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Company Information

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

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

BANKERS
JS Bank Limited
MCB Bank Limited
Citibank N.A.
ABN Amro Bank
Faysal Bank Limited
Habib Bank Limited
Saudi Pak Industrial & Agricultural Investment Company (Private) Limited
The Hong Kong and Shanghai Banking Corporation
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
Saudi Pak Commercial Bank Ltd.

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

MANAGEMENT TEAM
Mr. Ahmed H. Shaikh
Mr. Tariq Mohammad Khan
Mr. Abid Amin
Mr. Irfan Nazir
Mr. Tahir Munir
Mr. Afif Farooqi
Mr. Usman Rasheed
LEGAL ADVISORS
Hamid Law Associates

AUDITORS
Rahman Sarfaraz Rahim Iqbal Rafiq
Chartered Accountants

TAX ADVISORS
Faruq Ali & Co.
Chartered Accountants

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

PROJECT LOCATIONS

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

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

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

To become a Major Global Fashion Apparel Company
Mission Statement
To achieve our target of becoming a $300 million International branded Jeans Business by Sales in 2008

Cultural Pillar
The High Speed Passionate Pursuit of Progress through Synergy and Vision
## Financial Highlights

### Operating performance (Rs. 000)

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales-Net</th>
<th>Export Sales-Gross</th>
<th>Local Sales-Gross</th>
<th>Gross profit</th>
<th>Operating profit</th>
<th>Profit before tax</th>
<th>Profit after tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>6,628,342</td>
<td>5,430,603</td>
<td>1,262,415</td>
<td>2,007,353</td>
<td>1,572,168</td>
<td>1,151,460</td>
<td>1,079,453</td>
</tr>
<tr>
<td>2006</td>
<td>4,889,682</td>
<td>4,128,679</td>
<td>817,706</td>
<td>1,186,321</td>
<td>795,031</td>
<td>1,260,085</td>
<td>1,144,516</td>
</tr>
<tr>
<td>2005</td>
<td>4,422,472</td>
<td>3,833,475</td>
<td>657,232</td>
<td>1,133,686</td>
<td>813,063</td>
<td>792,137</td>
<td>741,294</td>
</tr>
<tr>
<td>2004</td>
<td>3,160,780</td>
<td>1,657,688</td>
<td>1,646,344</td>
<td>720,001</td>
<td>533,436</td>
<td>398,677</td>
<td>378,677</td>
</tr>
<tr>
<td>2003</td>
<td>2,428,127</td>
<td>1,616,709</td>
<td>1,072,293</td>
<td>464,103</td>
<td>446,671</td>
<td>248,440</td>
<td>228,188</td>
</tr>
<tr>
<td>2002</td>
<td>1,931,118</td>
<td>1,314,025</td>
<td>754,073</td>
<td>493,389</td>
<td>350,713</td>
<td>146,321</td>
<td>160,116</td>
</tr>
</tbody>
</table>

### Financial position (Rs. 000)

<table>
<thead>
<tr>
<th>Year</th>
<th>Share capital</th>
<th>Share premium</th>
<th>Capital reserve</th>
<th>Surplus on revaluation of property</th>
<th>Long term debt</th>
<th>Long term deposits</th>
<th>Property, plant and equipment</th>
<th>Intangible Assets</th>
<th>Long term investments and deposits</th>
<th>Current liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>3,788,823</td>
<td>2,633,387</td>
<td>897,239</td>
<td>9,720,054</td>
<td>7,479,094</td>
<td>11,267</td>
<td>6,194,368</td>
<td>51,143</td>
<td>6,412,144</td>
<td>981,049</td>
</tr>
<tr>
<td>2006</td>
<td>3,788,839</td>
<td>2,633,371</td>
<td>944,891</td>
<td>9,174,168</td>
<td>7,866,722</td>
<td>12,877</td>
<td>6,949,366</td>
<td>59,543</td>
<td>6,826,144</td>
<td>887,209</td>
</tr>
<tr>
<td>2005</td>
<td>1,737,309</td>
<td>71,659</td>
<td>331,674</td>
<td>3,093,103</td>
<td>2,782,233</td>
<td>30,688</td>
<td>4,478,866</td>
<td>79,680</td>
<td>3,045,605</td>
<td>1,005,671</td>
</tr>
<tr>
<td>2004</td>
<td>1,737,309</td>
<td>106,433</td>
<td>255,709</td>
<td>2,511,851</td>
<td>2,147,910</td>
<td>45,825</td>
<td>4,622,758</td>
<td>95</td>
<td>2,308,206</td>
<td>1,496,569</td>
</tr>
<tr>
<td>2003</td>
<td>868,654</td>
<td>143,675</td>
<td>107,368</td>
<td>1,281,408</td>
<td>1,623,700</td>
<td>96</td>
<td>2,622,758</td>
<td>96</td>
<td>1,719,710</td>
<td>1,795,983</td>
</tr>
</tbody>
</table>
### Current Assets

