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 referred as the "Group") as at 31 December 2007 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 and Azsoft (Private) Limited 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 2007 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
(Formerly: Rahman Sarfaraz & Co.)
Chartered Accountants

LAHORE.
Date: 7 March 2008

Consolidated Balance Sheet

As at 31 December, 2007

	Note	31 December 2007 Rupees	31 December 2006 Rupees
EQUITY AND LIABILITIES			
Share capital and reserves			
Issued, subscribed and paid–up capital	5	3,788,822,900	3,788,838,900
Reserves	6	3,984,215,478	3,576,296,807
Unappropriated profit		1,556,263,534	586,927,936
		9,329,301,912	7,952,063,643
Minority interest	7	1,793	1,763,586
Surplus on revaluation of property, plant and equipment		239,073,077	257,360,867
Non–current liabilities			
Redeemable capital	8	10,404,259,542	7,712,953,464
Long term finances	9	2,973,551,252	3,519,216,988
Liabilities against assets subject to finance lease	10	32,507,391	17,084,358
Long term payables	11	31,135,199	1,643,889
Deferred taxation	12	1,811,694,727	1,451,288,758
		15,253,148,111	12,702,187,457
Current liabilities			
Current portion of non–current liabilities	13	986,968,631	1,491,041,799
Short term borrowings	14	4,442,219,557	6,386,699,317
Derivative financial liabilities	15	34,369,582	32,021,606
Trade and other payables	16	2,928,160,558	1,233,421,910
Mark up accrued on borrowings	17	473,174,881	468,744,586
Unclaimed dividend		9,694,014	22,312,061
		8,874,587,223	9,634,241,279
Contingencies and commitments	18	–	–
		33,696,112,116	30,547,616,832

The annexed notes 1 to 50 form an integral part of these financial statements.

Lahore CHIEF EXECUTIVE DIRECTOR

	Note	31 December 2007 Rupees	31 December 2006 Rupees
ASSETS			
Non–current assets			
Property, plant and equipment	19	20,081,750,375	19,835,155,084
Capital work in progress	20	401,285,046	83,694,940
Intangible assets	21	3,762,203,525	3,771,605,665
Long term investments	22	100,923	49,088
Long term deposits	23	28,253,239	24,260,779
Long term advances	24	15,807,453	8,895,733
		24,289,400,561	23,723,661,289
Current assets			
Stores, spares and loose tools	25	782,565,098	786,465,318
Stock in trade	26	2,532,099,663	2,117,533,944
Trade receivables	27	2,366,279,392	1,520,389,291
Derivative financial assets	28	849,253,210	555,680,244
Advances, deposits, prepayments and other receivables	29	1,283,185,773	684,561,356
Current tax asset	30	80,352,096	26,358,429
Short term investments	31	882,894,125	–
Cash and bank balances	32	630,082,198	1,132,966,961
		9,406,711,555	6,823,955,543
		33,696,112,116	30,547,616,832

Lahore

CHIEF EXECUTIVE

DIRECTOR

Consolidated Profit and Loss Account

For the year ended 31 December 2007

	Note	31 December 2007 Rupees	31 December 2006 Rupees
Sales – Net	33	12,308,604,885	6,504,962,162
Cost of sales	34	(7,734,220,681)	(4,612,158,170)
Gross Profit		4,574,384,204	1,892,803,992
Administrative and selling expenses	35	(841,802,056)	(554,095,871)
Operating profit		3,732,582,148	1,338,708,121
Other income – Net	36	336,180,336	80,810,940
Finance cost	37	(2,152,438,490)	(1,205,537,500)
Profit before taxation		1,916,323,994	213,981,561
Provision for taxation	38	(462,835,810)	(58,457,297)
Profit after taxation		1,453,488,184	155,524,264
Profit after taxation attributable to:			
Equity holders of the Parent		1,455,249,977	155,520,196
Minority interest		(1,761,793)	4,068
		1,453,488,184	155,524,264
Earning per share – basic	39	4.46	0.44
Earning per share – diluted	39	4.40	0.44

The annexed notes 1 to 50 form an integral part of these financial statements.

Lahore | CHIEF EXECUTIVE | DIRECTOR

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Note	31 December 2007 Rupees	31 December 2006 Rupees
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	41	4,339,900,089	1,879,292,281
Finance cost paid		(2,147,689,356)	(787,256,965)
Taxes paid		(156,423,508)	(83,852,573)
Contribution to Workers' Profit Participation Fund		(68,309,853)	(26,706,640)
Net cash flow from operating activities		1,967,477,372	981,476,103
CASH FLOW FROM INVESTING ACTIVITIES			
Capital expenditure		(1,244,763,080)	(2,447,405,767)
Development costs		(7,093,393)	(2,880,882)
Proceeds from disposal of property, plant and equipment		7,149,173	20,484,011
Purchase of long term investments		–	(15,403,434,688)
Losses of Dominion Fertilizers (Private) Limited at the time of merger with Pak American Fertilizers Limited		–	(231,789,693)
Purchase of short term investments		(4,520,483,703)	(7,846,369,125)
Proceeds from sale of short term investments		4,015,702,570	8,674,258,870
Return on investment in term finance certificates		–	4,206,768
Dividend received		–	6,079,924
Interest on bank deposits		33,095,800	18,313,547
Net cash used in investing activities		(1,716,392,633)	(17,208,537,035)
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from issue ordinary shares net of transaction costs		–	4,613,243,521
Proceeds from issue of term finance certificates net of transaction costs		8,381,866,670	6,486,000,000
Redemption of term finance certificates		(6,549,357,468)	(63,357,468)
Proceeds from long term finances		608,000,000	3,307,350,000
Repayment of long term finances		(778,404,971)	(116,666,666)
Repayment of liabilities against assets subject to finance lease		(55,773,757)	(37,996,495)
Net (decrease) / increase in short term borrowings		(1,944,479,760)	3,313,715,305
Dividend paid		(415,820,216)	(188,542,965)
Net cash (used in) / flow from financing activities		(753,969,502)	17,313,745,232
Net (decrease) / increase in cash and cash equivalents		(502,884,763)	1,086,684,300
Cash and cash equivalents at the beginning of the year		1,132,966,961	46,282,661
Cash and cash equivalents at the end of the year	42	630,082,198	1,132,966,961

The annexed notes 1 to 50 form an integral part of these financial statements.

