, the Company was exposed to very high rupee borrowing rates. This was a major shock for the Company.

The trading conditions remain challenging and volatile for 2009.

Textile & Apparel


Industry overview

The Textiles & Apparel sector is amongst the largest and most significant in Pakistan's economy, accounting for over 60% of total merchandise exports and providing employment to 38% of large scale manufacturing sector workforce.

There is an abundant supply of local raw material as Pakistan is the 4th largest producer of cotton in the world. There is also an abundance of local labour available at a competitive cost when benchmarked against regional competitors.

Against this backdrop the industry remains largely fragmented with few large scale integrated players.

Worldwide denim production capacity is over 6 billion linear meters. Denim is the world's largest cotton textile product with estimated per annum global sales of 4 billion units.

The denim sector has been growing and prospering in Pakistan, which is now the world's second largest producer of denim with a capacity of approximately 500 million linear meters per annum.

Azgard 9 is Pakistan's largest denim products business by sales with a fully vertically integrated manufacturing chain, from cotton to retail ready apparel products. In house capabilities for spinning, weaving, design, finishing and stitching enables control over the entire value chain and provides a significant competitive advantage in facilitating faster speed to market and control over product quality.

With longstanding relationships with global retailers and brands, and an ability to rapidly build up manufacturing capacity, Azgard Nine is well poised to cater to an expected increase in global demand for denim products.

2008 in review

The year 2008 proved very challenging due to a globally recessionary climate affecting all facets of the business. While the business remained under pressure, Azgard Nine was able to protect its value proposition by adding a basket of value added services to its product portfolio. The key focus remained on meeting and indeed finding ways to exceed customer expectations.

In addition to Azgard Nine's vertical manufacturing capabilities which were already providing customer value, a complete customer solution concept was added. The company now offers the client a choice of full product development, product design and a complete logistics solution. Traditionally the customer has been sourcing supply of the product only. Now the client has the option to source a full supply chain solution directly from the Company. This value enhancement helped Azgard Nine to grow with its existing customers and add new customers as well during a difficult period.

Future outlook

With global pricing under pressure for the foreseeable future, our challenge remains to maintain pricing and margins and to grow the top line. This will be done through further enhancing our product and services portfolio and ensuring seamless business process interaction with our customers in order to create a highly integrated supply chain, leading to enhanced customer loyalty and value appreciation.

Things done well and with care,
exempt themselves from fear

Our Brands and Products

Yarns

ROYALE

A market driven specialty yarn brand.

Uses collaborative product development process with the customer, based on latest market trends.

Off the shelf availability for small lots and quick turnaround.

The art of Denim

Fabrics

AZGARD-9

Focused on a global best buy value proposition, Azgard-9 is positioned as a cutting edge product incorporating European product development and European commercial front end, while producing high value through low cost manufacturing in Pakistan.

Both denim and jeans are sold under the Azgard-9 label.

DENIM M'BELLO

Fashion forward denim fabric providing a wide choice of textures and washes.

Positioned for a largely European target market.

AZGARD-9

The art of Denim

AQUA PRINT

A high end denim fabric developed for the designer jeans market.

Positioned at the leading edge of specialty and fashion products.

Denim Garments

B Yourself

Targets the highly exclusive market segment respresented by Jacob Cohen, Kiton, D Squared, Seven and Polo Ralph Lauren.

Offers a wide variety of fabric and wash choices with exclusive design elements developed at our product development centers in Europe.

BFORYOU

Caters to the high end market represented by brands such as Diesel and Replay.

Focuses on combinations of fabrics and washes to offer a highly versatile product range.

BLUMAKE

Competes in the category of Oviesse, Coin, Conbipel and Rinascente.

Caters to a wide target market for diverse age groups and offers a quick, versatile and high value solution to market needs.

Fertilizers



Industry overview

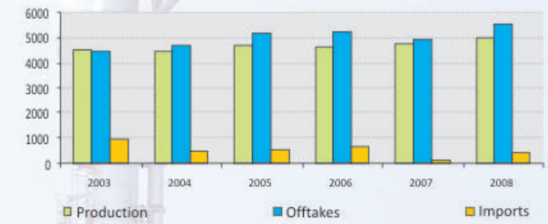
Urea industry in 2008 remained structurally short despite a 5% increase in production over 2007 (reaching 4.98 million tons). Late arrival of imports further compounded the shortage across all the provinces. Total imports by the Trading Corporation of Pakistan (TCP) during 2008 aggregated 450,000 tons. The shortage was managed by collaboration between the Federal & Provincial Governments and the Fertilizer Industry by systematically rationing the available stocks. The Government of Pakistan, in an effort to counter shortages, utilized the networks of National Fertilizer Marketing Limited (NFML) & Utility Stores Corporation of Pakistan for selling 50% of local production during Nov-Dec 2008. Pak American Fertilizers Ltd. played an active role in coordination with the relevant Government departments, to ensure availability of fertilizer in various districts of Punjab and NWFP.

Industry Urea sales in 2008 saw an increase of 11% over 2007 and reached 5.5 million tons. This increase is attributed to demand switch by farmers from phosphates to urea due to the unprecedented price increase of phosphates in the international market.

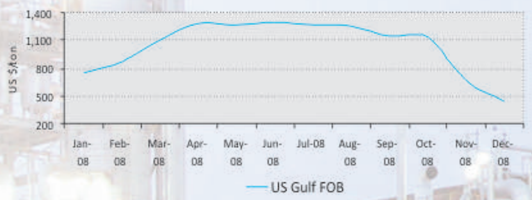
Subsidy contribution by the industry

The fertilizer industry supported the farmers in passing on various subsidies received. The fertilizer industry also contributed an additional subsidy of Rs. 129.5 billion on top of the subsidy of Rs. 20.7 billion given by the Government of Pakistan (GOP) in shape of lower gas prices to the fertilizer industry in 2008. The GOP also provided additional subsidy of Rs. 14.5 billion on account of subsidy on imported urea. Thus local Urea prices during 2008 averaged US$ 165.7 per ton, significantly lower than the average international Urea price of US$ 550 per ton in 2008.

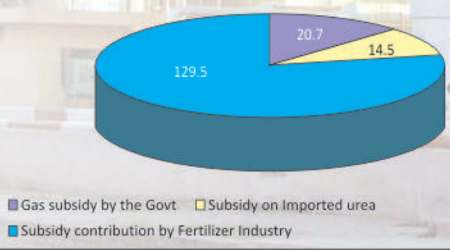
Urea Supply Demand



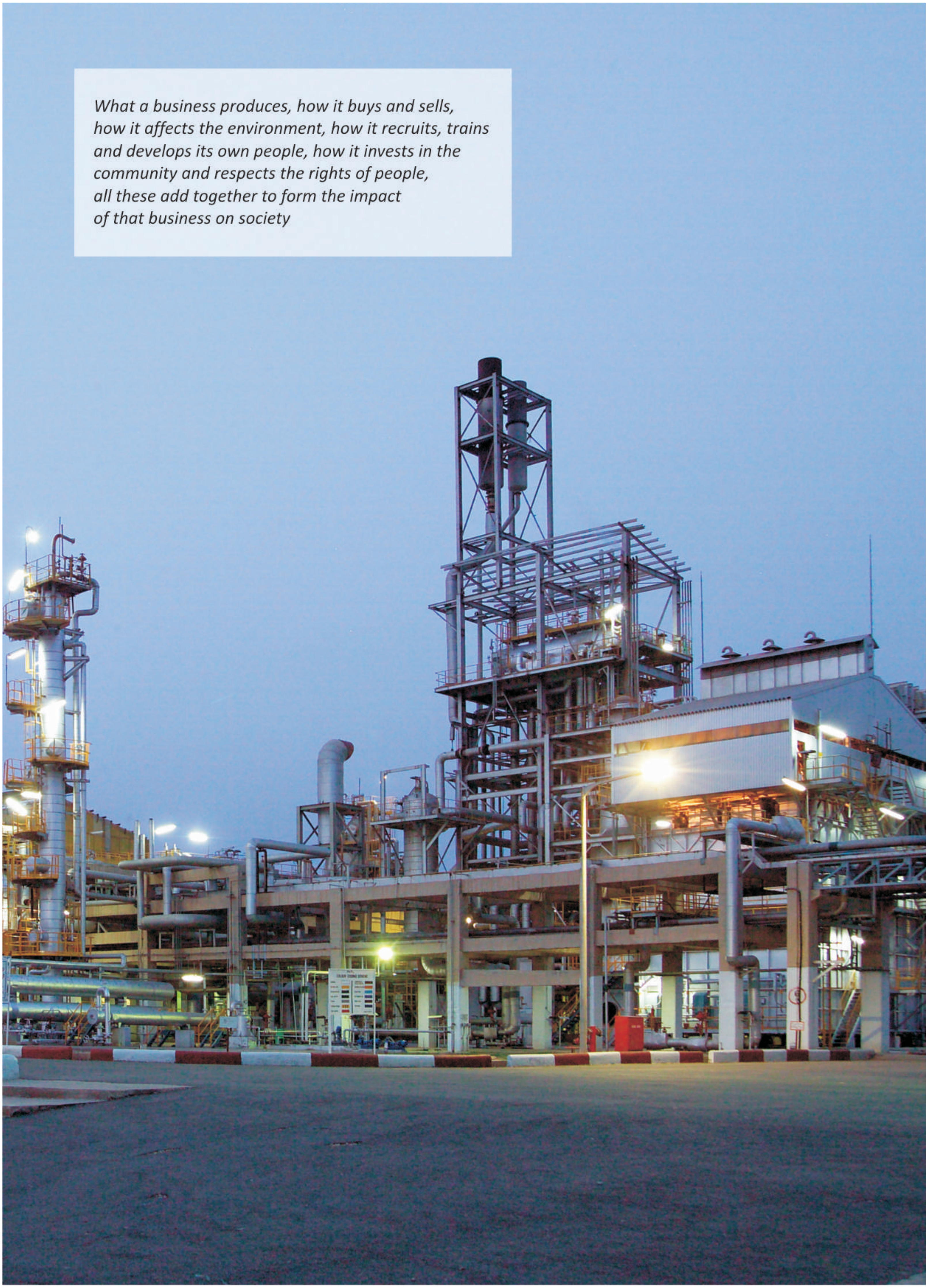
DAP Prices



Subsidy breakup (Rs. Billion)



What a business produces, how it buys and sells, how it affects the environment, how it recruits, trains and develops its own people, how it invests in the community and respects the rights of people, all these add together to form the impact of that business on society



Phosphates industry in 2008

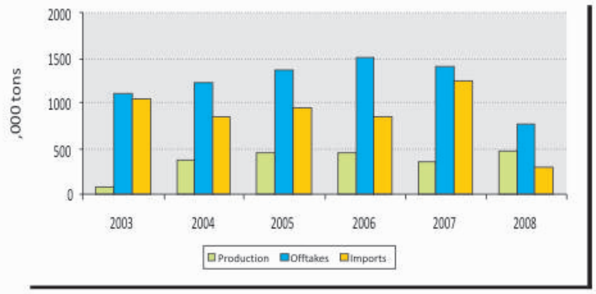
Global phosphates industry exhibited two completely disparate trends during 2008. During the 1st half of 2008 international DAP prices registered a spectacular increase from US$ 753 per ton CFR Karachi (Jan 2008) to US$ 1300 per ton CFR Karachi (Jun 2008). This increase is attributed to a sharp spike in phosphate demand due to historically high grain prices. DAP prices however fell dramatically during the 2nd half of 2008 and reached US$ 440 per ton CFR Karachi by Dec 2008. The global financial crisis followed by crash of grain prices were the major causes for this decline.

Local phosphates demand declined by 44% from 1.39 million tons in 2007 to 0.78 million tons in 2008 because of historically high domestic prices. Local DAP prices increased from Rs. 1,620 per bag in Jan 2008 to Rs. 3,050 per bag at the start of Rabi season despite the increased DAP subsidy from Rs. 1,000 per bag to Rs. 2,200 per bag. The high prices of Phosphates in the international market, resulted in substitution by farmers from Phosphates to Urea and DAP imports in 2008 declined to 0.3 million tons from 1.24 million tons in 2007.

PAFL overview

Pak American Fertilizers Limited (PAFL) continued to strengthen its position in all key areas post acquisition by Azgard Nine in 2006. In 2008 the company further improved its financial performance, while continuing to follow an aggressive growth strategy. PAFL's urea brand 'Tara' consolidated its market position by increasing its share to 8% of the domestic market and was awarded the 'Brand of the year' award by the Brand Council of Pakistan in the Fertilizer category in 2008.

DAP Supply Demand



With the acquisition of Hazara Phosphate Fertilizers (Pvt.) Limited (HPFL) in November 2008, the Company achieved a landmark goal in its product diversification strategy by adding Single Super Phosphate to its product range. Pak American is now the only fertilizer manufacturer in Pakistan servicing the farmers with local production of both Urea and Single Super Phosphate fertilizers marketed under the Brand Umbrella of 'Tara'.

Manufacturing efficiency continues to be a key focus for the company. The Process Engineering and Projects departments were further strengthened by establishing a Design Engineering team with a mandate to further reduce engineering costs and enhance indigenous project management capabilities.

Financial review

Despite the globally recessive market and business environment of 2008, PAFL achieved record growth in sales and profitability. PAFL had sales of Rs. 9,907 million as compared to Rs. 5,678 million last year, recording a significant 69% increase. Gross profit for the period under review stood at Rs. 3,130 million against Rs. 2 million last year (22% increase). This healthy rise reflects the implementation of an aggressive sales and marketing strategy coupled with wide ranging cost management measures. As a result operating profit increased to Rs. 2,654 million from Rs. 2,161 million in 2007.

As part of its ongoing growth strategy, PAFL has embarked on an expansion project to increase production of Urea to 135% of the nameplate capacity. The project is expected to be completed by Q1-2010. In the meanwhile PAFL will continue to strive for high growth at the lowest cost, leveraging our management capability to expand operations even further.

Brand Equity Development

Mr. Burair Nazir, Brand Manager for 'Tara' receiving "Brand of Year Award" from the Prime Minister of Pakistan Mr. Syed Yousaf Raza Gilani

Customer focus

Dealer meetings are held regularly to maintain a high level of interaction with customers

Our Human Capital



Azgard's culture is based on four pillars:

- Speed
- Passion
- Pursuit of Progress
- Teamwork

Our corporate culture at Azgard Nine is nurtured through setting world class performance standards and then focusing, empowering, encouraging, and challenging all our employees to develop their capabilities to deliver. This mindset transcends all levels of the organization.

Teams and individuals are constantly engaged in developing their capabilities to question the status quo and reinvent themselves and their systems of work to confront the dynamics of a fast paced changing world. Your company believes in not only providing direct employment to approximately 12,000 people but also is ensuring that each person increases his skills and knowledge so as to improve manpower productivity and make the Pakistani workers match the best international standard.

Bureaucracy is constantly pruned to enable people to work with each other without being encumbered and to keep the focus on outcomes and delivery rather than just effort.

Regular review of performance benchmarks helps keep the spotlight on value added activities. Your company believes in fair standards of business conduct by all employees, and has introduced a comprehensive Ethics Code. All management staff have been trained to understand this code and are held accountable to its standards.

We have a strong commitment to meritocracy, and remain steadfast to our principle of being an equal opportunity employer.

The conventional definition of management is getting work done through people, but real management is developing people through work

Corporate Social Responsibility



Azgard Nine Group is deeply committed to adopting and adhering to international norms and standards governing corporate social responsibility. We constantly strive to maintain a leadership role in this area and wholeheartedly support and fund outreach programs which have a beneficial impact on our environment, employees and the communities we live and work in. As part of this commitment, we are certified under the Social Accountability International's SA 8000 standard and various other related programs pertaining to the following broad areas.

Social responsibility

Community Relations.
Impact on local communities.
Participation in local communities.
Management of Human Rights.

Environmental responsibility

Impact on the environment.
Energy awareness.

Corporate ethics

Standards of ethical conduct.
Recruitment and retainment of staff.
Fair Pay scheme & wages.
Rights of employees.
Safe and secure environment.
Compliance with local employment laws.
Compliance with International Charter HR best practice policies.

Leadership values and integrity

Some of our key certifications and initiatives are mentioned below.

International social accountability SA 8000 certification

SA 8000 is based on the UN Universal Declaration of Human Rights, Convention on the Rights of the Child and various International Labour Organization (ILO) conventions.

This certification affirms that the company is fulfilling all its social responsibilities and respects all applicable international / national rules and regulations relating to child labor, forced labor, freedom of association and right to collective bargaining, heath and safety etc. This standard is also used to prevent violation of Human Rights, Child Labor/ Discrimination and to comply with existing Laws, Rules, Regulations, etc.

OSHA Standards

OHS 18001 compliant proactive HSE program aims to prevent work-related injuries, illnesses and fatalities. This effort at Azgard Nine Group is independently monitored by a high level Corporate Manager of Health, Safety & Environment who has wide ranging mandate and authority to enforce (Health, Safety & Environment (HSE) standards throughout the company. Effort is complemented with Hearts & Minds Winning techniques for sustainable performance.


" Sustainable development is a dynamic process which enables all people to realise their potential, and to improve their quality of life, in ways which simultaneously protect and enhance the Earth's life support systems."

GOTS and OE (organic exchange) member

The Global Organic Textile Standard (GOTS) is a comprehensive Standard that covers all aspects of the production of natural fibers including processing, manufacturing, packaging, labeling, exportation, importation and distribution. The goal of GOTS is "to define world-wide recognized requirements that ensure organic status of textiles, from harvesting of the raw materials, through environmentally and socially responsible manufacturing up to labeling in order to provide an auditable and credible assurance to the end consumer". By creating an international, uniform Standard, the GOTS working group sought to enable organic textile manufacturers and marketers to export their goods anywhere in the world with one universally accepted organic certification.

In organic production, GMO (Genetically modified organisms) are prohibited. In the certification of Organic Exchange, it is certified that the fiber (i.e cotton) is free from GMO and was grown organically.

Fair Trade (NGO) registration in process

Azgard Nine is in the process of registering under the Fair Trade NGO. This endeavor aims to underwrite social responsibility in real monetary terms whereby a part of the corporate profits are formally invested in the development of the community.

ISO 14001

ISO 14001 is an organizational system standard for monitoring, controlling, and improving quality of the environment. The ISO 14001 Environmental Management standards exist to help organizations minimize how their operations affect the environment (cause adverse changes to air, water, or land) and comply with applicable laws and regulations.

BSCI

In March 2003, the FTA formally founded the Business Social Compliance Initiative (BSCI). This is the broadest business driven platform for the improvement of social compliance in the global supply chain. The experience and the know-how gained by companies and associations from their monitoring systems were cornerstones for the development of the approach and management instruments of the BSCI. In the spring of 2004 the development phase was achieved and since then the system has been implemented worldwide. The ultimate goal of the BSCI is to improve the working conditions in the global supply chain worldwide.

Oeko Tex 100

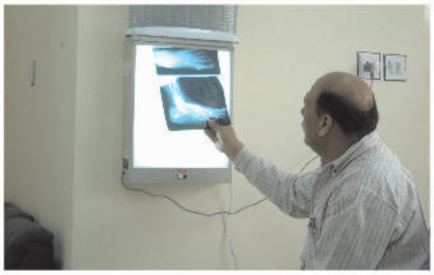
The Oeko-Tex standard 100 mark “confidence in textiles- tested for harmful substances according to Oeko-tex standard 100” states that the marked product fulfills the conditions specified in the standard of Oeko-Tex 100, and that the product and its conformity test, as specified in this standard are under the supervision of an institute belonging to the international association for research and testing in the field of textile ecology. This certification ensures the absence of all internationally banned chemicals and dyes and that the product is not harmful for human skin.

ISO 9001

ISO 9001 is a family of standards for quality management systems. ISO 9001 is maintained by ISO, the International Organization for Standardization and is administered by authorized accreditation and certification bodies. The requirements of ISO 9001 include maintaining a set of procedures that cover all key processes in the business, to ensure they are effective, maintain adequate records, check output for defects, with appropriate and corrective action where necessary. The ISO 9001 family of standards also require regular reviews of individual processes and the quality system itself for effectiveness, and to facilitate continuous improvement.

Health, Safety and Environment

Business success through HSE excellence



Zero harm to people and environment!

That's the commitment we have made to our employees, contractors, partners, and the communities where we live and work.

HSE Goals

Our company's Health, Safety and Environment initiative lays emphasis on and ensures;

Compliance with relevant local laws and regulations and taking additional measures considered necessary as per the chosen (OSHA) standards.

Continuous improvement in Health, Safety and Environment performance.

Taking measures to minimize waste, prevent pollution and conserve natural resources.

Requiring every member of staff, and those who work on our behalf, to exercise personal responsibility in preventing harm to themselves, others and the environment.

Providing resources and systems to prevent occupational illnesses to the staff.

Providing appropriate Health, Safety and Environmental training and information to all Azgard Nine Limited employees, contractors and other stakeholders.

Including HSE performance in the appraisal of all staff and reward/recognize accordingly.

Managing HSE matters just as any other critical business activity.

HSE Vision

Safety is our number one priority, and we believe that all accidents and incidents are preventable.

Excellence in HSE performance in all Azgard Nine Businesses.

HSE Strategic Objectives

Elimination of fatal incidents.

Elimination of fires, explosions, and major spills.

Minimizing the impact to the people from our operations, products, processes and services.

HSE Management system

To achieve our Goals, Vision & Strategic Objectives, the Company is implementing an HSE Management System, a structured and systematic approach which ensures Hazards Identification & Risk Assessment of our critical operations & industrial processes. Our focus is on compliance with both local laws and global customer requirements.

At Azgard Nine, people are at the heart of all activities. We strive to prevent injury and occupational illness and ensure the presence of a free and motivating work environment.

The Company has initiated a number of projects and programs in the following areas of Health, Safety & Environment.

Health

- *Minimum Health Management Standards.*
- *Health Risk Assessment.*
- *Health Surveillance Program (in house Audio & Spirometry Procedures).*
- *Medical Emergency Response & Plan.*
- *First Aid Basic & Advanced CPR Training.*
- *In house Health Facilities.*
- *Health Screening Programs.*
- *Fitness to Work Protocols.*

Safety

- *Fire fighting equipment & hydrant system.*
- *Hazards Identification & Risk Assessment.*
- *Personal Protective Equipment Program.*
- *Road Transport Safety Program.*
- *Permit to Work Systems.*
- *Change Management.*

Environment

- *ISO 14001 Certification.*
- *Effluent Treatment Plants.*
- *Energy Conservation Program.*
- *Solid & Biological Waste Management. Program.*
- *Spill Control program.*

1. Commitment & Leadership
2. HSE Organization & Competency
3. Information & Documentation
4. Communication
5. Operations & Maintenance
6. Occupational Health & Hygiene
7. Environmental Protection
8. Risk Management
9. Crisis & Emergency Management
10. Incident Reporting, Investigation & Analysis
11. Contractor & Third Party HSE Management
12. Audit & Continuous Improvement

Azgard Nine Limited has established 'Minimum Health Management Standards' which cover the following areas:

Health Risk Assessment.
Monitoring of Health Performance.
Occupational Illness Incident Reporting.
Fitness to Work.
Local Health Facilities and Emergency Response.
Human Factors Engineering in New Projects.
Product Stewardship.
Health Impact Assessment.
Community Health Projects.

Compliance with National Statutory Requirements is mandatory for all aspects of health management. Currently accepted scientific knowledge is applied while interpreting these standards.

HSE training program

Your company has established a comprehensive training program which caters to all layers of staff and contractors. Training modules are based on local laws, OSHA, Global Customers Code of Conduct Audit findings & ISO certification requirements.

5,493 man-hours training was imparted at various Azgard Nine sites during 2008.

Key training modules

- *Hazards & Risk Assessment.*
- *Chemicals Safety / MSDS.*
- *Hearing Conservation Program.*
- *Environmental Management System (ISO 14001).*
- *Incident / Accident Reporting & Investigation Techniques / Tripod Analysis.*
- *Personal Protective Equipment Program.*
- *Heat Stress Management.*
- *Forklift Safety.*
- *Defensive Driving Course.*
- *Hearts & Minds Safety Program.*
- *Manual Handling / Backache Prevention Program.*
- *Emotional Stress Management / Work-Life Balance.*

Health surveillance program

Azgard Nine Limited is the only textile company in Pakistan to have a structured in house Health Surveillance Program. Specialized procedures like Audio & Spirometry are being carried out against hazards such as high noise levels and chemical vapors & cotton dust. The objective is health protection and early detection of potential health damage on account of any harmful occupational exposure. Latest equipment has been procured and in house doctors have undergone extensive training to help meet this objective.

Effluent treatment

By adhering to international environment regulations, Azgard Nine is playing a leading role in maintaining a clean environment wherever it is operating.

The effluent treatment plants at both Manga and FPR have the capability to filter solid particles, separate grease, oils, dyes and other chemicals, remove organic decomposition and disinfect the water making it suitable for irrigation.

Community Programs



Educational facilities

Azgard Nine Group is committed to a quality education for its employees and its communities. The group has established and fully funds and manages several educational institutions in the community including Higher Secondary School for girls, Girls High School, Boys High School, Model High School and the Educators school. Over 2,800 students are enrolled at these schools managed by over 100 professional teaching and support staff. This program has a profound impact on the well being of our communities.

Community health center

Azgard Nine Group is committed to the health and well being of its communities and employees. It operates a hospital at its Daudkhel facility equipped with an operation theater, labor and gynecological center and an emergency unit.

PAFL has recently upgraded the health facility at Daudkhel, which provides subsidized medical facilities to employees and the community. At an annual cost of over Rs. 14 million, the hospital has 6 beds and provides minor surgery, labour room facilities, radiology and ECG services, and an outpatient ward. It is staffed with 2 permanent doctors and other support and technical staff round the clock.

Tree plantation drive

Realizing the critical need for a sustainable green environment, Azgard Nine Group continues to plant trees in the neighboring communities. So far it has planted over 1,000 fruit trees and plans to accelerate the effort.

Scholarships for students

Children of employees and local community residents are eligible for need based scholarships which are regularly granted by Azgard Nine. Currently 11 students are sponsored by Azgard Nine for their secondary and professional education.

Recreational facilities

Recognizing that a healthy body is a first prerequisite to a healthy mind, extensive sports and recreational facilities have been made available to the community.

Fair price shop

Through its collective purchasing power, the group arranges discounted groceries for its employees and their families and makes them available at subsidized rates through its fair price shop.

Earning per share

The earning per share of the Company for the period ended 31 December 2008 was Rs. 2.65 per share.

Dividend

The Directors are pleased to recommend 20% Bonus Shares to the Ordinary Shareholders (Voting) and Ordinary Shareholders (Non-Voting) of the Company subject to the approval of the members of the Company in their meeting scheduled for 30 April 2009.

The Company has already paid interim preferred dividend to the Preference Shareholders for the Fourth year ending 24 September 2008 @ 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 Fourth year ending 24 September 2008.

Investments by post employment benefits plan

The value of investments made by Post Employment Benefits Plan operated by Azgard Nine Limited, as per its audited financial statement for the year ended 31 December 2008 amounts to Rs. 73.291 Million (2007: Rs. 79.859 Million).

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 is sound and has 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, 2008 except for those disclosed in the financial statements.
- The value of the provident fund investments as on 31 December 2008 was Rs. 73.291 Million (31 December 2007: 79.859 Million)
- No material changes and commitments affecting the financial position of the Company have occurred between the end of the financial year to which this balance sheet relates and the date of the 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). The Non Executive Directors bring to the Company their vast experience of business, government and law, contributing valuable input and ensuring the Company's operations at a high standard of the principles of legal and corporate compliance.

During the period under review, nine meetings of the Board of Directors were held and the attendance by each director is as follows:

Name of Director	*Eligibility*	*Attended*
Mr. Mueen Afzal	4	3
Mr. Ahmed H. Shaikh	4	4
Chief Justice (R) Mian Mahboob	4	3
Mr. Aehsun M. H. Shaikh	4	4
Mr. Ali Jehangir Siddiqui	4	3
Mr. Khalid A.H. Al-Sagar	4	4
Mr. Mohammed Khaishgi	4	1

Leave of absence was granted to the members who could not attend the meetings.

Audit committee

The Board of Directors constituted a fully functional Audit Committee comprising five members of whom four are Non Executive Directors and one Executive Director. The terms of reference of the committee, inter alia, consist of ensuring transparent internal audits, accounting and control systems, reporting structure auditors as well as determining appropriate measures to safeguard the Company's assets.

Internal audit function

The Board set up an efficient and energetic internal control system with operational, financial and compliance controls to carry on the businesses of the Company. Internal audit findings are reviewed by the Audit Committee, and where necessary, action is taken on the basis of recommendations contained in the internal audit reports.

Consolidated financial statements

Consolidated financial statements of the Company together with its subsidiary companies Montebello S.r.l, Pak American Fertilizers Limited and Hazara Phosphate Fertilizer (Pvt.) Limited are also included.

Auditors

Messrs Rahman Sarfaraz Rahim Iqbal Rafiq, Chartered Accountants, member firm of Russell Bedford International, a reputable Chartered Accountants firm completed its tenure of appointment with the Company and being eligible has offered its services for another term.

Shareholding pattern

The shareholding pattern as at December 31, 2008 including the information under the Code of Corporate of Governance, for ordinary and preference shares, is annexed.

Web presence

Annual and periodical financial statements of the Company are also available on the Azgard Nine website www.azgard9.com for information of the shareholders and others.

Acknowledgment

The Board takes this opportunity to thank the Company's valued customers and the financial institutions whose faith and support over the years has cultivate a mutually beneficial relationship, playing a key role in the growth of the businesses.

The Board also wishes to place on record its appreciation for the employees of the Company. All this has been possible with their hard work and commitment.

On behalf of the Board of Directors

Chief Executive Officer

06 April 2009

Annual Report 2008

AZGARD-9

Ismail Aiwan-e-Science, Shahrah-e-Roomi,
Lahore-54600, Tel: +92 (0) 42 111-786-645
www.azgard9.com

Designed & Printed at **STRATAGEM**
4-B, 90 Canal Park, Gulberg II, Lahore.
+92 42 5756440, info.stratagem@gmail.com

Pak American Fertilizers Limited

AZGARD-9

Statement of Compliance

With best practices of Code of Corporate Governance for the year ended 31 December 2008

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 37 of listing regulations of Karachi stock exchange for the purpose of establishing a framework of good governance, whereby the Company is managed in compliance with the best practices of corporate governance. The Company has applied the principles contained in the Code in the following manner:

1. The Company encourages representation of independent non-executive directors on its Board of Directors. At present the Board of Directors includes five (5) non-executive directors.

2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.

3. All the resident directors are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an 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 31 December 2008.

5. The Company has prepared a "Statement of Ethics and Business Practices", which has been signed by all the directors and employees of the Company.

6. The business operations of the Company are carried out in accordance with the Company's Vision/Mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions including appointment and determination of remuneration and terms and conditions of employment of the chief executive officer and executive director have been taken by the Board.

8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

9. The Board arranged orientation courses from time to time for its directors during the year to apprise them of their duties and responsibilities.

10. Chief Financial Officer, Company Secretary and Head of Internal Audit executed their responsibilities in accordance with the appointments approved by the Board including their remuneration and terms and conditions of employment, as determined by the Chief Executive.

11. The Directors are well conversant with the listing regulations, legal requirements and operational imperatives of the company, and as such fully aware of their duties and responsibilities.

12. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

13. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.

14. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

15. The Company has complied with all the corporate and financial reporting requirements of the Code.

16. The Board has formed an audit committee. It comprises five members, of whom four are non-executive directors including the chairman of the committee.

17. The meetings of the Audit Committee were held at least once every quarter prior to the approval of interim and final results of the Company and as required by the Code. The term of reference of the committee have been formed and advised to the committee for compliance.

18. The Board has set-up an effective internal audit function manned by suitably qualified and experienced personnel who are conversant with the policies and procedures of the Company and are involved in the internal audit function on a full time basis.

19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

21. We confirm that all other material principles contained in the code have been complied with.

Chief Executive

Lahore
06 April 2009

Russell Bedford

Rahman Sarfaraz Rahim
Iqbal Rafiq
Chartered Accountants

4-B, 90 Canal Park,
Gulberg II,
Lahore.

T: +92 42 5756440, 5757022
F: +92 42 5757335
E: wisemen@magic.net.pk
W: www.russellbedford.com

Review report to the members on statement of compliance with best practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of AZGARD NINE LIMITED ("the Company") to comply with the Listing Regulations of the Stock Exchanges in Pakistan 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, we report that, 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 extent it is presently applicable in all material respects, with the best practices contained in the Code of Corporate Governance for the year ended 31 December 2008.

Rahman Sarfaraz Rahim Iqbal Rafiq

RAHMAN SARFARAZ RAHIM IQBAL RAFIQ
Chartered Accountants

LAHORE.
Date: 06 April 2009

Rahman Sarfaraz Rahim Iqbal Rafiq, Chartered Accountants, is a partnership firm registered in Pakistan and a member of Russell Bedford International, a global network of independent accounting firms and consultants with affiliated offices worldwide.

Notice of Annual General Meeting

Notice is hereby given that the 16th Annual General Meeting of AZGARD NINE LIMITED (the "Company") will be held on 30th April 2009 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:

1. To confirm the minutes of the last Annual General Meeting held on 31 March 2008;
2. To receive, consider and adopt the audited financial statements for the year ended 31 December 2008 together with Directors' and Auditors' Reports thereon;
3. To approve Bonus Share(s) in the proportion of 20 Share(s) for every 100 Share(s) held i.e. @ 20% as approved and recommended by the Board of Directors of the Company (the "Board") and to approve preferred dividend already paid to the Preference Shareholders @ 8.95% as final dividend for the fourth year ending on 24 September 2008;
4. To consider re- appointment of M/s Rahman Sarfaraz Rahim Iqbal Rafiq, Chartered Accountants as external auditors for the financial year ending 31 December 2009 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.

By order of the Board

06 April 2009
LAHORE

(Muhammad Ijaz Haider)
Company Secretary

NOTES:

1. The share transfer books of the Company will remain closed from 12 May 2009 to 18 May 2009. (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 along with 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.