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Stores, spares and loose tools</td>
<td>125,469</td>
<td>101,762</td>
<td>87,790</td>
<td>72,609</td>
<td>45,778</td>
<td>21,689</td>
</tr>
<tr>
<td>Stock in trade</td>
<td>2,246,132</td>
<td>2,034,181</td>
<td>1,425,587</td>
<td>1,265,777</td>
<td>722,376</td>
<td>249,380</td>
</tr>
<tr>
<td>Trade debtors</td>
<td>1,657,197</td>
<td>1,013,884</td>
<td>924,208</td>
<td>536,616</td>
<td>33,468</td>
<td>33,468</td>
</tr>
<tr>
<td>Derivative financial Asset</td>
<td>388,993</td>
<td>555,680</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Short Term Investments</td>
<td>1,004,944</td>
<td>788,412</td>
<td>109,419</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Other current assets</td>
<td>3,889,496</td>
<td>2,034,181</td>
<td>713,461</td>
<td>609,728</td>
<td>249,380</td>
<td>249,380</td>
</tr>
<tr>
<td>Cash &amp; cash equivalents</td>
<td>45,433</td>
<td>45,642</td>
<td>21,602</td>
<td>21,602</td>
<td>23,477</td>
<td>23,477</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>9,357,664</td>
<td>9,041,817</td>
<td>4,860,176</td>
<td>3,265,963</td>
<td>1,550,390</td>
<td>1,550,390</td>
</tr>
</tbody>
</table>

### Net working capital

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>Net working capital</strong></td>
<td>3,163,296</td>
<td>1,692,431</td>
<td>412,310</td>
<td>643,205</td>
<td>96,451</td>
<td>(169,320)</td>
</tr>
</tbody>
</table>

### Total capital employed

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td><strong>Total capital employed</strong></td>
<td>17,438,221</td>
<td>15,228,968</td>
<td>6,093,361</td>
<td>3,688,810</td>
<td>2,436,519</td>
<td>1,788,509</td>
</tr>
</tbody>
</table>

### Profitability analysis

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Gross profit to sales (%)</td>
<td>30.28</td>
<td>24.26</td>
<td>25.63</td>
<td>22.78</td>
<td>26.61</td>
<td>25.55</td>
</tr>
<tr>
<td>Operating profit to sales (%)</td>
<td>23.72</td>
<td>16.26</td>
<td>18.38</td>
<td>16.88</td>
<td>18.40</td>
<td>18.16</td>
</tr>
<tr>
<td>Profit before tax to sales (%)</td>
<td>17.37</td>
<td>17.91</td>
<td>12.61</td>
<td>10.23</td>
<td>7.58</td>
<td>7.58</td>
</tr>
<tr>
<td>Profit after tax to sales (%)</td>
<td>16.29</td>
<td>16.76</td>
<td>11.98</td>
<td>9.40</td>
<td>8.29</td>
<td>8.29</td>
</tr>
<tr>
<td>Return on capital employed (%)</td>
<td>12.69</td>
<td>18.35</td>
<td>13.13</td>
<td>11.15</td>
<td>10.45</td>
<td>10.45</td>
</tr>
<tr>
<td>Return on equity (%)</td>
<td>10.84</td>
<td>14.16</td>
<td>11.59</td>
<td>11.59</td>
<td>11.59</td>
<td>11.59</td>
</tr>
<tr>
<td>Earnings per share (Rs.) (Please refer to Note 31)</td>
<td>3.26</td>
<td>4.97</td>
<td>7.62</td>
<td>4.33</td>
<td>2.63</td>
<td>2.63</td>
</tr>
</tbody>
</table>