Lahore CHIEF EXECUTIVE DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Note	Share Capital			Reserves										
		Ordinary shares	Preference shares	Total	Share premium	Hedging reserve	Translation reserve	Reserve on merger	Preference share 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													
As at 31 December 2005		868,654,340	868,654,340	1,737,308,680	71,657,838	13,458,916	27,878	105,152,005	212,500,000	562,710	403,359,347	953,107,593	3,093,775,620	278,943,671	1,759,518
Ordinary shares issued during the year	5.1	2,117,743,350	–	2,117,743,350	2,530,703,303	–	–	–	–	–	2,530,703,303	–	4,648,446,653	–	–
Conversion of preference shares into ordinary shares	5.2	140,702,880	(206,916,010)	(66,213,130)	66,213,130	–	–	–	–	–	66,213,130	–	–	–	–
Surplus on revaluation of property, plant and equipment transferred to unappropriated profit															
on account of incremental depreciation		–	–	–	–	–	–	–	–	–	–	17,583,248	17,583,248	(17,583,248)	–
on account of disposal of revalued items of property, plant and equipment		–	–	–	–	–	–	–	–	–	–	3,999,556	3,999,556	(3,999,556)	–
Losses of Dominion Fertilizers (Private) Limited at the time of merger with Pak American Fertilizers Limited		–	–	–	–	–	–	–	–	–	–	(231,789,693)	(231,789,693)	–	–
Profit for the year ended 31 December 2006		–	–	–	–	–	–	–	–	–	–	155,520,196	155,520,196	–	4,068
Profit transferred to preference shares redemption reserve		–	–	–	–	–	–	–	101,000,000	–	101,000,000	(101,000,000)	–	–	–
Expenses incurred on issue of ordinary shares		–	–	–	(35,203,132)	–	–	–	–	–	(35,203,132)	–	(35,203,132)	–	–
Final dividend on ordinary shares for the year ended 31 December 2005		–	–	–	–	–	–	–	–	–	–	(151,267,383)	(151,267,383)	–	–
Preference dividend for the year ended 31 December 2006		–	–	–	–	–	–	–	–	–	–	(59,225,581)	(59,225,581)	–	–
Net increase in fair value of derivative financial instruments		–	–	–	–	510,199,721	–	–	–	–	510,199,721	–	510,199,721	–	–
Surplus on revaluation of investments available for sale		–	–	–	–	–	–	–	–	24,438	24,438	–	24,438	–	–
As at 31 December 2006		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	5.2	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 on 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

The annexed notes 1 to 50 form an integral part of these financial statements.

Lahore

CHIEF EXECUTIVE

DIRECTOR

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

1 REPORTING ENTITY

The Group consists of the following companies:

Parent Company

Azgard Nine Limited ("ANL") is incorporated in Pakistan as 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.

Subsidiary Companies

Pak American Fertilizers Limited ("PAFL") is incorporated in Pakistan as 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 15 July 2006. Accordingly 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 2006 include results of PAFL for the period from 01 July 2006 to 31 December 2006.

Azsoft (Private) Limited ("APL") is incorporated in Pakistan as Private Limited Company and is engaged in development, implementation and sale of software products and provision of related services. Proportion of interest held by ANL is 99.90%. APL was acquired on 05 October 2004.

Nafees International Tekstil Snayi Ve Ticaret Anonim Sirket ("NIT") is incorporated in Turkey and is engaged in sale of demin 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.

2.2 Basis of measurement

These accounts 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.

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.

2.4 Functional currency

These financial statements are 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 the 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.

3.2 Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses with the exception of freehold land measured at revalued amount, and, plant and machinery and building measured at revalued amount less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the item.

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, 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:

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

PAFL during the year has revised its estimate of use ful lives of building on freehold land and plat nad machinery from 20 years to 50 years. The change in estimated useful lives has resulted in depreciation charge lower by Rs. 205 million.

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.

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 nad 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 management of 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 impairments losses, if any.

All intangible assets, with the exception of goodwill, 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.

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 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.

3.8 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 weighted 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.

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

3.14 Investments available for sale

The Group's investments in certain equity instruments 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 assets is recognized in profit or loss.

3.15 Investments at fair value through profit or loss

An investment is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Investments are designated as at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions on their fair value in accordance with the Group's documented risk management and investment strategy. Upon initial recognition, investments at fair value through profit or loss are measured at cost being the fair value of the consideration paid for the acquisition of the asset. Transactions costs are recognized in profit or loss when incurred. Subsequent to initial recognition these are measured at fair value, and changes therein are 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 the Group has the positive intention and ability to hold to maturity. These are measured at amortized cost using the effective interest method, less any impairment losses.

3.17 Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency and interest risk exposures. Derivatives are recognized initially at fair value, with attributable transaction cost 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.

3.18 Regular way purchase and sale of financial assets

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

3.19 Borrowings

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

3.20 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 Company recognizes depreciation in profit or loss by applying reducing balance method over the useful life of each asset using rates specified in note 18 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.

3.21 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 ("IASs"). 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

Defined contribution plan

ANL operates an approved defined contributory provident fund for its employees excluding expatriates. Equal contributions are made by ANL 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 the Company 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.

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 15.3 to the financial statements.

3.22 Trade and other payables

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

3.23 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.

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

Surplus arising on revaluation of items of property, plant and equipment is credited directly to 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 suplus revalution of property, plant and equipment to unappropriated profit every year.

3.25 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 risk and rewards incidental to the ownership of goods are transferred to the buyer. Transfer of risk 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.

Interest on saving accounts is recognized as and when accrued on time proportion basis

3.26 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 the profit or loss as incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3.27 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.