Financial Highlights

Six years at a glance

Azgard Nine Limited	2008	2007	2006	2005	2004	2003
Operating performance (Rs. 000)						
Sales-Net	10,113,499	6,628,342	4,889,682	4,422,472	3,160,780	2,428,127
Export Sales-Gross	8,222,204	5,430,603	4,128,679	3,833,475	1,657,688	1,616,709
Local Sales-Gross	1,966,476	1,262,415	817,706	657,232	1,646,344	1,072,293
Gross profit	3,453,276	2,007,353	1,186,321	1,133,686	720,001	646,103
Operating profit	2,849,745	1,572,168	795,031	813,063	533,436	446,671
Profit before tax	999,502	1,151,460	1,260,085	792,137	398,677	248,440
Profit after tax	897,284	1,079,453	1,144,516	741,29	378,677	228,188
EBITDA	3,405,857	2,124,951	1,056,866	1,424,475	740,044	594,462
Financial position (Rs. 000)						
Total Equity	10,124,083	9,720,054	9,174,168	3,093,103	2,511,851	1,281,408
Surplus on revaluation of property, plant and equipment	219,356	239,073	257,361	278,944	306,565	330,249
Long term debt	6,674,515	7,479,094	5,786,172	2,678,233	750,000	650,000
Property, plant and equipment	8,653,620	7,811,638	7,752,546	5,572,699	2,937,696	2,333,753
Financial analysis						
Current ratio (times) *	1.08	1.79	1.21	1.45	1.12	0.98
Debt to equity (ratio)	40:60	46:54	40:60	48:52	30:70	38:62
Profitability analysis						
EBITDA to Sales (%)	33.68	32.06	21.61	32.21	23.41	24.48
Operating profit to sales (%)	28.18	23.72	16.26	18.38	16.88	18.40
Earnings per share (Rs.) (Please refer to Note 31)	2.65	3.26	4.97	7.62	4.33	2.63

*(excluding current portion of LT liabilities)

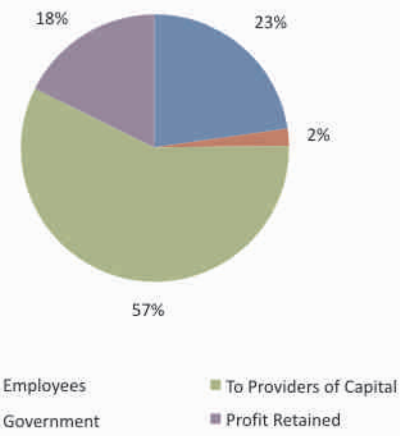
Consolidated	2008	2007	2006	2005	2004	2003
Operating performance (Rs. 000)						
Sales-Net	19,737,424	12,308,605	6,504,962	4,460,829	3,160,780	-
Export Sales-Gross	8,238,448	5,432,454	4,124,967	3,870,557	1,657,688	-
Local Sales-Gross	11,724,806	7,492,457	2,492,848	791,645	1,646,344	-
Gross profit	6,675,682	4,574,384,	1,892,804	1,138,481	720,001	-
Operating profit	5,586,657	3,732,582	1,338,708	810,997	533,436	-
Profit before tax	1,629,430	1,916,324	213,981	790,069	398,677	-
Profit after tax	1,397,393	1,453,488	155,524	739,212	378,677	-
EBITDA	6,522,949	4,478,668	1,890,209	1,115,811	734,304	-
Financial position (Rs. 000)						
Total Equity	9,759,139	9,329,302	7,952,064	3,093,776	2,511,851	-
Surplus on revaluation of property, plant and equipment	219,356	239,073	257,361	278,944	306,564	-
Long term debt	17,038,078	13,410,318	5,797,439	2,997,351	1,173,069	-
Property, plant and equipment	22,513,081	20,165,445	20,013,878	5,594,458	2,937,696	-
Financial analysis						
Current ratio (times) *	0.89	1.51	1.15	1.07	1.25	-
Debt to equity (ratio)	64:36	59:41	42:58	49:51	32:68	-
Profitability analysis						
EBITDA to Sales (%)	33.05%	36.39%	29.06%	25.01%	23.23%	-
Operating profit to sales (%)	28.30%	30.32%	20.58%	18.18%	16.88%	-
Earnings per share (Rs.) (Please refer to Note 31)	4.22	3.26	4.97	7.40	4.33	-

*(excluding current portion of LT liabilities)

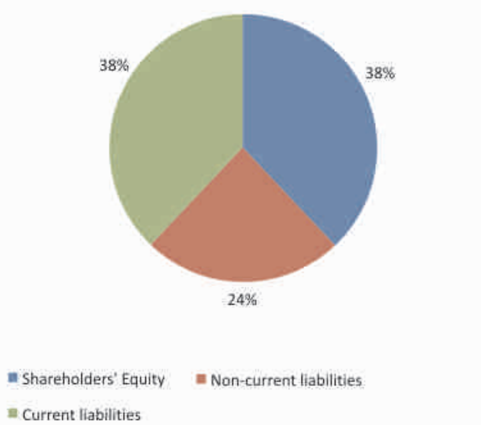
Distribution of Revenue

Wealth generated:	
Sales- Net	10,113,499,351
Other Income	620,148,589
Bought in material and Services	(5,653,855,059)
	5,079,792,881
Wealth Distribution / Allocation	
To employees:	
Salaries, wages and benefits	1,159,787,493
To Governmnet:	
Income Tax, Custom Duty	102,218,852
To Providers of Capital:	
Cash Dividend for 2007	390,929,009
Dividend on preference shares	59,181,949
Charges on borrowed funds	2,470,391,655
Profit retained	897,283,923
Wealth Generated	**5,079,792,881**

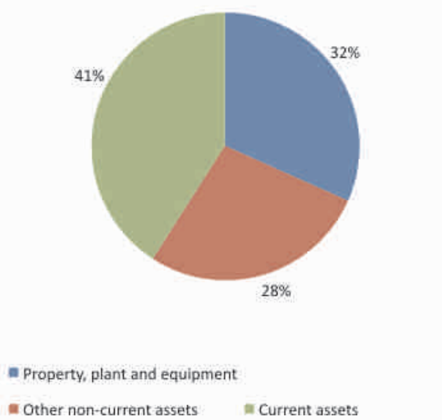
Wealth Distribution / Allocation



Shareholders' Equity and Liabilities



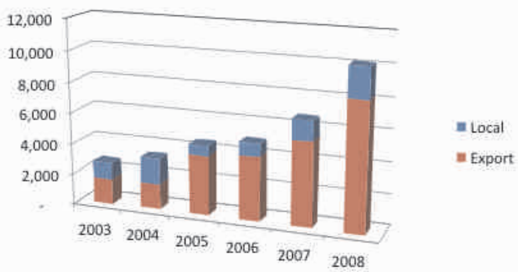
Total Assets



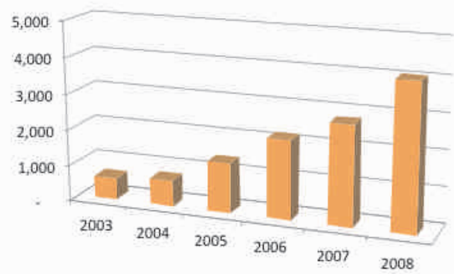
Company Performance

Azgard Nine Limited

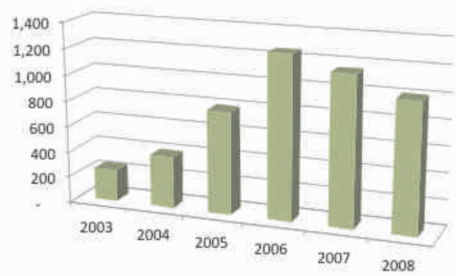
GROSS TURNOVER



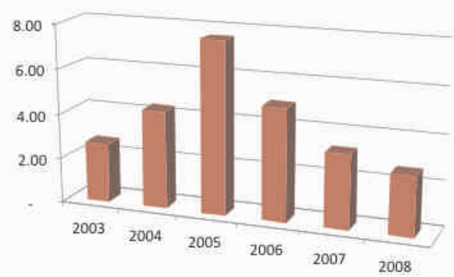
EBITDA



PROFIT BEFORE TAXATION

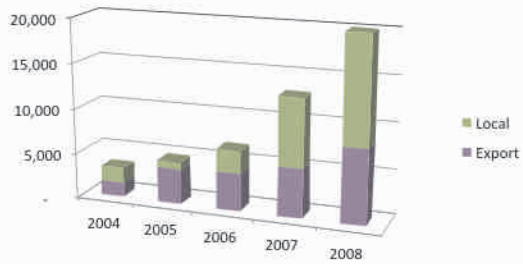


EARNING PER SHARE

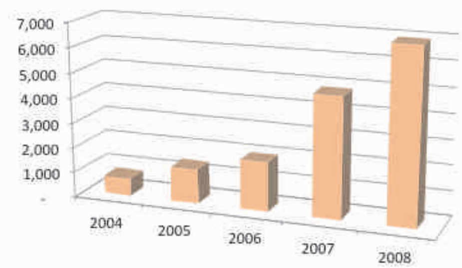


Group

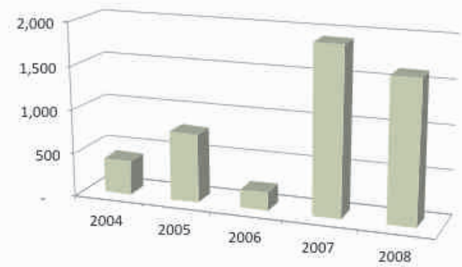
GROSS TURNOVER



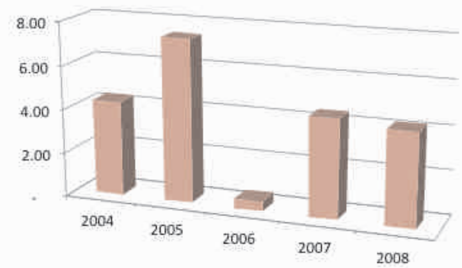
EBITDA



PROFIT BEFORE TAXATION



EARNING PER SHARE



Entity Rating From PACRA
(Pakistan Credit Rating Agency Ltd.)

Long Term	A + (Single A Plus)
Short Term	A 1 (A One)

Instrument Rating From PACRA
(Pakistan Credit Rating Agency Ltd.)

Listed TFCs	AA- (Double A Minus)

Russell Bedford

Rahman Sarfaraz Rahim Iqbal Rafiq
Chartered Accountants

4-B, 90 Canal Park,
Gulberg II,
Lahore.

T: +92 42 5756440, 5757022
F: +92 42 5757335
E: wisemen@magic.net.pk
W: www.russellbedford.com

Auditors' Report to the Members

We have audited the annexed balance sheet of AZGARD NINE LIMITED ("the Company") as at 31 December 2008 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 purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

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;

   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

Russell Bedford

part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the company's affairs as at 31 December 2008 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.

Rahman Sarfaraz Rahim Iqbal Rafiq

RAHMAN SARFARAZ RAHIM IQBAL RAFIQ
Chartered Accountants

LAHORE.
Date: 06 April 2009

Rahman Sarfaraz Rahim Iqbal Rafiq, Chartered Accountants, is a partnership firm registered in Pakistan and a member of Russell Bedford International, a global network of independent accounting firms and consultants with affiliated offices worldwide.

Financial Statements

Balance Sheet as at 31 December 2008

	Note	31 December 2008 Rupees	31 December 2007 Rupees
EQUITY AND LIABILITIES			
Share capital and reserves			
Issued, subscribed and paid-up capital	5	3,827,118,540	3,788,822,900
Reserves	6	3,532,469,002	3,530,626,122
Unappropriated profit		2,764,494,959	2,400,605,174
		10,124,082,501	9,720,054,196
Surplus on revaluation of property, plant and equipment		219,356,257	239,073,077
Non-current liabilities			
Redeemable capital - Secured	7	3,962,461,561	4,491,185,372
Long term finances - Secured	8	2,686,842,500	2,973,551,252
Liabilities against assets subject to finance lease	9	25,210,944	14,357,005
		6,674,515,005	7,479,093,629
Current liabilities			
Current portion of non-current liabilities	10	1,470,921,493	981,049,256
Short term borrowings	11	6,574,080,304	3,820,688,516
Derivative financial liabilities	12	50,536,909	34,369,582
Trade and other payables	13	1,350,500,115	1,030,875,769
Due to related parties - Unsecured	14	426,768,193	-
Markup accrued on borrowings	15	466,226,443	317,690,929
Unclaimed dividend		14,686,046	9,694,014
		10,353,719,503	6,194,368,066
Contingencies and commitments	16	-	-
		27,371,673,266	23,632,588,968

The annexed notes 1 to 48 form an integral part of these financial statements.

Lahore

CHIEF EXECUTIVE

	Note	31 December 2008 *Rupees*	31 December 2007 *Rupees*
ASSETS			
Non-current assets			
Property, plant and equipment	*17*	7,734,950,547	7,643,649,558
Capital work in progress	*18*	918,670,893	167,987,854
Intangible assets	*19*	33,536,216	51,142,669
Long term investments	*20*	7,521,644,051	6,391,905,201
Long term deposits	*21*	19,777,502	20,239,502
		16,228,579,209	14,274,924,784
Current assets			
Stores, spares and loose tools	*22*	201,693,270	125,468,877
Stock in trade	*23*	4,034,103,119	2,246,132,173
Trade receivables	*24*	1,777,232,612	1,657,196,735
Derivative financial assets	*25*	175,673,993	388,993,278
Advances, deposits, prepayments and other receivables	*26*	789,515,062	1,004,944,292
Current taxation	*27*	63,948,605	51,050,683
Short term investments	*28*	4,018,853,586	3,838,444,830
Cash and bank balances	*29*	82,073,810	45,433,316
		11,143,094,057	9,357,664,184
		27,371,673,266	23,632,588,968

DIRECTOR

Financial Statements

Profit and Loss Account
for the year ended 31 December 2008

	Note	31 December 2008 *Rupees*	31 December 2007 *Rupees*
Sales - Net	*30*	10,113,499,351	6,628,341,926
Cost of sales	*31*	(6,660,223,767)	(4,620,988,950)
Gross Profit		3,453,275,584	2,007,352,976
Administrative and selling expenses	*32*	(603,529,743)	(435,185,073)
Operating profit		2,849,745,841	1,572,167,903
Other income - Net	*33*	620,148,589	641,224,883
Finance cost	*34*	(2,470,391,655)	(1,061,933,212)
Profit before taxation		999,502,775	1,151,459,574
Taxation	*35*	(102,218,852)	(72,007,073)
Profit after taxation		897,283,923	1,079,452,501
Earning per share - basic	*36*	2.65	3.26
Earning per share - diluted	*36*	2.65	3.25

The annexed notes 1 to 48 form an integral part of these financial statements.

Lahore **CHIEF EXECUTIVE** **DIRECTOR**

Financial Statements

Cash Flow Statement
for the year ended 31 December 2008

	Note	31 December 2008 Rupees	31 December 2007 Rupees
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	38	1,827,162,044	727,689,084
Markup paid		(1,853,905,807)	(988,561,466)
Paid to WPPF		(30,897,338)	(8,087,625)
Income taxes paid		(114,954,372)	(119,715,688)
Net cash used in operating activities		(172,595,473)	(388,675,695)
CASH FLOW FROM INVESTING ACTIVITIES			
Capital expenditure		(1,350,237,521)	(659,185,428)
Development costs		-	(7,093,393)
Proceeds from disposal of property, plant and equipment		4,640,968	1,762,850
Acquisition of subsidiary		(2,625,026,049)	-
Proceeds from sale of long term investments		1,500,000,000	-
Proceeds on winding of subsidiary		11,637	-
Purchase of short term investments		(1,013,085,605)	(4,520,483,703)
Proceeds from sale of short term investments		857,238,376	4,456,893,370
Return on investment in term finance certificates		104,954,739	328,572,246
Dividend received		589,730,500	588,645,000
Interest on bank deposits		1,399,408	14,408,355
Net cash (used in) / flow from investing activities		(1,930,373,547)	203,519,297
CASH FLOW FROM FINANCING ACTIVITIES			
Transanction costs on borrowings		(1,000,000)	-
Proceeds from issue of redeemable capital net of transaction costs		-	2,466,812,500
Redemption of redeemable capital		(230,542,657)	(63,357,468)
Long term finances obtained		350,000,000	608,000,000
Repayment of long term finances		(686,006,711)	(778,404,971)
Repayment of liabilities against assets subject to finance lease		(28,690,147)	(51,534,954)
Proceeds from sale and lease back of property, plant and equipment		807,974	-
Net increase / (decrease) in short term borrowings		2,753,391,788	(2,116,010,801)
Due to related parties		426,768,193	-
Dividend paid		(445,118,926)	(415,820,216)
Net cash flow from / (used in) financing activities		2,139,609,514	(350,315,910)
Net increase / (decrease) in cash and cash equivalents		36,640,494	(535,472,308)
Cash and cash equivalents at the beginning of the year		45,433,316	580,905,624
Cash and cash equivalents at the end of the year	39	82,073,810	45,433,316

The annexed notes 1 to 48 form an integral part of these financial statements.

Lahore **CHIEF EXECUTIVE** **DIRECTOR**

Financial Statements

Statement of Changes in Equity
for the year ended 31 December 2008

		Share capital			Reserves								
	Note	Ordinary shares Rupees	Preference shares Rupees	Total Rupees	Share premium Rupees	Hedging reserve Rupees	Reserve on merger Rupees	Preference shares redemption reserve Rupees	Surplus on revaluation of investments available for sale Rupees	Total Rupees	Unappropriated profit Rupees	Total equity Rupees	Surplus on revaluation of property, plant, and equipment Rupees
As at 01 January 2006		3,127,100,570	661,738,330	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
Conversion of preference shares into ordinary shares		34,000	(50,000)	(16,000)	16,000	-	-	-	-	16,000	-	-	-
Surplus on revaluation of property, plant and equipment transferred to unappropriated profit on account of incremental depreciation		-	-	-	-	-	-	-	-	-	18,287,790	18,287,790	(18,287,790)
Profit for the year ended 31 December 2007		-	-	-	-	-	-	-	-	-	1,079,452,501	1,079,452,501	-
Profit transferred to preference shares redemption reserve		-	-	-	-	-	-	101,000,000	-	101,000,000	(101,000,000)	-	-
Final dividend on ordinary shares for the year ended 31 December 2006		-	-	-	-	-	-	-	-	-	(343,981,063)	(343,981,063)	-
Preference dividend for the year ended 31 December 2007		-	-	-	-	-	-	-	-	-	(59,221,106)	(59,221,106)	-
Net decrease in fair value of derivative financial instruments		-	-	-	-	(152,857,535)	-	-	-	(152,857,535)	-	(152,857,535)	-
Surplus on revaluation of investments available for sale		-	-	-	-	-	-	-	4,205,475	4,205,475	-	4,205,475	-
As at 31 December 2007		3,127,134,570	661,688,330	3,788,822,900	2,633,387,139	370,801,102	105,152,005	414,500,000	6,785,876	3,530,626,122	2,400,605,174	9,720,054,196	239,073,077
Conversion of preference shares into ordinary shares		297,500	(437,500)	(140,000)	140,000	-	-	-	-	140,000	-	-	-
Conversion of redeemable capital into ordinary shares		38,435,640	-	38,435,640	104,314,360	-	-	-	-	104,314,360	-	142,750,000	-
Surplus on revaluation of property, plant and equipment transferred to unappropriated profit on account of incremental depreciation		-	-	-	-	-	-	-	-	-	19,716,820	19,716,820	(19,716,820)
Profit for the year ended 31 December 2008		-	-	-	-	-	-	-	-	-	897,283,923	897,283,923	-
Profit transferred to preference shares redemption reserve		-	-	-	-	-	-	103,000,000	-	103,000,000	(103,000,000)	-	-
Final dividend on ordinary shares for the year ended 31 December 2007		-	-	-	-	-	-	-	-	-	(390,929,009)	(390,929,009)	-
Preference dividend for the year ended 31 December 2008		-	-	-	-	-	-	-	-	-	(59,181,949)	(59,181,949)	-
Net decrease in fair value of derivative financial instruments		-	-	-	-	(218,165,162)	-	-	-	(218,165,162)	-	(218,165,162)	-
Surplus on revaluation of investment in Azsoft (Private) Limited recognized in profit or loss on winding up		-	-	-	-	-	-	-	(24,744)	(24,744)	-	(24,744)	-
Surplus on revaluation of investments available for sale		-	-	-	-	-	-	-	12,578,426	12,578,426	-	12,578,426	-
As at 31 December 2008		3,165,867,710	661,250,830	3,827,118,540	2,737,841,499	152,635,940	105,152,005	517,500,000	19,339,558	3,532,469,002	2,764,494,959	10,124,082,501	219,356,257

The annexed notes 1 to 48 form an integral part of these financial statements.

Lahore

CHIEF EXECUTIVE

DIRECTOR

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

1 REPORTING ENTITY

Azgard Nine Limited ("the Company") was incorporated in Pakistan as a Public Limited Company and is currently listed on 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.

2 BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of Companies Ordinance, 1984. Approved accounting standards comprise of such International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board as notified under the provisions of the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions of or directives under the Companies Ordinance, 1984 prevail.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention except for certain financial instruments at fair value and certain items of property, plant and equipment at revalued amounts. In these financial statements, except for the amounts reflected in the cash flow statement, all transactions have been accounted for on accrual basis.

2.3 Judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, 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 forms the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Judgements made by management in the application of approved accounting standards that have significant effect on the financial statements and estimates with a risk of material adjustment in subsequent years are as follows:

2.3.1 Depreciation method, rates and useful lives of property, plant and equipment

The management of the Company reassesses useful lives, depreciation method and rates for each item of property, plant and equipment annually by considering expected pattern of economic benefits that the Company expects to derive from that item.

2.3.2 Recoverable amount of assets / cash generating units

The management of the Company reviews carrying amounts of its assets and cash generating units for possible impairment and makes formal estimates of recoverable amount if there is any such indication.

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

2.3.3 Fair value of investments available for sale having no active market

Fair value of investments available for sale having no active market is determined using discounted cash flow analysis after incorporating all factors that market participants would consider in setting a price and using inputs that reasonably represent market expectations and measures of the risk-return factors inherent in the investment.

2.3.4 Taxation

The Company takes into account the current income tax law and decisions taken by appellate authorities. Instances where the Company's view differs from the view taken by the income tax department at the assessment stage and where the Company considers that its view on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

2.3.5 Fair value of derivative financial instruments

The fair value of derivative financial instruments is determined by discounting estimated future cash flows based on the terms and maturity of each contract and using market rates for similar instruments at the measurement date.

2.3.6 Provisions

Provisions are based on best estimate of the expenditure required to settle the present obligation at the reporting date, that is, the amount that the Company would rationally pay to settle the obligation at the reporting date or to transfer it to a third party.

2.3.7 Revaluation of property, plant and equipment

Revaluation of property, plant and equipment is carried out by independent professional valuers. Revalued amounts of non-depreciable items are determined by reference to local market values and that of depreciable items are determined by reference to present depreciated replacement values.

2.4 Functional currency

These financial statements have been prepared in Pak Rupees which is the Company's functional currency.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

3.1 Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses with the exception of freehold land, which is measured at revalued amount, and, plant and machinery and building which are measured at revalued amount less accumulated depreciation. Cost comprises purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, and includes other costs directly attributable to the acquisition.

Parts of an item of property, plant and equipment having different useful lives are recognized as separate items.

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

Major renewals and improvements to an item of property, plant and equipment are recognized in the carrying amount of the item if it is probable that the embodied future economic benefits will flow to the Company and the cost of renewal or improvement can be measured reliably. The cost of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Depreciation

The Company recognises depreciation in profit or loss by applying reducing balance method over the useful life of each item of property, plant and equipment using rates specified in note 17 to the financial statements.

Depreciation on additions to property, plant and equipment is charged from the month in which the item becomes available for use. Depreciation is discontinued from the month in which it is disposed or classified as held for disposal.

Depreciation method, useful lives and residual values are reviewed at each reporting date.

De-recognition

An item of property, plant and equipment is de-recognized when permanently retired from use. Any gain or loss on disposal of property, plant and equipment is recognized in profit or loss.

3.2 Capital work in progress

Capital work in progress is stated at cost less identified impairment loss, if any, and includes the expenditures on material, labour and appropriate overheads directly relating to the construction, erection or installation of an item of property, plant and equipment. These costs are transferred to property, plant and equipment as and when related items become available for intended use.

3.3 Intangible assets

An intangible asset is recognized when it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably.

In assessing the probability of expected future economic benefits the Company uses reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

An intangible asset is measured initially at cost. The cost of the intangible asset acquired comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, and includes other costs directly attributable to the acquisition. Costs incurred after the asset is in the condition necessary for it to operate in the manner intended by the management are recognized in profit or loss. Subsequent to initial recognition, intangible assets are measured at cost less accumulated amortization and accumulated impairment losses, if any.

All intangible assets are amortized over the period, not exceeding five years, over which the Company expects to obtain economic benefits, on a straight line basis. All intangible assets are tested for impairment at each reporting date.

The particular measurement methods adopted are disclosed in the individual policy statements associated with each intangible asset.

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

3.4 Software

The cost of acquisition, development and installation of identifiable software products having finite useful lives of more than one year is recognized as an intangible asset at cost. Subsequent to initial recognition, it is measured at cost less accumulated amortization and accumulated impairment losses, if any.

3.5 Research and development expenditure

Research activities are activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Expenditure on research activities is recognized in profit or loss as and when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized and recognized as an intangible asset only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has the sufficient technical, financial and other resources to complete development and to use or sell the asset or its output for which a market exists. The expenditure capitalized includes the cost of materials, direct labour and overhead costs that are directly attributable to preparation of the asset for its intended use. All other development expenditure is recognized in profit or loss as and when incurred.

The intangible asset so recognized is initially measured at cost. Subsequent to initial recognition, it is measured at cost less accumulated amortization and accumulated impairment losses, if any. Expenditure previously recognized in profit or loss is not capitalized as part of the cost of intangible asset.

3.6 Stores, spares and loose tools

These are generally held for internal use and are valued at cost. Cost is determined on the basis of moving average except for items in transit, which are valued at invoice price plus related expenses incurred up to the reporting date. For items which are considered obsolete, the carrying amount is written down to nil.

3.7 Stock in trade

These are valued at lower of cost and net realizable value, with the exception of stock of waste which is value at net realizable value. Cost is determined using the following basis:

Raw materials	Average cost
Work in process	Average manufacturing cost
Finished goods	Average manufacturing cost
Raw material in transit	Invoice price plus related expense incurred up to reporting date

Average manufacturing cost in relation to work in process and finished goods consists of direct material, labour and a proportion of appropriate manufacturing overheads.

Net realizable value signifies the estimated selling price in the ordinary course of business less estimated costs of completion and estimated costs necessary to make the sale.

3.8 Financial instruments

Recognition

A financial instrument is recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

De-recognition

Financial assets are de-recognized if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are de-recognized if the Company's obligations specified in the contract expire or are discharged or cancelled. Any gain or loss on de-recognition of financial assets and financial liabilities is recognized in profit or loss.

Measurement

The particular measurement methods adopted are disclosed in the individual policy statements associated with each instrument.

Off-setting

A financial asset and a financial liability is offset and the net amount reported in the balance sheet if the Company has legally enforceable right to set-off the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

3.9 Ordinary share capital

Ordinary share capital is recognized as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as deduction from equity.

3.10 Preference share capital

Preference share capital is recognized as equity in accordance with the interpretation of the provisions of the Companies Ordinance, 1984, including those pertaining to implied classification of preference shares.

3.11 Redeemable capital

Redeemable capital, including embedded equity component existing due to conversion options, if any, is recognized as debt capital, in accordance with the interpretation of the provisions of the Companies Ordinance, 1984, including those pertaining to implied classification of redeemable capital .

3.12 Investments in subsidiaries

Investments in subsidiaries are classified as available for sale.

3.13 Investments available for sale

Investments are classified as available for sale when these are intended to be held for an indefinite period of time and may be sold in response to need for liquidity or changes in equity prices.

These are recognized initially at cost which includes transaction costs associated with the investment. Subsequent to initial recognition, these are measured at fair value. Unrealized gains and losses arising from changes in fair value are recognized in equity until the investments are disposed or impaired. Gain or loss on sale of these investments is recognized in profit or loss. Fair value of quoted investments is measured by reference to published price quotations in an active market. Fair value of unquoted investments, where active market does not exist, is measured using discounted cash flow analysis.

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

3.14 Investments at fair value through profit or loss

Investments are classified as investments at fair value through profit or loss when either they are designated as such on initial recognition or are classified as held for trading. Held for trading investments are investments that are acquired principally for the purpose of selling them in the near future; or that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of profit taking or that are derivatives, excluding financial guarantee contracts and designated hedging instruments. Investments are designated as at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management and investment strategy.

Upon initial recognition, these are measured at cost being the fair value of the consideration paid for the acquisition of the investment. Transactions costs are recognized in profit or loss when incurred. Subsequent to initial recognition, quoted investments are measured at fair value. Unrealized gains and losses arising from changes in fair value are recognized in profit or loss. Fair value of quoted investments is measured by reference to published price quotations in an active market. Unquoted investments, where active market does not exist, are carried at cost subsequent to initial recognition. Gain or loss on sale of these investments is recognized in profit or loss.

3.15 Investments held to maturity

Investments held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity. These are measured at amortized cost using the effective interest method, less impairment losses, if any.

3.16 Derivative financial instruments

The Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Derivatives are recognized initially at fair value, with attributable transaction costs recognized in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as follows:

Cash flow hedge

Changes in fair value of the derivative financial instrument classified as a cash flow hedge are recognized directly in equity to the extent the hedge is effective. To the extent the hedge is ineffective, changes in fair value are recognized in profit or loss.

Fair value hedge

Changes in fair value of the derivative financial instrument classified as a fair value hedge are recognized in profit or loss.

3.17 Regular way purchase and sale of financial assets

All regular way purchases and sales of financial assets are recognized on trade dates.

3.18 Borrowings

These are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, these are stated at amortized cost with any difference between cost and redemption value recognized in the profit or loss over the period of the borrowings on an effective interest basis.

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

3.19 Leased assets

Leases in terms of which the Company assumes substantially all risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the finance charge and the reduction of outstanding liability. The finance charge 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. The Company recognizes depreciation in profit or loss by applying reducing balance method over the useful life of each asset using rates specified in note 17 to the financial statements.

Leases that do not transfer substantially all risks and rewards of ownership are classified as operating leases. Payments made under operating leases are recognized in profit or loss on a straight line basis over the lease term.

3.20 Employee benefits

Short-term employee benefits

The Company recognizes the undiscounted amount of short term employee benefits to be paid in exchange for services rendered by employees as a liability after deducting amount already paid and as an expense in profit or loss unless it is included in the cost of inventories or property, plant and equipment as permitted or required by the approved accounting standards. If the amount paid exceeds the undiscounted amount of benefits, the excess is recognized as an asset to the extent that the prepayment would lead to a reduction in future payments or cash refund.

Post-employment benefits

The Company operates an approved defined contributory provident fund for its employees excluding expatriates. Equal contributions are made by the Company and employees at 8.5% of basic salary. Interest is charged @ 8.25% on the outstanding fund balance and is recognized in profit or loss.

3.21 Trade and other payables

Trade and other payables are initially recognized at fair value and subsequently measured at amortized cost.

3.22 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost less impairment loss, if any.

3.23 Surplus / deficit arising on revaluation of property, plant and equipment

Surplus arising on revaluation of items of property, plant and equipment is recognized in equity after reversing deficit relating to the same item previously recognized in profit or loss, if any. Deficit arising on revaluation is recognized in profit or loss after reversing the surplus relating to the same item previously recognized in equity, if any. An amount equal to incremental depreciation, being the difference between the depreciation based on revalued amounts and that based on the original cost, net of deferred tax, if any, is transferred from surplus on revaluation of property, plant and equipment to unappropriated profit every year.

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

3.24 Revenue

Revenue is measured at the fair value of the consideration received or receivable, net of returns allowances, trade discounts and rebates, and represents amounts received or receivable for goods and services provided and other operating income earned in the normal course of business. 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 costs incurred or to be incurred can be measured reliably.

Revenue from different sources is recognized as follows:

Revenue from sale of goods is recognized when risks and rewards incidental to the ownership of goods are transferred to the buyer. Transfer of risks and rewards vary depending on the individual terms of the contract of sale. For local sales transfer usually occurs on dispatch of goods to customers. For export sales transfer occurs upon loading the goods onto the relevant carrier.

Export rebate is recognized at the same time when revenue from export sales is recognized.

Dividend income is recognized when the Company's right to receive payment is established.

Return on bank deposits is recognized as and when accrued on time proportion basis.

Return on investments in term finance certificates is recognized as and when accrued on time proportion basis.

3.25 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying asset is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss as incurred.

3.26 Government grants

Government grants are recognized 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. Subsequent to initial recognition grants related to assets are recognized in profit or loss on a systematic basis over the useful life of the assets whereas grants relating to income are recognized in profit or loss on a systematic basis in the same period in which related expenses are recognized. Grants that compensate the Company for expenses or losses already incurred are recognized in profit or loss in the period in which these become receivable.

3.27 Income tax

Income tax expense comprises current tax and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the amount of tax payable on taxable income for the year, using tax rates enacted or substantively enacted by the reporting date, and any adjustment to the tax payable in respect of previous years. Provision for current tax is based on current rates of taxation in Pakistan after taking into account tax credits, rebates and exemptions available, if any. However, for income covered under final tax regime, taxation is based on applicable tax rates under such regime. The amount of unpaid income tax in respect of the current or prior periods is recognized as a liability. Any excess paid over what is due in respect of the

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

current or prior periods is recognized as an asset.

Deferred tax is accounted for using the balance sheet approach providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. In this regard, the effects on deferred taxation of the portion of income that is subject to final tax regime is also considered in accordance with the requirement of "Technical Release - 27" of the Institute of Chartered Accountants of Pakistan. Deferred tax is measured at rates that are expected to be applied to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the reporting date. A deferred tax liability is recognized for all net taxable temporary differences. A deferred tax asset is recognized for net deductible temporary differences to the extent that future taxable profits will be available against which temporary differences 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 realized.

Deferred tax is not recognized for timing differences that are not expected to reverse and for the differences arising from the initial recognition of goodwill and initial recognition of assets and liabilities in a transaction that is not a business combination and that at the time of transaction affects neither the accounting nor the taxable profit.

3.28 Earnings per share (EPS)

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is calculated by adjusting basic EPS by the weighted average number of ordinary shares that would be issued on conversion of all dilutive potential ordinary shares into ordinary shares and post-tax effect of changes in profit or loss attributable to ordinary shareholders of the Company that would result from conversion of all dilutive potential ordinary shares into ordinary shares.

3.29 Cash and cash equivalents

Cash and cash equivalents for the purpose of cash flow statement comprise cash in hand and cash at banks. Cash and cash equivalents are carried at cost.

3.30 Foreign currency transactions and balances

Transactions in foreign currency are translated to the functional currency of the Company using exchange rate at the date of transaction. Monetary assets and liabilities denominated in foreign currency are translated to the functional currency at exchange rate at the reporting date. Non-monetary assets and liabilities denominated in foreign currency that are measured at fair value are translated to the functional currency at exchange rate at the date the fair value is determined. Non-monetary assets and liabilities denominated in foreign currency that are measured at historical cost are translated to functional currency at exchange rate at the date of initial recognition. Any gain or loss arising on translation of foreign currency transactions and balances is recognized in profit or loss.

3.31 Impairment

An impairment loss is recognized if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses are reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent

Financial Statements

Notes to the Financial Statements
for the year ended 31 December 2008

that the asset's carrying amount after the reversal does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss had been recognized.

3.32 Related party transactions

Related party transactions are carried out on an arm's length basis. Pricing for these transactions are determined on the basis of comparable uncontrolled price method, which sets the price by reference to comparable goods and services sold in an economically comparable market to a buyer unrelated to the seller.

3.33 Provisions

Provisions are recognized when the Company has a legal and constructive obligation as a result of past events and it is probable that outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

3.34 Standards, interpretations and amendments to published accounting standards that are not yet effective

The International Accounting Standards Board has published following standards, interpretations and amendments that are not yet effective and have not been applied in preparing these financial statements.

IFRS 8 - Operating Segments

This standard introduces the "management approach" to segment reporting. IFRS 8 is effective for periods beginning on or after 01 January 2009, however, it is not expected to have any impact on the Company's financial statements.

IAS 23 - Borrowing Costs (Revised 2007)

The revised standard removes the option to expense borrowing costs and requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of qualifying asset as part of the cost of that asset. The revised IAS 23 is effective for periods beginning on or after 01 January 2009, however this would not constitute a change in accounting policy since the Company's accounting policy for borrowing costs is already in accordance with the requirements of the revised standard.

IAS 1 - Presentation of Financial Statements (Revised 2007)

The revised standard introduces the term "Total Comprehensive Income", which represents changes in equity during a period other than those resulting from transactions with owners in their capacity as owners. The revised standard is effective for periods beginning on or after 01 January 2009. The standard will have impact on the presentation of Company's financial statements for the year ending 31 December 2009.

Amendments to IAS 32 - Financial Instruments: *Presentation* and IAS 1 - Presentation of Financial Statements, regarding Puttable Financial Instruments and Obligations Arising on Liquidation

These amendments require puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. These amendments are effective for periods beginning on or after 01 January 2009 with retrospective application required. However these are not expected to have any impact on the Company's Financial Statements.

Amendments to IFRS 2 - Share Based Payments regarding vesting conditions and cancellations.

These amendments clarify the definition of vesting conditions, introduces the concept of non-vesting

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. These amendments are effective for periods beginning on or after 01 January 2009 with retrospective application. No impact is expected on the financial statements of the Company.

IFRIC 13 *Customer Loyalty Programmes*

This interpretation addresses accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13 is effective for the periods beginning on or after 01 January 2009. However, it is not expected to have any impact on the Company's financial statements.

3.35 Adoption of new standards, interpretations and amendments to published approved accounting standards.

The Company has not adopted IFRS 7 - Financial Instruments *Disclosures,* which is effective for the current period, since as per circular 08 of 2008 of the Institute of Chartered Accountants of Pakistan the standard will be effective for accounting periods beginning on or after the date of relevant notification (i.e. 28 April 2008) of the Securities and Exchange Commission of Pakistan vide which the IFRS 7 was notified. The adoption of this standard would impact the financial statements of the Company to the extent of disclosures only.

IAS 29 - Financial Reporting in Hyperinflationary Economies has been notified by the Securities and Exchange Commission of Pakistan under Section 234(3) of the Companies Ordinance, 1984, but the standard would not have any impact on the Company's financial statements in view of the fact that the primary economic environment in which the Company operates is not hyperinflationary.