### Financial analysis

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Financial charges to sales %</td>
<td>16.02</td>
<td>13.27</td>
<td>6.57</td>
<td>3.91</td>
<td>7.65</td>
<td>10.21</td>
</tr>
<tr>
<td>Current ratio (times) *</td>
<td>1.79</td>
<td>1.21</td>
<td>1.45</td>
<td>1.12</td>
<td>0.98</td>
<td>0.98</td>
</tr>
<tr>
<td>Debt to equity (ratio)</td>
<td>46 : 54</td>
<td>40 : 60</td>
<td>48 : 52</td>
<td>30 : 70</td>
<td>38 : 62</td>
<td>28 : 72</td>
</tr>
<tr>
<td>Leverage ratio (times)</td>
<td>1.37</td>
<td>1.46</td>
<td>2.13</td>
<td>1.24</td>
<td>1.99</td>
<td>1.54</td>
</tr>
<tr>
<td>Breakup value per share (Rs.)</td>
<td>29.73</td>
<td>28.04</td>
<td>28.82</td>
<td>22.4</td>
<td>18.55</td>
<td>15.90</td>
</tr>
<tr>
<td>Inventory turnover (times per year)</td>
<td>2.17</td>
<td>1.83</td>
<td>1.90</td>
<td>1.79</td>
<td>1.79</td>
<td>2.97</td>
</tr>
<tr>
<td>Interest cover (Rs.)</td>
<td>1.70</td>
<td>0.73</td>
<td>1.04</td>
<td>1.20</td>
<td>1.14</td>
<td>1.33</td>
</tr>
<tr>
<td></td>
<td>1.48</td>
<td>2.96</td>
<td>3.85</td>
<td>4.39</td>
<td>2.41</td>
<td>1.78</td>
</tr>
</tbody>
</table>
## Distribution of Revenue

### Wealth generated:
- Sales - Net: 6,628,341,926
- Other Income: 641,224,883
- Bought in material and Services: (3,489,154,158)
  
  **Total Wealth Generated**: 3,780,412,651

### Wealth Distribution / Allocation

- **To employees:** Salaries, wages and benefits: 872,559,303
- **To Government:** Income Tax, Custom Duty: 72,007,073
- **To Providers of Capital:**
  - Cash Dividend for 2006: 343,981,063
  - Dividend on preference shares: 59,221,006
  - Charges on borrowed Funds: 1,061,933,212
  - Profit retained: 1,079,452,501
  
  **Total Wealth Generated**: 3,780,412,651

## Shareholders’ Equity and Liabilities

<table>
<thead>
<tr>
<th>Shareholders equity</th>
<th>Long term liabilities</th>
<th>Current liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>26%</td>
<td>20%</td>
<td>32%</td>
</tr>
</tbody>
</table>

## Total Assets

<table>
<thead>
<tr>
<th>Property, plant and Equipment</th>
<th>Intangible Assets</th>
<th>Long term investments</th>
<th>Current Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>40%</td>
<td>33%</td>
<td>27%</td>
<td>0%</td>
</tr>
</tbody>
</table>
**Entity Rating From PACRA**  
(Pakistan Credit Rating Agency Ltd.)

- **Long Term**: A+ (Single A Plus)
- **Short Term**: A1 (A One)

**Instrument Rating**  
**Listed TFCs**  
*From PACRA*

- **AA– (Double A Minus)**

---

**Gross Sales**

**Profit as a Percentage of Sales**

**Operating Performance**

**Interest Coverage & Financial Leverage**

**Return on Equity & Capital Employeed**
Notice of Annual General Meeting

Notice is hereby given that the 15th Annual General Meeting of AZGARD NINE LIMITED (the “Company”) will be held on 31st March 2008 at 11.00 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 June 28, 2007;

2. To receive, consider and adopt the financial statements for the year ended December 31, 2007 together with Directors’ and Auditors’ Reports thereon;

3. To approve cash dividend @ 12.50 % (i.e. Rs.1.25 per ordinary share) as approved and recommended by the Board of Directors of the Company (the “Board”) and to approve prefer dividend already paid to the Preference Shareholders @ 8.95% as final dividend for the third year ending on September 24, 2007;

4. To consider re-appointment of M/s Rahman Sarfaraz Rahim Iqbal Rafiq, Chartered Accountants as external auditors for the financial year ending December 31, 2008 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

March 10, 2008
(Muhammad Ijaz Haider)
(Lahore) (Company Secretary)

NOTES:

1. The share transfer books of the Company will remain closed from March 25, 2008 to March 31, 2008. (both days inclusive).

2. The Preference Shareholders are not entitled to attend the meeting.

3. A share holder entitled to attend and vote at this meeting may appoint another share holder as his/her proxy to attend and vote on his/her behalf. The instrument appointing a Proxy and the power of attorney or other authority under which it is signed or a notarially certified copy of the power of attorney must be received at the Registered Office of the Company duly stamped, signed and witnessed not later than 48 hours before the meeting. An instrument of proxy applicable for meeting is attached herewith.