3.28 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 higher of the taxable income at current rates of taxation in Pakistan after taking into account tax credits, rebates and exemptions available, if any, or 0.5% of turnover. 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 method 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 taxable temporary differences. A deferred tax assets is recognized for 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 temporary 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.

3.29 Earnings per share (EPS)

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

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 that would result from conversion of all dilutive potential ordinary shares into ordinary shares.

3.30 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.

3.31 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 at the reporting date are translated to the functional currency at exchange rate at that 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 that 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 transaction. Any gain or loss arising on translation of foreign currency transactions and balances is recognized in profit or loss. Gain or loss arising on translation of financial statements of forigen subsidiary are recognized in equity.

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

3.33 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.

3.34 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.

3.35 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.

3.36 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, however, it is not expected to have any material impact on the Group's financial statements since the Group is already following "management approach" to segment reporting.

IAS 23 - Borrowing Costs (Revised)

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.

IFRIC 11 IFRS 2 - Group and Treasury Share Transactions

This interpretation requires share-based payment arrangements in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instruments are obtained. The interpretation is effective for the periods beginning on or after 01 January 2008, with retrospective application required. However, it is not expected to have any impact on the Group's financial statements.

IFRIC 12 Service Concession Arrangements

This interpretation provides guidance on certain recognition and measurement issues that arise in accounting for public-to-private service concession arrangements. The interpretation is effective for the periods beginning on or after 01 January 2008, with retrospective application required. However, it is not expected to have any impact on the Group's financial statements.

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.

IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction

This interpretation clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. The interpretation is effective for the periods beginning on or after 01 January 2008, with retrospective application required. The Group has not yet determined the potential effect of the interpretation.

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

The Group has adopted during the year the amendments to IAS 1 - Presentation of Financial Statements regarding "Capital Disclosures" issued in August 2005 which require an entity to disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital. These amendments were effective for periods beginning on or after 01 January 2007.

The Group has not adopted IFRS 7 - Financial Instruments Disclosures which is effective for the current period, since notification from the Securities and Exchange Commission of Pakistan ("SECP") regarding applicability and adoption of this standard is still awaited. The adoption of this standard would impact the financial statements of the Group to the extent of disclosures only.

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 return on capital and level of dividends to ordinary shareholders are monitored. 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. 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

		31 December 2007 Rupees	31 December 2006 Rupees
5	**SHARE CAPITAL**		
	Authorized shared capital		
	Ordinary shares of Rs. 10 each		
	900,000,000 (2006: 900,000,000) voting shares	9,000,000,000	9,000,000,000
	300,000,000 (2006: 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 (2006: 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		
	Ordinary shares of Rs. 10 each		
	249,625,392 (2006: 249,621,992) shares each fully paid in cash	2,496,253,920	2,496,219,920
	12,276,073 (2006: 12,276,073) shares issued as consideration for machinery	122,760,730	122,760,730
	50,811,992 (2006: 50,811,992) shares issued as consideration for merger	508,119,920	508,119,920
		3,127,134,570	3,127,100,570
	Preference shares of Rs. 10 each		
	66,168,833 (2006: 66,178,330) shares each fully paid in cash	661,688,330	661,738,330
		3,788,822,900	3,788,838,900

5.1 Movement in number of ordinary shares in issue during the year

	Note	31 December 2007 No. of shares	31 December 2006 No. of shares
As at beginning of the year		312,710,057	86,865,434
Issued during the year			
Conversion of preference shares into ordinary shares	5.1.1	3,400	14,070,288
Right issue	5.1.2	–	211,774,335
		3,400	225,844,623
As at end of the year		312,713,457	312,710,057

5.1.1 During the year, preference shareholders converted 3,400 preference shares (2006: 14,070,288 preference shares) into ordinary shares at 6.8 ordinary shares for every 10 preferences shares held.

5.1.2 During the year ended 31 December 2006, ANL issued 21 right shares for every 10 ordinary shares held.

5.2 Movement in number of preference shares in issue during the year

	Note	31 December 2007 No. of shares	31 December 2006 No. of shares
As at beginning of the year		66,173,833	86,865,434
Conversion of preference shares into ordinary shares	5.1.1	(5,000)	(20,691,601)
As at end of the year		66,168,833	66,173,833

These preference shares were issued by ANL during year ended 30 September 2004 and are non-voting, non-participatory, partly convertible, cumulative preference shares 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 ANL 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.
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 ANL, 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 ANL to be determined at that time.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2007

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. Preference shareholders exercising 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

ANL 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 2007 Rupees	31 December 2006 Rupees
6	**RESERVES**			
	Share premium		2,633,387,139	2,633,371,139
	Hedging reserve	6.1	831,061,034	523,658,637
	Translation reserve	6.2	33,041	27,878
	Reserve on merger	6.3	105,152,005	105,152,005
	Preference shares redemption reserve	6.4	414,500,000	313,500,000
	Surplus on revaluation of investments available for sale		82,259	587,148
			3,984,215,478	3,576,296,807

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 gain of Rs. 307,402,397 has been recognised by the Company in equity as hedging reserve. The gain represents increase in fair value of the derivative financial instruments. Refer note 15 and 28 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 the Company as required to be created and maintained under the terms of issue. Refer note 5.2 to the financial statements for details.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