4 CAPITAL MANAGEMENT

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital and level of dividends to ordinary shareholders. The Company seeks to keep a balance between the higher return that might be possible with higher level of borrowings and the advantages and security afforded by a sound capital position.

The Company monitors capital using the gearing ratio which is debt divided by total capital employed. Debt comprises, redeemable capital, long term finances and liabilities against assets subject to finances lease, including current maturity. Total capital employed includes total equity as shown in the balance sheet plus debt. The Company's strategy is to maintain an optimal capital structure in order to minimize cost of capital. There were no changes in the Company's approach to capital management during the year. Further the Company is not subject to externally imposed capital requirements, except those, related to maintenance of debt covenants, commonly imposed by the providers of debt finance, which the Company remained compliant with.

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

	Note	31 December 2008 *Rupees*	31 December 2007 *Rupees*
5 SHARE CAPITAL			
Authorized share capital			
Ordinary shares of Rs. 10 each			
900,000,000 (2007: 900,000,000) voting shares		9,000,000,000	9,000,000,000
300,000,000 (2007: 300,000,000) non-voting shares		3,000,000,000	3,000,000,000
		12,000,000,000	12,000,000,000
Preference shares of Rs. 10 each			
300,000,000 (2007: 300,000,000) non-voting shares		3,000,000,000	3,000,000,000
		15,000,000,000	15,000,000,000
Issued, subscribed and paid-up capital			
Voting ordinary shares of Rs. 10 each			
249,655,142 (2007: 249,625,392) shares fully paid in cash		2,496,551,420	2,496,253,920
12,276,073 (2007: 12,276,073) shares issued as consideration for machinery		122,760,730	122,760,730
50,811,992 (2007: 50,811,992) shares issued as consideration on merger		508,119,920	508,119,920
		3,127,432,070	3,127,134,570
Non-voting ordinary shares of Rs. 10 each			
3,843,564 shares fully paid in cash		38,435,640	-
Preference shares of Rs. 10 each			
66,125,083 (2007: 66,168,833) shares fully paid in cash	5.4	661,250,830	661,688,330
		3,827,118,540	3,788,822,900

5.1 Movement in number of voting ordinary shares in issue during the year was as follows:

	Note	31 December 2008 *No. of shares*	31 December 2007 *No. of shares*
As at beginning of the year		312,713,457	312,710,057
Conversion of preference shares into ordinary shares	5.1.1	29,750	3,400
As at end of the year		312,743,207	312,713,457

5.1.1 During the year, preference shareholders converted 43,750 preference shares into voting ordinary shares at 6.8 voting ordinary shares for every 10 preferences shares held. (2007: 5,000 preference shares at 6.8 voting ordinary shares for every 10 preferences shares held).

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

5.2 Movement in number of non-voting ordinary shares in issue during the year was as follows:

	Note	31 December 2008 *No. of shares*	31 December 2007 *No. of shares*
As at beginning of the year		-	-
Conversion of redeemable capital into ordinary shares	*5.2.1*	3,843,564	-
As at end of the year		3,843,564	-

5.2.1 During the year, Term Finance Certificate Holders converted 28,550 certificates into non-voting ordinary shares at Rs. 37.14 per non-voting ordinary share. The conversion price was determined at 30% percent discount on the preceding three months average share price of voting ordinary shares on the date of conversion.

5.3 Movement in number of preference shares in issue during the year was as follows:

	Note	31 December 2008 *No. of shares*	31 December 2007 *No. of shares*
As at beginning of the year		66,168,833	66,173,833
Conversion of preference shares into ordinary shares	*5.1.1*	(43,750)	(5,000)
As at end of the year		66,125,083	66,168,833

5.4 Preference shares were issued by the Company during year ended 30 September 2004 and are non-voting, non-participatory, partly convertible and cumulative, and are redeemable in six years from the date of issue. These preference shares are listed on Karachi Stock Exchange (Guarantee) Limited. The terms and conditions of issue are as follows:

Rate of dividend

These preference shares carry annual fixed dividend at Rs. 8.95% per annum. If, however, the Company fails to pay dividend in any year, the rates of dividend for the said year and subsequent years would be as follows:

Nature of failure	Rates of dividend
Default in payment during first year followed by regular payments in subsequent years.	Dividend at 9.75 % for the first year and at 8.95 % for subsequent years.
Default in payment during second year followed by regular payments in subsequent years.	Dividend at 20.73 % for the second year and at 8.95 % for subsequent years.
Default in payment during third year followed by regular payments in subsequent years.	Dividend at 31.95 % for the third year and at 8.95 % for subsequent years.

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

Nature of failure	Rates of dividend
Default in payment during fourth year followed by regular payments in subsequent years.	Dividend at 44.56 % for the fourth year and at 8.95 % for subsequent years.
Default in payment during fifth year followed by regular payment in sixth year.	Dividend at 58.30 % for the fifth year and at 8.95 % for the sixth year.

If the Company, at the end of sixth year, fails to pay dividend and/or redeem the principal in the manner mentioned below, the entire amount of dividend accrued together with the face value of the outstanding preference shares will be converted, at the option of preference shareholder, into voting ordinary shares at breakup value of the Company to be determined at that time.

Redemption option and timing

Redemption will be allowed, subject to the provisions of section 85 of the Companies Ordinance, 1984, as follows:

- 50 % of the issued amount at the end of fifth year from date of issue
- 50 % of the issued amount at the end of sixth year from date of issue

Conversion into voting ordinary shares

The preference shareholders may at their option convert upto 25 % of the value of their respective preference shares, into voting ordinary shares between eighteen and forty two months from the date of issue at 6.8 voting ordinary shares for every 10 preferences shares. However, the said period has lapsed during the year and the present preference shareholders do not have the option to convert their holdings into ordinary shares. Preference shareholders who have already exercised their right of conversion will not receive any of the remaining portion of fixed coupon amounts on the converted amount.

Creation and maintenance of redemption reserve

The Company is to create redemption reserve of at least upto the amount of outstanding preference shares submitted for redemption by:

- Allocating Rs. 150 million of the reserves as at 30 September 2004
- Appropriate profits of at least Rs. 50 million every subsequent year to build up redemption reserve
- Creating additional reserves to match the amount required for redemption.

	Note	31 December 2008 *Rupees*	31 December 2007 *Rupees*
6 RESERVES			
Share premium		2,737,841,499	2,633,387,139
Hedging reserve	*6.1*	152,635,940	370,801,102
Reserve on merger	*6.2*	105,152,005	105,152,005
Preference shares redemption reserve	*6.3*	517,500,000	414,500,000
Surplus on revaluation of investments available for sale		19,339,558	6,785,876
		3,532,469,002	3,530,626,122

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

6.1 Hedging reserve

The Company has entered into cross currency interest rate swap contracts with various banks to hedge the possible adverse movements in interest rates and foreign exchange rates. These contracts are derivative financial instruments and have been classified as cash flow hedges since the hedge relationship is effective and the hedge qualifies for hedge accounting as per the requirements of International Accounting Standard 39 "Financial Instruments - Recognition and Measurement"

During the year a net loss of Rs. 218,165,162 (2007: Rs. 152,857,535) has been recognised by the Company in equity as hedging reserve. The loss represents decrease in fair value of the derivative financial instruments. Refer note 12 and 25 to the financial statements for details.

6.2 Reserve on merger

This represents reserve arising on merger of Nafees Cotton Mills Limited into Legler Nafees Denim Mills (presently Azgard Nine Limited) on 19 December 2002.

6.3 Preference shares redemption reserve

This reserve has been created for redemption of preference shares issued by the Company as required to be created and maintained under the terms of issue. Refer to note 5.4 for details.

	Note	31 December 2008 *Rupees*	31 December 2007 *Rupees*
7 REDEEMABLE CAPITAL - SECURED			
Term Finance Certificates (TFCs) - I	*7.1*	62,500,000	125,000,000
Term Finance Certificates (TFCs) - II	*7.2*	1,832,162,407	2,141,955,064
Term Finance Certificates (TFCs) - III	*7.3*	2,499,000,000	2,500,000,000
Less: Transaction costs		(34,187,500)	(33,187,500)
		4,359,474,907	4,733,767,564
Less: Current maturity shown under current liabilities	*10*	397,013,346	242,582,192
		3,962,461,561	4,491,185,372

7.1 These 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 each and 45,000 TFCs having face value of Rs. 5,000 each. The terms and conditions of issue and redemption of TFCs are as follows:

Call / Partial call option

The Company may redeem the TFCs by way of exercise of call/partial call option by giving notice in writing to TFC holders and the Trustee of not less than ninety days. Where the Company exercises the call/partial call option within thirty months from the date of issue, the Company shall pay premium at 0.1% on the redemption amount.

Return on TFCs

The return on TFCs is payable semi-annually. This is to be calculated at six months KIBOR plus 1.75% per annum.

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

The Company has entered into a cross currency interest rate swap contract with Standard Chartered Bank whereby the Company is actually liable to pay markup at six months EURIBOR plus 3.50% per annum.

Trustee

In order to protect the interests of TFC holders, NIB Bank Limited has been appointed as trustee for the issue under a trust deed. The trustee has the power to enforce the Company's obligations, in case the Company defaults, in accordance with the terms of the trust deed and to distribute the proceeds of any such enforcement among the TFC holders on pari passu basis subject to the priority rights of all other creditors and depositors of the Company.

Security

The issue is secured by first pari passu charge over present and future fixed assets, comprising land, building, plant and machinery of the Company.

7.2 These have been issued by way of private placements and public subscription and are listed on Karachi Stock Exchange (Guarantee) Limited. The total issue comprises of 428,734 certificates of Rs. 5,000 each. The terms and conditions of issue and redemption are as follows:

Principal redemption

The principal redemption of TFCs is structured to be in ten unequal semi-annual installments starting from March 2008.

Return on TFCs

The return on TFCs is payable semi-annually. This is to be calculated at six months KIBOR plus 2.4% per annum.

As at 31 December 2007, the Company had two cross currency interest rate swap arrangements with ABN AMRO Bank, one for a notional amount of Euro 14.925 million on which the Company was liable to pay markup at fixed EURIBOR of 5.215% plus 2.40% per annum and the other for a notional amount of US $ 17.94 million on which markup was payable at fixed LIBOR of 6.915% plus 2.40% per annum. During the year, the contract for the notional amount of Euro 14.925 million was unwound.

Conversion option

TFC holders have the right of conversion of upto 25 % of the value of TFCs into non-voting ordinary shares, rounded off to the nearest whole number, at 30 % discount on the preceding three months average share price of voting ordinary shares on the date of conversion. The TFC holders may exercise the right of conversion at any time between 01 January 2008 to 31 March 2008 after giving thirty days notice to the Company and trustee. In case of existent established market for the Company's non-voting ordinary shares at the time of conversion, TFC holders will have the right of conversion of upto 25 % of the value of TFCs into non-voting ordinary shares, rounded off to the nearest whole number, at 15 % discount on the preceding three months average share price of non-voting ordinary shares on the date of conversion. During the year, Term Finance Certificate Holders converted 28,550 certificates into non-voting ordinary shares. However, the period during which the TFC holders could exercise the right of conversion has lapsed and the present TFC holders do not have the option to convert their holdings into ordinary shares.

Trustee

In order to protect the interests of TFC holders, First Dawood Investment Bank Limited has been appointed as trustee for the issue under a trust deed. The trustee has the power to enforce the Company's obligations, in case the Company defaults, in accordance with the terms of the trust deed and to distribute

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

the proceeds of any such enforcement among the TFC holders on pari passu basis subject to the priority rights of all other creditors and depositors of the Company.

Security

The issue is secured by first pari passu charge over present and future plant and machinery of the Company.

7.3 These have been issued by way of private placements. The total issue comprises of 500,000 certificates of Rs. 5,000 each. The terms and conditions of issue and redemption are as follows:

Principal redemption

The principal redemption of TFCs is structured to be in ten equal semi-annual installments starting from June 2010.

Return on TFCs

The return on TFCs is payable semi-annually. This is to be calculated at six months KIBOR plus 2.25% per annum.

Trustee

In order to protect the interests of TFC holders, Pak Brunei Investment Company Limited has been appointed as trustee for the issue under a trust deed. The trustee has the power to enforce the Company's obligations, in case the Company defaults, in accordance with the terms of the trust deed and to distribute the proceeds of any such enforcement among the TFC holders on pari passu basis subject to the priority rights of all other creditors and depositors of the Company.

Security

The issue is secured by ranking hypothecation charge over plant and machinery of the Company and mortgage over specific land and building of the Company ranking subordinate to charges already created in favour of senior creditors.

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

8 LONG TERM FINANCES - SECURED

These represent long term finances utilized under markup arrangements from banking companies

	Note	As at 31 December 2008 LTF-EOP	Non LTF-EOP	Total	As at 31 December 2007
		Rupees	*Rupees*	*Rupees*	*Rupees*
Habib Bank Limited ("HBL")	*8.1*	-	-	-	50,000,000
United Bank Limited ("UBL")	*8.2*	100,000,000	-	100,000,000	125,000,000
Citi Bank N.A - I	*8.3*	-	-	-	66,666,668
Citi Bank Bahrain	*8.4*		542,437,500	542,437,500	577,031,250
National Bank of Pakistan ("NBP")	*8.5*	-	1,250,000,000	1,250,000,000	1,500,000,000
Deutsche Investitions - Und MBH	*8.6*		1,499,985,000	1,499,985,000	1,361,550,000
Faysal Bank Limited ("FBL")	*8.7*	-	-	-	7,477,167
Saudi Pak Industrial and Agricultural Company Limited ("SAPIACO")	*8.8*	-	100,000,000	100,000,000	-
KASB Bank Limited ("KASB")	*8.9*	-	250,000,000	250,000,000	-
		100,000,000	3,642,422,500	3,742,422,500	3,687,725,085
Less: Current maturity shown under current liabilities	*10*	25,000,000	1,030,580,000	1,055,580,000	714,173,833
		75,000,000	2,611,842,500	2,686,842,500	2,973,551,252

	Security and repayment	Markup rate on LTF-EOP	Markup rate on Non LTF-EOP
8.1	The finance was obtained from a consortium of banks led by HBL for import of plant and machinery and was secured by first pari passu charge of Rs. 779 million over fixed assets, comprising land, building, plant and machinery, of the Company through equitable mortgage on land and building and hypothecation of plant and machinery. The finance has been fully repaid during the year.	7% per annum (2007: 7% per annum)	Six months KIBOR plus 2.8% (2007: six months KIBOR plus 2.8%) per annum.
8.2	The finance has been obtained from UBL for import of plant and machinery and is secured by first pari passu charge of Rs. 267 million over fixed assets, comprising land, building, plant and machinery, of the Company and demand promissory notes. The finance is repayable in eight equal semi-annual installments commenced since December 2006. During the year ended 31 December 2006, the entire finance was converted into a new facility under the State Bank of Pakistan's Long Term Finance for Export Oriented Projects (LTF-EOP) scheme. The terms of repayment and security arrangements remained unchanged.	7% per annum (2007: 7% per annum)	

The Company has entered into a cross currency interest rate swap contract with Standard Chartered Bank whereby the Company is actually liable to pay markup at three months EURIBOR less 0.25 % per annum.

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

	Security and repayment	Markup rate on LTF-EOP	Markup rate on Non LTF-EOP
8.3	The finance was obtained from Citi Bank N.A for import of plant and machinery and was secured by first pari passu charge of Rs. 250 million over fixed assets, comprising land, building, plant and machinery, of the Company and demand promissory notes. The finance has been fully repaid during the year	6% per annum (2007: 6% per annum)	

As at 31 December 2007, the Company had a cross currency interest rate swap arrangement with Standard Chartered Bank whereby the Company was liable to pay markup at six months EURIBOR. The contract was unwound during the year.

8.4	This represents finance of US $ 10 million obtained from Citi Bank Bahrain to repay the finance of Rs. 600 million obtained earlier from Citi Bank N.A and is secured by first pari passu charge of Rs. 800 million over all present and future fixed assets, comprising land, building, plant and machinery, of the Company through mortgage over land and building and hypothecation of plant and machinery, investments of the Company and pledge of securities. The finance is repayable in sixteen equal quarterly installments commenced since October 2007.		Three months LIBOR plus 4% (2007: six months LIBOR plus 4%) per annum.
8.5	The finance has been obtained from NBP to finance the acquisition of Pak American Fertilizers Limited and is secured by first pari passu charge of Rs. 2,000 million over fixed assets, comprising land, building, plant and machinery, of the Company through mortgage over land and building and hypothecation of plant and machinery, ranking hypothecation charge over current assets of the Company and pledge of securities. The finance is repayable in twelve equal semi-annual installments commenced since January 2007.		Six months KIBOR plus 3.25% (2007: six months KIBOR plus 3.25%) per annum.

As at 31 December 2007, the Company had a cross currency interest rate swap arrangement with Citi Bank whereby the Company was liable to pay markup at six months USDLIBOR plus 4.75% per annum. Following the unwinding of the swap contract during the year, the Company is liable to pay markup at six months KIBOR plus 3.25% per annum.

8.6	This represents finance of Euro 15 million obtained from Deutsche Investitions - Und MBH to finance the setup of new textile and apparel project and is secured by first pari passu charge of EURO 20 million over land and building and all movable assets of the Company. The finance is repayable in ten equal semi-annual installments commenced since August 2008.		Six months EURIBOR plus 3.25% (2007: six months EURIBOR plus 3.25%) per annum.

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

	Security and repayment	Markup rate on LTF-EOP	Markup rate on Non LTF-EOP
	The Company has entered into a cross currency interest rate swap contract with Citi Bank whereby the Company is actually liable to pay markup at six months CHFLIBOR plus 3.55% per annum.		
8.7	The finance was obtained from FBL under the State Bank of Pakistan's Long Term Finance for Export Oriented Projects (LTF-EOP) scheme on conversion of liabilities against assets subject to finance lease into LTF-EOP. The finance has been fully repaid during the year.	6% per annum (2007: 6% per annum)	
8.8	The finance has been obtained from SAPIACO for long term working capital requirements and is secured by pari passu charge of Rs. 133.33 million over all present and future current assets of the Company, to be converted to pari passu and ranking hypothecation charge of Rs. 133.33 million on all present and future plant and machinery of the Company. The finance is repayable in four equal half yearly installments with the first installment due from February 2010.		Six months KIBOR plus 2.50% per annum.
8.9	The finance has been obtained from KASB to finance the acquisition of Montebello SRL (see note 20.1) and is secured by pari passu charge of Rs. 333.33 million over current assets of the Company, lien over import/local purchase documents and duly accepted bills of entry backed by trust receipt. The finance is repayable in bullet by 29 June 2009.		Six months KIBOR plus 2.50% per annum.

	Note	31 December 2008 *Rupees*	31 December 2007 *Rupees*
9 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE			
Present value of minimum lease payments		43,539,091	38,650,236
Less: Current portion shown under current liabilities	*10*	18,328,147	24,293,231
		25,210,944	14,357,005

This represents plant and machinery and vehicles acquired under finance lease arrangements. Rentals are payable monthly / quarterly. Interest rate used as the discounting factor ranges from 12.5% to 19.5 % (2007: 5.5% to 14 %) per annum. Taxes, repairs, replacements and insurance costs are to be borne by the Company. Under the terms of agreement, the Company has an option to acquire the assets at the end of the respective lease terms and intends to exercise the option.

The amount of future payments under the lease and the period in which these payments will become due are as follows:

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

	Note	31 December 2008 Rupees	31 December 2007 Rupees
Not later than one year		38,318,415	37,665,437
Later than one year but not later than five years		20,427,850	12,532,512
Total future minimum lease payments		58,746,265	50,197,949
Less: finance charge allocated to future periods		4,980,390	4,547,623
Less: security deposits adjustable on expiry of lease term		10,226,784	7,000,090
Present value of future minimum lease payments		43,539,091	38,650,236
Not later than one year		18,328,147	24,293,231
Later than one year but not later than five years		25,210,944	14,357,005

10 CURRENT PORTION OF NON-CURRENT LIABILITIES

	Note	31 December 2008 Rupees	31 December 2007 Rupees
Redeemable capital	7	397,013,346	242,582,192
Long term finances	8	1,055,580,000	714,173,833
Liabilities against assets subject to finance lease	9	18,328,147	24,293,231
		1,470,921,493	981,049,256

11 SHORT TERM BORROWINGS

These represent short term finances utilized under markup arrangements from banking companies

	Note	31 December 2008 Rupees	31 December 2007 Rupees
Secured			
Running finance	11.1	2,332,223,469	807,988,033
Cash finance	11.1	460,541,415	306,024,731
Export refinance	11.1	2,058,870,142	652,050,000
Finance against foreign bills	11.1	533,787,994	79,805,428
Foreign currency finance	11.1	127,528,535	372,990,209
Morabaha LPO	11.1	174,956,000	80,552,000
Finance against trust receipt	11.1	59,135,625	9,315,814
Finance against imported merchandise	11.1	84,295,000	59,357,861
		5,831,338,180	2,368,084,076
Unsecured			
Commercial paper - I	11.2	-	1,452,604,440
Commercial paper - II	11.3	742,742,124	-
		742,742,124	1,452,604,440
		6,574,080,304	3,820,688,516

11.1 These facilities have been obtained from various banking companies for working capital requirements and are secured by first joint pari passu hypothecation charge of Rs. 12,560 million (2007: Rs. 6,648 million) over all present and future current assets of the Company, including stocks of raw material, work in process and finished goods, lien over documents of title of imported goods, lien over firm export orders, trust receipts, demand promissory notes, counter guarantees, pledge of raw material including stocks of

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

cotton, man made fiber, yarn and cloth and personal guarantees of Directors of the Company.

Local currency finances carry markup at rates ranging from one to six months KIBOR plus 1.5% to 5% (2007: one to six months KIBOR plus 1% to 3%) per annum. Foreign currency finances carry mark up at rates ranging from LIBOR of matching tenor plus 1% to 3% (2007: LIBOR of matching tenor plus 1% to 2.5%) per annum. Markup on pre / post shipment finances refinanced by the State Bank of Pakistan is payable at SBP refinance rate of Rs. 6.5% per annum plus banks' spread of 1% to 1.5% per annum.

Limits available for opening of letters of credit / guarantee amount to Rs. 3,399 million (2007: Rs. 2,476 million) of which the limits remaining unutilized as at the reporting date amount to Rs. 1,636 million (2007: Rs. 1,407 million). These carry commission at 0.05% to 0.15% per quarter.

The aggregate available short term financing facilities amounts to Rs. 7,858 million (2007: Rs. 7,868 million) out of which Rs. 2,027 million (2007: Rs. 5,500 million) remained unavailed as at the reporting date.

11.2 These were issued with a face value of Rs. 1,500 million under the SECP guidelines for commercial paper issue. The issue was advised, structured and arranged by Pak Oman Investment Company Limited. The issue was made at a discount to the face value calculated on the basis of the indicative profit rate of nine months KIBOR plus 1.95% to 3 % per annum and was redeemed at face value on maturity on various dates latest by July 2008. The issue was unsecured.

11.3 These have been issued with a face value of Rs. 750 million under the SECP guidelines for commercial paper issue. The issue has been advised, structured and arranged by Pak Oman Investment Company Limited. The issue was made at a discount to the face value calculated on the basis of the indicative profit rate of nine months KIBOR plus 1.5 % per annum and is redeemable at face value by February 2009. The issue is unsecured.

11.4 As at 31 December 2007, the Company had a cross currency interest rate swap arrangement with Citi Bank N.A to cover various short term finance facilities for a notional amount of Rs. 1,500 million whereby the Company was liable to pay interest at six months EURIBOR. The contract was unwound during the year.

		Note	31 December 2008 *Rupees*	31 December 2007 *Rupees*
12 DERIVATIVE FINANCIAL LIABILITIES				
Instruments accounted for as cash flow hedge				
Finance obtained from	**Swapped with**			
Privately placed TFCs	Citi Bank N.A		-	481,768
Citi Bank N.A	Standard Chartered Bank		-	7,818,845
Privately placed TFCs	Standard Chartered Bank		23,038,052	9,891,562
			23,038,052	18,192,175
Instruments accounted for as fair value hedge				
Finance obtained from	**Swapped with**			
United Bank Limited	Standard Chartered Bank		27,498,857	16,177,407
			50,536,909	34,369,582

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

13 TRADE AND OTHER PAYABLES	Note	31 December 2008 Rupees	31 December 2007 Rupees
Trade creditors	13.1	525,814,913	584,674,986
Bills payable		537,452,118	201,628,543
Accrued liabilities		202,279,471	165,533,306
Advances from customers		51,207,512	25,124,744
Workers' profit participation fund	13.2	18,967,710	26,295,607
Workers' Welfare Fund		20,000	20,000
Tax deducted at source		4,381,582	12,365,729
Other payables		10,376,809	15,232,854
		1,350,500,115	1,030,875,769

13.1 These include Rs. 51,842,024 payable to Montebello SRL, a subsidiary of the Company, on account of goods and services provided by the subsidiary.

13.2 Workers' Profit Participation Fund (WPPF)	Note	31 December 2008 Rupees	31 December 2007 Rupees
As at the beginning of the year		26,295,607	7,768,786
Interest on funds utilized by the Company	13.3	4,601,731	318,839
Charged to profit or loss for the year		18,967,710	26,295,607
Paid during the year		(30,897,338)	(8,087,625)
		18,967,710	26,295,607

13.3 Interest on WPPF is charged at 17.5% (2007: 14%) per annum.

14 DUE TO RELATED PARTIES - UNSECURED

This represents short term loan obtained from a subsidiary company and is repayable on demand. The loan is unsecured and carries markup at 16.8 % per annum.

15 MARKUP ACCRUED ON BORROWINGS	31 December 2008 Rupees	31 December 2007 Rupees
Redeemable capital	120,008,159	105,596,533
Long term finances	187,296,164	150,021,510
Short term borrowings	146,813,269	61,593,740
Due to related parties	10,979,472	-
Liabilities against assets subject to finances lease	1,129,379	479,146
	466,226,443	317,690,929

Financial Statements

Notes to the Financial Statements
for the year ended 31 December 2008

16 CONTINGENCIES AND COMMITMENTS

Contingencies

The Company was denied exemption under SRO 484(1)/92 from levy of customs duty and sales tax on certain plant and machinery by the customs department. An appeal was filed before the Honourable Lahore High Court which was decided in favour of the Company. The department has filed an appeal against the decision before the Honourable Supreme Court of Pakistan, the decision on which is pending. The Company expects a favourable outcome. Accordingly, no provision has been made for the potential liability which amounts to Rs. 9.9 million.

The Company has issued indemnity bonds amounting to Rs. 322 million (2007: Rs. 59.5 million) in favour of Collector of Customs and Sales Tax department in lieu of levies under various statutory notifications and these are likely to be released after the fulfillment of the terms of related notifications.

Counter guarantees given by the Company to its bankers as at the reporting date amount to Rs. 123.205 million (2007: Rs. 80 million).

The Company may have to pay dividend on preference shares at higher rates in case of default in payment of dividend for any year. Refer note 5.4 for details.

	31 December 2008 *Rupees*	31 December 2007 *Rupees*
Commitments		
Irrevocable letters of credit for:		
- purchase of stores, spare and loose tools	77,291,196	25,432,674
- purchase of machinery	382,723,235	-
- purchase of raw material	766,100,087	682,638,653
	1,226,114,518	708,071,327
Fixed capital expenditure	128,470,317	41,260,211

17 PROPERTY, PLANT AND EQUIPMENT

YEAR ENDED 31 DECEMBER 2008

	COST / REVALUED AMOUNT					DEPRECIATION					Net book value
	As at 01 January 2007	Additions	Disposals	Transfers	As at 31 December 2008	Rate	As at 01 January 2007	Adjustment	For the year	As at 31 December 2008	As at 31 December 2008
	Rupees	Rupees	Rupees	Rupees	Rupees		Rupees	Rupees	Rupees	Rupees	Rupees
Assets owned by the Company											
Freehold land											
- Cost	512,508,109	45,241,916	-	-	557,750,025	-	-	-	-	-	557,750,025
- Revaluation	8,442,352	-	-	-	8,442,352	-	-	-	-	-	8,442,352
Buildings on freehold land											
- Cost	1,604,698,862	5,193,435	-	243,410,772	1,853,303,069	5%	200,994,406	-	78,579,138	279,573,544	1,573,729,525
- Revaluation	19,455,864	-	-	-	19,455,864	5%	4,974,130	-	806,016	5,780,146	13,675,718
Plant and machinery											
- Cost	6,569,980,042	146,553,610	-	14,222,841	6,730,756,493	7.5%	1,534,232,038	-	380,069,277	1,914,301,315	4,816,455,178
- Revaluation	379,927,819		-	-	379,927,819	7.5%	163,778,829	-	18,910,804	182,689,633	197,238,186
Furniture and fittings	47,267,432	10,068,871	-	-	57,336,303	10%	12,720,142	-	4,112,388	16,832,530	40,503,773
Vehicles	35,642,637	16,851,922	(5,451,558)	(13,068)	47,029,933	20%	20,847,982	(2,356,328)	4,522,014	23,013,668	24,016,265
Tools and equipment	112,249,133	93,828,836	-	-	206,077,969	10%	15,944,901	-	14,192,760	30,137,661	175,940,308
Office equipment	99,069,444	14,294,571	(87,500)	-	113,276,515	10%	31,195,224	(29,619)	7,902,628	39,068,233	74,208,282
Electrical installations	120,978,497	9,549,496	-	-	130,527,993	10%	39,286,489	-	8,785,952	48,072,441	82,455,552
	9,510,220,191	341,582,657	(5,539,058)	257,620,545	10,103,884,335		2,023,974,141	(2,385,947)	517,880,977	2,539,469,171	7,564,415,164
Assets subject to finance lease											
Plant and machinery	176,865,143	2,578,500	-	-	179,443,643	7.5%	54,625,572	-	9,335,124	63,960,696	115,482,947
Vehicles	43,300,276	31,689,323	(1,254,717)	13,068	73,747,950	20%	8,136,339	(730,861)	11,290,036	18,695,514	55,052,436
	220,165,419	34,267,823	(1,254,717)	13,068	253,191,593		62,761,911	(730,861)	20,625,160	82,656,210	170,535,383
	9,730,385,610	375,850,480	(6,793,775)	257,633,613	10,357,075,928		2,086,736,052	(3,116,808)	538,506,137	2,622,125,381	7,734,950,547

YEAR ENDED 31 DECEMBER 2007

	COST / REVALUED AMOUNT					DEPRECIATION					Net book value
	As at 01 January 2006	Additions	Disposals	Transfers	As at 31 December 2007	Rate	As at 01 January 2006	Adjustment	For the year	As at 31 December 2007	As at 31 December 2007
	Rupees	Rupees	Rupees	Rupees	Rupees		Rupees	Rupees	Rupees	Rupees	Rupees
Assets owned by the Company											
Freehold land											
- Cost	509,197,109	3,311,000	-	-	512,508,109	-	-	-	-	-	512,508,109
- Revaluation	8,442,352	-	-	-	8,442,352	-	-	-	-	-	8,442,352
Buildings on freehold land											
- Cost	1,514,345,180	56,366,959	-	33,986,723	1,604,698,862	5%	129,257,586	-	71,736,820	200,994,406	1,403,704,456
- Revaluation	19,455,864	-	-	-	19,455,864	5%	4,211,933	-	762,197	4,974,130	14,481,734
Plant and machinery											
- Cost	6,177,184,302	354,173,834	-	38,621,906	6,569,980,042	7.5%	1,132,070,118	-	402,161,920	1,534,232,038	5,035,748,004
- Revaluation	379,927,819	-	-	-	379,927,819	7.5%	146,253,235	-	17,525,594	163,778,829	216,148,990
Furniture and fittings	41,509,614	5,757,818	-	-	47,267,432	10%	9,258,212	-	3,461,930	12,720,142	34,547,290
Vehicles	28,578,238	7,768,920	(3,080,687)	2,376,166	35,642,637	20%	18,916,427	(274,534)	2,206,089	20,847,982	14,794,655
Tools and equipment	80,310,320	31,938,813	-	-	112,249,133	10%	6,645,171		9,299,730	15,944,901	96,304,232
Office equipment	91,105,135	8,067,309	(103,000)	-	99,069,444	10%	24,146,399	(7,974)	7,056,799	31,195,224	67,874,220
Electrical installations	114,151,761	6,826,736	-	-	120,978,497	10%	30,513,414		8,773,075	39,286,489	81,692,008
	8,964,207,694	474,211,389	(3,183,687)	74,984,795	9,510,220,191		1,501,272,495	(282,508)	522,984,154	2,023,974,141	7,486,246,050
Assets subject to finance lease											
Plant and machinery	176,865,143		-		176,865,143	7.5%	44,707,768	-	9,917,804	54,625,572	122,239,571
Vehicles	12,890,459	32,785,983	-	(2,376,166)	43,300,276	20%	6,087,167	(1,336,654)	3,385,826	8,136,339	35,163,937
	189,755,602	32,785,983	-	(2,376,166)	220,165,419		50,794,935	(1,336,654)	13,303,630	62,761,911	157,403,508
	9,153,963,296	506,997,372	(3,183,687)	72,608,629	9,730,385,610		1,552,067,430	(1,619,162)	536,287,784	2,086,736,052	7,643,649,558

17.1 Land, building and plant and machinery was last revalued in 2002 by a firm of independent valuers M/s Blue Feather Affiliations. The revalued amount of land was determined by reference to local market values whereas that of building and plant and machinery was determined by reference to present depreciated replacement values. In the opinion of the management, the net book values of items of property, plant and equipment are not materially different from their fair values as at the reporting date.

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

17.2 Disposal of property, plant and equipment

	Year ended 31 December 2008						
	Cost	Accumulated depreciation	Net book value	Proceeds from disposal	Gain/(loss) on disposal	Mode of disposal	Particulars of buyer
	Rupees	Rupees	Rupees	Rupees	Rupees		
Furniture							
Laptop computer	87,500	29,619	57,881	54,500	(3,381)	Insurance claim	Adamjee Insurance Company Limited
Vehicle - owned							
Honda Civic	1,032,526	822,385	210,141	392,000	181,859	Negotiation	King Motors, Lahore
Hyundai Santro	489,000	389,629	99,371	275,000	175,629	Negotiation	Aslam Gill, Lahore
Toyota Altus	622,461	131,063	491,398	465,002	(26,396)	Negotiation	Farooq Khan, Lahore
Honda City	903,300	527,527	375,773	620,000	244,227	Negotiation	Hamza Mushtaq, Lahore
Toyota Corolla	1,344,000	948,553	395,447	730,000	334,553	Negotiation	Momin Hayat Khan, Lahore
Suzuki Mehran	428,271	-	428,271	299,200	(129,071)	Negotiation	Salman Akhtar, Lahore
Suzuki Cultus	632,000	133,070	498,930	625,000	126,070	Negotiation	Kashif Junaid, Lahore
	5,451,558	2,952,227	2,499,331	3,406,202	906,871		
Vehicle - leased							
Honda Civic	640,266	-	640,266	640,266	-	Insurance claim	First Habib Modaraba
Suzuki Cultus	614,451	134,962	479,489	540,000	60,511	Insurance claim	Faysal Bank Limited
	1,254,717	134,962	1,119,755	1,180,266	60,511		
	6,793,775	3,116,808	3,676,967	4,640,968	964,001		

	Year ended 31 December 2007						
	Cost	Accumulated depreciation	Net book value	Proceeds from disposal	Gain/(loss) on disposal	Mode of disposal	Particulars of buyer
	Rupees	Rupees	Rupees	Rupees	Rupees		
Office equipment							
Refrigerator	17,600	5,126	12,474	3,000	(9,474)	Negotiation	Mr. Khushnood - Lahore
Laptop computer	85,400	2,847	82,553	52,500	(30,053)	Negotiation	Mr. Khurm Sohail - Lahore
	103,000	7,973	95,027	55,500	(39,527)		
Vehicle							
Suzuki Potohar	391,065	365,556	25,509	205,000	179,491	Negotiation	Mr. Abdul Rauf - Lahore
Toyota Corolla	1,194,000	795,504	398,496	772,850	374,354	Negotiation	Mr. Abid Amin - Lahore
Suzuki Cultus	675,667	436,463	239,204	294,500	55,296	Negotiation	Major Zeeshan - Lahore
Suzuki Alto	403,019	6,717	396,302	250,000	(146,302)	Negotiation	Mr. Zafar Ali - Lahore
Suzuki Cultus	416,936	6,949	409,987	185,000	(224,987)	Negotiation	Mr. Zaheer Shah - Lahore
	3,080,687	1,611,189	1,469,498	1,707,350	237,852		
	3,183,687	1,619,162	1,564,525	1,762,850	198,325		

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

17.3 The depreciation charge for the year has been allocated as follows:

	Note	31 December 2008 Rupees	31 December 2007 Rupees
Cost of sales	31	524,442,914	527,625,994
Administrative and selling expenses	32	14,063,223	8,661,790
		538,506,137	536,287,784

17.4 Transfers to owned assets represent transfers from capital work in progress on the related assets becoming available for use and from assets subject to finance lease on expiry of lease term. Transfers to assets subject to finance lease represent assets sold and leased back.