4. Share holders whose Shares are deposited with Central Depository System (CDS) are requested to bring their National Identity Card (NIC) along with their Account Number in CDS for verification. In case of corporate entity, the Board of Directors’ resolution/power of attorney with specimen signatures of the nominee shall be produced (unless it has been provided earlier) at the time of the meeting.

5. Incase of proxy for an individual beneficial owner of CDC, attested copies of beneficial owner’s NIC or passport, account and participant’s ID numbers must be deposited alongwith the form of proxy. Representative of corporate members should bring the usual documents required for such purpose.

6. Share holders are requested to notify any change in their addresses immediately.
Adopting the way of life of future for our people...
The Board of Directors along with the management team of the Company, Azgard Nine Limited, are pleased to present herewith the Annual Audited Financial Statements of the Company in respect of its financial year December 31, 2007, together with the Auditors’ Report thereon. 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. Following is the annual review of the Company’s operations:

**FINANCIAL HIGHLIGHTS OF Azgard Nine Limited [stand alone]**

The Board of Directors feels great pleasure in reporting another hallmark year in which the Company has successfully managed to maintain consistent growth. The financial results are as follows:

<table>
<thead>
<tr>
<th>Financial Results</th>
<th>2007 Rupees</th>
<th>2006 Rupees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales-Net</td>
<td>6,628,341,926</td>
<td>4,889,681,966</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>1,572,167,903</td>
<td>794,930,222</td>
</tr>
<tr>
<td>Financial Charges</td>
<td>(1,061,933,212)</td>
<td>(656,064,585)</td>
</tr>
<tr>
<td>Profit before Tax</td>
<td>1,151,459,574</td>
<td>1,260,083,804</td>
</tr>
<tr>
<td>Profit after Tax</td>
<td>1,079,452,501</td>
<td>1,144,514,722</td>
</tr>
</tbody>
</table>

Consolidated Results Including 100% Owned Subsidiary Pak American Fertilizers Limited and others.

<table>
<thead>
<tr>
<th>Financial Results</th>
<th>2007 Rupees</th>
<th>2006 Rupees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales-Net</td>
<td>12,308,604,885</td>
<td>6,504,962,162</td>
</tr>
<tr>
<td>Operating Profit</td>
<td>3,732,582,148</td>
<td>1,338,708,121</td>
</tr>
<tr>
<td>Financial Charges</td>
<td>(2,152,438,490)</td>
<td>(1,205,337,500)</td>
</tr>
<tr>
<td>Profit before Tax</td>
<td>1,916,323,994</td>
<td>213,981,561</td>
</tr>
<tr>
<td>Profit after Tax</td>
<td>1,453,488,184</td>
<td>155,524,264</td>
</tr>
</tbody>
</table>

**Capital Mix**

- **Debt** (Rs in million): 63% in 2003, 70% in 2004, 52% in 2005, 90% in 2006, 54% in 2007
- **Equity** (Rs in million): 37% in 2003, 30% in 2004, 48% in 2005, 10% in 2006, 46% in 2007
The Company’s Businesses

The Company’s two businesses – the Textile Apparel Chain, spanning from Cotton Yarn Spinning, denim fabrics to garments, and the Agrichemicals Business, ranging from Urea, DAP and MAP, saw a robust year despite the odds pitted against them in shape of the energy crisis, higher markup rates, increases in minimum wages and the ever-present political uncertainty in the country. The Company’s management, combining innovative strategies, aggressive marketing, creative synergy and visionary approach together with a lean organizational structure capable of efficient response, succeeded in establishing the Company’s Textile Apparel Chain as the largest Denim Products Business in the country, with sales to the tune of Rs.6,628,341,926. Similarly, the Agrichemicals Business also benefited by the management’s highly responsive approach, increasing its profits significantly since its acquisition from the Government of Pakistan.

Following are the synopses of the Company’s Businesses in 2007:

The Textile Apparel Chain

Spinning

Although initially the expectations were for a better year, these were dampened by the erroneous forecasts by almost all domestic spinners for an early bumper cotton crop of superior quality. Due to this error, cotton prices shot up unexpectedly. The division outperformed most of its competitors with its export markets in Far East, Egypt and South America, increasing the export sales by 350% in 2007 as compared to last year.