		Note	31 December 2007 Rupees	31 December 2006 Rupees
7	**MINORITY INTEREST**			
	Azsoft (Private) Limited	7.1	1,793	1,822
	Nafees International Tekstil Sanayi Ve Ticaret ANONIM SIRKETI	7.2	–	1,761,764
			1,793	1,763,586
7.1	**Azsoft (Private) Limited**			
	As at beginning of the year		1,822	1,998
	Share of loss for the year		(29)	(176)
	As at beginning of the year		1,793	1,822
7.2	**Nafees International Tekstil Sanayi Ve Ticaret ANONIM SIRKETI**			
	As at beginning of the year		1,761,764	1,757,520
	Share of (loss) / profit for the year		(1,761,764)	4,244
	As at beginning of the year		–	1,761,764
8	**REDEEMABLE CAPITAL**			
	Issued by ANL			
	Term Finance Certificates (TFCs) – I	8.1	125,000,000	187,500,000
	Term Finance Certificates (TFCs) – II	8.2	2,141,955,064	2,142,812,532
	Term Finance Certificates (TFCs) – III	8.3	2,500,000,000	–
	Less: Transaction costs		33,187,500	–
			4,733,767,564	2,330,312,532
	Issued by PAFL			
	Term Finance Certificates (TFCs) – I	8.4	–	4,800,000,000
	Term Finance Certificates (TFCs) – II	8.5	–	1,686,000,000
	Term Finance Certificates (TFCs) – III	8.6	4,438,539,775	–
	Term Finance Certificates (TFCs) – IV	8.7	1,500,000,000	–
	Less: Transaction costs		23,485,605	–
			5,915,054,170	6,486,000,000
	Less: Current maturity shown under current liabilities		244,562,192	1,103,359,068
			10,404,259,542	7,712,953,464

8.1 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

ANL 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 ANL exercises the call / partial call option with thirty months from the date of issue, ANL 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%.

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

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 ANL'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 ANL.

Security

The finance is secured by first pari passu charge over present and future property, plant and equipment of ANL.

8.2 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%.

ANL has entered into two cross currency interest rate swap contracts with ABN AMRO Bank, one for a notional amount of EURO 14.925 million on which ANL is liable to pay mark up at fixed EURIBOR of 5.215% plus 2.40%and the other for a notional amount of US $ 17.94 million on which mark up is payable at Fixed LIBOR of 6.915% plus 2.40%.

Conversion option

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 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 ANL and trustee. In case of existent established market for the ANL'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. The TFC holders have not exercised nor have they given any notice to exercise such rights of conversion as on the date these financial statements were authorized for issue by the Board of Directors of ANL.

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 ANL'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 ANL.

Security

The finance is secured by first pari passu charge over present and future property, plant and equipment of ANL.

8.3 These have been issued by way of private placements for redemption of short term privately placed term finance certificates as referred to in note 14.1 to the financial statements. 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%.

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 ANL'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 ANL.

Security

The finance is secured by hypothecation charge over property, plant and equipment of ANL and mortgage over specific land and building of ANL ranking subordinate to charges already created in favour of senior creditors.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

8.4 These were issued by way of private placements with a consortium of investors. The total issue comprised of 6,900 TFCs having face value of Rs. 1,000,000 each. The entire issue has been redeemed during the year by issuing new term finance certificates as referred to in note 8.6 to the financial statements. The issue was secured by first pari passu charge over present and future property, plant and equipment of PAFL.

8.5 These were issued by way of private placements with a consortium of investors. The total issue comprised of 1,686 TFCs having face value of Rs. 1,000,000 each. The entire issue has been redeemed during the year by issuing new term finance certificates as referred to in note 8.7 to the financial statements. The issue was secured by first pari passu charge over present and future property, plant and equipment of PAFL.

8.6 These have been issued by way of private placements with a consortium of investors for redemption of priavtely placed term finance certificates as referred to in note 8.4 to the financial statements. 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

PAFL 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%.
PAFL has entered into a cross currency interest rate swap contract with Citi Bank N.A. whereby PAFL is actually liable to pay markup at six months LIBOR plus 2.64%.

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 PAFL'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 PAFL.

Security

The finance is secured by first pari passu charge over present and future property, plant and equipment of PAFL

8.7 These have been issued by way of private placements with a consortium of investors for redemption of priavtely placed term finance certificates as referred to in note 8.5 to the financial statements. 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

PAFL 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%.

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 finance is secured by first pari passu charge over present and future property, plant and equipment of the PAFL.

		Note	31 December 2007 Rupees	31 December 2006 Rupees
9	**LONG TERM FINANCES - SECURED**			
	These represent long term finances utilized under markup arrangements			
	From banking companies			
	Habib Bank Limited ("HBL")	9.1	50,000,000	200,000,000
	United Bank Limited ("UBL")	9.2	125,000,000	200,000,000
	Citi Bank N.A - I	9.3	66,666,668	133,333,334
	Citi Bank N.A - II	9.4	–	600,000,000
	Citi Bank Bahrain	9.5	577,031,250	–
	National Bank of Pakistan ("NBP")	9.6	1,500,000,000	1,500,000,000
	Deutsche Investitions - Und MBH	9.7	1,361,550,000	1,207,350,000
	Faysal Bank Limited ("FBL")	9.8	7,477,167	17,446,722
			3,687,725,085	3,858,130,056
	Less: Current maturity shown under current liabilities	13	714,173,833	338,913,068
			2,973,551,252	3,519,216,988

	Security and repayment	Mark up rate on LTF-EOP	Mark up rate on Non LTF-EOP
9.1	The finance has been obtained from a consortium of banks led by HBL for import of plant and machinery and is secured by first pari passu charge of Rs. 779 million (2006: Rs. 779 million) over fixed assets (comprising land, building, plant and machinery) of the ANL through equitable mortgage on land and building and hypothecation of plant and machinery. The finance is repayable in ten equal semi-annual installments commenced since December 2003. During the year ended 31 December 2006, a portion of finance of Rs. 20 million representing share of Saudi Pak Commercial Bank Limited in the consortium 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	Six months KIBOR plus 2.8% (2006: six months KIBOR plus 2.8%) per annum.
9.2	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 (2006: Rs.267 million) over fixed assets (comprising land, building, plant and machinery) of the ANL 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	Three months KIBOR plus 1.75% (2006: three months KIBOR plus 1.75%) per annum.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