18 CAPITAL WORK IN PROGRESS

	Year ended 31 December 2008			
	As at 01 January 2007 *Rupees*	**Additions** *Rupees*	**Transfers** *Rupees*	**As at 31 December 2008** *Rupees*
Building	126,743,808	198,958,523	243,410,772	82,291,559
Plant and machinery	41,244,046	809,358,129	14,222,841	836,379,334
	167,987,854	1,008,316,652	257,633,613	918,670,893

	Year ended 31 December 2007			
	As at 01 January 2006 *Rupees*	Additions *Rupees*	Transfers *Rupees*	As at 31 December 2007 *Rupees*
Building	40,657,400	120,073,131	33,986,723	126,743,808
Plant and machinery	14,965,044	64,900,908	38,621,906	41,244,046
	55,622,444	184,974,039	72,608,629	167,987,854

	Note	31 December 2008 Rupees	31 December 2007 Rupees
19 INTANGIBLE ASSETS			
Development costs	19.1	20,512,135	38,118,588
Software	19.3	13,024,081	13,024,081
		33,536,216	51,142,669

19.1 This represents expenditure on development of new products and processes to gain competitive advantage in the national and international market.

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

19.2 Movement in cost of development and accumulated amortization is as follows:

	Note	31 December 2008 *Rupees*	31 December 2007 *Rupees*
Cost			
As at beginning of the year		87,853,404	81,187,908
Additions during the year		-	6,665,496
As at end of the year		87,853,404	87,853,404
Accumulated amortization			
As at beginning of the year		49,734,816	33,239,283
Amortization for the year	31	17,606,453	16,495,533
As at end of the year		67,341,269	49,734,816
		20,512,135	38,118,588

19.3 This represents expenditure incurred on implementation of Oracle Financials Suite which is in progress as at the reporting date.

	Note	31 December 2008 *Rupees*	31 December 2007 *Rupees*
20 LONG TERM INVESTMENTS			
Investments available for sale			
Cost	20.1	7,513,889,142	4,290,861,093
Accumulated impairment loss	20.1	(2,647,488)	(2,647,488)
Fair value adjustment	20.1	10,402,397	3,691,596
		7,521,644,051	4,291,905,201
Investment held to maturity	20.2	-	2,100,000,000
		7,521,644,051	6,391,905,201

20.1 Investment available for sale

Investments in related parties - unquoted

Nafees International Tekstil Sanays Ve Ticaret ANOMIN SIRKET
25,500 ordinary shares of Turkish Lira 1 million each.
Equity held 51%

	31 December 2008	31 December 2007
Cost	1,650,720	1,650,720
Impairment loss	(1,650,720)	(1,650,720)
	-	-

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

	Note	31 December 2008 Rupees	31 December 2007 Rupees
Farital AB			
14,700 ordinary shares with a capital of SEK 260,150,100			
Equity held 100%			
Cost	*20.1.1*	2,625,026,049	-
Fair value adjustment		-	-
		2,625,026,049	-
Azsoft (Private) Limited			
19,980 ordinary shares of Rs. 100 each.			
Equity held 99.90%			
Cost	*20.1.2*	-	1,998,000
Fair value adjustment		-	24,744
		-	2,022,744
Pak American Fertilizers Limited			
392,430,000 (2007: 39,243,000) ordinary shares of Rs. 10 (2007: Rs. 100) each.			
Equity held 100%			
Cost		7,986,113,366	7,986,113,366
Fair value adjustment		19,290,484	6,678,873
		8,005,403,850	7,992,792,239
Less: 181,814,070 (2007: 18,181,407) ordinary shares of Rs. 10 (2007: Rs. 100) each classified as short term investment			
Cost		3,699,916,425	3,699,916,425
Fair value adjustment		8,937,161	3,094,280
		3,708,853,586	3,703,010,705
		4,296,550,264	4,289,781,534
Pak American Fertilizers Limited			
120,000 term finance certificates of Rs. 5,000 each.			
Cost	*20.2*	600,000,000	-
Fair value adjustment		-	-
		600,000,000	-
Other investments			
Quoted			
Colony Textile Mills Limited			
4,332 (2007: 4,332) ordinary shares of Rs. 10 each.			
Market value Rs. 14.60 per share (2007: Rs. 19.95 per share)			
Cost		8,664	8,664
Fair value adjustment		54,584	77,759
		63,248	86,423

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

	31 December 2008 Rupees	31 December 2007 Rupees
BSJS Balanced Fund Limited		
1,000 (2007: 1,000) ordinary shares of Rs. 10 each.		
Market value Rs. 4.49 per share (2007: Rs. 14.50 per share)		
Cost	10,000	10,000
Fair value adjustment	(5,510)	4,500
	4,490	14,500
Unquoted		
National Security Insurance Company Limited		
221,504 (2007: 221,504) ordinary shares of Rs. 10 each.		
Cost	996,768	996,768
Impairment loss	(996,768)	(996,768)
	-	-
	7,521,644,051	4,291,905,201

20.1.1 During the year, the Company acquired 100% ownership in Montebello SRL, owner of an Italian fabric and jeans brand, through Farital AB, a holding company incorporated in Sweden for a total consideration of Euros 23.758 million. In the opinion of the management of the Company, the cost of investment approximates its fair value as at the reporting date, which is also the date of effective control.

20.1.2 During the year, Azsoft (Private) Limited has been wound up under the Easy Exit Scheme of the Securities and Exchange Commission of Pakistan. The loss being the difference between the book value of investment and the Company's share in net assets of Azsoft (Private) Limited has been charged to profit or loss. Net assets of Azsoft (Private) Limited at the time of winding up, the Company's share therein and the loss recognized is as follows:

	Note	***Rupees***
Net assets at the time of winding up		
Trade receivables		506,501
Property and equipment		1,159,743
Current tax asset		162,565
Cash and bank balances		11,649
Accrued liabilities		(241,243)
		1,599,215
Company's share in net assets at 99.9%		1,597,616
Book value at the time of winding up		2,022,744
Loss on winding up		425,128
Surplus previously credited to equity recognized in profit or loss		(24,744)
Net loss on winding up	*33*	**400,384**

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

20.2 Investments held to maturity

These represent 120,000 term finance certificates of Rs. 5,000 each issued by Pak American Fertilizers Limited, a subsidiary of the Company, and carry return at six months KIBOR plus 1.75 % and are redeemable in ten equal semi-annual installments after a grace period of two years from the date of issue. Originally, the Company had invested in 420,000 certificates which was classified as investment held to maturity. During the year, however, 300,000 certificates were sold to various banking companies and financial institutions in secondary market. Due to change in intention of the Company regarding holding these certificates upto the date of maturity, it is no longer appropriate to classify these as held to maturity. Accordingly, the remaining investment has been reclassified as available for sale. However, since these certificates are pledged as security with providers of long term finances, these have been presented as long term investment.

21 LONG TERM DEPOSITS

Long term deposits mainly include security deposits placed with the Central Depository Company and various utility companies.

	Note	31 December 2008 *Rupees*	31 December 2007 *Rupees*
22 STORES, SPARES AND LOOSE TOOLS			
Stores		147,745,923	88,462,119
Spares		53,783,115	36,842,528
Loose tools		164,232	164,230
		201,693,270	125,468,877
23 STOCK IN TRADE			
Raw material		1,884,682,430	910,632,770
Work in process		1,037,817,334	799,992,413
Finished goods	*23.1*	1,111,603,355	535,506,990
		4,034,103,119	2,246,132,173

23.1 Stock of finished goods as at 31 December 2007 includes stock of waste of Rs.139,216 valued at net realizable value.

23.2 Stock of raw material valued at Rs. 870 million (2007: Rs. 351.36) million and finished goods valued at Rs. 148.011 (2007: nil) are pledged with banks against various finance facilities.

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

	Note	31 December 2008 Rupees	31 December 2007 Rupees
24 TRADE RECEIVABLES			
Considered good			
Local			
- secured	24.1	50,675,076	59,131,978
- unsecured		405,796,100	573,722,054
		456,471,176	632,854,032
Foreign			
- secured	24.1	1,244,183,273	1,024,342,703
- unsecured	24.2	76,578,163	-
		1,320,761,436	1,024,342,703
		1,777,232,612	1,657,196,735
Considered doubtful		4,697,881	4,697,881
		1,781,930,493	1,661,894,616
Provision for doubtful debts	24.3	(4,697,881)	(4,697,881)
		1,777,232,612	1,657,196,735

24.1 These are secured against letters of credit.

24.2 This represents receivable from Nafees International Tekstil Sanays Ve Ticaret ANOMIN SIRKET, a subsidiary of the Company, against sale of goods.

24.3 Movement in provision for doubtful debts during the year is as follows:

	Note	31 December 2008 Rupees	31 December 2007 Rupees
As at beginning of the year		4,697,881	4,249,348
Provision made during the year	32	-	448,533
As at end of the year		4,697,881	4,697,881

25 DERIVATIVE FINANCIAL ASSETS

Instruments accounted for as cash flow hedge

Finance obtained from	**Swapped with**	31 December 2008 Rupees	31 December 2007 Rupees
Term Finance Certificates	ABN AMRO Bank	157,790,529	161,776,107
Privately Placed TFCs	Citi Bank N.A	1,437,986	-
National Bank of Pakistan	Citi Bank N.A	-	132,837,660
Short term financing	Citi Bank N.A	-	74,649,720
Deutsche Investitions - Und MBH	Citi Bank N.A	16,445,478	19,729,791
		175,673,993	388,993,278

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

	Note	31 December 2008 Rupees	31 December 2007 Rupees
26 ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES			
Advances to suppliers - Unsecured, considered good		218,873,888	558,337,926
Advances to employees - Unsecured, considered good	26.1	35,531,785	31,967,447
Security deposit		3,746,090	7,771,140
Margin deposits	26.3	61,218,959	4,500,762
Prepayments		8,939,720	4,223,701
Rebate receivable	26.4	95,843,350	74,992,940
Accrued gain on swap contract		-	4,195,229
Return on investments in TFCs receivable	26.5	87,219,798	58,869,781
Sales tax recoverable	26.6	125,962,603	67,391,636
Letters of credit		114,453,218	152,585,907
Insurance claim		28,493,266	29,009,077
Others receivables- Unsecured, considered good		9,232,385	11,098,746
		789,515,062	1,004,944,292

26.1 These represent amounts advanced to employees for purchases and other expenses on behalf of the Company.

26.2 No advances have been given to the Chief Executive and the Directors during the year.

26.3 These represent deposits against letters of credit and other working capital lines utilized.

26.4 This represents rebate receivable on export sales of the Company.

26.5 This represents return receivable on investment in TFCs issued by Pak American Fertilizers Limited.

26.6 This represents excess of input tax on purchases over sales tax payable.

	31 December 2008 Rupees	31 December 2007 Rupees
27 CURRENT TAXATION		
As at beginning of the year	51,050,683	3,342,068
Paid during the year	115,116,774	119,715,688
Provision for the year	(102,218,852)	(72,007,073)
As at end of the year	63,948,605	51,050,683

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

	Note	31 December 2008 Rupees	31 December 2007 Rupees
28 SHORT TERM INVESTMENTS			
Investments at fair value through profit or loss	28.1		
Cost		-	142,118,870
Fair value adjustment		-	(6,684,745)
		-	135,434,125
Investments available for sale	28.2		
Cost		4,009,916,425	3,699,916,425
Fair value adjustment		8,937,161	3,094,280
		4,018,853,586	3,703,010,705
		4,018,853,586	3,838,444,830

28.1 Investments at fair value through profit or loss

Quoted

	31 December 2008 Rupees	31 December 2007 Rupees
The Bank of Punjab 72,500 ordinary shares of Rs. 10 each. Market value Rs. 97.80 per share		
Cost	-	7,339,435
Fair value adjustment	-	(248,935)
	-	7,090,500
National Bank of Pakistan 199,000 ordinary shares of Rs. 10 each. Market value Rs. 232.15 per share		
Cost	-	48,536,545
Fair value adjustment	-	(2,338,695)
	-	46,197,850
Arif Habib Securities Limited 12,500 ordinary shares of Rs. 10 each. Market value Rs. 173.20 per share		
Cost	-	2,242,695
Fair value adjustment	-	(77,695)
	-	2,165,000
Pakistan State Oil Company Limited 125,000 ordinary shares of Rs. 10 each. Market value Rs.406.60 per share		
Cost	-	53,961,096
Fair value adjustment	-	(3,136,096)
	-	50,825,000

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

	Note	31 December 2008 Rupees	31 December 2007 Rupees
Pakistan Oil Fields 53,000 ordinary shares of Rs. 10 each. Market value Rs. 334.40 per share			
Cost		-	18,222,923
Fair value adjustment		-	(499,723)
		-	17,723,200
Engro Chemical Pakistan Limited 25,500 ordinary shares of Rs. 10 each. Market value Rs.265.75 per share			
Cost		-	7,036,613
Fair value adjustment		-	(259,988)
		-	6,776,625
Pakistan Petroleum Limited 19,000 ordinary shares of Rs. 10 each. Market value Rs.245.05 per share			
Cost		-	4,779,563
Fair value adjustment		-	(123,613)
		-	4,655,950
		-	135,434,125

28.2 Investments available for sale - Unquoted

Investments in related parties

	Note	31 December 2008 Rupees	31 December 2007 Rupees
Pak American Fertilizers Limited 181,814,070 (2007: 18,181,407) ordinary shares of Rs. 10 (2007: Rs. 100) each.			
Cost	28.2.1	3,699,916,425	3,699,916,425
Fair value adjustment		8,937,161	3,094,280
		3,708,853,586	3,703,010,705
Pak American Fertilizers Limited 62,000 term finance certificates of Rs. 5,000 each.			
Cost	28.2.2	310,000,000	-
Fair value adjustment		-	-
		310,000,000	-
		4,018,853,586	3,703,010,705

28.2.1 This represents a part of investment by the Company in ordinary shares of Pak American Fertilizers Limited, which the management of the Company plans to divest through initial public offering or otherwise.

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

28.2.2 These carry return at six months KIBOR plus 3.75 % and are redeemable in sixteen equal quarterly installments after a grace period of one year from the date of issue. However, the Company does not intend to hold these upto the date of maturity and accordingly the investment has been classified as available for sale.

	Note	31 December 2008 *Rupees*	31 December 2007 *Rupees*
29 CASH AND BANK BALANCES			
Cash in hand		4,605,358	1,725,909
Cash at banks			
in current accounts			
local currency		76,458,037	35,655,637
in saving accounts	*29.1*		
local currency		917,667	7,966,360
foreign currency - US $1,177 (2007: US $ 1,392)		92,748	85,410
		1,010,415	8,051,770
		82,073,810	45,433,316

29.1 Rate of return on balances in saving accounts is 5% (2007: 8% to 9%) per annum.

	31 December 2008 *Rupees*	31 December 2007 *Rupees*
30 SALES - NET		
Local	1,966,476,028	1,262,415,231
Export	8,222,024,239	5,430,603,244
	10,188,500,267	6,693,018,475
Add: Export rebate	33,384,958	12,031,454
Less: Commission and brokerage	108,385,874	76,154,250
Sales tax	-	553,753
	10,113,499,351	6,628,341,926

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

	Note	31 December 2008 Rupees	31 December 2007 Rupees
31 COST OF SALES			
Raw material consumed	31.1	4,849,764,538	3,225,277,373
Salaries, wages and benefits	31.2	971,980,356	729,678,278
Fuel and power		522,666,246	347,011,458
Stores, spares and loose tools consumed		279,174,956	165,164,813
Traveling, conveyance and entertainment		75,739,696	85,805,784
Rent, rates and taxes		21,041,783	3,954,337
Insurance		33,239,482	16,125,222
Repair and maintenance		50,141,690	43,581,324
Processing charges		58,626,887	28,735,160
Depreciation	17.3	524,442,914	527,625,994
Amortization	19.2	17,606,453	16,495,533
Printing and stationery		13,835,059	8,676,593
Communication		17,981,410	9,736,459
Others		37,903,583	28,575,924
		7,474,145,053	5,236,444,252
Work in process			
As at beginning of the year		799,992,413	342,640,598
As at end of the year		(1,037,817,334)	(799,992,413)
		(237,824,921)	(457,351,815)
Cost of goods manufactured		7,236,320,132	4,779,092,437
Finished goods			
As at beginning of the year		535,506,990	377,403,503
As at end of the year		(1,111,603,355)	(535,506,990)
		(576,096,365)	(158,103,487)
		6,660,223,767	4,620,988,950

31.1 Raw material consumed

	31 December 2008 Rupees	31 December 2007 Rupees
As at beginning of the year	910,632,770	1,302,466,823
Purchases during the year	5,829,395,119	2,843,600,580
	6,740,027,889	4,146,067,403
Sales during the year	(5,580,921)	(10,157,260)
As at end of the year	(1,884,682,430)	(910,632,770)
	4,849,764,538	3,225,277,373

31.2 These include charge in respect of employees retirement benefits amounting to Rs. 30,059,414 (2007: Rs. 19,077,167)

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

	Note	31 December 2008 Rupees	31 December 2007 Rupees
32 ADMINISTRATIVE AND SELLING EXPENSES			
Salaries, wages and benefits	32.1	187,807,137	142,881,025
Traveling, conveyance and entertainment		51,902,512	52,011,992
Fuel and power		13,479,289	5,179,605
Repair and maintenance		10,035,005	10,140,344
Rent, rates and taxes		7,614,134	7,425,727
Insurance		3,115,432	4,617,600
Freight and clearing		240,972,890	123,071,363
Printing and stationery		4,793,296	4,188,033
Communication		33,805,936	25,045,991
Advertisement and sales promotion		585,118	6,260,885
Legal and professional charges	32.2	18,912,524	31,288,597
Depreciation	17.3	14,063,223	8,661,790
Fee and subscription		11,911,399	5,915,422
Donations	32.3	50,000	2,100,000
Provision for doubtful debts	24.3	-	448,533
Others		4,481,848	5,948,166
		603,529,743	435,185,073

32.1 These include charge in respect of employees retirement benefits amounting to Rs. 8,060,774 (2007: Rs. 6,288,851)

	31 December 2008 Rupees	31 December 2007 Rupees
32.2 These include following in respect of auditors' remuneration		
Annual statutory audit	950,000	600,000
Half yearly review	200,000	100,000
Review report on code of corporate governance	50,000	35,000
Certification and other services	360,000	440,000
	1,560,000	1,175,000

32.3 None of the directors or their spouses had any interest in respect of these donations.

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

	Note	31 December 2008 Rupees	31 December 2007 Rupees
33 OTHER INCOME -NET			
Financial instruments			
Gain on sale of investments		18,718,646	78,528,537
Unrealized loss on investments at fair value through profit or loss		-	(6,684,745)
Impairment loss on investments available for sale		-	(1,650,720)
Markup on balances with related parties		-	12,668,157
Dividend income		589,730,500	588,645,000
Unrealized loss on derivative financial instruments		(11,321,450)	(16,177,407)
Foreign exchange gain		37,181,192	9,182,370
Loss on winding up of subsidiary	20.1.2	(400,384)	-
Return on bank deposits		1,399,408	1,740,198
Non-financial instruments			
Gain on disposal of property plant and equipment	17.2	964,001	198,325
Provision for Workers' Profit Participation Fund	13.2	(18,967,710)	(26,295,607)
Miscellaneous		2,844,386	1,070,775
		620,148,589	641,224,883

	Note	31 December 2008 Rupees	31 December 2007 Rupees
34 FINANCE COST			
Mark-up / interest on:			
- redeemable capital	34.1	506,755,533	35,703,432
- long term finances	34.2	1,096,850,098	257,460,359
- short term borrowings		770,336,216	712,480,002
- balances with related parties		10,979,472	-
- liabilities against assets subject to finance lease		8,224,128	3,684,904
- workers' profit participation fund		4,601,731	318,839
		2,397,747,178	1,009,647,536
Bank charges and commission		72,644,477	52,285,676
		2,470,391,655	1,061,933,212

34.1 This includes return on investment in term finance certificates issued by Pak American Fertilizers Limited, as referred to in note 28.2, amounting to Rs. 133,304,756 (2007: Rs. 282,716,548).

34.2 This includes foreign exchange loss of Rs. 390,704,126. (2007: Rs. Nil)

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

	Note	31 December 2008 Rupees	31 December 2007 Rupees
35 TAXATION			
Current			
for the year	35.1	102,218,852	72,007,073
for prior years		-	-
		102,218,852	72,007,073
Deferred	35.8	-	-
		102,218,852	72,007,073

35.1 Provision for current tax has been made 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 and section 5 of the Ordinance.

35.2 No provision for WWF has been made during the year since the management expects that the Company will not be liable to pay the same due to final taxation and brought forward losses.

35.3 Assessment orders for the tax years 2003 to 2006 were amended under section 122(5A) of the Ordinance. The Company filed appeals against the orders before Commissioner of Income Tax - Appeals ("CIT-A") which were decided in favour of the Company. The Department has preferred an appeal before the Income Tax Appellate Tribunal, Lahore ("ITAT"), which is pending for adjudication. Based on the advice of the Company's lawyers, the management of the Company expects a favourable outcome.

35.4 Assessments for assessment years 1998-99 to 2001-02 were rectified under section 156 and 121. The Company filed appeal before CIT-A which was decided in favour of the Company. The department has preferred appeal against the decision of CIT-A before the ITAT and the same is pending for adjudication.

35.5 The Company has filed appeal before the ITAT against the order of CIT-A whereby a demand of Rs. 6.8 million was created in respect of assessment year 2002-03. The ITAT has remanded the case back to CIT-A with the direction to readjudicate, and the same is pending.

35.6 Income tax return for tax year 2007 has been selected for audit under section 177 of the Ordinance and the same is in progress.

35.7 Income tax return for the tax year 2008 has been filed and the same is deemed to have been assessed under section 120 of the Ordinance.

35.8 Export sales, including proposed claims for indirect exports of the Company, during the year ended 31 December 2008 are expected to achieve the threshold for the Company, with the option to be taxed under the Final Tax Regime. This trend is expected to continue in foreseeable future. Accordingly, no provision for deferred tax has been made.

35.9 There is no relationship between tax expense and accounting profit since the Company's profits are subject to tax under the Final Tax Regime. Accordingly, no numerical reconciliation has been presented.

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

36 EARNINGS PER SHARE

		31 December 2008	31 December 2007
Basic			
Profit attributable to ordinary shareholders of the Company	*Rupees*	838,101,974	1,020,231,395
Weighted average number of ordinary shares outstanding during the year.	*No. of shares*	316,777,971	312,713,457
Earning per share	*Rupees*	2.65	3.26
Diluted			
Profit attributable to ordinary shareholders of the Company	*Rupees*	838,101,974	1,020,231,395
Effect of dilutive potential ordinary shares Preference dividend	*Rupees*	-	912,683
Earning for diluted EPS	*Rupees*	838,101,974	1,021,144,078
Weighted average number of ordinary shares outstanding during the year for basic EPS	*No. of shares*	316,777,971	312,713,457
Effect of dilutive potential ordinary shares Preference shares	*No. of shares*	-	693,435
Weighted average number of ordinary shares outstanding during the year for diluted EPS	*No. of shares*	316,777,971	313,406,892
Diluted EPS	*Rupees*	2.65	3.25

37 GOVERNMENT GRANT

During the year, the Company lodged claims amounting to Rs. 122.064 million (2007: Rs. 183.347 million) as research and development rebate which was accounted for as government grant in accordance with IAS 20 - Government Grants and was deducted in reporting expenses relating to hiring of the consultants for adoption of new technologies, innovation and sales promotion.

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

	Note	31 December 2008 Rupees	31 December 2007 Rupees
38 CASH GENERATED FROM OPERATIONS			
Profit before tax		999,502,775	1,151,459,574
Adjustments for non-cash items			
Markup on borrowings		2,393,145,447	1,009,328,697
Gain on sale of property, plant and equipment		(964,001)	(198,325)
Amortization		17,606,453	16,495,533
Provision for WPPF		23,569,441	26,614,446
Loss on winding up of subsidiary		400,384	-
Impairment loss on long term investment		-	1,650,720
Unrealized loss on investments at fair value through profit or loss		-	6,684,745
Unrealized loss on derivative financial instruments		11,321,450	16,177,407
Provision for doubtful debts		-	448,533
Return on investment in term finance certificates		(133,304,756)	(282,716,548)
Gain on sale of short term investments		(18,718,646)	(78,528,537)
Dividend income		(589,730,500)	(588,645,000)
Markup on balances with related parties		-	(12,668,157)
Return on bank deposits		(1,399,408)	(1,740,198)
Foreign exchange gain		(37,181,192)	(9,182,370)
Depreciation		538,506,137	536,287,784
		2,203,250,809	640,008,730
Operating profit before changes in working capital		3,202,753,584	1,791,468,304
Changes in working capital			
Increase in stores, spares and loose tools		(76,224,393)	(23,706,390)
Increase in stock in trade		(1,787,970,946)	(223,621,249)
Increase in trade receivables		(82,348,690)	(513,565,749)
Decrease / increase in advances, deposits, prepayments and other receivables		243,779,247	(296,618,738)
Increase in trade and other payables		326,711,242	14,236,361
Decrease / (increase) in long term deposits		462,000	(332,745)
Decrease in long term payables		-	(20,170,710)
Cash generated from operations		1,827,162,044	727,689,084
39 CASH AND CASH EQUIVALENTS			
Cash and bank balances	29	82,073,810	45,433,316
		82,073,810	45,433,316

40 DIVIDEND PAID DURING THE YEAR

During the year, the Company declared/paid 8.95% (Re. 0.895 per share) dividend for the year ended 31 December 2008 on preference shares and 12.5% (Rs. 1.25 per share) dividend for the year ended 31 December 2007 on ordinary shares.

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

41 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's activities expose it to a variety of financial risks, including effects of changes in foreign exchange rates, market interest rates, credit and liquidity risk associated with various financial assets and liabilities. The Company manages its exposure to these financial risks in the following manner:

41.1 Interest rate risk exposure

Information about the Company's exposure to interest rate risk is as follows:

		AS AT 31 DECEMBER 2008								
		Interest / markup bearing				Non - interest / markup bearing				
	Note	Maturity upto one year	Maturity after one year upto five years	Maturity after five years	Sub total	Maturity upto one year	Maturity after one year upto five years	Maturity after five years	Sub total	Total
		Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Financial assets										
Long term investments	20	-	600,000,000	-	600,000,000	-	-	6,921,644,051	6,921,644,051	7,521,644,051
Long term deposits	21	-	-	-	-	-	-	19,777,502	19,777,502	19,777,502
Trade receivables	24	-	-	-	-	1,777,232,612	-	-	1,777,232,612	1,777,232,612
Derivative financial assets	25	-	-	-	-	175,673,993	-	-	175,673,993	175,673,993
Advances, deposits and other receivables	26	-	-	-	-	285,753,848	-	-	285,753,848	285,753,848
Short term investments	28	-	-	-	-	4,018,853,586	-	-	4,018,853,586	4,018,853,586
Cash and bank balances	29	1,010,415	-	-	1,010,415	81,063,395	-	-	81,063,395	82,073,810
		1,010,415	600,000,000	-	601,010,415	6,338,577,434	-	6,941,421,553	13,279,998,987	13,881,009,402
Financial liabilities										
Redeemable capital	7	397,013,346	3,497,049,061	499,600,000	4,393,662,407	-	-	-	-	4,393,662,407
Long term finances	8	1,055,580,000	2,686,842,500	-	3,742,422,500	-	-	-	-	3,742,422,500
Liabilities against assets subject to finance lease	9	18,328,147	25,210,944	-	43,539,091	-	-	-	-	43,539,091
Short term borrowings	11	6,574,080,304	-	-	6,574,080,304	-	-	-	-	6,574,080,304
Derivative financial liabilities	12	-	-	-	-	50,536,909	-	-	50,536,909	50,536,909
Trade and other payables	13	-	-	-	-	1,275,923,311	-	-	1,275,923,311	1,275,923,311
Due to related parties	14	426,768,193	-	-	426,768,193	-	-	-	-	426,768,193
Markup accrued on borrowings	15	-	-	-	-	466,226,443	-	-	466,226,443	466,226,443
Unclaimed dividend		-	-	-	-	14,686,046	-	-	14,686,046	14,686,046
		8,471,769,990	6,209,102,505	499,600,000	15,180,472,495	1,807,372,709	-	-	1,807,372,709	16,987,845,204
On balance sheet gap		(8,470,759,575)	(5,609,102,505)	(499,600,000)	(14,579,462,080)	4,531,204,725	-	6,941,421,553	11,472,626,278	(3,106,835,802)

		AS AT 31 DECEMBER 2007								
		Interest / markup bearing				Non - interest / markup bearing				
	Note	Maturity upto one year	Maturity after one year upto five years	Maturity after five years	Sub total	Maturity upto one year	Maturity after one year upto five years	Maturity after five years	Sub total	Total
		Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Financial assets										
Long term investments	20	-	1,260,000,000	840,000,000	2,100,000,000	-	-	4,291,905,201	4,291,905,201	6,391,905,201
Long term deposits	21	-	-	-	-	-	-	20,239,502	20,239,502	20,239,502
Trade and other receivables	24	-	-	-	-	1,657,196,735	-	-	1,657,196,735	1,657,196,735
Derivative financial assets	25	-	-	-	-	388,993,278	-	-	388,993,278	388,993,278
Advances, deposits and other receivables	26	-	-	-	-	190,437,675	-	-	190,437,675	190,437,675
Short term investments	28	-	-	-	-	3,838,444,830	-	-	3,838,444,830	3,838,444,830
Cash and bank balances	29	8,051,770	-	-	8,051,770	37,381,546	-	-	37,381,546	45,433,316
		8,051,770	1,260,000,000	840,000,000	2,108,051,770	6,112,454,064	-	4,312,144,703	10,424,598,767	12,532,650,537
Financial liabilities										
Redeemable capital	7	242,582,192	3,525,172,872	999,200,000	4,766,955,064	-	-	-	-	4,766,955,064
Long term finances	8	714,173,833	2,587,396,252	386,155,000	3,687,725,085	-	-	-	-	3,687,725,085
Liabilities against assets subject to finance lease	9	24,293,231	14,357,005	-	38,650,236	-	-	-	-	38,650,236
Short term borrowings	11	3,820,688,516	-	-	3,820,688,516	-	-	-	-	3,820,688,516
Derivative financial liabilities	12	-	-	-	-	34,369,582	-	-	34,369,582	34,369,582
Trade and other payables	13	-	-	-	-	967,069,689	-	-	967,069,689	967,069,689
Due to related parties	14	-	-	-	-	-	-	-	-	-
Mark up accrued on borrowings	15	-	-	-	-	317,690,929	-	-	317,690,929	317,690,929
Unclaimed dividend		-	-	-	-	9,694,014	-	-	9,694,014	9,694,014
		4,801,737,772	6,126,926,129	1,385,355,000	12,314,018,901	1,328,824,214	-	-	1,328,824,214	13,642,843,115
On balance sheet gap		(4,793,686,002)	(4,866,926,129)	(545,355,000)	(10,205,967,131)	4,783,629,850	-	4,312,144,703	9,095,774,553	(1,110,192,578)

The Company has un-capped floating interest rate arrangements in respect of some of its borrowings. However to guard against adverse movements in market interest rates, the Company has entered in to various cross currency interest rate swap agreements with different banks due to which the Company's exposure to interest rate risk is minimal. The effective interest / mark-up rates for the interest / mark up bearing financial instruments are mentioned in relevant notes to the financial statements.

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

41.2 Currency risk exposure

Currency risk arises mainly where receivables and payables exist due to transactions entered into in foreign currency. The Company incurs currency risk on sales and purchases and resulting balances that are denominated in a currency other than functional currency. However, the Company enters into forward contracts to guard against the adverse fluctuation in foreign exchange rates and hence the Company's exposure to currency risk is minimal.

41.3 Concentration of credit risk and credit risk exposure

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed to perform as contracted. Out of total financial assets of Rs. 13,881,009,402 (2007: Rs.12,532,650,537), financial assets which are subject to credit risk amount to Rs. 1,740,487,801 (2007: Rs. 1,613,861,384). The management continuously monitors the credit exposure towards the customers and makes provision against those balances considered doubtful of recovery. The Company manages credit risk by limiting significant exposure to individual customers, and obtaining advances against sales.

41.4 Liquidity risk exposure

Liquidity risk reflects the Company's inability in raising funds to meet commitments. The management closely monitors the Company's liquidity and cash flow position. This includes maintenance of balance sheet liquidity ratios, debtors and creditors concentration both in terms of overall funding mix and avoidance of undue reliance on large individual customer.

41.5 Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged or a liability be settled between knowledgeable willing parties, in an arm's length transaction. As at the reporting date, the fair values of all financial instruments are considered to approximate their book values.

	31 December 2008 *Rupees*	31 December 2007 *Rupees*
42 OFF BALANCE SHEET FINANCIAL INSTRUMENTS		
Irrevocable letters of credit for:		
- purchase of stores, spare and loose tools	77,291,196	25,432,674
- purchase of machinery	382,723,235	-
- purchase of raw material	766,100,087	682,638,653
	1,226,114,518	708,071,327
Commitments for fixed capital expenditure	128,470,317	41,260,211

43 EVENTS AFTER THE BALANCE SHEET DATE

43.1 The Board of Directors in its meeting held on 06 April 2009 has proposed to issue bonus shares to ordinary shareholders of the Company at 20% (20 ordinary shares for every 100 ordinary shares held). The issue is subject to approval by the shareholders at the forthcoming Annual General Meeting and has not been accounted for in these financial statements.

43.2 The Board of Directors in its meeting held on 14 March 2009 has decided to increase ordinary share capital of the Company through right issue, at 23.68 ordinary shares for every 100 ordinary shares held. The approval of Karachi Stock Exchange (Guarantee) Limited has been obtained in this regard. The issue will be made at a price of Rs. 13.50 per ordinary right share.

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

44 RELATED PARTY TRANSACTIONS

Related parties comprise holding company, subsidiaries and associated undertakings, other related group companies, key management personnel including chief executive, directors and executives and post employment benefit plans. The Company in the normal course of business carries out transactions with various related parties. Details of transactions and balances with related parties are as follows:

	31 December 2008 *Rupees*	31 December 2007 *Rupees*
44.1 Transactions with related parties		
44.1.1 *Subsidiaries*		
Sale of goods	1,359,752,144	-
Markup income	-	12,668,157
Markup expense	10,979,472	-
Return on investment in TFCs	133,304,756	282,716,548
Purchases of goods and services	27,272,991	418,000
Dividend income	588,000,000	588,645,000
44.1.2 *Associates*		
Purchases of chemicals	3,322,566	37,969,056
44.1.3 *Post-employment benefit plans*		
Contribution to employees provident fund	38,120,188	25,366,018

44.1.4 *Key management personnel*

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director. The Company's key management personnel comprise the Chief Executive, Directors and Executives. Total compensation for key management personnel was as follows:

	Year ended 31 December 2008		
	Chief Executive *Rupees*	Directors *Rupees*	Executives *Rupees*
Short-term employee benefits			
Remuneration	7,999,992	5,100,000	103,388,915
House rent	2,399,988	1,020,000	29,691,780
Utilities	800,004	260,000	9,301,418
Other benefits	799,999	260,000	26,644,692
	11,999,983	6,640,000	169,026,805
Meeting fee	-	-	-
Post-employment benefits			
Retirement benefits	680,004	204,000	7,778,028
	12,679,987	6,844,000	176,804,833
Number of persons	1	6	71

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

	Year ended 31 December 2007		
	Chief Executive *Rupees*	Directors *Rupees*	Executives *Rupees*
Short-term employee benefits			
Remuneration	3,933,335	2,400,000	58,727,246
House rent	1,199,998	960,000	17,438,560
Utilities	393,328	240,000	5,392,606
Other benefits	373,339	-	4,005,855
	5,900,000	3,600,000	85,564,267
Meeting fee	-	2,604,000	-
Post -employment benefits			
Retirement benefits	334,333	204,000	4,991,816
	6,234,333	6,408,000	90,556,083
Number of persons	1	6	49

Additionally, the Chief Executive is provided with free use of Company maintained car.