While 2008 again poses to be challenging, primarily owing to the high raw material prices, comparatively less productive workforce as compared to the major competing countries, rising fuel prices resulting in higher domestic and International freight costs, and probable rise in minimum wages, these factors are mitigated by our stronger business model within the Division and the Company. Investments are duly planned for the training of workforce to achieve the required skill levels, resulting in improved quality of our products and better machine efficiencies. Shifting from a local market which is primarily based on open credit to LC based export business is a major target for the upcoming year. Additionally, the Company would look for opportunities in some low cost based countries to put up new or shift partly existing manufacturing facilities to become more competitive internationally. International collaborations and acquisitions along with an aggressive international marketing setup underway at the group level will play a major role in taking us ahead of our competitors in near future.
Directors’ Report

Creating opportunities, generating improved performance and leaving the risks far behind...
**Denim**

As an established fashion forward denim fabric supplier, the business maintained its emphasis on product development during 2007. Its new products were well received in the market, creating inroads into branded customers. However, while its new customers have the potential to lift substantial volumes in the long run, the business was not able to increase its overall sales volume due to the global oversupply situation prevailing in the Denim fabric trade. Towards the end of the year, however, the business also established a sales office in Istanbul, Turkey in the effort to build direct relationships with key customers rather than relying on agents, and enhancing its presence in the Turkish market.

In face of the tough market conditions, as increasing prices was inexpedient, the business focused on operational efficiencies in order to curtail its costs. As a result of various measures targeted towards reduction in raw material conversion efficiencies, more judicious consumption of energy and shorter cash cycle, the business generated cash savings to the tune of Rs.115 M during FY07. To meet the customers’ requirement for faster speed to market, reduction in lead time by 5 days was also achieved, increasing its value proposition for the customers. The business also bolstered its human capital through the induction of best-in-class production personnel.

As the denim cycle is expected to take an upturn in Q4 2008, the Business is geared up to maximize it opportunities. The favorable demand supply situation along with the business’ wider customer base, stronger presence in the Turkish market and improved operational efficiencies provide an excellent platform for increased earnings in 2008. The key challenges for the business in achieving its targets, however, would be the rising cost of yarn and energy.

**Garments**

The year 2007 saw the Garments Division improve its production efficiency, technical capability, service to its European customers, and meet all its shipment targets. New customers looking for credible alternates to the Turkish, Tunisian and Moroccan manufacturers were added to its portfolio, more than doubling its sales from the previous year.

In fact, the Division showed an exemplary improvement in its export performance, crossing exports of more than US$ 50 million during the year. Although Pakistan Government’s support remained passive as in previous years, the majority of the exports were to the European Union, where the business competed with lower import duty regimes for African countries and zero duty nations such as Turkey. The cost of skilled and un-skilled labour continued to increase, putting pressure on margins compared to countries like Bangladesh which has a much lower labour cost.

The future outlook remains robust for the division with further emphasis on quality and service improvements along with an expanded European Sales team.

**The AgriChemicals Business**

The Company, through its wholly owned subsidiary, Pak American Fertilizers Limited (PAFL) with a name plate production capacity of 346,500 tons/year of prilled Urea and 198,000 M tons of Ammonia, is the fifth largest urea manufacturer with 8% market share. Post-acquisition, de-bottlenecking and process changes brought the production capacity to 107%, capitalizing on the growing Urea market in the country.
Directors’ Report

Plans to balance, modernize and rehabilitate (BMR) of its ammonia and urea plants to enhance urea and ammonia capacity to 135% of name plate capacity are currently underway. The first phase of revamp was completed in 2007 annual turnaround, with technology collaboration with Stamicarbon increasing plant efficiency and throughput. The revamp is estimated to be completed by mid of 2009 with an estimated cost of US$ 55 million.

Tara Brand - The subsidiary’s Tara brand was launched in January 2007 with full media advertising campaign in Punjab. The brand is now considered as the premium quality urea product in the country. The Company intends to further promote the brand by educating farmers about its potential benefits through local workshops followed by farm improvement programs.

DAP (Di-ammonium Phosphate) - Utilizing the Government’s significant subsidies to increase consumption of phosphatic fertilizers in Pakistan, PAFL imported DAP and entered the market, achieving annual turnover of Rs 1,962,704,977.00 and capturing 7% of the market share. Given the potential for DAP-based fertilizer sales in Pakistan, the Company will continue to increase market share and access the phosphatic market more aggressively.