Security and repayment	Mark up rate on LTF-EOP	Mark up rate on Non LTF-EOP
The Group has entered into a cross currency interest rate swap contract with Standard Chartered whereby the Group is actually liable to pay markup at three months EURIBOR less 0.25%.		
9.3 The finance has been obtained from Citi Bank N.A for import of plant and machinery and is secured by first pari passu charge of Rs. 250 million (2006: Rs. 250 million) over fixed assets (comprising land, building, plant and machinery) of the ANL and demand promissory notes. The finance is repayable in six equal semi-annual installments commenced since February 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.	6% per annum	Six months KIBOR plus 1.75% (2006: 8%) per annum.
The Group has entered into a cross currency interest rate swap contract with Standard Chartered whereby the Group is actually liable to pay markup at six months EURIBOR.		
9.4 The finance was obtained from Citi Bank N.A to finance the acquisition of Pak American Fertilizers Limited and was 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 ANL through mortgage over land and building and hypothecation of plant and machinery, investments of the ANL and pledge of securities. The finance was repayable in sixteen equal quarterly installments commencing from October 2007, however in February 2007 the ANL swapped the entire finance with Citibank Bahrain. Refer note 9.5 for details.		Three months KIBOR plus 3.25% (2006: three months KIBOR plus 3.25%) per annum.
9.5 This represents finance of US $ 10 million obtained from Citi Bank Bahrain to repay the finance of Rs. 600 million obtained from Citi Bank N.A (refer note 9.4) 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 ANL through mortgage over land and building and hypothecation of plant and machinery, investments of the ANL and pledge of securities. The finance is repayable in sixteen equal quarterly installments commencing from October 2007.		Three months LIBOR plus 4% (2006: three months LIBOR plus 4%) per annum.
9.6 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 (2006: Rs. 2,000 million) over fixed assets (comprising land, building, plant and machinery) of the ANL through mortgage over land and building and hypothecation of plant and machinery, ranking hypothecation charge over current assets of the ANL and pledge of securities. The finance is repayable in twelve equal semi-annual installments commenced since January 2008.		Six months KIBOR plus 3.25% (2006: six months KIBOR plus 3.25%) per annum.

Security and repayment	Mark up rate on LTF-EOP	Mark up rate on Non LTF-EOP

The Group has entered into a cross currency interest rate swap contract with Citi Bank whereby the Group is actually liable to pay markup at six months USDLIBOR plus 4.75%.

9.7 This represents finance of Euro 15 million obtained from Deutsche Investitions - Und MBH to finance the setup of new spinning, denim and garments projects and is secured by first pari passu charge of EURO 20 million (2006: EURO 20 million) over land and building and all movable assets of the ANL. The finance is repayable in ten equal semi-annual installments commencing from August 2008.		Six months EURIBOR plus 3.25% (2006: six months EURIBOR plus 3.25%) per annum.

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

9.8 The finance has been 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 is repayable in seven unequal quarterly installments commenced since March 2007.	6% per annum	

	Note	31 December 2007 Rupees	31 December 2006 Rupees
10 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE			
Present value of minimum lease payments		60,739,997	65,854,021
Less: Current portion shown under current liabilities	13	28,232,606	48,769,663
		32,507,391	17,084,358

This represents 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 % (2006: 5.5% to 13.46 %) 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. The amount of future payments under the lease and the period in which these payments will become due are as follows:

	31 December 2007 Rupees	31 December 2006 Rupees
Not later than one year	44,325,557	55,992,001
Later than one year but not later than five years	37,105,111	21,543,268
Total future minimum lease payments	81,430,668	77,535,269
Less: finance charge allocated to future periods	10,885,561	6,747,198
Less: security deposits adjustable on expiry of lease term	9,805,110	4,934,050
Present value of future minimum lease payments	60,739,997	65,854,021
Not later than one year	28,232,606	48,769,663
Later than one year but not later than five years	32,507,391	17,084,358

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

11 LONG TERM PAYABLES

These included deposits received from customers and retention money payable to contractors

		Note	31 December 2007 Rupees	31 December 2006 Rupees
12	**DEFERRED TAXATION**			
	This comprises the following:			
	Deferred tax liability on taxable temporary differences			
	Accelerated tax depreciation		3,100,535,959	3,045,700,995
	Assets subject to finance lease		158,601	269,017
	Deferred tax asset on deductible temporary differences			
	Unused tax losses		(1,288,999,833)	(1,594,681,254)
			1,811,694,727	1,451,288,758
13	**CURRENT PORTION OF NON–CURRENT LIABILITIES**			
	Redeemable capital	8	244,562,192	1,103,359,068
	Long term finances utilized under mark up arrangements	9	714,173,833	338,913,068
	Liabilities against assets subject to finance lease	10	28,232,606	48,769,663
			986,968,631	1,491,041,799
14	**SHORT TERM BORROWINGS**			
	Short term privately placed term finance certificates	14.1	–	2,500,000,000
	Short term finances utilized under mark up arrangements	14.2	4,442,219,557	3,886,699,317
			4,442,219,557	6,386,699,317

14.1 Short term privately placed term finance certificates

These certificates were issued by ANL by way of private placements with a consortium of institutional investors to finance the acquisition of Pak American Fertilizers Limited. The total issue comprised of 500,000 certificates having face value of Rs. 5,000 each. These certificates were redeeemd during the year by issuing new term finance certificates as referred to in note 8.3 to the financial statements The issue was secured by ranking charge over present and future fixed assets (comprising land, building, plant and machinery) of ANL. These certificates carried return payable on quarterly basis at six months KIBOR plus 3 % per annum.

14.2 Short term finances utilized under mark up arrangements

From banking companies

	Sanctioned limit Rs. in million 31 December 2007	Sanctioned limit Rs. in million 31 December 2006	Note	31 December 2007 Rupees	31 December 2006 Rupees
Secured					
Running finance			14.2.1	957,988,033	1,355,982,876
Cash finance			14.2.1	306,024,731	878,120,528
Export refinance			14.2.1	652,050,000	795,922,000
Finance against foreign bills			14.2.1	79,805,428	217,969,217
Foreign currency finance	8,318	5,775	14.2.1	372,990,209	91,146,603
Morabaha LPO			14.2.1	80,552,000	93,542,000
Finance against trust receipt			14.2.1	9,315,814	11,467,947
Term finance			14.2.1	–	428,639,003
Finance against imported merchandise			14.2.1	59,357,861	13,909,143
				2,518,084,076	3,886,699,317
Unsecured					
Commercial paper	2,000	–	14.2.2	1,924,135,481	–
				4,442,219,557	3,886,699,317

14.2.1 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. 7,248 million (2006: Rs. 5,347 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% to 3% (2006: one to six months KIBOR plus 1% to 3%) per annum. Foreign currency finances carry mark up at rates ranging from LIBOR of matching tenure plus 1% to 2.5% (2006: LIBOR of matching tenure 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 1.5% per annum.