	31 December 2008 *Rupees*	31 December 2007 *Rupees*
44.2 Balances with related parties		
44.2.1 *Subsidiaries*		
Borrowings	426,768,193	-
Trade receivables	76,773,293	-
Markup payable	10,979,472	-
Payable against purchases of goods and services	27,272,991	-
Return on investments in TFCs receivable	87,219,798	58,869,781
Investment in ordinary shares	8,005,403,850	7,994,814,983
Investment in term finance certificates	910,000,000	2,100,000,000
44.2.2 *Post-employment benefit plans*		
Payable to employees provident fund	5,120,350	4,880,590
44.2.3 *Key Management Personnel*		
Short term employee benefits payable	13,157,448	7,516,146

45 NON-CASH FINANCING ACTIVITIES

45.1 During the year, Term Finance Certificate Holders converted 28,550 certificates into non-voting ordinary shares at Rs. 37.14 per non-voting ordinary share. The conversion price was determined at 30% percent discount on the preceding three months average share price of voting ordinary shares on the date of conversion.

Financial Statements

Notes to the Financial Statements for the year ended 31 December 2008

45.2 During the year, preference shareholders converted 43,750 preference shares into voting ordinary shares at 6.8 voting ordinary shares for every 10 preferences shares held. (2007: 5,000 preference shares at 6.8 voting ordinary shares for every 10 preferences shares held).

46 PLANT CAPACITY AND ACTUAL PRODUCTION

Spinning	***Unit***	31 December 2008	31 December 2007
Number of rotors installed	*No.*	2,416	2,050
Plant capacity on the basis of utilization converted into 6.5s count	*Kgs*	14,965,001	12,303,563
Actual production converted into 6.5s count	*Kgs*	13,207,174	9,489,468
Number of spindles installed	*No.*	54,408	54,408
Plant capacity on the basis of utilization converted into 20s count	*Kgs*	12,814,834	12,814,834
Actual production converted into 20s count	*Kgs*	12,274,985	11,688,092
Weaving			
Number of looms installed	*No.*	166	166
Annual capacity on the basis of utilization converted into 38 picks	*Mtrs*	29,860,666	29,860,666
Actual production converted into 38 picks	*Mtrs*	25,042,308	14,121,408
Garments			
Number stitching machines installed	*No.*	2,229	1,876
Annual capacity on the basis of utilization	*Pcs*	10,797,583	7,951,615
Actual production	*Pcs*	7,595,954	6,063,532

It is difficult to precisely describe production capacity and the resultant production converted into base count in the textile industry since it fluctuates widely depending on various factors such as count of yarn spun, raw materials used, spindle speed and twist etc. It would also vary according to the pattern of production adopted in a particular year.

47 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on 06 April 2009 by the Board of Directors of the Company.

48 GENERAL

Figures have been rounded off to the nearest rupee.

Comparative figures have been rearranged, where necessary for the purpose of comparison. However, there are no significant reclassifications.

Lahore	**CHIEF EXECUTIVE**	**DIRECTOR**

Consolidated Financial Statements

Russell Bedford

Rahman Sarfaraz Rahim Iqbal Rafiq

Chartered Accountants

4-B, 90 Canal Park,
Gulberg II,
Lahore.

T: +92 42 5756440, 5757022
F: +92 42 5757335
E: wisemen@magic.net.pk
W: www.russellbedford.com

Auditors' Report to the Members

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Azgard Nine Limited ("the Company") and its subsidiaries (hereinafter collectively referred as the "Group") as at 31 December 2008 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. The financial statements of the subsidiary companies Nafees International Tekstil Sanays Ve Ticaret Anonim Sirket, Pak American Fertlizers Limited, Hazara Phosphate Fertilizers (Private) Limited and Farital AB were audited by other firms of auditors, whose reports have been furnished to us and our opinion in so far as it relates to the amounts included for such companies, is based solely on the report of such other auditors.

These financial statements are the responsibility of the Company's management. Our responsibility is to express an 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 the Group as at 31 December 2008 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.

Rahman Sarfaraz Rahim Iqbal Rafiq

LAHORE.
Date: 06 April 2009

RAHMAN SARFARAZ RAHIM IQBAL RAFIQ
Chartered Accountants

Rahman Sarfaraz Rahim Iqbal Rafiq, Chartered Accountants, is a partnership firm registered in Pakistan and a member of Russell Bedford International, a global network of independent accounting firms and consultants with affiliated offices worldwide.

Consolidated Financial Statements

Consolidated Balance Sheet as at 31 December 2008

	Note	31 December 2008 Rupees	31 December 2007 Rupees
EQUITY AND LIABILITIES			
Share capital and reserves			
Issued, subscribed and paid-up capital	5	3,827,118,540	3,788,822,900
Reserves	6	3,511,758,144	3,984,215,478
Unappropriated profit		2,420,262,535	1,556,263,534
		9,759,139,219	9,329,301,912
Minority interest	7	-	1,793
Surplus on revaluation of property, plant and equipment		219,356,256	239,073,077
Loan from sponsors - Unsecured	8	340,000,000	-
Non-current liabilities			
Redeemable capital - Secured	9	13,504,569,794	10,404,259,542
Long term finances - Secured	10	3,086,842,500	2,905,276,300
Liabilities against assets subject to finance lease	11	106,664,196	32,507,391
Long term payables	12	31,135,199	31,135,199
Deferred taxation	13	2,479,374,862	1,811,694,727
		19,208,586,551	15,184,873,159
Current liabilities			
Current portion of non-current liabilities	14	1,491,427,018	1,055,243,583
Short term borrowings	15	8,437,887,588	4,442,219,557
Derivative financial liabilities	16	50,536,909	34,369,582
Trade and other payables	17	5,265,762,759	2,928,160,558
Markup accrued on borrowings	18	974,107,530	473,174,881
Unclaimed dividend		14,686,046	9,694,014
		16,234,407,850	8,942,862,175
Contingencies and commitments	19	-	-
		45,761,489,876	33,696,112,116

The annexed notes 1 to 53 form an integral part of these financial statements.

Lahore

CHIEF EXECUTIVE

	Note	31 December 2008 *Rupees*	31 December 2007 *Rupees*
ASSETS			
Non-current assets			
Property, plant and equipment	*20*	22,111,795,518	20,081,750,375
Capital work in progress	*21*	3,519,734,342	401,285,046
Intangible assets	*22*	5,663,896,463	3,762,203,525
Long term investments	*23*	67,738	100,923
Long term deposits	*24*	38,178,881	28,253,239
Long term advances	*25*	34,806,883	15,807,453
		31,368,479,825	24,289,400,561
Current assets			
Stores, spares and loose tools	*26*	861,061,558	782,565,098
Stock in trade	*27*	6,622,242,027	2,532,099,663
Trade receivables	*28*	2,556,062,590	2,366,279,392
Derivative financial assets	*29*	175,673,993	849,253,210
Advances, deposits, prepayments and other receivables	*30*	3,311,084,769	1,283,185,773
Current taxation	*31*	231,472,831	80,352,096
Short term investments	*32*	206,551,479	882,894,125
Cash and bank balances	*33*	428,860,804	630,082,198
		14,393,010,051	9,406,711,555
		45,761,489,876	33,696,112,116

DIRECTOR

Consolidated Financial Statements

Consolidated Profit and Loss Account for the year ended 31 December 2008

	Note	31 December 2008 Rupees	31 December 2007 Rupees
Sales - Net	34	19,737,423,815	12,308,604,885
Cost of sales	35	(13,061,741,427)	(7,734,220,681)
Gross Profit		6,675,682,388	4,574,384,204
Administrative and selling expenses	36	(1,089,024,998)	(841,802,056)
Operating profit		5,586,657,390	3,732,582,148
Other income - Net	37	369,810,911	336,180,336
Excess of fair value of subsidiary's net assets acquired over cost of investment	45.1	290,221,269	-
Finance cost	38	(4,617,259,155)	(2,152,438,490)
Profit before taxation		1,629,430,415	1,916,323,994
Taxation	39	(232,037,277)	(462,835,810)
Profit after taxation		1,397,393,138	1,453,488,184
Profit after taxation attributable to:			
Equity holders of the Parent		1,397,393,138	1,455,249,977
Minority interest		-	(1,761,793)
		1,397,393,138	1,453,488,184
Earning per share - basic	40	4.22	4.46
Earning per share - diluted	40	4.22	4.40

The annexed notes 1 to 53 form an integral part of these financial statements.

Lahore **CHIEF EXECUTIVE** **DIRECTOR**

Consolidated Financial Statements

Consolidated Cash Flow Statement for the year ended 31 December 2008

	Note	31 December 2008 Rupees	31 December 2007 Rupees
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	42	3,787,032,437	4,339,900,089
Markup paid		(3,614,176,268)	(2,147,689,356)
Taxes paid		(257,834,004)	(156,423,508)
Paid to WPPF		(45,146,586)	(68,309,853)
Net cash (used in) / flow from operating activities		(130,124,421)	1,967,477,372
CASH FLOW FROM INVESTING ACTIVITIES			
Capital expenditure		(3,963,744,703)	(1,244,763,080)
Development costs		-	(7,093,393)
Proceeds from disposal of property, plant and equipment		6,297,758	7,149,173
Purchase of short term investments		(206,458,964)	(4,520,483,703)
Acquistion of subsidiaries net of cash acquired		(3,977,890,822)	-
Proceeds from sale of short term investments		1,097,853,382	4,015,702,570
Dividend received		1,730,500	-
Interest on bank deposits		23,659,834	33,095,800
Net cash used in investing activities		(7,018,553,015)	(1,716,392,633)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue of redeemable capital net of transaction costs		3,630,014,063	8,381,866,670
Redemption of redeemable capital		(231,142,657)	(6,549,357,468)
Proceeds from long term finances		750,000,000	608,000,000
Repayment of long term finances		(686,006,711)	(778,404,971)
Repayment of liabilities against assets subject to finance lease		(12,223,131)	(55,773,757)
Proceeds from sale and leaseback		40,807,974	-
Loan obtained from sponsors		340,000,000	-
Net (decrease) / increase in short term borrowings		3,561,127,223	(1,944,479,760)
Paid to minority shareholders of Azsoft (Private) Limited on winding up		(1,793)	-
Dividend paid		(445,118,926)	(415,820,216)
Net cash flow from / (used in) financing activities		6,947,456,042	(753,969,502)
Net decrease in cash and cash equivalents		(201,221,394)	(502,884,763)
Cash and cash equivalents at the beginning of the year		630,082,198	1,132,966,961
Cash and cash equivalents at the end of the year	43	428,860,804	630,082,198

The annexed notes 1 to 53 form an integral part of these financial statements.

Lahore **CHIEF EXECUTIVE** **DIRECTOR**

Consolidated Financial Statements

Consolidated Statement of Changes in Equity for the year ended 31 December 2008

	Share capital			Reserves										
	Ordinary shares	Preference shares	Total	Share premium	Hedging reserve	Translation reserve	Reserve on merger	Preference shares redemption reserve	Surplus on revaluation of investments available for sale	Total	Unappropriated profit	Total equity	Surplus on revaluation of property, plant, and equipment	Minority interest
	Rupees	*Rupees*	*Rupees*	*Rupees*	*Rupees*	*Rupees*	*Rupees*	*Rupees*	*Rupees*	*Rupees*	*Rupees*	*Rupees*	*Rupees*	*Rupees*
As at 01 January 2007	3,127,100,570	661,738,330	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	586,927,936	7,952,063,643	257,360,867	1,763,586
Conversion of preference shares into ordinary shares	34,000	(50,000)	(16,000)	16,000	-	-	-	-	-	16,000	-	-	-	-
Surplus on revaluation of property, plant and equipment transferred to unappropriated profit on account of incremental depreciation	-	-	-	-	-	-	-	-	-	-	18,287,790	18,287,790	(18,287,790)	-
Profit / (loss) for the year ended 31 December 2007	-	-	-	-	-	-	-	-	-	-	1,455,249,977	1,455,249,977	-	(1,761,793)
Profit transferred to preference shares redemption reserve	-	-	-	-	-	-	-	101,000,000	-	101,000,000	(101,000,000)	-	-	-
Final dividend on ordinary shares for the year ended 31 December 2006	-	-	-	-	-	-	-	-	-	-	(343,981,063)	(343,981,063)	-	-
Preference dividend for the year ended 31 December 2007	-	-	-	-	-	-	-	-	-	-	(59,221,106)	(59,221,106)	-	-
Net increase in fair value of derivative financial instruments	-	-	-	-	307,402,397	-	-	-	-	307,402,397	-	307,402,397	-	-
Surplus on revaluation of investments available for sale	-	-	-	-	-	-	-	-	(504,889)	(504,889)	-	(504,889)	-	-
Exhange difference on translation of foreign subsidiary	-	-	-	-	-	5,163	-	-	-	5,163	-	5,163		
As at 31 December 2007	3,127,134,570	661,688,330	3,788,822,900	2,633,387,139	831,061,034	33,041	105,152,005	414,500,000	82,259	3,984,215,478	1,556,263,534	9,329,301,912	239,073,077	1,793
Conversion of preference shares into ordinary shares	297,500	(437,500)	(140,000)	140,000	-	-	-	-	-	140,000	-	-	-	-
Conversion of redeemable capital into ordinary shares	38,435,640	-	38,435,640	104,314,360	-	-	-	-	-	104,314,360	-	142,750,000	-	-
Surplus on revaluation of property, plant and equipment transferred to unappropriated profit on account of incremental depreciation	-	-	-	-	-	-	-	-	-	-	19,716,821	19,716,821	(19,716,821)	-
Profit for the year ended 31 December 2008	-	-	-	-	-	-	-	-	-	-	1,397,393,138	1,397,393,138	-	-
Profit transferred to preference shares redemption reserve	-	-	-	-	-	-	-	103,000,000	-	103,000,000	(103,000,000)	-	-	-
Final dividend on ordinary shares for the year ended 31 December 2007	-	-	-	-	-	-	-	-	-	-	(390,929,009)	(390,929,009)	-	-
Preference dividend for the year ended 31 December 2008	-	-	-	-	-	-	-	-	-	-	(59,181,949)	(59,181,949)	-	-
Net decrease in fair value of derivative financial instruments	-	-	-	-	(678,425,094)	-	-	-	-	(678,425,094)	-	(678,425,094)	-	-
Surplus on revaluation of investments available for sale	-	-	-	-	-	-	-	-	(33,185)	(33,185)	-	(33,185)	-	-
Share of loss on winding up of subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,793)
Exhange difference on translation of foreign subsidiary	-	-	-	-	-	(1,453,415)	-	-	-	(1,453,415)	-	(1,453,415)	-	-
As at 31 December 2008	3,165,867,710	661,250,830	3,827,118,540	2,737,841,499	152,635,940	(1,420,374)	105,152,005	517,500,000	49,074	3,511,758,144	2,420,262,535	9,759,139,219	219,356,256	-

The annexed notes 1 to 53 form an integral part of these financial statements.

Lahore

CHIEF EXECUTIVE

DIRECTOR

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

1 REPORTING ENTITY

The Group consists of the following companies:

Parent Company

Azgard Nine Limited ("ANL") is incorporated in Pakistan as a Public Limited Company and is currently listed on Karachi Stock Exchange (Guarantee) Limited. ANL is a composite spinning, weaving, dyeing and stitching unit engaged in the manufacture of yarn, denim and denim products. The registered office of ANL is situated at Ismail Aiwan-e-Science, off Shahrah-e-Roomi, Lahore.

Subsidiary Companies

Pak American Fertilizers Limited ("PAFL") is incorporated in Pakistan as an Unquoted Public Limited Company and is engaged in manufacture and sale of urea fertilizer. Proportion of interest held by ANL is 100%. PAFL was acquired on 01 July 2006.

Hazara Phosphate Fertilizers (Private) Limited ("HPFL") is incorporated in Pakistan as a Private Limited Company and is engaged in manufacture and sale of granulated single super phosphate. HPFL was acquired on 28 November 2008 by PAFL. Proportion of interest held by PAFL is 100%. The amounts reflected in consolidated profit and loss account, consolidated cash flow statement and related notes to the consolidated financial statements for the year ended 31 December 2008 include results of HPFL for the period from 28 November 2008 to 31 December 2008.

Montebello SRL ("MSRL") is incorporated in Italy as a Limited Liability Company and is engaged in import, export, wholesale and retail marketing and manufacture of textile and apparel products and accessories. Effective control of MSRL was obtained on 31 December 2008 by ANL through Farital AB, a holding company incorporated in Sweden. Proportion of interest held by ANL is 100%. The amounts reflected in consolidated profit and loss account, consolidated cash flow statement and related notes to the consolidated financial statements for the year ended 31 December 2008 do not include results of MSRL and only the financial position of MSRL as at 31 December 2008 has been reflected in consolidated balance sheet as at that date.

Azsoft (Private) Limited ("APL") was incorporated in Pakistan as a Private Limited Company and was engaged in development, implementation and sale of software products and provision of related services. Proportion of interest held by ANL was 99.90%. APL was acquired on 05 October 2004. On 31 May 2008, APL was wound up under the Easy Exit Scheme of Securities and Exchange Commission of Pakistan.

Nafees International Tekstil Sanayi Ve Ticaret ANONIM SIRKETI ("NIT") is incorporated in Turkey and is engaged in sale of denim and denim products. Proportion of interest held by ANL is 51%. NIT was acquired on 05 January 2004.

2 BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of Companies Ordinance, 1984. Approved accounting standards comprise of such International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board as notified under the provisions of the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 prevail.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements
for the year ended 31 December 2008

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention except for certain financial instruments at fair value, employees retirement benefits at present value and certain items of property, plant and equipment at revalued amounts. In these financial statements, except for the amounts reflected in the cash flow statement, all transactions have been accounted for on accrual basis.

2.3 Judgements, estimates and assumptions

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, 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 forms the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Judgements made by management in the application of approved accounting standards that have significant effect on the financial statements and estimates with a risk of material adjustment in subsequent years are as follows:

2.3.1 Depreciation method, rates and useful lives of property, plant and equipment

The management of the Group reassesses useful lives, depreciation method and rates for each item of property, plant and equipment annually by considering expected pattern of economic benefits that the Group expects to derive from that item.

2.3.2 Recoverable amount of assets / cash generating units

The management of the Group reviews carrying amounts of its assets and cash generating units for possible impairment and makes formal estimates of recoverable amount if there is any such indication.

2.3.3 Fair value of financial instruments having no active market

Fair value of financial instruments having no active market is determined using discounted cash flow analysis after incorporating all factors that market participants would consider in setting a price and using inputs that reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

2.3.4 Taxation

The management of the Group takes into account the current income tax law and decisions taken by appellate authorities. Instances where the Group's view differs from the view taken by the income tax department at the assessment stage and where the Group considers that its view on items of material nature is in accordance with law, the amounts are shown as contingent liabilities.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements
for the year ended 31 December 2008

2.3.5 Fair value of derivative financial instruments

The fair value of derivative financial instruments is determined by discounting estimated future cash flows based on the terms and maturity of each contract and using market rates for similar instruments at the measurement date.

2.3.6 Provisions

Provisions are based on best estimate of the expenditure required to settle the present obligation at the reporting date, that is, the amount that the Group would rationally pay to settle the obligation at the reporting date or to transfer it to a third party.

2.3.7 Revaluation of property, plant and equipment

Revaluation of property, plant and equipment is carried out by independent professional valuers. Revalued amounts of non-depreciable items are determined by reference to local market values and that of depreciable items are determined by reference to present depreciated replacement values.

2.3.8 Employees retirement benefits

The present value of defined benefit obligation is based on assumptions of future outcomes, the principle ones being in respect of increases in remuneration, average remaining working life of employees and discount rate used to derive the present value of defined benefit obligation.

2.4 Functional currency

These financial statements have been prepared in Pak Rupees which is the Group's functional currency.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

3.1 Basis of consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights, if any, that are currently exercisable are taken into account. However, potential voting rights that are not currently exercisable are not included in determination of the proportions of profit or loss and changes in equity attributable to the Group.

The financial statements of the subsidiary are included in the consolidated financial statements from the date that control commences until the date control ceases. The accounting policies of subsidiaries are changed when necessary to align them with those adopted by the Group. The assets and liabilities of the subsidiaries are consolidated on a line-by-line basis and the carrying amount of the investment in subsidiaries is eliminated against the subsidiaries' share capital and pre-acquisition reserves. All intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

3.2 Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses with the exception of freehold land, which is measured at revalued amount, and, plant and machinery and building which are measured at revalued amount less accumulated depreciation. Cost comprises purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, and includes other costs directly attributable to the acquisition.

Parts of an item of property, plant and equipment having different useful lives are recognized as separate items.

Major renewals and improvements to an item of property, plant and equipment are recognized in the carrying amount of the item if it is probable that the embodied future economic benefits will flow to the Group and the cost of renewal or improvement can be measured reliably. The cost of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Depreciation

The Group recognizes depreciation in profit or loss by applying reducing balance method, with the exception of PAFL and HPFL, which uses straight line method, over the useful life of each item of property, plant and equipment. Depreciation rates and useful lives of depreciable items of property, plant and equipment are as follows:

	PAFL	HPFL	OTHER GROUP COMPANIES
	Straight line No of years	Straight line No of years	Reducing balance % age
Buildings on freehold land	50	40	5
Plant and machinery	50	30	7.5
Residential colony assets	3 to 20	20	-
Furniture and fittings	3 to 10	10	10
Vehicles and rail transport	5	5	20
Railway sidings	20	40	-
Tools and equipment	3 to 10	10	10
Office equipments	-	4	10
Electrical installations	20	20	10
Sui gas installations	20	10	-
Water Supply pipeline	20	20	-
Books and literature	10	10	-
Catalysts	As determined by engineer		-

PAFL during the year ended 31 December 2007 revised its estimate of useful lives of building on freehold land and plant and machinery from 20 years to 50 years. The change in estimated useful lives resulted in depreciation charge lower by Rs. 205 million for that year.

Depreciation on additions to property, plant and equipment is charged from the month in which the item becomes available for use. Depreciation is discontinued from the month in which it is disposed or classified as held for disposal.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

An amount equal to incremental depreciation, being the difference between the depreciation based on revalued amounts and that based on the original cost, net of deferred tax, if any, is transferred from surplus on revaluation of property, plant and equipment to unappropriated profit every year.

Depreciation method, useful lives and residual values are reviewed at each reporting date.

De-recognition

An item of property, plant and equipment is de-recognized when permanently retired from use. Any gain or loss on disposal of property, plant and equipment is recognized in profit or loss.

3.3 Capital work in progress

Capital work in progress is stated at cost less identified impairment loss, if any, and includes the expenditures on material, labour and appropriate overheads directly relating to the construction, erection or installation of an item of property, plant and equipment. These costs are transferred to property, plant and equipment as and when related items become available for intended use.

3.4 Intangible assets

An intangible asset is recognized when it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably.

In assessing the probability of expected future economic benefits the Group uses reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

An intangible asset is measured initially at cost. The cost of the intangible asset acquired comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates, and includes other costs directly attributable to the acquisition. Costs incurred after the asset is in the condition necessary for it to operate in the manner intended by the management are recognized in profit or loss. Subsequent to initial recognition, intangible assets, with the exception of goodwill acquired in a business combination, are measured at cost less accumulated amortization and accumulated impairment losses, if any. Goodwill acquired in a business combination is measured at cost less accumulated impairment losses, if any.

All intangible assets, with the exception of goodwill acquired in a business combination, are amortized over the period, not exceeding five years, over which the Group expects to obtain economic benefits, on a straight line basis. All intangible assets are tested for impairment at each reporting date.

The particular measurement methods adopted are disclosed in the individual policy statements associated with each intangible asset.

3.5 Software

The cost of acquisition, development and installation of identifiable software products having finite useful lives of more than one year is recognized as an intangible asset at cost. Subsequent to initial recognition, it is measured at cost less accumulated amortization and accumulated impairment losses, if any.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

3.6 Goodwill acquired in a business combinations

Goodwill acquired in business combination represents future economic benefits arising from assets that are not capable of being individually identified and separately recognized. Goodwill is initially recognized at cost which is determined as the excess of the cost of business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses, if any.

3.7 Research and development expenditure

Research activities are activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Expenditure on research activities is recognized in profit or loss as and when incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized and recognized as an intangible asset only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has the sufficient technical, financial and other resources to complete development and to use or sell the asset or its output for which a market exists. The expenditure capitalized includes the cost of materials, direct labour and overhead costs that are directly attributable to preparation of the asset for its intended use. All other development expenditure is recognized in profit or loss as and when incurred.

The intangible asset so recognized is initially measured at cost. Subsequent to initial recognition, it is measured at cost less accumulated amortization and accumulated impairment losses, if any. Expenditure previously recognized in profit or loss is not capitalized as part of the cost of intangible asset.

3.8 Stores, spares and loose tools

These are generally held for internal use and are valued at cost. Cost is determined on the basis of moving average except for items in transit, which are valued at invoice price plus related expenses incurred up to the reporting date. For items which are considered obsolete, the carrying amount is written down to nil.

3.9 Stock in trade

These are valued at lower of cost and net realizable value, with the exception of stock of waste which is value at net realizable value. Cost is determined using the following basis:

Raw materials	Average cost
Work in process	Average manufacturing cost
Finished goods	Average manufacturing cost
Raw material in transit	Invoice price plus related expense incurred up to the reporting date

Average manufacturing cost in relation to work in process and finished goods consists of direct material, labour and a proportion of appropriate manufacturing overheads.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

Net realizable value signifies the estimated selling price in the ordinary course of business less estimated costs of completion and estimated costs necessary to make the sale.

3.10 Financial instruments

Recognition

A financial instrument is recognized when the Group becomes a party to the contractual provisions of the instrument.

De-recognition

Financial assets are de-recognized if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are de-recognized if the Group's obligations specified in the contract expire or are discharged or cancelled. Any gain or loss on de-recognition of financial assets and financial liabilities is recognized in profit or loss.

Measurement

The particular measurement methods adopted are disclosed in the individual policy statements associated with each instrument.

Off-setting

A financial asset and a financial liability is offset and the net amount reported in the balance sheet if the Group has legally enforceable right to set-off the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

3.11 Ordinary share capital

Ordinary share capital is recognized as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as deduction from equity.

3.12 Preference share capital

Preference share capital is recognized as equity in accordance with the interpretation of the provisions of the Companies Ordinance, 1984, including those pertaining to implied classification of preference shares.

3.13 Redeemable capital

Redeemable capital, including embedded equity component existing due to conversion options, if any, is recognized as debt capital, in accordance with the interpretation of the provisions of the Companies Ordinance, 1984, including those pertaining to implied classification of redeemable capital .

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

3.14 Investments available for sale

Investments are classified as available for sale when these are intended to be held for an indefinite period of time and may be sold in response to need for liquidity or changes in equity prices.

These are recognized initially at cost which includes transaction costs associated with the investment. Subsequent to initial recognition, these are measured at fair value. Unrealized gains and losses arising from changes in fair value are recognized in equity until the investments are disposed or impaired. Gain or loss on sale of these investments is recognized in profit or loss. Fair value of quoted investments is measured by reference to published price quotations in an active market. Fair value of unquoted investments, where active market does not exist, is measured using discounted cash flow analysis.

3.15 Investments at fair value through profit or loss

Investments are classified as investments at fair value through profit or loss when either they are designated as such on initial recognition or are classified as held for trading. Held for trading investments are investments that are acquired principally for the purpose of selling them in the near future; or that are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of profit taking or that are derivatives, excluding financial guarantee contracts and designated hedging instruments. Investments are designated as at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management and investment strategy.

Upon initial recognition, these are measured at cost being the fair value of the consideration paid for the acquisition of the investment. Transactions costs are recognized in profit or loss when incurred. Subsequent to initial recognition, quoted investments are measured at fair value. Unrealized gains and losses arising from changes in fair value are recognized in profit or loss. Fair value of quoted investments is measured by reference to published price quotations in an active market. Unquoted investments, where active market does not exist, are carried at cost subsequent to initial recognition. Gain or loss on sale of these investments is recognized in profit or loss.

3.16 Investments held to maturity

Investments held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity. These are measured at amortized cost using the effective interest method, less impairment losses, if any.

3.17 Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Derivatives are recognized initially at fair value, with attributable transaction costs recognized in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as follows:

Cash flow hedge

Changes in fair value of the derivative financial instrument classified as a cash flow hedge are recognized directly in equity to the extent the hedge is effective. To the extent the hedge is ineffective, changes in fair value are recognized in profit or loss.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

Fair value hedge

Changes in fair value of the derivative financial instrument classified as a fair value hedge are recognized in profit or loss.

3.18 Regular way purchase and sale of financial assets

All regular way purchases and sales of financial assets are recognized on trade dates.

3.19 Business combinations

Acquisitions of equity or net assets of other entities by the Group, resulting in a parent-subsidiary relationship, are accounted for as business combinations. Business combinations are accounted for by applying the purchase method, whereby, the cost of acquisition is allocated to the fair values of identifiable net assets acquired and any excess of cost over aggregate fair value of net assets acquired is recognized as goodwill. Where the aggregate fair value of net assets acquired exceeds the cost of acquisition, the excess is recognized as income in profit or loss.

3.20 Borrowings

These are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, these are stated at amortized cost with any difference between cost and redemption value recognized in the profit or loss over the period of the borrowings on an effective interest basis.

3.21 Leased assets

Leases in terms of which the Group assumes substantially all risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the finance charge and the reduction of outstanding liability. The finance charge 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. The Group recognizes depreciation in profit or loss by applying depreciation methods over the useful life of each asset at rates specified in note 3.2 to the financial statements.

Leases that do not transfer substantially all risks and rewards of ownership are classified as operating leases. Payments made under operating leases are recognized in profit or loss on a straight line basis over the lease term.

3.22 Employee benefits

Short-term employee benefits

The Group recognizes the undiscounted amount of short term employee benefits to be paid in exchange for services rendered by employees as a liability after deducting amount already paid and as an expense in profit or loss unless it is included in the cost of inventories or property, plant and equipment as permitted or required by the approved accounting standards. If the amount paid exceeds the undiscounted amount of benefits, the excess is recognized as an asset to the extent that the prepayment would lead to a reduction in future payments or cash refund.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

Post-employment benefits

Defined contribution plan

ANL operates an approved defined contributory provident fund for its employees excluding expatriates. Equal contributions are made by the Company and employees at 8.5% of basic salary. Interest is charged @ 8.25% on the outstanding fund balance and is recognized in profit or loss.

PAFL operates an approved defined contributory provident fund for its employees at their option. Equal contributions are made by PAFL and employees at 10% of basic salary for workers and 8.33% of basic salary for executives. Interest is charged @ 8.5% on the outstanding fund balance and is recognized in profit or loss.

HPFL operates an approved defined contributory provident fund for its employees at their option. Equal contributions are made by HPFL and employees at 8.33% of basic salary. Interest is charged @ 8.5% on the outstanding fund balance and is recognized in profit or loss.

Defined benefit plan

PAFL operates an unfunded gratuity scheme (defined benefit plan) for all its permanent employees who have completed minimum qualifying period of service excluding employees who were members of the discontinued pension scheme. Liability is adjusted annually to cover the obligation and the adjustment is charged to profit or loss. The determination of obligation under the scheme requires assumptions to be made of future outcomes, the principal ones being in respect of increases in remuneration, expected remaining useful lives of employees and discount rates. These assumptions are determined independent actuaries.

The amount recognized in the balance sheet represents the present value of defined benefit obligation less fair value of plan assets as adjusted for unrecognized actuarial gains and losses.

Actuarial gains and losses arising due to settlements are charged to profit or loss. All other actuarial gains and losses are recognized using the "10% corridor approach" as set out by International Accounting Standard 19 - *Employee Benefits.*

Details of scheme are referred to in note 17.3 to the financial statements.

3.23 Trade and other payables

Trade and other payables are initially recognized at fair value and subsequently measured at amortized cost.

3.24 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost less impairment loss, if any.

3.25 Surplus / deficit arising on revaluation of property, plant and equipment

Surplus arising on revaluation of items of property, plant and equipment is recognized in equity after reversing deficit relating to the same item previously recognized in profit or loss, if any. Deficit arising on revaluation is recognized in profit or loss after reversing the surplus relating to the same item previously

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

recognized in equity, if any. An amount equal to incremental depreciation, being the difference between the depreciation based on revalued amounts and that based on the original cost, net of deferred tax, if any, is transferred from surplus on revaluation of property, plant and equipment to unappropriated profit every year.

3.26 Revenue

Revenue is measured at the fair value of the consideration received or receivable, net of returns allowances, trade discounts and rebates, and represents amounts received or receivable for goods and services provided and other operating income earned in the normal course of business. Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group, and the amount of revenue and the associated costs incurred or to be incurred can be measured reliably.

Revenue from different sources is recognized as follows:

Revenue from sale of goods is recognized when risks and rewards incidental to the ownership of goods are transferred to the buyer. Transfer of risks and rewards vary depending on the individual terms of the contract of sale. For local sales transfer usually occurs on dispatch of goods to customers. For export sales transfer occurs upon loading the goods onto the relevant carrier.

Export rebate is recognized at the same time when revenue from export sales is recognized.

Dividend income is recognized when the Group's right to receive payment is established.

Return on bank deposits is recognized as and when accrued on time proportion basis.

Subsidy income is recognized at the same time when related cost is recognized

3.27 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying asset is deducted from the borrowing costs eligible for capitalization. All other borrowing costs are recognized in profit or loss as incurred.

3.28 Government grants

Government grants are recognized initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Subsequent to initial recognition grants related to assets are recognized in profit or loss on a systematic basis over the useful life of the assets whereas grants relating to income are recognized in profit or loss on a systematic basis in the same period in which related expenses are recognized. Grants that compensate the Group for expenses or losses already incurred are recognized in profit or loss in the period in which these become receivable.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

3.29 Income tax

Income tax expense comprises current tax and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the amount of tax payable on taxable income for the year, using tax rates enacted or substantively enacted by the reporting date, and any adjustment to the tax payable in respect of previous years. Provision for current tax is based on current rates of taxation in Pakistan after taking into account tax credits, rebates and exemptions available, if any. However, for income covered under final tax regime, taxation is based on applicable tax rates under such regime. The amount of unpaid income tax in respect of the current or prior periods is recognized as a liability. Any excess paid over what is due in respect of the current or prior periods is recognized as an asset.

Deferred tax is accounted for using the balance sheet approach providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. In this regard, the effects on deferred taxation of the portion of income that is subject to final tax regime is also considered in accordance with the requirement of "Technical Release - 27" of the Institute of Chartered Accountants of Pakistan. Deferred tax is measured at rates that are expected to be applied to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the reporting date. A deferred tax liability is recognized for all net taxable temporary differences. A deferred tax asset is recognized for net deductible temporary differences to the extent that future taxable profits will be available against which temporary differences 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 realized.

Deferred tax is not recognized for timing differences that are not expected to reverse and for the differences arising from the initial recognition of goodwill and initial recognition of assets and liabilities in a transaction that is not a business combination and that at the time of transaction affects neither the accounting nor the taxable profit.

3.30 Earnings per share (EPS)

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Parent Company by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is calculated by adjusting basic EPS by the weighted average number of ordinary shares that would be issued on conversion of all dilutive potential ordinary shares into ordinary shares and post-tax effect of changes in profit or loss attributable to ordinary shareholders of the Parent Company that would result from conversion of all dilutive potential ordinary shares into ordinary shares.

3.31 Cash and cash equivalents

Cash and cash equivalents for the purpose of cash flow statement comprise cash in hand and cash at banks. Cash and cash equivalents are carried at cost.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

3.32 Foreign currency transactions and balances

Transactions in foreign currency are translated to the functional currency of the Group using exchange rate at the date of transaction. Monetary assets and liabilities denominated in foreign currency are translated to the functional currency at exchange rate at the reporting date. Non-monetary assets and liabilities denominated in foreign currency that are measured at fair value are translated to the functional currency at exchange rate at the date the fair value is determined. Non-monetary assets and liabilities denominated in foreign currency that are measured at historical cost are translated to functional currency at exchange rate at the date of initial recognition. Any gain or loss arising on translation of foreign currency transactions and balances is recognized in profit or loss.