MAP - (Mono Ammonium Phosphates) – Capitalizing on an emerging fertilizer in the phosphates category that is preferred by the market over other phosphates fertilizers due to its better chemical characteristics, PAFL launched MAP under its umbrella brand - ‘TARA MAP’ in September 2007.

Furthermore, major financial restructuring of PAFL’s long term loans to the tune of Rs 8.4 billion is another milestone achieved in the year, ensuring cost savings of over Rs. 100 million per annum and playing a key role in its long term strategy to meet the ever increasing demands of urea and phosphate fertilizers by providing quality and quantity.

Projects

The Division addresses the expansion and diversification resulting from the Company’s growth as the largest Denim Products Business. The year saw various challenges in shape of planning and execution of various small and large scale projects in addition to providing broad spectrum operational support services and maintenance to the Textile Apparel Chain and the Agrichemicals Business, resolving any issues internally. To effectively deal with the power crisis
rampant in the country, innovative energy management strategy has been devised for next year.

**Human Capital**

The Company considers its people as its most valuable asset who ultimately determine its success. The Company’s policies ensure fair and equal treatment for all without regard to race, religion, political convictions or gender. Systems, such as attractive packages that in turn attract outstanding talent, together with promotion of a work atmosphere where employee contribution and performance are recognized and rewarded, have been put in place.

**Information Technology**

The Company has developed and upgraded its management information systems. IT infrastructure continues to utilize state of the art equipment and high speed radio link with the head office and Manga site. Plans are underway to connect the Mianwali site with the head office as well as to continue with the remaining phases of the Enterprise Resource Planning.

**Safety, Health and Environment**

The Company strictly complies with the rules, regulations and standards of health, safety and environment. It continues its social and environmental responsibility to manage and reduce environmental impacts to the climate, aiming always to ensure the safety of its operations and compliance with all applicable legal requirements, working diligently to reduce emissions and waste from its products and processes. The Company’s safe operations are certified by several international accrediting agencies including ISO 9001, ISO 14001, Oeko tex 100, Organic Exchange, Gotf (Global Organic Textile Standards), SA 8000 (Social Accountability Standards) as well as BFCI which is in its final audit.

**Earning Per Share**

The earning per share of the Company for the year ended December 31, 2007 was Rs. 3.26.
Directors’ Report

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, 2007 except for those disclosed in the financial statements.
• The value of the provident fund investments as on December 31, 2007 was Rs.79.859 million (December 31, 2006: 42.795 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.

Dividend

The Directors are pleased to recommend payment of cash dividend @ 12.5% (i.e. Rs. 1.25 per share) to the Ordinary Shareholders of the Company subject to the approval of the members of the Company in their meeting scheduled for March 31, 2008.

The Company has already paid interim preferred dividend to the Preference Shareholders for the third year ending September 24, 2007 @ 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 third year ending September 24, 2007.

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, six meetings of the Board of Directors were held and the attendance by each director is as under:

<table>
<thead>
<tr>
<th>Name of Directors</th>
<th>Eligibility</th>
<th>Attended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr. Mueen Afzal</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>Mr. Ahmed H. Shaikh</td>
<td>6</td>
<td>6</td>
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<tr>
<td>Chief Justice (R) Mian Mahboob Ahmad</td>
<td>6</td>
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<tr>
<td>Mr. Aehsun M. H. Shaikh</td>
<td>6</td>
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<td>Mr. Ali Jehangir Siddiqui</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>Mr. Khalid A.H. Al-Sagar</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>Mr. Mohammed Khaishgi</td>
<td>6</td>
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</tbody>
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Leave of absence was granted to the members who could not attend the meetings.

Consolidated Financial statements

Consolidated financial statements of the Company and its following subsidiary companies are also included in this report.

- Pak American Fertilizers Limited
- Nafees International Tekstil Sanays Ve Ticaret Anonim Sirket
- Azsoft (Private) Limited

Auditors

Messrs Rahman Sarfaraz Rahim Iqbal Rafiq & Company, a reputable Chartered Accountants firm completed its tenure of appointment with the Company and being eligible has offered its services for another term. The Audit Committee and the Board has also recommended their re-appointment as External Auditors of the Company for the next financial year 2008.

Shareholding Pattern

The shareholding pattern as at December 31, 2007 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 Azgard9 website www.azgard9.com for information of the shareholders and others.

Acknowledgement

The Board takes this opportunity to thank the Company’s valued customers and the financial institutions whose faith and support over the years has cultivated a mutually profitable 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

March 07, 2008
Giving the earth our trust, our faith and our energy to keep it fertile...