Limits available for opening of letters of credit / guarantee amount to Rs. 5,800 million (2006: Rs. 2,346 million) of which the limits remaining unutilized as at the reporting date amount to Rs. 3,126 million (2006: Rs. 857 million). These carry commission at 0.05% to 0.15% per quarter.

The unavailed funded facilities as at the reporting date amount to Rs. 5,620 million (2006: Rs. 1,888 million).

14.2.2 These have been 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 issue was made at a discount to the face value calculated on the basis of the indicative profit rate of nine months average KIBOR plus 1.95% to 3 % and is redeemable at face value on maturity on various dates latest by July 2008. The issue is unsecured.

14.2.3 The Group has entered into a cross currency interest rate swap contract with Citi Bank N.A to cover various short term finance facilities for a notional amount of Rs. 1,500 million whereby the Group is liable to pay interest at six months LIBOR.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

			Note	31 December 2007 Rupees	31 December 2006 Rupees
15	**DERIVATIVE FINANCIAL LIABILITIES**				
	Instruments accounted for as cash flow hedge				
	Finance obtained from	**Swapped with**			
	Privately placed TFCs	Citi Bank N.A		481,768	621,936
	Citi Bank N.A	Standard Chartered Bank		7,818,845	1,128,096
	Citi Bank N.A	Citi Bank N.A		–	722,198
	Short term borrowings	Citi Bank N.A		–	29,549,376
	Privately placed TFCs	Standard Chartered Bank		9,891,562	–
				18,192,175	32,021,606
	Instruments accounted for as fair value hedge				
	Finance obtained from	**Swapped with**			
	United Bank Limited	Standard Chartered Bank		16,177,407	–
				34,369,582	32,021,606

		Note	31 December 2007 Rupees	31 December 2006 Rupees
16	**TRADE AND OTHER PAYABLES**			
	Trade creditors		825,246,231	597,981,745
	Bills payable		1,594,052,286	195,065,104
	Accrued liabilities		276,999,085	184,473,060
	Termination benefits payable		993,340	17,082,880
	Security deposits		19,291,957	14,475,526
	Advances from customers		25,308,290	31,129,299
	Workers' profit participation fund	16.1	47,513,235	40,465,455
	Workers' Welfare Fund		20,000	20,000
	Sales tax payable		37,997,926	29,102,276
	Tax deducted at source		12,365,729	22,143,170
	Payable to gratuity trust	16.3	4,202,335	176,879
	Other payables		84,170,144	101,306,516
			2,928,160,558	1,233,421,910

		Note	31 December 2007 Rupees	31 December 2006 Rupees
16.1	**Workers' Profit Participation Fund (WPPF)**			
	As at the beginning of the year		40,465,455	58,058,046
	Interest on funds utilized in the Company's business	16.2	318,839	1,014,852
	Charged to profit or loss for the year		75,038,794	8,099,197
	Contributed to the fund during the year		(68,309,853)	(26,706,640)
			47,513,235	40,465,455

16.2 Interest on WPPF is charged at 14% (2006: 14%) per annum.

16.3 The amounts recognized in the balance sheet are as follows:

	Note	31 December 2007 Rupees	31 December 2006 Rupees
Present value of defined benefit obligation	16.3.1	24,157,547	21,488,314
Fair value of plan assets	16.3.2	(21,412,725)	(21,935,676)
Unrecognized actuarial gains / (losses)	16.3.3	1,457,513	624,241
		4,202,335	176,879

		Note	31 December 2007 Rupees	31 December 2006 Rupees
16.3.1	**Movement in present value of defined benefit obligation**			
	As at beginning of the year		21,488,314	–
	Acquired through business combination		–	55,495,499
	Charged to profit or loss	16.3.4	8,687,345	8,502,740
	Benefits paid during the year		(3,820,606)	(42,271,220)
	Actuarial (gain) / loss arising during the year		(2,197,506)	(238,705)
	As at end of the year		24,157,547	21,488,314
16.3.2	**Movement in fair value of plan assets**			
	As at beginning of the year		21,935,676	–
	Acquired through business combination		–	52,058,831
	Contribution paid to the fund during the year		–	12,628,297
	Expected return on plan assets		5,205,882	2,602,942
	Benefits paid during the year		(3,820,606)	(42,271,220)
	Actuarial gain / (loss) arising during the year		(1,908,227)	(3,083,174)
	As at end of the year		21,412,725	21,935,676
16.3.3	**Movement in unrecognized actuarial gains / (losses)**			
	As at beginning of the year		624,241	–
	Actuarial gain / (loss) arising during the year			
	due to experience adjustments		(543,993)	(3,468,710)
	due to changes in actuarial assumptions		833,272	624,241
	Recognized in profit or loss	16.3.4	543,993	3,468,710
	Benefits paid during the year		1,457,513	624,241
16.3.4	**Charge to profit or loss**			
	Current service cost		3,137,795	5,727,965
	Interest cost		5,549,550	2,774,775
			8,687,345	8,502,740
	Actuarial (gain) / loss recognized during the year		543,993	3,468,710
	Expected return on plan assets		(5,205,882)	(2,602,942)
	Charged due application of IAS 19 – Employee Benefits		–	(9,191,629)
			4,025,456	176,879
16.3.5	Actual return on plan assets during the year		3,297,655	(480,232)

16.3.6 The principal actuarial assumptions used are as follows:

	31 December 2007	31 December 2006
Expected rate of increase in salaries	10%	10%
Expected return on plan assets	10%	10%
Discount rate	10%	10%
Expected average remaining working lives of employees	12 years	13 years

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

		31 December 2007 Rupees	31 December 2006 Rupees
17	**MARK UP ACCRUED ON BORROWINGS**		
	Redeemable capital	261,080,485	257,965,854
	Long term finances	150,021,510	136,056,498
	Short term borrowings	61,593,740	73,858,235
	Liabilities against assets subject to finances lease	479,146	863,999
		473,174,881	468,744,586

18 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. 59.5 million (2006: Rs. 45.7 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 (2006: Rs. 983.26 million) against PAFL was not acknowledged as debt since PAFL also has a counter claim amounting to Rs. 2,556 million (2006: 2,556 million) against the contractor. The claim is under settlement with arbitrator.