3.33 Impairment

An impairment loss is recognized if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses are reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount after the reversal does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss had been recognized.

3.34 Related party transactions

Related party transactions are carried out on an arm's length basis. Pricing for these transactions are determined on the basis of comparable uncontrolled price method, which sets the price by reference to comparable goods and services sold in an economically comparable market to a buyer unrelated to the seller.

3.35 Provisions

Provisions are recognized when the Group has a legal and constructive obligation as a result of past events and it is probable that outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

3.36 Segment reporting

A segment is a distinguishable component of a Group that is engaged in providing related products or services (business segment) or in providing products and services in a particular economic environment (geographical segment) which is subject to risks and returns that are different from those of other segments. Segment information is presented in respect of the Group's business segments only since there are no reportable geographical segments.

Inter segment pricing is based on arm's length basis.

Segment results, assets and liabilities include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

3.37 Standards, interpretations and amendments to published approved accounting standards that are not yet effective

The International Accounting Standards Board has published following standards, interpretations and amendments that are not yet effective and have not been applied in preparing these financial statements.

IFRS 8 - Operating Segments

This standard introduces the "management approach" to segment reporting. IFRS 8 is effective for periods beginning on or after 01 January 2009. The standard is not expected to have any significant impact on the Group's financial statements, since the Group is already following the management approach to segment reporting and as such, this standard will impact the financial statements of the Group to the extent of disclosures only.

IAS 23 - Borrowing Costs (Revised 2007)

The revised standard removes the option to expense borrowing costs and requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of qualifying asset as part of the cost of that asset. The revised IAS 23 is effective for periods beginning on or after 01 January 2009, however this would not constitute a change in accounting policy since the Group's accounting policy for borrowing costs is already in accordance with the requirements of the revised standard.

IAS 1 - Presentation of Financial Statements (Revised 2007)

The revised standard introduces the term "Total Comprehensive Income", which represents changes in equity during a period other than those resulting from transactions with owners in their capacity as owners. The revised standard is effective for periods beginning on or after 01 January 2009. The standard will have a significant impact on the presentation of Group's financial statements for the year ending 31 December 2009.

IFRS 3 - Business Combinations (Revised 2008)

The revised standard incorporates the following changes that are likely to be relevant to the Group's financial statements.

The definition of a business combination has been broadened, which is likely to result in more acquisitions being treated as business combinations.

Contingent consideration will be measured at fair value, with subsequent changes therein recognized in profit or loss.

Transaction costs, other than share and debt issue costs, will be expensed as incurred. Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognized in profit or loss.

Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction by transaction basis.

Revised IFRS 3, which becomes mandatory for the Group's financial statements for the year ending 31 December 2009, will be applied prospectively and therefore there will be no impact on prior periods in the Group's 2009 financial statements.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

Amendments to IAS 32 - Financial Instruments: *Presentation* and IAS 1 - Presentation of Financial Statements, regarding Puttable Financial Instruments and Obligations Arising on Liquidation

These amendments require puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. These amendments are effective for periods beginning on or after 01 January 2009 with retrospective application required. However these are not expected to have any impact on the Group's Financial Statements.

Amendments to IFRS 2 - Share Based Payments regarding vesting conditions and cancellations

These amendments clarify the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. These amendments are effective for periods beginning on or after 01 January 2009 with retrospective application. No impact is expected on the financial statements of the Group.

IFRIC 13 *Customer Loyalty Programmes*

This interpretation addresses accounting by entities that operate, or otherwise participate in, customer loyalty programmes for their customers. It relates to customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13 is effective for the periods beginning on or after 01 January 2009. However, it is not expected to have any impact on the Group's financial statements.

3.38 Adoption of new standards, interpretations and amendments to published approved accounting standards.

The Group has not adopted IFRS 7 - Financial Instruments Disclosures, which is effective for the current period, since as per circular 08 of 2008 of the Institute of Chartered Accountants of Pakistan the standard will be effective for accounting periods beginning on or after the date of relevant notification (i.e. 28 April 2008) of the Securities and Exchange Commission of Pakistan vide which the IFRS 7 was notified. The adoption of this standard would impact the financial statements of the Group to the extent of disclosures only.

IAS 29 - Financial Reporting in Hyperinflationary Economies has been notified by the Securities and Exchange Commission of Pakistan under Section 234(3) of the Companies Ordinance, 1984, but the standard would not have any impact on the Group's financial statements in view of the fact that the primary economic environment in which the Group operates is not hyperinflationary.

4 CAPITAL MANAGEMENT

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital and level of dividends to ordinary shareholders. The Group seeks to keep a balance between the higher return that might be possible with higher level of borrowings and the advantages and security afforded by a sound capital position.

The Group monitors capital using the gearing ratio which is debt divided by total capital employed. Debt comprises, redeemable capital, long term finances and liabilities against assets subject to finances lease, including current maturity. Total capital employed includes total equity as shown in the balance sheet plus debt. The

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

Group's strategy is to maintain an optimal capital structure in order to minimize cost of capital. There were no changes in the Group's approach to capital management during the year. Further the Group is not subject to externally imposed capital requirements, except those, related to maintenance of debt covenants, commonly imposed by the providers of debt finance, which the Group remained compliant with.

	Note	31 December 2008 Rupees	31 December 2007 Rupees
5 SHARE CAPITAL			
Authorized share capital			
Ordinary shares of Rs. 10 each			
900,000,000 (2007: 900,000,000) voting shares		9,000,000,000	9,000,000,000
300,000,000 (2007: 300,000,000) non-voting shares		3,000,000,000	3,000,000,000
		12,000,000,000	12,000,000,000
Preference shares of Rs. 10 each			
300,000,000 (2007: 300,000,000) non-voting shares		3,000,000,000	3,000,000,000
		15,000,000,000	15,000,000,000
Issued, subscribed and paid-up capital			
Voting ordinary shares of Rs. 10 each			
249,655,142 (2007: 249,625,392) shares fully paid in cash		2,496,551,420	2,496,253,920
12,276,073 (2007: 12,276,073) shares issued as consideration for machinery		122,760,730	122,760,730
50,811,992 (2007: 50,811,992) shares issued as consideration on merger		508,119,920	508,119,920
		3,127,432,070	3,127,134,570
Non-voting ordinary shares of Rs. 10 each			
3,843,564 shares fully paid in cash		38,435,640	-
Preference shares of Rs. 10 each			
66,125,083 (2007: 66,168,833) shares fully paid in cash	5.4	661,250,830	661,688,330
		3,827,118,540	3,788,822,900

5.1 Movement in number of voting ordinary shares in issue during the year was as follows:

	Note	31 December 2008 No. of shares	31 December 2007 No. of shares
As at beginning of the year		312,713,457	312,710,057
Conversion of preference shares into ordinary shares	5.1.1	29,750	3,400
As at end of the year		312,743,207	312,713,457

5.1.1 During the year, preference shareholders converted 43,750 preference shares into voting ordinary shares at 6.8 voting ordinary shares for every 10 preferences shares held. (2007: 5,000 preference shares at 6.8 voting ordinary shares for every 10 preferences shares held).

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

5.2 Movement in number of non-voting ordinary shares in issue during the year was as follows:

	Note	31 December 2008 No. of shares	31 December 2007 No. of shares
As at beginning of the year		-	-
Conversion of redeemable capital into ordinary shares	5.2.1	3,843,564	-
As at end of the year		3,843,564	-

5.2.1 During the year, Term Finance Certificate Holders converted 28,550 certificates into non-voting ordinary shares at Rs. 37.14 per non-voting ordinary share. The conversion price was determined at 30% percent discount on the preceding three months average share price of voting ordinary shares on the date of conversion.

5.3 Movement in number of preference shares in issue during the year was as follows:

	Note	31 December 2008 No. of shares	31 December 2007 No. of shares
As at beginning of the year		66,168,833	66,173,833
Conversion of preference shares into ordinary shares	5.1.1	(43,750)	(5,000)
As at end of the year		66,125,083	66,168,833

5.4 Preference shares were issued by ANL during year ended 30 September 2004 and are non-voting, non-participatory, partly convertible and cumulative, and are redeemable in six years from the date of issue. These preference shares are listed on Karachi Stock Exchange (Guarantee) Limited. The terms and conditions of issue are as follows:

Rate of dividend

These preference shares carry annual fixed dividend at Rs. 8.95% per annum. If, however, the issuer fails to pay dividend in any year, the rates of dividend for the said year and subsequent years would be as follows:

Nature of failure	Rates of dividend
Default in payment during first year followed by regular payments in subsequent years.	Dividend at 9.75 % for the first year and at 8.95 % for subsequent years.
Default in payment during second year followed by regular payments in subsequent years.	Dividend at 20.73 % for the second year and at 8.95 % for subsequent years.
Default in payment during third year followed by regular payments in subsequent years.	Dividend at 31.95 % for the third year and at 8.95 % for subsequent years.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

Nature of failure	Rates of dividend
Default in payment during fourth year followed by regular payments in subsequent years.	Dividend at 44.56 % for the fourth year and at 8.95 % for subsequent years.
Default in payment during fifth year followed by regular payment in sixth year.	Dividend at 58.30 % for the fifth year and at 8.95 % for the sixth year.

If the issuer, at the end of sixth year, fails to pay dividend and/or redeem the principal in the manner mentioned below, the entire amount of dividend accrued together with the face value of the outstanding preference shares will be converted, at the option of preference shareholder, into voting ordinary shares at breakup value of the issuer to be determined at that time.

Redemption option and timing

Redemption will be allowed, subject to the provisions of section 85 of the Companies Ordinance, 1984, as follows:

- 50 % of the issued amount at the end of fifth year from date of issue
- 50 % of the issued amount at the end of sixth year from date of issue

Conversion into voting ordinary shares

The preference shareholders may at their option convert upto 25 % of the value of their respective preference shares, into voting ordinary shares between eighteen and forty two months from the date of issue at 6.8 voting ordinary shares for every 10 preferences shares. However, the said period has lapsed during the year and the present preference shareholders do not have the option to convert their holdings into ordinary shares. Preference shareholders who have already exercised their right of conversion will not receive any of the remaining portion of fixed coupon amounts on the converted amount.

Creation and maintenance of redemption reserve

The issuer is to create redemption reserve of at least upto the amount of outstanding preference shares submitted for redemption by:

- Allocating Rs. 150 million of the reserves as at 30 September 2004
- Appropriate profits of at least Rs. 50 million every subsequent year to build up redemption reserve
- Creating additional reserves to match the amount required for redemption.

	Note	31 December 2008 *Rupees*	31 December 2007 *Rupees*
6 RESERVES			
Share premium		2,737,841,499	2,633,387,139
Hedging reserve	*6.1*	152,635,940	831,061,034
Translation reserve	*6.2*	(1,420,374)	33,041
Reserve on merger	*6.3*	105,152,005	105,152,005
Preference shares redemption reserve	*6.4*	517,500,000	414,500,000
Surplus on revaluation of investments available for sale	*23*	49,074	82,259
		3,511,758,144	3,984,215,478

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

6.1 Hedging reserve

The Group has entered into cross currency interest rate swap contracts with various banks to hedge the possible adverse movements in interest rates and foreign exchange rates. These contracts are derivative financial instruments and have been classified as cash flow hedges since the hedge relationship is effective and the hedge qualifies for hedge accounting as per the requirements of International Accounting Standard 39 "Financial Instruments - Recognition and Measurement"

During the year a net loss of Rs. 678,425,094 (2007: Rs. 307,402,397) has been recognised by the Group in equity as hedging reserve. The loss represents decrease in fair value of the derivative financial instruments. Refer note 16 and 29 to the financial statements for details.

6.2 Translation reserve

This represents difference arising on translation of foreign subsidiary's financial statements.

6.3 Reserve on merger

This represents reserve arising on merger of Nafees Cotton Mills Limited into Legler Nafees Denim Mills (presently Azgard Nine Limited) on 19 December 2002.

6.4 Preference shares redemption reserve

This reserve has been created for redemption of preference shares issued by ANL as required to be created and maintained under the terms of issue. Refer to note 5.4 for details.

	Note	31 December 2008 Rupees	31 December 2007 Rupees
7 MINORITY INTEREST			
Azsoft (Private) Limited	7.1	-	1,793
Nafees International Tekstil Sanayi Ve Ticaret ANONIM SIRKETI	7.2	-	-
		-	1,793
7.1 Azsoft (Private) Limited			
As at beginning of the year		1,793	1,822
Share of loss for the year		-	(29)
Effect of winding up		(1,793)	
As at beginning of the year		-	1,793
7.2 Nafees International Tekstil Sanayi Ve Ticaret ANONIM SIRKETI			
As at beginning of the year		-	1,761,764
Share of (loss) / profit for the year		-	(1,761,764)
As at beginning of the year		-	-

8 LOAN FROM SPONSORS - UNSECURED

This represents loan obtained by PAFL from its sponsors to finance the acquisition of HPFL. The loan is unsecured, subordinated to the finances obtained for the acquisition of HPFL and carries markup at six months KIBOR plus 3.25% per annum. The principal and mark up is payable only after the settlement of finances obtained for the acquisition of HPFL and markup thereon.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

	Note	31 December 2008 Rupees	31 December 2007 Rupees
9 REDEEMABLE CAPITAL - SECURED			
Issued by ANL			
Term Finance Certificates (TFCs) - I	9.1	62,500,000	125,000,000
Term Finance Certificates (TFCs) - II	9.2	1,832,162,407	2,141,955,064
Term Finance Certificates (TFCs) - III	9.3	2,499,000,000	2,500,000,000
Less: Transaction costs		(34,187,500)	(33,187,500)
		4,359,474,907	4,733,767,564
Issued by PAFL			
Term Finance Certificates (TFCs) - III	9.4	6,298,620,000	4,438,539,775
Term Finance Certificates (TFCs) - IV	9.5	1,499,400,000	1,500,000,000
Term Finance Certificates (TFCs) - V	9.6	290,000,000	-
Sukuk Bonds	9.7	1,600,000,000	-
Less: Transaction costs		(142,551,767)	(23,485,605)
		9,545,468,233	5,915,054,170
Less: Current maturity shown under current liabilities		400,373,346	244,562,192
		13,504,569,794	10,404,259,542

9.1 These 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 each and 45,000 TFCs having face value of Rs. 5,000 each. The terms and conditions of issue and redemption of TFCs are as follows:

Call / Partial call option

The issuer may redeem the TFCs by way of exercise of call/partial call option by giving notice in writing to TFC holders and the Trustee of not less than ninety days. Where the issuer exercises the call/partial call option within thirty months from the date of issue, the issuer shall pay premium at 0.1% on the redemption amount.

Return on TFCs

The return on TFCs is payable semi-annually. This is to be calculated at six months KIBOR plus 1.75% per annum.

The issuer has entered into a cross currency interest rate swap contract with Standard Chartered whereby the issuer is actually liable to pay markup at six months EURIBOR plus 3.50% per annum.

Trustee

In order to protect the interests of TFC holders, NIB Bank Limited has been appointed as trustee for the issue under a trust deed. The trustee has the power to enforce the issuer's obligations, in case the issuer defaults, in accordance with the terms of the trust deed and to distribute the proceeds of any such enforcement among the TFC holders on pari passu basis subject to the priority rights of all other creditors and depositors of the issuer.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

Security

The issue is secured by first pari passu charge over present and future fixed assets, comprising land, building, plant and machinery of the issuer.

9.2 These have been issued by way of private placements and public subscription and are listed on Karachi Stock Exchange (Guarantee) Limited. The total issue comprises of 428,734 certificates of Rs. 5,000 each. The terms and conditions of issue and redemption are as follows:

Principal redemption

The principal redemption of TFCs is structured to be in ten unequal semi-annual installments starting from March 2008.

Return on TFCs

The return on TFCs is payable semi-annually. This is to be calculated at six months KIBOR plus 2.4% per annum.

As at 31 December 2007, the issuer had two cross currency interest rate swap arrangements with ABN AMRO Bank, one for a notional amount of Euro 14.925 million on which the issuer was liable to pay mark up at fixed EURIBOR of 5.215% plus 2.40% per annum and the other for a notional amount of US $ 17.94 million on which mark up was payable at fixed LIBOR of 6.915% plus 2.40% per annum. During the year, the contract for the notional amount of Euro 14.925 million was unwound.

Conversion option

TFC holders have the right of conversion of upto 25 % of the value of TFCs into non-voting ordinary shares, rounded off to the nearest whole number, at 30 % discount on the preceding three months average share price of voting ordinary shares on the date of conversion. The TFC holders may exercise the right of conversion at any time between 01 January 2008 to 31 March 2008 after giving thirty days notice to the issuer and trustee. In case of existent established market for the issuer's non-voting ordinary shares at the time of conversion, TFC holders will have the right of conversion of upto 25 % of the value of TFCs into non-voting ordinary shares, rounded off to the nearest whole number, at 15 % discount on the preceding three months average share price of non-voting ordinary shares on the date of conversion. During the year, Term Finance Certificate Holders converted 28,550 certificates into non-voting ordinary shares. However, the period during which the TFC holders could exercise the right of conversion has lapsed and the present TFC holders do not have the option to convert their holdings into ordinary shares.

Trustee

In order to protect the interests of TFC holders, First Dawood Investment Bank Limited has been appointed as trustee for the issue under a trust deed. The trustee has the power to enforce the issuer's obligations, in case the issuer defaults, in accordance with the terms of the trust deed and to distribute the proceeds of any such enforcement among the TFC holders on pari passu basis subject to the priority rights of all other creditors and depositors of the issuer.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

Security

The issue is secured by first pari passu charge over present and future plant and machinery of the issuer.

9.3 These have been issued by way of private placements. The total issue comprises of 500,000 certificates of Rs. 5,000 each. The terms and conditions of issue and redemption are as follows:

Principal redemption

The principal redemption of TFCs is structured to be in ten equal semi-annual installments starting from June 2010.

Return on TFCs

The return on TFCs is payable semi-annually. This is to be calculated at six months KIBOR plus 2.25% per annum.

Trustee

In order to protect the interests of TFC holders, Pak Brunei Investment Company Limited has been appointed as trustee for the issue under a trust deed. The trustee has the power to enforce the issuer's obligations, in case the issuer defaults, in accordance with the terms of the trust deed and to distribute the proceeds of any such enforcement among the TFC holders on pari passu basis subject to the priority rights of all other creditors and depositors of the issuer.

Security

The issue is secured by ranking hypothecation charge over plant and machinery of the issuer and mortgage over specific land and building of the issuer ranking subordinate to charges already created in favour of senior creditors.

9.4 These have been issued by way of private placements with a consortium of investors for redemption of privately placed term finance certificates issued earlier by the issuer. The total issue comprises of 1,380,000 certificates of Rs. 5,000 each. The terms and conditions of issue and redemption are as follows:

Principal redemption

The principal redemption of TFCs is structured to be in ten equal semi-annual installments starting from July 2010.

Call option

The Issuer may redeem the TFCs by way of exercise of call option by giving notice in writing to TFC holders and the Trustee of not less than thirty days.

Return on TFCs

The return on TFCs is payable semi-annually. This is to be calculated at six month KIBOR plus 1.75% per annum.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

As at 31 December 2007, the issuer had a cross currency interest rate swap arrangement with Citi Bank N.A. whereby the issuer was liable to pay markup at six months LIBOR plus 2.64%. Following the unwinding of the swap contract during the year, the issuer is now liable to pay markup at six months KIBOR plus 1.75% per annum.

Trustee

In order to protect the interests of TFC holders, Faysal Bank Limited has been appointed as trustee for the issue under a trust deed. The trustee has the power to enforce the issuer's obligations, in case it defaults, in accordance with the terms of the trust deed and to distribute the proceeds of any such enforcement among the TFC holders on pari passu basis subject to the priority rights of all other creditors and depositors of the issuer.

Security

The issue is secured by first pari passu charge over present and future fixed assets, comprising land, building, plant and machinery of the issuer.

9.5 These have been issued by way of private placements with a consortium of investors for redemption of privately placed term finance certificates issued earlier by the issuer. The total issue comprises of 300,000 certificates of Rs. 5,000 each. The terms and conditions of issue and redemption are as follows:

Principal redemption

The principal redemption of TFCs is structured to be in ten equal semi-annual installments starting from May 2010.

Call option

The issuer may redeem the TFCs by way of exercise of call option by giving notice in writing to TFC holders and the Trustee of not less than thirty days. However the call option can be exercised only after expiry of two years from the date of issue.

Return on TFCs

The return on TFCs is payable semi-annually. This is to be calculated at six month KIBOR plus 1.75% per annum.

Trustee

In order to protect the interests of TFC holders, Pak Brunei Investment Company Limited has been appointed as trustee for the issue under a trust deed. The trustee has the power to enforce the issuer's obligations, in case the issuer defaults, in accordance with the terms of the trust deed and to distribute the proceeds of any such enforcement among the TFC holders on pari passu basis subject to the priority rights of all other creditors and depositors of the issuer.

Security

The issue is secured by first pari passu charge over present and future fixed assets, comprising land, building, plant and machinery of the issuer.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

9.6 These have been issued by way of private placements with a consortium of investors to finance the acquisition of HPFL. The total issue comprises of 58,000 certificates of Rs. 5,000 each. The terms and conditions of issue and redemption are as follows:

Principal redemption

The principal redemption of TFCs is structured to be in sixteen equal quarterly installments starting from February 2010.

Call option

The issuer may redeem the TFCs by way of exercise of call option by giving notice in writing to TFC holders and the Trustee of not less than thirty days. However the call option can be exercised only after expiry of two years from the date of issue.

Return on TFCs

The return on TFCs is payable semi-annually. This is to be calculated at three months KIBOR plus 3.25% per annum.

Trustee

In order to protect the interests of TFC holders, JS Bank Limited has been appointed as trustee for the issue under a trust deed. The trustee has the power to enforce the issuer's obligations, in case the issuer defaults, in accordance with the terms of the trust deed and to distribute the proceeds of any such enforcement among the TFC holders on pari passu basis subject to the priority rights of all other creditors and depositors of the issuer.

Security

The issue is secured by first pari passu charge over present and future fixed assets, comprising land, building, plant and machinery of the issuer.

9.7 These have been issued by way of private placements with a consortium of investors to finance the balancing, modernization and replacement of issuer's property, plant and equipment. The total issue comprises of 320,000 certificates of Rs. 5,000 each. The terms and conditions of issue and redemption are as follows:

Principal redemption

The principal redemption of these certificates is structured to be in ten equal semi annual installments starting from July 2010.

Call option

The issuer may redeem these certificates by way of exercise of call option by giving notice in writing to TFC holders and the Trustee of not less than thirty days. However the call option can be exercised only after expiry of one year from the date of issue.

Return on TFCs

The return on TFCs is payable semi-annually. This is to be calculated at six months KIBOR plus 2% per annum.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

Trustee

In order to protect the interests of TFC holders, Pak Brunei Investment Company Limited has been appointed as trustee for the issue under a trust deed. The trustee has the power to enforce the issuer's obligations, in case the issuer defaults, in accordance with the terms of the trust deed and to distribute the proceeds of any such enforcement among the TFC holders on pari passu basis subject to the priority rights of all other creditors and depositors of the issuer.

Security

The issue is secured by first pari passu charge over present and future fixed assets, comprising land, building, plant and machinery of the issuer.

10 LONG TERM FINANCES - SECURED

These represent long term finances utilized under markup arrangements from banking companies

	Note	As at 31 December 2008			As at
		LTF-EOP	Non LTF-EOP	Total	31 December 2007
		Rupees	*Rupees*	*Rupees*	*Rupees*
Habib Bank Limited ("HBL")	*10.1*	-	-	-	50,000,000
United Bank Limited ("UBL")	*10.2*	100,000,000	-	100,000,000	125,000,000
Citi Bank N.A - I	*10.3*	-	-	-	66,666,668
Citi Bank Bahrain	*10.4*	-	542,437,500	542,437,500	577,031,250
National Bank of Pakistan ("NBP")	*10.5*	-	1,250,000,000	1,250,000,000	1,500,000,000
Deutsche Investitions - Und MBH	*10.6*	-	1,499,985,000	1,499,985,000	1,361,550,000
Faysal Bank Limited ("FBL")	*10.7*	-	-	-	7,477,167
Saudi Pak Industrial and Agricultural Company (Private) Limited ("SAPIACO")	*10.8*	-	100,000,000	100,000,000	-
KASB Bank Limited ("KASB")	*10.9*	-	250,000,000	250,000,000	-
Syndicate Finance	*10.10*	-	400,000,000	400,000,000	-
		100,000,000	4,042,422,500	4,142,422,500	3,687,725,085
Less: Current maturity shown under current liabilities	*14*	25,000,000	1,030,580,000	1,055,580,000	782,448,785
		75,000,000	3,011,842,500	3,086,842,500	2,905,276,300

	Security and repayment	Mark up rate on LTF-EOP	Mark up rate on Non LTF-EOP
10.1	The finance was obtained from a consortium of banks led by HBL for import of plant and machinery and was secured by first pari passu charge of Rs. 779 million over fixed assets, comprising land, building, plant and machinery, of the borrower through equitable mortgage on land and building and hypothecation of plant and machinery. The finance has been fully repaid during the year.	7% per annum (2007: 7% per annum)	Six months KIBOR plus 2.8% (2007: six months KIBOR plus 2.8%) per annum.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

	Security and repayment	Mark up rate on LTF-EOP	Mark up rate on Non LTF-EOP
10.2	The finance has been obtained from UBL for import of plant and machinery and is secured by first pari passu charge of Rs. 267 million over fixed assets, comprising land, building, plant and machinery, of the borrower and demand promissory notes. The finance is repayable in eight equal semi-annual installments commenced since December 2006. During the year ended 31 December 2006, the entire finance was converted into a new facility under the State Bank of Pakistan's Long Term Finance for Export Oriented Projects (LTF-EOP) scheme. The terms of repayment and security arrangements remained unchanged.	7% per annum (2007: 7% per annum)	

The borrower has entered into a cross currency interest rate swap contract with Standard Chartered whereby the borrower is actually liable to pay markup at three months EURIBOR less 0.25 % per annum.

10.3	The finance was obtained from Citi Bank N.A for import of plant and machinery and was secured by first pari passu charge of Rs. 250 million over fixed assets, comprising land, building, plant and machinery, of the borrower and demand promissory notes. The finance has been fully repaid during the year.	6% per annum (2007: 6% per annum)	

As at 31 December 2007, the borrower had a cross currency interest rate swap arrangement with Standard Chartered whereby the borrower was liable to pay markup at six months EURIBOR. The contract was unwound during the year.

10.4	This represents finance of US $ 10 million obtained from Citi Bank Bahrain to repay the finance of Rs. 600 million obtained earlier from Citi Bank N.A and is secured by first pari passu charge of Rs. 800 million over all present and future fixed assets, comprising land, building, plant and machinery, of the borrower through mortgage over land and building and hypothecation of plant and machinery, investments of the borrower and pledge of securities. The finance is repayable in sixteen equal quarterly installments commenced since October 2007.		Three months LIBOR plus 4% (2007: six months LIBOR plus 4%) per annum.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

	Security and repayment	Mark up rate on LTF-EOP	Mark up rate on Non LTF-EOP
10.5	The finance has been obtained from NBP to finance the acquisition of Pak American Fertilizers Limited and is secured by first pari passu charge of Rs. 2,000 million over fixed asset, comprising land, building, plant and machinery, of the borrower through mortgage over land and building and hypothecation of plant and machinery, ranking hypothecation charge over current assets of the borrower and pledge of securities. The finance is repayable in twelve equal semi-annual installments commenced since January 2007.		Six months KIBOR plus 3.25% (2007: six months KIBOR plus 3.25%) per annum.

As at 31 December 2007, the borrower had a cross currency interest rate swap arrangement with Citi Bank whereby the borrower was liable to pay markup at six months USDLIBOR plus 4.75% per annum. Following the unwinding of the swap contract during the year, the borrower is liable to pay markup at six months KIBOR plus 3.25% per annum.

10.6	This represents finance of Euro 15 million obtained from Deutsche Investitions - Und MBH to finance the setup of new textile and apparel project and is secured by first pari passu charge of EURO 20 million over land and building and all movable assets of the borrower. The finance is repayable in ten equal semi-annual installments commenced since August 2008.		Six months EURIBOR plus 3.25% (2007: six months EURIBOR plus 3.25%) per annum.

The borrower has entered into a cross currency interest rate swap contract with Citi Bank whereby the borrower is actually liable to pay markup at six months CHFLIBOR plus 3.55% per annum.

10.7	The finance was obtained from FBL under the State Bank of Pakistan's Long Term Finance for Export Oriented Projects (LTF-EOP) scheme on conversion of liabilities against assets subject to finance lease into LTF-EOP. The finance has been fully repaid during the year.	6% per annum (2007: 6% per annum)	
10.8	The finance has been obtained from SAPIACO for long term working capital requirements and is secured by pari passu charge of Rs. 133.33 million over all present and future current assets of the borrower, to be converted to pari passu		Six months KIBOR plus 2.50% per annum.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

	Security and repayment	Mark up rate on LTF-EOP	Mark up rate on Non LTF-EOP
	and ranking hypothecation charge of Rs. 133.33 million on all present and future plant and machinery of the borrower. The finance is repayable in four equal half yearly installments with the first installment due from February 2010.		
10.9	The finance has been obtained from KASB to finance the acquisition of Montebello SRL and is secured by pari passu charge of Rs. 333.33 million over current assets of the borrower, lien over import/local purchase documents and duly accepted bills of entry backed by trust receipt. The finance is repayable in bullet by 29 June 2009.		Six months KIBOR plus 2.50% per annum.
10.10	The finance has been obtained jointly from Barclays Bank Plc Pakistan and Faysal Bank Limited for acquisition of HPFL and is secured by first pari passu ranking charge of 1,333 million over fixed assets, comprising land, building, plant and machinery, of the borrower. The finance is repayable in sixteen equal quarterly yearly installments with the first installment due from November 2009.		Six months KIBOR plus 3.25% per annum.

	Note	31 December 2008 *Rupees*	31 December 2007 *Rupees*
11 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE			
Present value of minimum lease payments		142,137,868	60,739,997
Less: Current portion shown under current liabilities	*14*	35,473,672	28,232,606
		106,664,196	32,507,391

These represent plant and machinery and vehicles acquired under leasing arrangements. Rentals are payable in monthly / quarterly installments. Interest rate used as the discounting factor ranges from 5.5% to 14 % (2007: 5.5% to 14 %) per annum. Taxes, repairs, replacements and insurance costs are to be borne by the Group. Under the terms of agreement, the Group has an option to acquire the assets at the end of the respective lease terms and intends to exercise the option.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

The amount of future payments under the lease and the period in which these payments will become due are as follows:

	31 December 2008 *Rupees*	31 December 2007 *Rupees*
Not later than one year	69,596,410	44,325,557
Later than one year but not later than five years	128,604,904	37,105,111
Total future minimum lease payments	198,201,314	81,430,668
Less: finance charge allocated to future periods	45,836,662	10,885,561
Less: security deposits adjustable on expiry of lease term	10,226,784	9,805,110
Present value of future minimum lease payments	142,137,868	60,739,997
Not later than one year	35,473,672	28,232,606
Later than one year but not later than five years	106,664,196	32,507,391

12 LONG TERM PAYABLES

These include deposits received from customers and retention money payable to contractors.

	31 December 2008 *Rupees*	31 December 2007 *Rupees*

13 DEFERRED TAXATION

This comprises the following:

Deferred tax liability on taxable temporary differences		
Accelerated tax depreciation	2,816,735,971	3,100,535,959
Acquired in business combination	554,530,443	-
Assets subject to finance lease	-	158,601
Deferred tax asset on deductible temporary differences		
Unused tax losses	(891,891,552)	(1,288,999,833)
	2,479,374,862	1,811,694,727

13.1 For basis of provision of deferred taxation, refer note 39.11 to the financial statements

	Note	31 December 2008 *Rupees*	31 December 2007 *Rupees*
14 CURRENT PORTION OF NON-CURRENT LIABILITIES			
Redeemable capital	*9*	400,373,346	244,562,192
Long term finances	*10*	1,055,580,000	782,448,785
Liabilities against assets subject to finance lease	*11*	35,473,672	28,232,606
		1,491,427,018	1,055,243,583

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

15 SHORT TERM BORROWINGS

These represent short term finance utilized under markup arrangements from banking companies

	Note	31 December 2008 Rupees	31 December 2007 Rupees
Secured			
Running finance	15.1	2,761,489,945	957,988,033
Cash finance	15.1	460,541,415	306,024,731
Export refinance	15.1	2,058,870,142	652,050,000
Finance against foreign bills	15.1	533,787,994	79,805,428
Foreign currency finance	15.1	127,528,534	372,990,209
Morabaha LPO	15.1	174,956,000	80,552,000
Finance against trust receipts	15.1	59,135,626	9,315,814
Finance against imported merchandise	15.1	84,295,000	59,357,861
		6,260,604,656	2,518,084,076
Unsecured			
Finance against foreign bills	15.2	434,540,808	-
Commercial paper - I	15.3	-	1,924,135,481
Commercial paper - II	15.4	1,742,742,124	-
		2,177,282,932	1,924,135,481
		8,437,887,588	4,442,219,557

15.1 These facilities have been obtained from various banking companies for working capital requirements and are secured by first joint pari passu hypothecation charge of Rs. 16,660 million (2007: Rs. 7,248 million) over all present and future current assets of the Group, including stocks of raw material, work in process and finished goods, lien over documents of title of imported goods, lien over firm export orders, trust receipts, demand promissory notes, counter guarantees, pledge of raw material including stocks of cotton, man made fiber, yarn and cloth, pledge of securities and personal guarantees of Directors.

Local currency finances carry mark up at rates ranging from one to six months KIBOR plus 1.5% to 5% (2007: one to six months KIBOR plus 1% to 3%) per annum. Foreign currency finances carry mark up at rates ranging from LIBOR of matching tenor plus 1% to 3% (2007: LIBOR of matching tenor plus 1% to 2.5%). Mark up on pre / post shipment finances refinanced by the State Bank of Pakistan is payable at SBP refinance rate of Rs. 6.5% per annum plus banks' spread of 1% to 1.5% per annum.

Limits available for opening of letters of credit / guarantee amount to Rs. 17,044 million (2007: Rs. 5,800 million) of which the limits remaining unutilized as at the reporting date amount to Rs. 10,314 million (2007: Rs. 3,126 million). These carry commission at 0.05% to 0.15% per quarter.

The aggregate available secured short term financing facilities amounts to Rs. 11,441 million (2007: Rs. 10,318 million) out of which Rs. 5,181 million (2007: Rs. 5,876 million) remained unavailed as at the reporting date.

15.2 Unsecured short term financing facilities are available against foreign bills. These carry markup ar rates ranging from 5.94% to 6.3% based on floating EURIBOR.

15.3 These were issued with a face value of Rs. 2,000 million under the SECP guidelines for commercial paper issue. The issue was advised, structured and arranged by Pak Oman Investment Company Limited. The

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

issue was made at a discount to the face value calculated on the basis of the indicative profit rate of nine months KIBOR plus 1.95% to 3 % and was redeemable at face value on maturity on various dates latest by July 2008. The issue was unsecured.

15.4 These have been issued with a face value of Rs. 1,750 million under the SECP guidelines for commercial paper issue. The issue was advised, structured and arranged by Pak Oman Investment Company Limited. The issue was made at a discount to the face value calculated on the basis of the indicative profit rate of nine months KIBOR plus 1.5 % and is redeemable at face value on maturity on various dates latest by May 2009. The issue is unsecured.

15.5 As at 31 December 2007, the Group had a cross currency interest rate swap arrangement with Citi Bank N.A to cover various short term finance facilities for a notional amount of Rs. 1,500 million whereby the Group was liable to pay interest at six months EURIBOR. The contract was unwound during the year.

		Note	31 December 2008 *Rupees*	31 December 2007 *Rupees*
16 DERIVATIVE FINANCIAL LIABILITIES				
Instruments accounted for as cash flow hedge				
Finance obtained from	**Swapped with**			
Privately placed TFCs	Citi Bank N.A		-	481,768
Citi Bank N.A	Standard Chartered Bank		-	7,818,845
Privately placed TFCs	Standard Chartered Bank		23,038,052	9,891,562
			23,038,052	18,192,175
Instruments accounted for as fair value hedge				
Finance obtained from	**Swapped with**			
United Bank Limited	Standard Chartered Bank		27,498,857	16,177,407
			50,536,909	34,369,582

	Note	31 December 2008 *Rupees*	31 December 2007 *Rupees*
17 TRADE AND OTHER PAYABLES			
Trade creditors		980,123,455	825,246,231
Bills payable		3,507,452,118	1,594,052,286
Accrued liabilities		371,902,108	276,999,085
Termination benefits payable		58,995,713	993,340
Security deposits		33,921,182	19,291,957
Advances from customers		51,453,365	25,308,290
Workers' profit participation fund	*17.1*	63,982,203	47,513,235
Workers' Welfare Fund		20,000	20,000
Sales tax payable		-	37,997,926
Tax deducted at source		15,594,536	12,365,729
Payable to gratuity trust	*17.3*	12,616,399	4,202,335
Other payables		169,701,680	84,170,144
		5,265,762,759	2,928,160,558

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

	Note	31 December 2008 Rupees	31 December 2007 Rupees
17.1 Workers' Profit Participation Fund ("WPPF")			
As at the beginning of the year		47,513,235	40,465,455
Interest on funds utilized by the Group	17.2	4,601,731	318,839
Charged to profit or loss for the year		57,013,823	75,038,794
Contributed to the fund during the year		(45,146,586)	(68,309,853)
		63,982,203	47,513,235

17.2 Interest on WPPF is charged at 17.5% (2007: 14%) per annum.

17.3 The amounts recognized in the balance sheet are as follows:

	Note	31 December 2008 Rupees	31 December 2007 Rupees
Present value of defined benefit obligation	17.3.1	26,341,673	24,157,547
Fair value of plan assets	17.3.2	(16,217,619)	(21,412,725)
Unrecognized actuarial gains	17.3.3	2,492,345	1,457,513
		12,616,399	4,202,335
17.3.1 Movement in present value of defined benefit obligation			
As at beginning of the year		24,157,547	21,488,314
Charged to profit or loss	17.3.4	1,763,164	8,687,345
Benefits paid during the year		(3,982,292)	(3,820,606)
Actuarial loss/(gain) arising during the year		4,403,254	(2,197,506)
As at end of the year		26,341,673	24,157,547
17.3.2 Movement in fair value of plan assets			
As at beginning of the year		21,412,725	21,935,676
Contribution paid to the fund during the year		-	-
Expected return on plan assets		1,394,217	5,205,882
Benefits paid during the year		(3,982,292)	(3,820,606)
Actuarial loss arising during the year		(2,607,031)	(1,908,227)
As at end of the year		16,217,619	21,412,725
17.3.3 Movement in unrecognized actuarial gains			
As at beginning of the year		1,457,513	624,241
Actuarial gain / (loss) arising during the year			
- experience adjustments		(8,045,117)	(543,993)
- changes in actuarial assumptions		1,034,832	833,272
Recognized in profit or loss	17.3.4	8,045,117	543,993
		2,492,345	1,457,513

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

	31 December 2008 Rupees	31 December 2007 Rupees
17.3.4 Charge to profit or loss		
Current service cost	1,644,655	3,137,795
Interest cost	118,509	5,549,550
	1,763,164	8,687,345
Actuarial loss recognized during the year	8,045,117	543,993
Expected return on plan assets	(1,394,217)	(5,205,882)
	8,414,064	4,025,456
17.3.5 Actual return on plan assets during the year	(1,212,814)	3,297,655

17.3.6 The principal actuarial assumptions used are as follows:

	31 December 2008	31 December 2007
Expected rate of increase in salaries	10%	10%
Expected return on plan assets	13%	10%
Discount rate	14%	10%
Expected average remaining working lives of employees	13 years	12 years

	31 December 2008 Rupees	31 December 2007 Rupees
18 MARKUP ACCRUED ON BORROWINGS		
Redeemable capital	603,564,557	261,080,485
Long term finances	191,355,040	150,021,510
Short term borrowings	178,058,554	61,593,740
Liabilities against assets subject to finances lease	1,129,379	479,146
	974,107,530	473,174,881

19 CONTINGENCIES AND COMMITMENTS

Contingencies

ANL was denied exemption under SRO 484(1)/92 from levy of customs duty and sales tax on certain plant and machinery by the customs department. An appeal was filed before the Honourable Lahore High Court which was decided in favour of ANL. The department has filed an appeal against the decision before the Honourable Supreme Court of Pakistan, the decision on which is pending. ANL expects a favourable outcome. Accordingly, no provision has been made for the potential liability which amounts to Rs. 9.4 million.

ANL has issued indemnity bonds amounting to Rs. 322 million (2007: Rs. 59.5 million) in favour of Collector of Customs and Sales Tax department in lieu of levies under various statutory notifications and these are likely to be released after the fulfillment of the terms of related notifications.

A contractor's claim amounting to Rs. 983.26 million (2007: Rs. 983.26 million) against PAFL was not acknowledged as debt since PAFL also has a counter claim amounting to Rs. 2,556 million (2007: 2,556 million) against the contractor. The claim is under settlement with arbitrator.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

Some ex-employees of PAFL have filed a petition demanding the benefits of golden hand shake scheme which was introduced in 1997. PAFL estimates liability amounting to Rs. 14 million in case the decision is made against it. PAFL claims that no benefits are payable to the petitioners under the said scheme.

Certain cases against PAFL are pending before labour courts, where the claim cannot be quantified and ascertained at this stage.

Counter guarantees given by the Group to its bankers as at the reporting date amount to Rs. 123.205 million (2007: Rs. 80 million).

The Group may have to pay dividends on preference shares at higher rates in case of default in payment of dividend for any year. Refer note 5.4 for details.

Commitments

	31 December 2008 *Rupees*	31 December 2007 *Rupees*
Irrevocable letters of credit for:		
- purchase of stores, spare and loose tools	298,780,555	25,432,674
- purchase of machinery	2,158,392,235	-
- purchase of raw material	766,100,087	682,638,653
	3,223,272,877	708,071,327
Fixed capital expenditure	128,470,317	41,260,211

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

20 PROPERTY, PLANT AND EQUIPMENT

	YEAR ENDED 31 DECEMBER 2008												
	COST / REVALUED AMOUNT							ACCUMULATED DEPRECIATION					
	As at 01 January 2007	Additions	Acquired in business combination	Exchange difference on translation	Disposals	Transfers	As at 31 December 2008	As at 01 January 2007	Adjustment	For the year	Exchange difference on translation	As at 31 December 2008	Net book value As at 31 December 2008
	Rupees	*Rupees*	*Rupees*	*Rupees*	*Rupees*	*Rupees*	*Rupees*	*Rupees*	*Rupees*	*Rupees*	*Rupees*	*Rupees*	*Rupees*
Assets owned by the Group													
Freehold land													
- Cost	2,352,254,359	45,241,916	435,030,750	-	-	-	2,832,527,025	-	-	-	-	-	2,832,527,025
- Revaluation	8,442,352	-	-	-	-	-	8,442,352	-	-	-	-	-	8,442,352
	2,360,696,711	45,241,916	435,030,750	-	-	-	2,840,969,377	-	-	-	-	-	2,840,969,377
Buildings on freehold land													
- Cost	2,645,556,849	5,193,435	368,293,050	-	(72,018)	281,750,565	3,300,721,881	495,818,898	(72,018)	102,404,444	204,961	598,356,285	2,702,365,596
- Revaluation	19,455,864	-	-	-	-	-	19,455,864	4,974,130	-	806,016	-	5,780,146	13,675,718
	2,665,012,713	5,193,435	368,293,050	-	(72,018)	281,750,565	3,320,177,745	500,793,028	(72,018)	103,210,460	204,961	604,136,431	2,716,041,314
Plant and machinery													
- Cost	19,554,134,338	263,253,327	1,204,345,802	54,383	-	(25,777,159)	20,996,010,691	5,477,661,930	-	648,575,493	4,079	6,126,241,502	14,869,769,189
- Revaluation	379,927,819	-	-	-	-	-	379,927,819	163,778,829	-	18,910,804	-	182,689,633	197,238,186
	19,934,062,157	263,253,327	1,204,345,802	54,383	-	(25,777,159)	21,375,938,510	5,641,440,759	-	667,486,297	4,079	6,308,931,135	15,067,007,375
Residential colony assets	70,564,152	679,261	-	-	-	-	71,243,413	10,441,264	-	1,393,781	-	11,835,045	59,408,368
Furniture and fittings	95,325,583	15,286,397	2,091,800	-	(508,295)	-	112,195,485	49,755,068	(174,803)	7,774,398	-	57,354,663	54,840,822
Vehicles and rail transport	129,944,921	17,187,112	1,923,437	-	(5,883,429)	(13,068)	143,158,973	113,606,520	(2,788,189)	4,851,510	-	115,669,841	27,489,132
Railway sidings	17,709,023	-	24,694,200	-	-	-	42,403,223	9,531,974	-	434,574	-	9,966,548	32,436,675
Tools and equipment	281,549,688	97,665,251	5,630,446	33,567	(39,000)	-	384,839,952	153,324,394	(2,925)	29,862,642	3,357	183,187,468	201,652,484
Office equipments	99,604,914	14,294,571	3,991,955	-	(622,970)	-	117,268,470	31,359,386	(213,323)	7,945,466	-	39,091,529	78,176,941
Electrical installations	1,413,335,103	9,814,885	9,116,638	-	(721,400)	-	1,431,545,226	693,180,380	(246,786)	33,970,778	-	726,904,372	704,640,854
Sui gas installations	13,830,599	27,144	-	-	-	-	13,857,743	6,824,798	-	264,764	-	7,089,562	6,768,181
Water Supply pipeline	23,815,011	-	-	-	-	-	23,815,011	13,458,178	-	408,076	-	13,866,254	9,948,757
Books and literature	608,309	309,172	-	-	-	-	917,481	391,705	-	67,290	-	458,995	458,486
Catalysts	31,111,663	80,032,605	-	-	-	-	111,144,268	11,259,134	-	33,088,506	-	44,347,640	66,796,628
	27,137,170,547	548,985,076	2,055,118,078	87,950	(7,847,112)	255,960,338	29,989,474,877	7,235,366,588	(3,498,044)	890,758,542	212,397	8,122,839,483	21,866,635,394
Assets subject to finance lease													
Plant and machinery	176,865,143	2,578,500	-	-	-	-	179,443,643	54,625,572	-	9,335,124	-	63,960,696	115,482,947
Vehicles and rail transport	70,865,026	51,731,323	-	-	(2,133,717)	40,013,068	160,475,700	13,158,181	(950,611)	18,590,953	-	30,798,523	129,677,177
	247,730,169	54,309,823	-	-	(2,133,717)	40,013,068	339,919,343	67,783,753	(950,611)	27,926,077	-	94,759,219	245,160,124
	27,384,900,716	603,294,899	2,055,118,078	87,950	(9,980,829)	295,973,406	30,329,394,220	7,303,150,341	(4,448,655)	918,684,619	212,397	8,217,598,702	22,111,795,518

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

	YEAR ENDED 31 DECEMBER 2007												
	COST / REVALUED AMOUNT							ACCUMULATED DEPRECIATION					
	As at 01 January 2006	Additions	Acquired in business combination	Exchange difference on translation	Disposals	Transfers	As at 31 December 2007	As at 01 January 2006	Adjustment	For the year	Exchange difference on translation	As at 31 December 2008	Net book value As at 31 December 2007
	Rupees	*Rupees*	*Rupees*	*Rupees*	*Rupees*	*Rupees*	*Rupees*	*Rupees*	*Rupees*	*Rupees*	*Rupees*	*Rupees*	*Rupees*
Assets owned by the Group													
Freehold land													
- Cost	2,348,943,359	3,311,000	-	-	-	-	2,352,254,359	-	-	-	-	-	2,352,254,359
- Revaluation	8,442,352	-	-	-	-	-	8,442,352	-	-	-	-	-	8,442,352
	2,357,385,711	3,311,000	-	-	-	-	2,360,696,711	-	-	-	-	-	2,360,696,711
Buildings on freehold land													-
- Cost	2,551,248,182	56,261,343	-	-	-	38,047,324	2,645,556,849	414,750,965	-	81,067,933	-	495,818,898	2,149,737,951
- Revaluation	19,455,864	-	-	-	-	-	19,455,864	4,211,933	-	762,197	-	4,974,130	14,481,734
	2,570,704,046	56,261,343	-	-	-	38,047,324	2,665,012,713	418,962,898	-	81,830,130	-	500,793,028	2,164,219,685
Plant and machinery												-	-
- Cost	18,817,783,623	354,173,834	-	-	-	382,176,881	19,554,134,338	4,948,338,280	-	529,323,650	-	5,477,661,930	14,076,472,408
- Revaluation	379,927,819	-	-	-	-	-	379,927,819	146,253,235	-	17,525,594	-	163,778,829	216,148,990
	19,197,711,442	354,173,834	-	-	-	382,176,881	19,934,062,157	5,094,591,515	-	546,849,244	-	5,641,440,759	14,292,621,398
Residential colony assets	70,277,656	286,496	-	-		-	70,564,152	9,640,721	-	800,543	-	10,441,264	60,122,888
Furniture and fittings	85,521,457	9,829,230	-	-	(25,104)	-	95,325,583	43,023,599	(23,787)	6,755,256	-	49,755,068	45,570,515
Vehicles and rail transport	131,070,219	7,834,796	-	-	(11,336,260)	2,376,166	129,944,921	112,596,171	(8,448,522)	9,458,871	-	113,606,520	16,338,401
Railway sidings	17,709,023	-	-	-	-	-	17,709,023	9,342,974	-	189,000	-	9,531,974	8,177,049
Tools and equipment	249,132,691	32,432,512	-	-	(15,515)	-	281,549,688	127,776,179	(15,515)	25,563,730	-	153,324,394	128,225,294
Office equipments	91,640,605	8,067,309	-	-	(103,000)	-	99,604,914	24,269,303	(7,973)	7,098,056	-	31,359,386	68,245,528
Electrical installations	1,406,508,367	6,826,736	-	-	-	-	1,413,335,103	670,016,597	-	23,163,783	-	693,180,380	720,154,723
Sui gas installations	13,072,962	757,637	-	-	-	-	13,830,599	6,687,044	-	137,754	-	6,824,798	7,005,801
Water Supply pipeline	23,815,011	-	-	-	-	-	23,815,011	13,234,645	-	223,533	-	13,458,178	10,356,833
Books and literature	608,309	-	-	-	-	-	608,309	345,415	-	46,290	-	391,705	216,604
Catalysts	3,943,787	27,167,876	-	-	-	-	31,111,663	1,643,241	-	9,615,893	-	11,259,134	19,852,529
	26,219,101,286	506,948,769	-	-	(11,479,879)	422,600,371	27,137,170,547	6,532,130,302	(8,495,797)	711,732,083		7,235,366,588	19,901,803,959
Assets subject to finance lease													
Plant and machinery	176,865,143	-	-	-	-		176,865,143	44,707,768	-	9,917,804		54,625,572	122,239,571
Vehicles and rail transport	22,581,459	50,659,733	-	-	-	(2,376,166)	70,865,026	6,554,734	(1,336,654)	7,940,101		13,158,181	57,706,845
	199,446,602	50,659,733	-	-	-	(2,376,166)	247,730,169	51,262,502	(1,336,654)	17,857,905		67,783,753	179,946,416
	26,418,547,888	557,608,502	-	-	(11,479,879)	420,224,205	27,384,900,716	6,583,392,804	(9,832,451)	729,589,988		7,303,150,341	20,081,750,375

20.1 Land, building and plant and machinery of ANL was last revalued in 2002 by a firm of independent valuers, M/s Blue Feather Affiliations. The revalued amount of land was determined by reference to local market values whereas that of building and plant and machinery was determined by reference to present depreciated replacement values.

20.2 Land, building and plant and machinery of PAFL and HPFL were last revalued on their respective dates of acquisition by the Group. The revaluation was carried out by firms of independent valuers, M/s Consultancy Support Services for HPFL and M/s Blue Feather Afflliliations for PAFL. The revalued amount of land was determined by reference to local market values whereas that of building and plant and machinery was determined by reference to present depreciated replacement values.

20.3 In opinion of the management, the net book value of property, plant and equipment of the Group are not materially different from their fair values.

20.4 PAFL during the year ended 31 December 2007 revised its estimate of useful lives of building on freehold land and plant and machinery from 20 years to 50 years. The change in estimated useful lives resulted in depreciation charge lower by Rs. 205 million for that year.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

20.5 Disposal of property, plant and equipment

	Year ended 31 December 2008						
	Cost	Accumulated depreciation	Net book value	Proceeds from disposal	Gain/(loss) on disposal	Mode of disposal	Particulars of buyer
	Rupees	*Rupees*	*Rupees*	*Rupees*	*Rupees*		
Building							
Old hostel building	62,018	62,017	1	502,000	501,999	Negotiation	Muhammad Yousaf, Lahore.
Building of Pak Dyes	10,000	9,999	1	41,790	41,789	Negotiation	Asadullah Jan, Lahore.
	72,018	72,016	2	543,790	543,788		
Office equipment							
Laptop computer	87,500	29,619	57,881	54,500	(3,381)	Insurance claim	Adamjee Insurance Company Limited
Mobile set	39,000	2,925	36,075	21,000	(15,075)	Negotiation	Ali Shah, Lahore
	126,500	32,544	93,956	75,500	(18,456)		
Vehicle							
Honda Civic	1,032,526	822,385	210,141	392,000	181,859	Negotiation	King Motors, Lahore.
Hyundai Santro	489,000	389,629	99,371	275,000	175,629	Negotiation	Aslam Gill, Lahore.
Toyota Altus	622,461	131,063	491,398	465,002	(26,396)	Negotiation	Farooq Khan, Lahore.
Honda City	903,300	527,527	375,773	620,000	244,227	Negotiation	Hamza Mushtaq, Lahore.
Toyota Corolla	1,344,000	948,553	395,447	730,000	334,553	Negotiation	Momin Hayat Khan, Lahore.
Suzuki Mehran	428,271	-	428,271	299,200	(129,071)	Negotiation	Salman Akbar, Lahore.
Suzuki Cultus	632,000	133,070	498,930	625,000	126,070	Negotiation	Kashif Junaid, Lahore.
Mazda Mini Bus	431,871	431,861	10	392,000	391,990	Negotiation	Habibullah, Lahore.
	5,883,429	3,384,088	2,499,341	3,798,202	1,298,861		
Vehicle							
Honda Civic	640,266	-	640,266	640,266	-	Insurance claim	First Habib Modaraba
Suzuki Cultus	614,451	134,962	479,489	540,000	60,511	Insurance claim	Faysal Bank Limited
Toyota Corolla	879,000	219,750	659,250	700,000	40,750	Negotiation	Ahmad Din, Lahore.
	2,133,717	354,712	1,779,005	1,880,266	101,261		
	8,215,664	3,843,360	4,372,304	6,297,758	1,925,454		

	Year ended 31 December 2007						
	Cost	Accumulated depreciation	Net book value	Proceeds from disposal	Gain/(loss) on disposal	Mode of disposal	Particulars of buyer
	Rupees	*Rupees*	*Rupees*	*Rupees*	*Rupees*		
Office equipment							
Refrigerator	17,600	5,126	12,474	3,000	(9,474)	Negotiation	Mr. Khushnood - Lahore
Laptop Computer	85,400	2,847	82,553	52,500	(30,053)	Negotiation	Mr. Khurm Sohail - Lahore
	103,000	7,973	95,027	55,500	(39,527)		
Furniture and fixtures	25,104	23,787	1,317	19,900	18,583	Negotiation	Various ex-employees
Tool and equipment	15,515	15,515	-	-	-		Written off
Vehicle							
Suzuki Potohar	391,065	365,556	25,509	205,000	179,491	Negotiation	Mr. Abdul Rauf - Lahore
Toyota Corolla	1,194,000	795,504	398,496	772,850	374,354	Negotiation	Mr. Abid Amin - Lahore
Suzuki Cultus	675,667	436,463	239,204	294,500	55,296	Negotiation	Major Zeeshan - Lahore
Suzuki Alto	403,019	6,717	396,302	250,000	(146,302)	Negotiation	Mr. Zafar Ali - Lahore
Suzuki Cultus	416,936	6,949	409,987	185,000	(224,987)	Negotiation	Mr. Zaheer Shah - Lahore
Nissan Sunny	647,920	647,910	10	217,899	217,889	Auction	Mr. Abid Ansar - Lahore
Suzuki Car	249,250	249,240	10	167,899	167,889	Auction	Mr. Abid Ansar - Lahore
Suzuki Car	431,691	431,681	10	217,313	217,303	Auction	Mr. Abid Ansar - Lahore
Messy Tractor	572,876	572,866	10	410,999	410,989	Auction	Mr. Nadeem ul haq - Lahore
Nissan Sunny	645,000	644,990	10	242,000	241,990	Auction	Mr. Zahid Ali - Lahore
Toyota Corolla	675,000	674,990	10	460,000	459,990	Auction	Mr. Shah Nawaz - Lahore
Suzuki Mehran	210,900	210,890	10	245,000	244,990	Auction	Mr. Adnan Khan - Lahore
Suzuki Khyber	372,000	371,990	10	250,000	249,990	Auction	Mr. Murtaza Khan - Lahore
Suzuki Khyber	372,000	371,990	10	265,000	264,990	Auction	Mr. Ijaz Haider - Lahore
Suzuki Mehran	316,924	316,914	10	176,000	175,990	Auction	Mr. Abid Chaudhary - Lahore
Suzuki Khyber	375,069	375,059	10	231,313	231,303	Auction	Mr. Abid Ansar - Lahore
Toyota Hiace	554,395	554,385	10	561,000	560,990	Auction	Mr. Muhammad Sarfraz - Lahore
Toyota Hiace	705,266	705,256	10	371,000	370,990	Auction	Mr. Majid Saleem - Lahore
Toyota Hiace	523,415	523,405	10	327,000	326,990	Auction	Mr. Noor Zaman - Lahore
Toyota Corolla	747,123	747,113	10	479,000	478,990	Auction	Mr. Noor Zaman - Lahore
Suzuki Van	285,637	285,627	10	209,000	208,990	Auction	Mr. Talha Tanveer Siddiqui - Lahore
Suzuki Pick Up	195,437	195,435	2	225,000	224,998	Auction	Mr. Talha Tanveer Siddiqui - Lahore
Suzuki Bolan	375,670	294,246	81,424	311,000	229,576	Auction	Mr. Humayun Naseer - Lahore
	11,336,260	9,785,176	1,551,084	7,073,773	5,522,689		
	11,479,879	9,832,451	1,647,428	7,149,173	5,501,745		

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

20.6 The depreciation charge for the year has been allocated as follows:

	Note	31 December 2008 Rupees	31 December 2007 Rupees
Cost of sales	35	900,611,784	718,906,320
Administrative and selling expenses	36	18,029,043	10,676,093
Income from experimental farm	37.1	43,792	7,575
		918,684,619	729,589,988

20.7 Transfers to owned assets represent transfers from capital work in progress on the related assets becoming available for use and from assets subject to finance lease on expiry of lease term. Transfers to assets subject to finance lease represent assets sold and leased back.

21 CAPITAL WORK IN PROGRESS

	Year ended 31 December 2008			
	As at 01 January 2007 Rupees	Additions Rupees	Transfers Rupees	As at 31 December 2008 Rupees
Building	156,756,295	248,721,216	281,750,565	123,726,946
Plant and machinery	244,528,751	3,165,701,486	14,222,841	3,396,007,396
	401,285,046	3,414,422,702	295,973,406	3,519,734,342

	Year ended 31 December 2007			
	As at 01 January 2006 Rupees	Additions Rupees	Transfers Rupees	As at 31 December 2007 Rupees
Building	62,791,007	132,012,612	38,047,324	156,756,295
Plant and machinery	20,903,933	605,801,699	382,176,881	244,528,751
	83,694,940	737,814,311	420,224,205	401,285,046

22 INTANGIBLE ASSETS

	Note	31 December 2008 Rupees	31 December 2007 Rupees
Development costs	22.1	20,512,135	38,118,588
Software	22.3	14,624,054	13,024,081
Goodwill arising on business combination			
Acquisition of PAFL		3,710,522,948	3,710,522,948
Acquisition of NIT		537,908	537,908
Acquisition of MSRL	45.2	1,917,699,418	-
		5,663,896,463	3,762,203,525

22.1 This represents expenditure on development of new products and markets to gain competitive advantage in the national and international market

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

22.2 Movement in cost of development and accumulated amortization is as follows:

	Note	31 December 2008 Rupees	31 December 2007 Rupees
Cost			
As at beginning of the year		87,853,404	81,187,908
Additions during the year		-	6,665,496
As at end of the year		87,853,404	87,853,404
Amortization			
As at beginning of the year		49,734,816	33,239,283
Amortization for the year	35	17,606,453	16,495,533
As at end of the year		67,341,269	49,734,816
		20,512,135	38,118,588

22.3 This represents expenditure incurred on implementation of Oracle Financials Suite which is in progress as at the reporting date.

	Note	31 December 2008 Rupees	31 December 2007 Rupees
23 LONG TERM INVESTMENTS			
Investments available for sale investments	23.1		
Cost		1,015,432	1,015,432
Accumulated impairment loss		(996,768)	(996,768)
Fair value adjustment		49,074	82,259
		67,738	100,923

23.1 Investments available for sale

Quoted

Colony Textile Mills Limited
4,332 (2007: 4,332) fully paid ordinary shares of Rs. 10 each.
Market value Rs. 14.60 per share (2007: Rs. 19.95 per share)

	31 December 2008 Rupees	31 December 2007 Rupees
Cost	8,664	8,664
Fair value adjustment	54,584	77,759
	63,248	86,423

BSJS Balanced Fund Limited
1,000 (2007: 1,000) fully paid ordinary shares of Rs. 10 each.
Market value Rs. 4.49 per share (2007: Rs. 14.50 per share)

	31 December 2008 Rupees	31 December 2007 Rupees
Cost	10,000	10,000
Fair value adjustment	(5,510)	4,500
	4,490	14,500

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

	31 December 2008 Rupees	31 December 2007 Rupees
Unquoted		
National Security Insurance Company Limited 221,504 (2006: 221,504) fully paid ordinary shares of Rs. 10 each.		
Cost	996,768	996,768
Impairment loss	(996,768)	(996,768)
	-	-
	67,738	100,923

24 LONG TERM DEPOSITS

Long term deposits mainly include security deposits placed with the Central Depository Company and various utility companies.

	Note	31 December 2008 Rupees	31 December 2007 Rupees
25 LONG TERM ADVANCES			
Advances to employees			
Secured	25.1	12,463,773	1,928,871
Unsecured		30,005,162	17,961,947
		42,468,935	19,890,818
Less: Current maturity shown under current assets		(7,662,052)	(4,083,365)
		34,806,883	15,807,453

25.1 These are secured against future salaries and retirement benefits.

26 STORES, SPARES AND LOOSE TOOLS

Stores	222,229,314	146,760,034
Spares	637,570,337	633,802,533
Loose tools	1,261,907	2,002,531
	861,061,558	782,565,098

27 STOCK IN TRADE

Raw material	2,089,975,481	913,415,188
Work in process	1,073,514,966	799,992,413
Finished goods	3,458,751,580	818,692,062
	6,622,242,027	2,532,099,663

27.1 Stock of finished goods as at 31 December 2007 includes stock of waste of Rs.139,216 valued at net realizable value.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

27.2 Stock of raw material valued at Rs. 870 million (2007: Rs. 351.36 million and finished goods valued at Rs. 148.011 (2007: nil) are pledged as security with banks against various finance facilities.

	Note	31 December 2008 Rupees	31 December 2007 Rupees
28 TRADE RECEIVABLES			
Considered good			
Local			
- secured	*28.1*	50,675,076	59,131,979
- unsecured		1,239,533,412	1,282,804,710
		1,290,208,488	1,341,936,689
Foreign			
- secured	*28.1*	1,243,988,143	1,024,342,703
- unsecured		21,865,959	
		1,265,854,102	1,024,342,703
Considered doubtful		4,697,881	4,697,881
		2,560,760,471	2,370,977,273
Provision for doubtful debts	*28.2*	(4,697,881)	(4,697,881)
		2,556,062,590	2,366,279,392

28.1 These are secured against letters of credit.

28.2 Movement in provision for doubtful debts during the year is as follows:

	31 December 2008 Rupees	31 December 2007 Rupees
As at beginning of the year	4,697,881	4,249,348
Provision made during the year	-	448,533
As at end of the year	4,697,881	4,697,881

29 DERIVATIVE FINANCIAL ASSETS

Instruments accounted for as cash flow hedge

Finance obtained from	**Swapped with**	31 December 2008 Rupees	31 December 2007 Rupees
Term Finance Certificates	ABN AMRO Bank	157,790,529	161,776,107
United Bank Limited	Standard Chartered Bank	1,437,986	-
National Bank of Pakistan	Citi Bank N.A	-	132,837,660
Short term financing	Citi Bank N.A	-	74,649,720
Deutsche Investitions - Und MBH	Citi Bank N.A	16,445,478	19,729,791
Privately placed TFCs	Citi Bank N.A	-	460,259,932
		175,673,993	849,253,210

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

	Note	31 December 2008 Rupees	31 December 2007 Rupees
30 ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES			
Advances to suppliers - Unsecured, considered good		487,544,956	607,740,027
Advances for employees			
for purchases and expenses	30.1	49,137,007	37,172,211
against retirement benefits	25	7,662,052	4,083,365
Security deposit		3,746,090	7,771,140
Margin deposits		61,218,959	44,984,762
Prepayments		80,753,557	11,201,592
Rebate receivable		95,843,350	74,992,940
Accrued gain on swap contract		-	4,195,229
Accrued markup		371,535	657,634
Sales tax recoverable	30.2	495,793,899	67,391,636
Letters of credit		114,453,291	152,585,907
Subsidy receivable	30.3	1,633,187,042	207,345,200
Insurance claim		28,493,267	29,009,077
Others receivables- Unsecured, considered good		253,913,229	35,088,518
Less: provision for doubtful advances	30.4	(1,033,465)	(1,033,465)
		3,311,084,769	1,283,185,773

30.1 These represent amounts advanced to employees for purchases and other expenses on behalf of the Group.

30.2 This represents excess of input tax on purchases over sales tax payable.

30.3 This represents Rs. 1,281 million receivable from Government of Pakistan on account of subsidy on Di-Ammonium Phosphate and Rs. 352 million receivable from Ministry of Food, Agriculture and Livestock - Government of Pakistan on account of subsidy on production of Granular Single Super Phosphate Fertilizer.

30.4 Movement in provision for doubtful advances during the year is as follows:

	31 December 2008 Rupees	31 December 2007 Rupees
As at beginning of the year	(1,033,465)	-
Provision made during the year	-	(1,033,465)
As at end of the year	(1,033,465)	(1,033,465)

31 CURRENT TAXATION

	31 December 2008 Rupees	31 December 2007 Rupees
As at beginning of the year	80,352,096	26,358,429
Paid during the year	257,834,004	156,423,508
Acquired in business combination	12,174,316	
Provision for the year	(118,887,585)	(102,429,841)
As at end of the year	231,472,831	80,352,096

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

	Note	31 December 2008 Rupees	31 December 2007 Rupees
32 SHORT TERM INVESTMENTS			
Investments at fair value through profit or loss	*32.1*		
Cost		206,458,964	583,309,670
Fair value adjustment		92,515	299,584,455
		206,551,479	882,894,125

32.1 Investments at fair value through profit or loss - *Quoted*

Investments in related parties

	31 December 2008 Rupees	31 December 2007 Rupees
Jahangir Siddiqui & Company Limited 3,950,633 (2007: Rs.700,000) ordinary shares of Rs. 10 each. Market value Rs. 52.28 (2007: Rs. 1,067.80) per share		
Cost	206,421,001	441,190,800
Fair value adjustment	125,528	306,269,200
	206,546,529	747,460,000
Other investments		
The Bank of Punjab 375 (2007: 72,500) ordinary shares of Rs. 10 each. Market value Rs. 13.20 (2007: Rs. 97.80) per share		
Cost	37,963	7,339,435
Fair value adjustment	(33,013)	(248,935)
	4,950	7,090,500
National Bank of Pakistan 199,000 ordinary shares of Rs. 10 each. Market value Rs. 232.15 per share		
Cost	-	48,536,545
Fair value adjustment	-	(2,338,695)
	-	46,197,850
Arif Habib Securities Limited 12,500 ordinary shares of Rs. 10 each. Market value Rs. 173.20 per share		
Cost	-	2,242,695
Fair value adjustment	-	(77,695)
	-	2,165,000
Pakistan State Oil Company Limited 125,000 ordinary shares of Rs. 10 each. Market value Rs.406.60 per share		
Cost	-	53,961,096
Fair value adjustment	-	(3,136,096)
	-	50,825,000

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

	Note	31 December 2008 Rupees	31 December 2007 Rupees
Pakistan Oil Fields 53,000 ordinary shares of Rs. 10 each. Market value Rs. 334.40 per share			
Cost		-	18,222,923
Fair value adjustment		-	(499,723)
		-	17,723,200
Engro Chemical Pakistan Limited 25,500 ordinary shares of Rs. 10 each. Market value Rs.265.75 per share			
Cost		-	7,036,613
Fair value adjustment		-	(259,988)
		-	6,776,625
Pakistan Petroleum Limited 19,000 ordinary shares of Rs. 10 each. Market value Rs.245.05 per share			
Cost		-	4,779,563
Fair value adjustment		-	(123,613)
		-	4,655,950
		206,551,479	882,894,125

33 CASH AND BANK BALANCES

	Note	31 December 2008 Rupees	31 December 2007 Rupees
Cash in hand		7,137,038	2,192,508
Cash at banks in current accounts			
in current accounts			
local currency		400,988,084	313,906,797
foreign currency - US $ 69,656 (2007: Nil)		5,488,965	-
		406,477,049	313,906,797
in saving accounts	33.1		
local currency		15,153,969	313,897,483
foreign currency - US $1,177 (2006: US $ 1,392)		92,748	85,410
		15,246,717	313,982,893
		428,860,804	630,082,198

33.1 Rate of return on balances in saving accounts ranges from 5% to 10% (2007: 8% to 9%) per annum

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

	Note	31 December 2008 Rupees	31 December 2007 Rupees
34 SALES - NET			
Local		11,724,806,127	7,492,456,785
Export		8,238,447,950	5,432,453,637
		19,963,254,077	12,924,910,422
Add: Export rebate		33,384,958	12,031,454
Less: Commission and brokerage		114,139,340	229,217,288
Sales tax		145,075,880	399,119,703
		19,737,423,815	12,308,604,885

	Note	31 December 2008 Rupees	31 December 2007 Rupees
35 COST OF SALES			
Raw material consumed	35.1	5,622,333,704	3,717,462,016
Salaries, wages and benefits	35.2	1,277,359,633	973,358,370
Fuel and power		822,861,028	589,692,197
Stores, spares and loose tools consumed		345,585,198	205,108,752
Traveling, conveyance and entertainment		81,460,294	85,805,784
Rent, rates and taxes		21,810,993	4,987,260
Insurance		86,647,546	48,929,687
Repair and maintenance		68,322,203	51,212,603
Processing charges		58,626,887	28,735,160
Depreciation	20.6	900,611,784	718,906,320
Amortization	22	17,606,453	16,495,533
Printing and stationery		15,395,684	8,676,593
Communication		21,700,107	9,736,459
Others		92,231,296	69,992,896
		9,432,552,810	6,529,099,630
Work in process			
As at beginning of the year		799,992,413	342,640,598
Acquired in business combination		7,656,295	-
As at end of the year		(1,073,514,966)	(799,992,413)
		(265,866,258)	(457,351,815)
Cost of goods manufactured		9,166,686,552	6,071,747,815
Finished goods			
As at beginning of the year		818,692,062	464,722,688
Purchased during the year		5,266,799,103	2,016,442,240
Acquired in business combination		1,268,315,290	-
As at end of the year		(3,458,751,580)	(818,692,062)
		3,895,054,875	1,662,472,866
Cost of sales		13,061,741,427	7,734,220,681

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

	31 December 2008 Rupees	31 December 2007 Rupees
35.1 Raw material consumed		
As at beginning of the year	913,415,188	1,310,170,658
Acquired through business combination	276,144,921	-
Purchases during the year	6,528,329,997	3,330,863,806
	7,717,890,106	4,641,034,464
Sales during the year	(5,580,921)	(10,157,260)
As at end of the year	(2,089,975,481)	(913,415,188)
	5,622,333,704	3,717,462,016

35.2 These include charge in respect of employees retirement benefits amounting to Rs. 35,503,426 (2007: Rs. 29,151,697).