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. 80 million (2006: 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 5.2 for details.

	31 December 2007 Rupees	31 December 2006 Rupees
Commitments		
Irrevocable letters of credit for:		
– purchase of stores, spare and loose tools	25,432,674	25,669,934
– purchase of raw material	682,638,653	174,397,707
	708,071,327	200,067,641
Fixed capital expenditure	41,260,211	33,961,746

19 PROPERTY, PLANT AND EQUIPMENT

PARTICULARS	COST / REVALUED AMOUNT						DEPRECIATION					
	As at 01 January	Acquired through business combination	Additions	Disposals	Transfers	As at 31 December	As at 01 January	Acquired through business combination	Adjustment	For the year	As at 31 December	Net Book Value as at 31 December
	Rupees		Rupees	Rupees	Rupees	Rupees	Rupees		Rupees	Rupees	Rupees	Rupees
Owned:												
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
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
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
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
2007	**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**
2006	4,433,435,507	17,252,469,912	631,616,715	(34,918,360)	4,135,944,114	26,418,547,888	1,318,880,980	4,743,757,779	(14,473,518)	535,227,563	6,583,392,804	19,835,155,084

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

19.1 Land, building and plant and machinery was last revalued in 2002 by a firm of independent valuers M/s Blue Feather Affliations. The revalued amount of land was determined by reference to local market values whereas that of building and plant and machinery was determined by refernce to present depreciated replacement values.

19.2 PAFL during the year has 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 has resulted in depreciation charge lower by Rs. 205 million.

19.3 **Disposal of property, plant and equipment**

	Cost	Accumulated depreciaion	Net book value	Proceeds disposal	Gain/(loss) disposal	Mode of disposal	Particulars of Buyer
			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
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
Totota Hiace	554,395	554,385	10	561,000	560,990	Auction	Mr. Muhammad Sarfraz – Lahore
Totota Hiace	705,266	705,256	10	371,000	370,990	Auction	Mr. Majid Saleem – Lahore
Totota Hiace	523,415	523,405	10	327,000	326,990	Auction	Mr. Noor Zaman – Lahore
Totota 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 Saddiqui – Lahore
Suzuki Pick Up	195,437	195,435	2	225,000	224,998	Auction	Mr. Talha Tanveer Saddiqui – Lahore
Suzuki Bolan	375,670	294,246	81,424	311,000	229,576	Auction	Mr. Humayun Naseer – Lahore
2007	**11,479,879**	**9,832,451**	**1,647,428**	**7,149,173**	**5,501,745**		
2006	34,918,360	14,473,518	20,444,842	20,484,011	39,169		

19.4 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.

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

	Note	31 December 2007 Rupees	31 December 2006 Rupees
Cost of sales	34	718,906,320	527,321,109
Administrative and selling expenses	35	10,676,093	7,901,890
Income from experimental farm	36.1	7,575	4,564
		729,589,988	535,227,563

20 CAPITAL WORK IN PROGRESS

	As at 01 Jan	Additions	Transferred to owned assets	As at 31 Dec
	Rupees	Rupees	Rupees	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
2007	83,694,940	737,814,311	420,224,205	401,285,046
2006	2,327,243,004	1,892,396,050	4,135,944,114	83,694,940

Advances to suppliers of machinery and contractors for civil works of Rs. 98.99 million (2006: Rs. 95.028 million) previously included in "Capital Work in Progress" have been reclassified and grouped under "Advances, deposits, prepayments and other receivables" as part of "Advances to suppliers and contractors" for a fairer presentation of the balance.

	Note	31 December 2007 Rupees	31 December 2006 Rupees
21 INTANGIBLE ASSETS			
Development costs	21.1	38,118,588	47,948,625
Software	21.2	13,024,081	12,596,184
Goodwill arising on business combination			
Acquisition of PAFL		3,710,522,948	3,710,522,948
Acquisition of NIT		537,908	537,908
		3,762,203,525	3,771,605,665

21.1 This represents expenditure on development of new products and markets to gain competitive advantage in the national and international market

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

	31 December 2007 Rupees	31 December 2006 Rupees
Cost		
As at beginning of the year	81,187,908	81,187,908
Additions during the year	6,665,496	–
As at end of the year	87,853,404	81,187,908
Amortization		
As at beginning of the year	33,239,283	16,965,934
Amortization for the year	16,495,533	16,273,349
As at end of the year	49,734,816	33,239,283
	38,118,588	47,948,625

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

		Note	31 December 2007 Rupees	31 December 2006 Rupees
22	**LONG TERM INVESTMENTS**			
	Investments available for sale investments	22.1		
	Cost		1,015,432	1,015,432
	Accumulated impairment loss		(996,768)	(996,768)
	Fair value adjustment		82,259	30,424
			100,923	49,088

22.1 Investments available for sale

Quoted

Colony Textile Mills Limited 4,332 (2006: 4,332) fully paid ordinary shares of Rs. 10 each. Market value Rs. 19.95 per share (2006: Rs. 8.70 per share)		
Cost	8,664	8,664
Fair value adjustment	77,759	29,024
	86,423	37,688
BSJS Balanced Fund Limited 1,000 (2006: 1,000) fully paid ordinary shares of Rs. 10 each. Market value Rs. 14.50 per share (2006: Rs. 11.40 per share)		
Cost	10,000	10,000
Fair value adjustment	4,500	1,400
	14,500	11,400
Unquoted		
National Security Insurance Company Limited 221,504 (2006: 221,504) fully paid ordinary shares of Rs. 10 each. Market value Rs. 14.50 per share (2006: Rs. 11.40 per share)		
Cost	996,768	996,768
Impairment loss	(996,768)	(996,768)
	–	–
	100,923	49,088