	Note	31 December 2008 *Rupees*	31 December 2007 *Rupees*
36 ADMINISTRATIVE AND SELLING EXPENSES			
Salaries, wages and benefits	*36.1*	330,527,972	247,394,097
Traveling, conveyance and entertainment		70,641,573	66,131,262
Fuel and power		15,101,189	5,179,603
Repair and maintenance		10,035,005	10,140,344
Rent, rates and taxes		24,904,368	16,307,067
Insurance		3,115,432	4,617,600
Freight and clearing		446,742,345	348,566,700
Printing and stationery		5,350,532	4,838,616
Communication		37,313,204	27,162,074
Advertisement and sales promotion		21,024,468	34,090,806
Legal and professional charges	*36.2*	41,668,277	44,986,045
Depreciation	*20.6*	18,029,043	10,676,093
Fee and subscription		11,911,399	5,915,422
Donations	*36.3*	50,000	2,100,000
Provision for doubtful debts		-	448,533
Others		52,610,191	13,247,794
		1,089,024,998	841,802,056

36.1 These include charge in respect of employees retirement benefits amounting to Rs. 9,828,441 (2007: Rs. 8,460,544).

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

		31 December 2008 *Rupees*	31 December 2007 *Rupees*
36.2	These include following in respect of auditors' remuneration		
	Annual statutory audit	1,584,117	1,155,000
	Half yearly review / audit	600,000	400,000
	Review report on code of corporate governance	50,000	35,000
	Certification and other services	386,000	460,000
		2,620,117	2,050,000

36.3 None of the directors or their spouses had any interest in respect of these donations.

	Note	31 December 2008 *Rupees*	31 December 2007 *Rupees*
37 OTHER INCOME -NET			
Financial assets			
Gain on sale of investments		214,959,257	78,528,537
Unrealized gain on investments at fair value through profit or loss		92,515	299,584,455
Markup on advances to employees		929,828	294,748
Dividend income		1,730,500	-
Unrealized loss on derivative financial instruments		(11,321,450)	(16,177,407)
Foreign exchange gain		37,181,192	7,264,633
Return on bank deposits		23,373,735	33,095,800
Non-financial assets			
Subsidy from Government of Pakistan		147,224,000	-
Gain / (loss) on disposal of property plant and equipment		1,925,455	5,501,745
Provision for Workers' Profit Participation Fund		(57,013,823)	(75,038,794)
Income from experimental farm	*37.1*	4,919,221	428,521
Miscellaneous		5,810,481	2,698,098
		369,810,911	336,180,336

37.1 This includes depreciation amounting to Rs. 43,792 (2007: Rs. 7,575).

	Note	31 December 2008 *Rupees*	31 December 2007 *Rupees*
38 FINANCE COST			
Markup / interest on:			
- redeemable capital		2,416,769,666	1,000,583,160
- long term finances	*38.1*	1,096,850,098	257,460,359
- short term borrowings		978,632,099	768,210,024
- liabilities against assets subject to finance lease		13,561,180	6,219,064
- workers' profit participation fund		4,601,731	318,839
		4,510,414,774	2,032,791,446
Bank charges and commission		106,844,381	119,647,044
		4,617,259,155	2,152,438,490

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

38.1 This includes foreign exchange loss of Rs. 390,704,126. (2007: Rs. Nil)

39 TAXATION

Current			
for the year - ANL	39.1	102,218,852	72,007,073
for the year - APL		-	2,090
for the year - PAFL	39.2	16,668,733	28,392,065
for prior years		-	2,028,613
		118,887,585	102,429,841
Deferred		113,149,692	360,405,969
		232,037,277	462,835,810

39.1 Provision for current tax of ANL has been made 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 and section 5 of the Ordinance.

39.2 Provision for current tax of PAFL for six months to 30 June 2008 has been made in accordance with section 113 "Minimum tax on income of certain persons" of the Ordinance. No provision for current tax has been made for six months to 31 December 2008 following the deletion of section 113 by the Finance Act 2008 and availability of brought forward tax losses.

39.3 No provision for current tax of HPFL has been made due availability of brought forward tax losses.

39.4 No provision for current tax of NIT has been made since it is incorporated in tax free zone.

39.5 No provision for WWF has been made during the year since the management expects that the Group will not be liable to pay the same due to final taxation and brought forward losses.

39.6 Assessment orders of ANL for the tax years 2003 to 2006 were amended under section 122(5A) of the Ordinance. The Company filed appeals against the orders before Commissioner of Income Tax - Appeals ("CIT-A") which were decided in favour of the Company. The Department has preferred an appeal before the Income Tax Appellate Tribunal, Lahore ("ITAT"), which is pending for adjudication. Based on the advice of the Company's lawyers, the management of the Company expects a favourable outcome.

39.7 Assessments of ANL for assessment years 1998-99 to 2001-02 were rectified under section 156 and 121. The Company filed appeal before CIT-A which was decided in favour of the Company. The department has preferred appeal against the decision of CIT-A before the ITAT and the same is pending for adjudication.

39.8 ANL has filed appeal before the ITAT against the order of CIT-A whereby a demand of Rs. 6.8 million was created in respect of assessment year 2002-03. The ITAT has remanded the case back to CIT-A with the direction to readjudicate, and the same is pending.

39.9 Income tax return of ANL for tax year 2007 has been selected for audit under section 177 of the Ordinance and the same is in progress

39.10 Assessments pertaining to PAFL for assessment years 1999-2000 to 2002-2003 and tax year 2003 have been finalized. Assessments for tax years 2004 to 2007 are deemed assessments under section 120 (1) of the Ordinance. Income tax return for tax year 2008 has been filed and selected for audit under section 177 of the Ordinance and the same is in progress.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

39.11 Deferred taxation relates to timing differences of PAFL and HPFL only . There is no impact of deferred taxation of ANL due to final tax regime.

40 EARNING PER SHARE

		31 December 2008	31 December 2007
Basic			
Profit attributable to ordinary shareholders of the Parent	*Rupees*	1,338,211,189	1,396,028,871
Weighted average number of ordinary shares outstanding during the year.	*No. of shares*	316,777,971	312,713,457
Earning per share	*Rupees*	4.22	4.46
Diluted			
Profit attributable to ordinary shareholders of the Parent	*Rupees*	1,338,211,189	1,396,028,871
Effect of dilutive potential ordinary shares			
Interest on convertible term finance certificates	*Rupees*	-	68,233,603
Preference dividend	*Rupees*	-	912,683
		-	69,146,286
Earning for diluted EPS	*Rupees*	1,338,211,189	1,465,175,157
Weighted average number of ordinary shares outstanding during the year for basic EPS	*No. of shares*	316,777,971	312,713,457
Effect of dilutive potential ordinary shares			
Convertible term finance certificates	*No. of shares*	-	19,207,714
Preference shares	*No. of shares*	-	693,435
		-	19,901,149
Weighted average number of ordinary shares outstanding during the year for diluted EPS	*No. of shares*	316,777,971	332,614,606
Diluted EPS	*Rupees*	4.22	4.40

41 GOVERNMENT GRANT

The Group during the year has lodged claims amounting to Rs. 122.064 million (2007: Rs. 183.347 million) as research and development rebate which has been accounted for as government grant in accordance with IAS 20 - Government Grants and has been deducted in reporting expenses relating to hiring of the consultants for adoption of new technologies, innovation and sales promotion.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

	Note	31 December 2008 *Rupees*	31 December 2007 *Rupees*
42 CASH GENERATED FROM OPERATIONS			
Profit before tax		1,629,430,415	1,916,323,994
Adjustments for non-cash items			
Finance cost		4,505,813,043	2,152,438,490
Gain on sale of property, plant and equipment		(1,925,454)	(5,501,745)
Amortization		17,606,453	16,495,533
Excess of fair value of subsidiary's net assets acquired over cost		(290,221,269)	-
Exchange difference on translation of foreign subsidiary		(1,328,968)	5,163
Unrealized gain on investments at fair value through profit or loss		(92,515)	(299,584,455)
Unrealized loss on derivative financial instruments		11,321,450	16,177,407
Provision for doubtful debts		-	448,533
Provision for Workers' Profit Participation Fund		61,615,554	75,038,794
Foreign exchange gain		(37,181,192)	-
Gain on sale of short term investments		(214,959,257)	(78,528,537)
Dividend income		(1,730,500)	-
Return on bank deposits		(23,373,735)	(33,095,800)
Depreciation		918,684,619	729,589,988
		4,944,228,229	2,573,483,371
Operating profit before changes in working capital		6,573,658,644	4,489,807,365
Changes in working capital			
(Increase) / decrease in stores, spares and loose tools		(48,410,087)	3,900,220
Increase in stock in trade		(2,538,025,857)	(414,565,719)
Increase in trade receivables		(152,602,006)	(846,338,634)
Increase in advances, prepayments and other receivables		(1,430,536,399)	(598,624,417)
Increase in trade and other payables		1,405,520,879	1,687,134,144
Increase in long term deposits		(3,573,307)	(6,911,720)
Increase long term advances		(18,999,430)	(3,992,460)
Increase in long term payables		-	29,491,310
Cash generated from operations		3,787,032,437	4,339,900,089
43 CASH AND CASH EQUIVALENTS			
Cash and bank balances	33	428,860,804	630,082,198
		428,860,804	630,082,198

44 DIVIDEND PAID DURING THE YEAR

During the year, ANL declared/paid 8.95% (Re. 0.895 per share) dividend for the year ended 31 December 2008 on preference shares and 12.5% (Rs. 1.25 per share) dividend for the year ended 31 December 2007 on ordinary shares.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

45 BUSINESS COMBINATIONS

45.1 During the year, Pak American Fertilizers Limited acquired 100% shares of Hazara Phosphate Fertilizers (Private) Limited from National Fertilizer Corporation of Pakistan (Private) Limited through Privatization Commission of Pakistan for a consideration of Rs. 1,386 million. The effective control was obtained on 28 November 2008. This acquisition has brought about expansion and diversification of the Group's fertilizer business. The amounts reflected in consolidated profit and loss account, consolidated cash flow statement and related notes to the consolidated financial statements for the year ended 31 December 2008 include results of HPFL for the period from 28 November 2008 to 31 December 2008. During this period, the subsidiary has contributed gross revenue of Rs. 148.097 million and post tax profit of Rs. 123.403 million.

The cost of acquisition and its allocation to identifiable assets acquired and liabilities assumed are as follows:

	Rupees	***Rupees***
Cost of acquisition		1,385,564,400
Identifiable assets acquired and liabilities assumed		
Property, plant and equipment	2,032,717,461	
Long term deposits	1,761,375	
Stores, spares and loose tools	29,975,373	
Stock in trade	276,458,949	
Advances, deposits, prepayments and other receivables	348,816,034	
Current taxation	12,174,316	
Cash and bank balances	28,896,763	
Deferred tax liability	(554,530,443)	
Trade and other payables	(500,484,159)	1,675,785,669
Excess of fair value of net assets acquired over cost of acquisition		290,221,269
Cost of acquisition net of cash acquired		1,356,667,637

45.2 During the year, Azgard Nine Limited acquired 100% shares of Montebello SRL through Farital AB, a holding company incorporated in Sweden, for a consideration of Euro 23.758 million. The effective control was obtained on 31 December 2008. This acquisition has brought about expansion and geographical diversification of the Group's textile and apparel business by providing access to well established marketing network in Europe. The amounts reflected in consolidated profit and loss account, consolidated cash flow statement and related notes to the consolidated financial statements for the year ended 31 December 2008 do not include results of MSRL and only the financial position of MSRL as at 31 December 2008 has been reflected in consolidated balance sheet as at that date.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

The cost of acquisition and its allocation to identifiable assets acquired and liabilities assumed are as follows:

	Rupees	***Rupees***
Cost of acquisition		2,625,026,049
Identifiable assets acquired and liabilities assumed		
Property, plant and equipment	22,400,617	
Intangible assets	1,599,973	
Long term deposits	4,590,960	
Stores, spares and loose tools	111,000	
Stock in trade	1,275,657,558	
Advances, deposits, prepayments and other receivables	248,832,662	
Cash and bank balances	3,802,864	
Short term borrowings	(434,540,808)	
Trade and other payables	(415,128,195)	707,326,631
Goodwill		1,917,699,418
Cost of acquisition net of cash acquired		2,621,223,185

46 SEGMENT INFORMATION

The primary reporting format followed by the Group is business segments. The Group is organized into the following three business segments.

- Manufacture and sale of textile products;
- Manufacture and sale of urea fertilizer;
- Development, implementation and sale of software products and provision of related services.

46.1 Segment results for the year are as follows:

	Year ended 31 December 2008			
	Software	Fertilizer	Textile	Group
	Rupees	*Rupees*	*Rupees*	*Rupees*
Revenue	-	9,607,500,755	10,129,923,061	19,737,423,816
Inter segment revenue	-	-	-	-
Group revenue	-	9,607,500,755	10,129,923,061	19,737,423,816
Operating profit / (loss)	(93,938)	2,734,607,557	2,852,143,771	5,586,657,390
Other income - Net	-	627,483,207	32,548,973	660,032,180
Finance cost	-	(2,156,849,052)	(2,460,410,103)	(4,617,259,155)
Profit before taxation	(93,938)	1,205,241,712	424,282,641	1,629,430,415
Provision for taxation	-	(129,818,425)	(102,218,852)	(232,037,277)
Profit after taxation	(93,938)	1,075,423,287	322,063,789	1,397,393,138

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

	Year ended 31 December 2008			
	Software	Fertilizer	Textile	Group
	Rupees	*Rupees*	*Rupees*	*Rupees*
Other segment items included in profit or loss				
Depreciation	64,438	378,364,871	540,255,310	918,684,619
Amortization	-	-	17,606,453	17,606,453

	Year ended 31 December 2007			
	Software	Fertilizer	Textile	Group
	Rupees	*Rupees*	*Rupees*	*Rupees*
Revenue	418,000	5,678,412,566	6,630,192,319	12,309,022,885
Inter segment revenue	(418,000)	-	-	(418,000)
Group revenue	-	5,678,412,566	6,630,192,319	12,308,604,885
Operating profit / (loss)	(57,036)	2,155,560,087	1,572,079,097	3,727,582,148
Other income - Net	-	295,199,652	40,980,684	336,180,336
Finance cost	-	(1,085,505,277)	(1,061,933,213)	(2,147,438,490)
Profit before taxation	(57,036)	1,365,254,462	551,126,568	1,916,323,994
Provision for taxation	(2,090)	(390,826,647)	(72,007,073)	(462,835,810)
Profit after taxation	(59,126)	974,427,815	479,119,495	1,453,488,184
Other segment items included in profit or loss				
Depreciation	136,036	193,166,168	536,287,784	729,589,988
Amortization	-	-	16,495,533	16,495,533

46.2 Segment assets

Segment assets consist primarily of property, plant and equipment, intangible assets, investments in associates, inventories, trade and other receivables and derivative financial assets.

46.3 Segment liabilities

Segment liabilities comprise operating liabilities including derivative financial liabilities.

46.4 Capital expenditure

Capital expenditure comprises additions to property, plant and equipment and intangible assets, including additions resulting from acquisitions through business combination.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

46.5 Segment assets and liabilities as at the reporting date and capital expenditure for the year then ended are as follows:

	Year ended 31 December 2008			
	Software	Fertilizer	Textile	Group
	Rupees	*Rupees*	*Rupees*	*Rupees*
Assets	-	25,409,233,621	20,352,256,255	45,761,489,876
Liabilities	-	18,343,927,013	17,439,067,388	35,782,994,401
Capital expenditure	-	2,632,826,177	1,384,891,422	4,017,717,599

	Year ended 31 December 2007			
	Software	Fertilizer	Textile	Group
	Rupees	*Rupees*	*Rupees*	*Rupees*
Assets	1,918,714	19,040,891,307	14,653,302,095	33,696,112,116
Liabilities	225,355	10,413,690,313	13,713,819,666	24,127,735,334
Capital expenditure	-	585,577,652	659,185,428	1,244,763,080

	31 December 2008	31 December 2007
	Rupees	*Rupees*
47 OFF BALANCE SHEET FINANCIAL INSTRUMENTS		
Irrevocable letters of credit for:		
- purchase of stores, spare and loose tools	298,780,555	25,432,674
- purchase of machinery	2,158,392,235	-
- purchase of raw material	766,100,087	682,638,653
	3,223,272,877	708,071,327
Commitments for fixed capital expenditure	128,470,317	41,260,211

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

48 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's activities expose it to a variety of financial risks, including effects of changes in foreign exchange rates, market interest rates, credit and liquidity risk associated with various financial assets and liabilities. The Group manages its exposure to these financial risks in the following manner:

48.1 Interest rate risk exposure

Information about the Group's exposure to interest rate risk is as follows:

		AS AT 31 DECEMBER 2008								
		Interest / markup bearing				Non - interest / markup bearing				
	Note	Maturity upto one year	Maturity after one year upto five years	Maturity after five years	Sub total	Maturity upto one year	Maturity after one year upto five years	Maturity after five years	Sub total	Total
		Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Financial assets										
Long term investments	23	-	-	-	-	-	-	67,738	67,738	67,738
Long term deposits	24	-	-	-	-	-	-	38,178,881	38,178,881	38,178,881
Long term advances	25	-	-	-	-	-	34,806,883	-	34,806,883	34,806,883
Trade receivables	28	-	-	-	-	2,556,062,590	-	-	2,556,062,590	2,556,062,590
Derivative financial assets	29	-	-	-	-	175,673,993	-	-	175,673,993	175,673,993
Advances, deposits and other receivables	30	-	-	-	-	2,083,402,059	-	-	2,083,402,059	2,083,402,059
Short term investments	32	-	-	-	-	206,551,479	-	-	206,551,479	206,551,479
Cash and bank balances	33	15,246,717	-	-	15,246,717	413,614,087	-	-	413,614,087	428,860,804
		15,246,717	-	-	15,246,717	5,435,304,208	34,806,883	38,246,619	5,508,357,710	5,523,604,427
Financial liabilities										
Loan from sponsors	8	-	-	-	-	-	-	340,000,000	340,000,000	340,000,000
Redeemable capital	9	400,373,346	13,181,709,061	499,600,000	14,081,682,407	-	-	-	-	14,081,682,407
Long term finances	10	1,055,580,000	3,086,842,500	-	4,142,422,500	-	-	-	-	4,142,422,500
Liabilities against assets subject to finance lease	11	35,473,672	106,664,196	-	142,137,868	-	-	-	-	142,137,868
Long term payables	12	-	-	-	-	-	31,135,199	-	31,135,199	31,135,199
Short term borrowings	15	8,437,887,588	-	-	8,437,887,588	-	-	-	-	8,437,887,588
Derivative financial liabilities	16	-	-	-	-	50,536,909	-	-	50,536,909	50,536,909
Trade and other payables	17	-	-	-	-	5,134,712,655	-	-	5,134,712,655	5,134,712,655
Mark up accrued on borrowings	18	-	-	-	-	974,107,530	-	-	974,107,530	974,107,530
Unclaimed dividend		-	-	-	-	14,686,046	-	-	14,686,046	14,686,046
		9,929,314,606	16,375,215,757	499,600,000	26,804,130,363	6,174,043,140	31,135,199	340,000,000	6,545,178,339	33,349,308,702
On balance sheet gap		(9,914,067,889)	(16,375,215,757)	(499,600,000)	(26,788,883,646)	(738,738,932)	3,671,684	(301,753,381)	(1,036,820,629)	(27,825,704,275)

		AS AT 31 DECEMBER 2007								
		Interest / mark-up bearing				Non - interest / mark-up bearing				
	Note	Maturity upto one year	Maturity after one year upto two years	Maturity after two years upto five years	Sub total	Maturity upto one year	Maturity after one year upto two years	Maturity after two years upto five years	Sub total	Total
		Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Financial assets										
Long term investments	23	-	-	-	-	-	-	100,923	100,923	100,923
Long term deposits	24	-	-	-	-	-	-	28,253,239	28,253,239	28,253,239
Long term advances	25	-	-	-	-	-	-	15,807,453	15,807,453	15,807,453
Trade receivables	28	-	-	-	-	2,366,279,392	-	-	2,366,279,392	2,366,279,392
Derivative financial instruments	29	-	-	-	-	849,253,210	-	-	849,253,210	849,253,210
Advances, deposits and other receivables	30	-	-	-	-	403,011,035	-	-	403,011,035	403,011,035
Short term investments	32	-	-	-	-	882,894,125	-	-	882,894,125	882,894,125
Cash and bank balances	33	313,982,893	-	-	313,982,893	316,099,305	-	-	316,099,305	630,082,198
		313,982,893	-	-	313,982,893	4,817,537,067	-	44,161,615	4,861,698,682	5,175,681,575
Financial liabilities										
Loan from sponsors	8	-	-	-	-	-	-	-	-	-
Redeemable capital	9	244,562,192	9,461,732,647	999,200,000	10,705,494,839	-	-	-	-	10,705,494,839
Long term finances	10	782,448,785	2,905,276,300	-	3,687,725,085	-	-	-	-	3,687,725,085
Liabilities against assets subject to finance lease	11	28,232,606	32,507,391	-	60,739,997	-	-	-	-	60,739,997
Long term payables	12	-	-	-	-	-	-	31,135,199	31,135,199	31,135,199
Short term borrowings	15	4,442,219,557	-	-	4,442,219,557	-	-	-	-	4,442,219,557
Derivative financial instruments	16	-	-	-	-	34,369,582	-	-	34,369,582	34,369,582
Trade and other payables	17	-	-	-	-	2,804,955,378	-	-	2,804,955,378	2,804,955,378
Mark up accrued on borrowings	18	-	-	-	-	473,174,881	-	-	473,174,881	473,174,881
Unclaimed dividend		-	-	-	-	9,694,014	-	-	9,694,014	9,694,014
		5,497,463,140	12,399,516,338	999,200,000	18,896,179,478	3,322,193,855	-	31,135,199	3,353,329,054	22,249,508,532
On balance sheet gap		(5,183,480,247)	(12,399,516,338)	(999,200,000)	(18,582,196,585)	1,495,343,212	-	13,026,416	1,508,369,628	(17,073,826,957)

The Group has un-capped floating interest rate arrangements in respect of some of its borrowings. However to guard against adverse movements in market interest rates, the Group has entered in to various cross currency interest rate swap contracts with different banks due to which the Group's exposure to interest rate risk is minimal. The effective interest / mark-up rates for the interest / mark up bearing financial instruments are mentioned in relevant notes to the financial statements.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

48.2 Currency risk exposure

Currency risk arises mainly where receivables and payables exist due to transactions entered into foreign currency. The Group incurs currency risk on sales and purchases and resulting balances that are denominated in a currency other than functional currency. However, the Group enters into forward contracts to guard against the adverse fluctuation in foreign exchange rates and hence the Group's exposure to currency risk is minimal.

48.3 Concentration of credit risk and credit risk exposure

Credit risk represents the accounting loss that would be recognized at the reporting date if counter parties failed to perform as contracted. Out of total financial assets of Rs. 5,523,604,427 (2007: Rs.5,175,681,575), financial assets which are subject to credit risk amount to Rs. 2,758,462,408 (2007: Rs. 2,341,202,466). The management continuously monitors the credit exposure towards the customers and makes provision against those balances considered doubtful of recovery. The Group manages credit risk by limiting significant exposure to individual customers, and obtaining advances against sales.

48.4 Liquidity risk exposure

Liquidity risk reflects the Group's inability in raising funds to meet commitments. The management closely monitors the Group's liquidity and cash flow position. This includes maintenance of balance sheet liquidity ratios, debtors and creditors concentration both in terms of overall funding mix and avoidance of undue reliance on large individual customer.

48.5 Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged or a liability be settled between knowledgeable willing parties, in an arm's length transaction. As at the reporting date, the fair values of all financial instruments are considered to approximate their book values.

49 EVENTS AFTER THE BALANCE SHEET DATE

49.1 The Board of Directors in its meeting held on 06 April 2009 has proposed to issue bonus shares to ordinary shareholders of the Company at 20% (20 ordinary shares for every 100 ordinary shares held). The issue is subject to approval by the shareholders at the forthcoming Annual General Meeting and has not been accounted for in these financial statements.

49.2 The Board of Directors in its meeting held on 14 March 2009 has decided to increase ordinary share capital of the Company through right issue, at 23.68 ordinary shares for every 100 ordinary shares held. The approval of Karachi Stock Exchange (Guarantee) Limited has been obtained in this regard. The issue will be made at a price of Rs. 13.50 per ordinary right share.

50 RELATED PARTY TRANSACTIONS

Related parties, from the Group's perspective comprises associated undertakings, other related group companies, key management personnel including chief executive, directors and executives and post employment benefit plans. The Group in the normal course of business carries out transactions with various related parties.

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

Details of transactions and balances with related parties are as follows:

	31 December 2008 Rupees	31 December 2007 Rupees
50.1 Transactions with related parties		
50.1.1 *Associates*		
Purchases of chemicals	3,322,566	37,969,056
Investment in ordinary shares	206,421,001	441,190,800
50.1.2 *Post-employment benefit plans*		
Contribution to employees provident fund	36,917,803	33,586,785
Contribution to gratuity trust	8,414,064	4,025,456

50.1.3 *Key management personnel*

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director. The Group's key management personnel comprise the Chief Executive, Directors and Executives. Total compensation for key management personnel was as follows:

	Year ended 31 December 2008		
	Chief Executive Rupees	Directors Rupees	Executives Rupees
Short-term employee benefits			
Remuneration	7,999,992	5,100,000	153,678,330
House rent	2,399,988	1,020,000	44,739,161
Utilities	800,004	260,000	11,066,622
Other benefits	799,999	260,000	43,841,380
	11,999,983	6,640,000	253,325,493
Meeting fee			
Post employment benefits			
Retirement benefits	680,004	204,000	11,832,346
	12,679,987	6,844,000	265,157,839
Number of persons	1	6	127

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

	Year ended 31 December 2007		
	Chief Executive *Rupees*	Directors *Rupees*	Executives *Rupees*
Short-term employee benefits			
Remuneration	3,933,335	2,400,000	92,773,153
House rent	1,199,998	960,000	27,652,332
Utilities	393,328	240,000	8,797,197
Other benefits	373,339	-	7,410,446
	5,900,000	3,600,000	136,633,127
Meeting fee	-	2,604,000	-
Post employment benefits			
Retirement benefits	334,333	204,000	7,020,894
	6,234,333	6,408,000	143,654,021
Number of persons	1	6	87

Additionally, the Chief Executive is provided with free use of employer maintained car.

	31 December 2008 *Rupees*	31 December 2007 *Rupees*
50.2 Balances with related parties		
50.2.1 *Associates*		
Investment in ordinary shares	206,546,529	747,460,000
50.2.2 *Post-employment benefit plans*		
Payable to provident fund	2,124,985	2,538,859
Payable to gratuity trust	12,616,399	4,202,335
50.2.3 *Key Management Personnel*		
Short term employee benefits payable	13,157,448	7,516,146

51 PLANT CAPACITY AND ACTUAL PRODUCTION

	Unit	31 December 2008	31 December 2007
Spinning			
Number of rotors installed	No.	2,416	2,050
Plant capacity on the basis of utilization converted into 6.5s count	Kgs	14,965,001	12,303,563
Actual production converted into 6.5s count	Kgs	13,207,174	9,489,468
Number of spindles installed	No.	54,408	54,408
Plant capacity on the basis of utilization converted into 20s count	Kgs	12,814,834	12,814,834
Actual production converted into 20s count	Kgs	12,274,985	11,688,092

Consolidated Financial Statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2008

		31 December 2008	31 December 2007
Weaving			
Number of looms installed	*No.*	166	166
Annual capacity on the basis of utilization converted into 38 picks	*Mtrs*	29,860,666	29,860,666
Actual production converted into 38 picks	*Mtrs*	25,042,308	14,121,408
Garments			
Number stitching machines installed	*No.*	2,229	1,876
Annual capacity on the basis of utilization	*Pcs*	10,797,583	7,951,615
Actual production	*Pcs*	7,595,954	6,063,532

It is difficult to precisely describe production capacity and the resultant production converted into base count in the textile industry since it fluctuates widely depending on various factors such as count of yarn spun, raw materials used, spindle speed and twist etc. It would also vary accordingly to the pattern of production adopted in a particular year.

Urea Fertilizer

		31 December 2008	**31 December 2007**
Rated capacity on basis of utilization - 330 days (2007: 330 days)	*M. Tons*	346,500	346,500
Actual production - 330 days (2007: 341 days)	*M. Tons*	376,098	376,908
Production efficiency	*% age*	109%	104%

		From 28 November 2008 to 31 December 2008
Phosphate Fertilizer		
Rated capacity on basis of utilization - 330 days (2007: 330 days)	*M. Tons*	7,200
Actual production - 330 days (2007: 341 days)	*M. Tons*	7,696
Production efficiency	*% age*	107%

52 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on 06 April 2009 by the Board of Directors of the Parent.

53 GENERAL

Figures have been rounded off to the nearest rupee.

Comparative figures have been rearranged, where necessary for the purpose of comparison. However, there are no significant reclassifications.

Lahore **CHIEF EXECUTIVE** **DIRECTOR**

Pattern of Shareholding

Ordinary Shares as at 31 December 2008

Number of Shareholders	Shareholding From	To	Total Shares Held
299	1	100	16,173
754	101	500	324,358
578	501	1000	547,778
858	1001	5000	2,340,043
173	5001	10000	1,366,723
59	10001	15000	742,643
46	15001	20000	831,768
29	20001	25000	676,060
15	25001	30000	411,888
5	30001	35000	162,009
7	35001	40000	267,542
4	40001	45000	175,564
13	45001	50000	630,641
7	50001	55000	365,516
5	55001	60000	60000
2	60001	65000	65000
4	65001	70000	70000
3	70001	75000	75000
3	75001	80000	80000
1	80001	85000	85000
3	85001	90000	90000
1	90001	95000	95000
2	95001	100000	100000
9	100001	125000	125000
1	125001	150000	150000
3	150001	175000	175000
3	175001	200000	200000
2	200001	225000	225000
1	225001	250000	250000
1	250001	275000	275000
2	275001	300000	300000
3	300001	325000	325000
2	325001	350000	350000
4	350001	375000	375000
1	375001	400000	400000
1	400001	425000	425000
1	425001	450000	450000
1	450001	475000	475000
3	475001	500000	500000
1	525001	550000	550000
2	550001	575000	575000
2	600001	625000	625000
1	625001	650000	650000
2	650001	675000	675000
1	775001	800000	800000
2	825001	850000	850000
1	900001	925000	925000
2	1100001	112500	1125000
1	1225001	125000	1250000
1	1600001	1625000	1625000
1	1650001	1675000	1675000
1	1700001	1725000	1725000
1	1750001	1775000	1775000
1	1850001	1875000	1875000
1	2000001	2025000	2025000
1	2100001	2125000	2125000
1	2175001	2200000	2200000

Pattern of Shareholding

Ordinary Shares as at 31 December 2008

Number of Shareholders	Shareholding From	To	Total Shares Held
1	2600001	2625000	2,600,685
1	2700001	2725000	2,724,090
1	2925001	2950000	2,946,950
1	3875001	3900000	3,886,071
1	4400001	4425000	4,417,000
1	4475001	4500000	4,500,000
1	4525001	4550000	4,543,721
1	4725001	4750000	4,737,461
2	6500001	7000000	13,199,838
1	7500001	8000000	7,824,850
1	9000001	9500000	9,018,000
1	9500001	10000000	9,524,770
1	10000001	10500000	10,155,002
1	10500001	11000000	10,710,239
1	11000001	11500000	11,004,155
1	15000001	15500000	15,270,000
1	22000001	22500000	22,239,600
1	24000001	24500000	24,130,000
1	27500001	28000000	27,810,000
1	59000001	59500000	74,185,000
2954			**312,743,207**

Shareholder's Category	Number of Shareholders	Number of Shares Held	Percentage
Individuals	2771	183,395,218	58.64083%
Investment Companies	6	798,289	0.25525%
Insurance Companies	8	2,223,315	0.71091%
Joint Stock Companies	115	102,223,835	32.68619%
Financial Institutions	44	24,053,806	7.69123%
Modaraba Companies	1	5,000	0.00160%
Others	4	28,443	0.00909%
Total	**2954**	**312,743,207**	**100.00000%**

Information as required under

Code of Corporate Governance

CATEGORIES OF SHAREHOLDERS		NUMBER OF SHAREHOLDERS	NUMBER OF SHARES HELD
Associated Companies, Undertakings and related parties		Nil	Nil
NIT and ICP		1	9,757
Directors, Chief Executive Officer and their spouse and minor children			
Mr. Mueen Afzal	Chairman	1	1
Mr. Ahmed H. Shaikh	CEO	1	27,810,000
Mr. Aehsum M. H. Shaikh	Director	1	15,270,000
Mr. Khalid A.H. Al-Sagar	Director	1	4,543,721
Chief Justice (R) Mian Mahboob Ahmad	Director	1	1
Mr. Ali Jehangir Siddiqui	Director	1	1
Mr. Mohammad Khaishgi	Director	1	1
Executives		Nil	Nil
Public Sector Companies and Corporation		115	102,223,835
Banks, DFIs, NBFI, Insurance Companies Leasing Companies, Modarabas & Mutual Funds		63	27,108,853
Shareholders holdings ten percent or more voting interest of the Company			
Jahangir Siddiqui & Company		1	74,185,000
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 31 December 2008

Number of Shareholders	Shareholding From	Shareholding To	Total Shares Held
7	1	100	231
47	101	500	17,056
17	501	1000	15,400
32	1001	5000	85,307
14	5001	10000	110,694
1	10001	15000	11,178
2	15001	20000	38,500
1	20001	25000	22,500
3	25001	30000	83,220
1	30001	35000	33,125
1	35001	50000	35,663
1	50001	55000	52,000
1	55001	60000	59,500
3	70000	90000	221,750
1	90001	95000	92,984
4	95000	100000	400,000
1	100001	200000	137,000
1	200001	300000	277,500
1	300001	700000	656,625
1	700001	800000	799,345
1	800001	1000000	958,270
1	1000001	1100000	1,010,500
1	1100001	1200000	1,160,241
1	1200001	1300000	1,286,500
1	2200000	2225000	2,207,125
1	2225001	2250000	2,249,000
1	2250001	2800000	2,775,000
1	2800001	3000000	2,988,577
1	3000001	4500000	3,090,793
1	4500001	5000000	4,800,000
1	6500000	7000000	6,512,632
1	12500000	13000000	12,605,042
1	20000000	25000000	21,331,825
153			**66,125,083**

Shareholder's Category	Number of Shareholders	Number of Shares Held	Percentage
Individual	139	19,575,345	29.60
Insurance Companies	1	1,286,500	1.95
Joint Stock Companies	7	34,740,857	52.54
Financial Institutions	5	9,564,111	14.46
Others	1	958,270	1.45
Total	**153**	**66,125,083**	**100.00**

Information as required under

Code of Corporate Governance

CATEGORIES OF SHAREHOLDERS	NUMBER OF SHAREHOLDERS	NUMBER OF SHARES HELD
Associated Companies, Undertakings and related parties	Nil	Nil
NIT and ICP	Nil	Nil
Directors, Chief Executive Officer and their spouse and minor children	Nil	Nil
Executives	Nil	Nil
Public Sector Companies and Corporation	7	34,740,857
Banks, DFIs, NBFI, Insurance Companies Leasing Companies, Modarabas & Mutual Funds	7	11,808,881
Shareholders holdings ten percent or more voting interest of the Company		
Jahangir Siddiqui & Company	1	12,605,042
JS GLOBAL CAPITAL LIMITED	1	21,331,825
Detail of trading in shares by the Directors, CEO, CFO, Company Secretary, their Spouses and Minor Children.	-	Nil

Notes

Form of Proxy

Azgard Nine Limited

AZGARD-9

I/We ____

son/daughter of ____

a member/members of Azgard Nine Limited and holder of ______________________ shares as

per Registered Folio No. ______________ 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 30 April 2009 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.

In witness whereof on this ______________ day of ______________ 2009.

WITNESSES:

1. Signature: ______________________

   Name ______________________

   Address ______________________

   ____

   NIC: ______________________

Affix Revenue Stamp

2. Signature: ______________________

   Name ______________________

   Address ______________________

   ____

   NIC: ______________________

Member's Signature

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