23 LONG TERM DEPOSITS

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

		Note	31 December 2007 Rupees	31 December 2006 Rupees
24	**LONG TERM ADVANCES**			
	Advances to employees			
	Secured	24.1	1,928,871	2,201,805
	Unsecured		17,961,947	10,275,023
			19,890,818	12,476,828
	Less: Current maturity shown under current assets		4,083,365	3,581,095
			15,807,453	8,895,733

24.1 These are secured against future salaries and retirement benefits.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

		Note	31 December 2007 Rupees	31 December 2006 Rupees
25	**STORES, SPARES AND LOOSE TOOLS**			
	Stores		146,760,034	129,415,302
	Spares	25.1	633,802,533	653,733,146
	Loose tools		2,002,531	3,316,870
			782,565,098	786,465,318

25.1 Spares include spares in transit amounting to Rs. 17.645 million (2006: Rs. 2.392 million).

25.2 Stores, spares and loose tools are generally held for internal use only.

25.3 No item of stores, spares and loose tools is pledged as security as at the reporting date.

		31 December 2007 Rupees	31 December 2006 Rupees
26	**STOCK IN TRADE**		
	Raw material	913,415,188	1,310,170,658
	Work in process	799,992,413	342,640,598
	Finished goods	818,692,062	464,722,688
		2,532,099,663	2,117,533,944

26.1 Stock of finished goods includes stock of waste of Rs. 139,216 (2006: Rs. 122,719) valued at net realizable value.

26.2 Stock of raw material pledged as security with banks against finance facilities amounts to Rs. 351.36 million (2006: Rs.1,033 million)

		Note	31 December 2007 Rupees	31 December 2006 Rupees
27	**TRADE RECEIVABLES**			
	Considered good			
	Local			
	– secured	27.1	59,131,979	51,213,639
	– unsecured		1,282,804,710	856,643,632
	Foreign			
	– Secured	27.1	1,024,342,703	612,532,020
			2,366,279,392	1,520,389,291
	Considered doubtful		4,697,881	4,249,348
			2,370,977,273	1,524,638,639
	Provision for doubtful debts	27.2	(4,697,881)	(4,249,348)
			2,366,279,392	1,520,389,291

27.1 These are secured against letters of credit.

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

	31 December 2007 Rupees	31 December 2006 Rupees
As at beginning of the year	4,249,348	4,249,348
Provision made during the year	448,533	–
As at end of the year	4,697,881	4,249,348

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

			Note	31 December 2007 Rupees	31 December 2006 Rupees
28	**DERIVATIVE FINANCIAL ASSETS**				
	Instruments accounted for as cash flow hedge				
	Finance obtained from	**Swapped with**			
	Privately placed TFCs	Standard Chartered Bank		–	11,998,746
	Term Finance Certificates	ABN AMRO Bank		161,776,107	308,757,130
	United Bank Limited	Standard Chartered Bank		–	4,400,130
	National Bank of Pakistan	Citi Bank N.A		132,837,660	138,900,571
	Short term financing	Citi Bank N.A		74,649,720	–
	Deutsche Investitions – Und MBH	Citi Bank N.A		19,729,791	91,623,667
	Privately placed TFCs	Citi Bank N.A		460,259,932	–
				849,253,210	555,680,244

		Note	31 December 2007 Rupees	31 December 2006 Rupees
29	**ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES**			
	Advances to suppliers – Unsecured, considered good		607,740,027	339,726,494
	Advances for employees			
	for purchases and expenses	29.1	37,172,211	39,577,648
	against retirement benefits	24	4,083,365	3,581,095
	Security deposit		7,771,140	7,523,215
	Margin deposits		44,984,762	8,053,085
	Prepayments		11,201,592	22,105,867
	Rebate receivable		74,992,940	43,340,387
	Accrued gain on swap contract		4,195,229	–
	Accrued markup		657,634	1,349,288
	Sales tax recoverable		67,391,636	106,264,996
	Letters of credit		152,585,907	97,824,575
	Subsidy receivable	29.2	207,345,200	–
	Insurance claim		29,009,077	4,107,165
	Others receivables– Unsecured, considered good		35,088,518	12,141,006
	Less: provision for doubtful advances		1,033,465	1,033,465
			1,283,185,773	684,561,356

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

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

		31 December 2007 Rupees	31 December 2006 Rupees
30	**CURRENT TAX ASSET**		
	As at beginning of the year	26,358,429	28,144,098
			38,001,425
	Paid during the year	156,423,508	83,852,573
	Provision for the year	(102,429,841)	(123,639,667)
	As at end of the year	80,352,096	26,358,429

Advance taxation and income tax refundable collectively amounting to Rs. 123 million (2006: Rs. 107.6 million) previously presented under "Advances, deposits, prepayments and other receivables" has been reclassified and offset against "Provision for taxation" with net amount presented on the face of balance sheet.

		Note	31 December 2007 Rupees	31 December 2006 Rupees
31	**SHORT TERM INVESTMENTS**			
	Investments at fair value through profit or loss	31.1		
	Cost		583,309,670	–
	Fair value adjustment		299,584,455	–
			882,894,125	–
31.1	**Investments at fair value through profit or loss – Quoted**			
	Investments in related parties			
	Jahangir Siddiqui & Company Limited 700,000 fully paid ordinary shares of Rs. 10 each. Market value Rs. 1,067.80 per share			
	Cost		441,190,800	–
	Fair value adjustment		306,269,200	–
			747,460,000	–
	Other investments The Bank of Punjab 72,500 fully paid 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 fully paid 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 fully paid 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 fully paid 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	–
	Pakistan Oil Fields 53,000 fully paid 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 fully paid 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 fully paid 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	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

		Note	31 December 2007 Rupees	31 December 2006 Rupees
32	**CASH AND BANK BALANCES**			
	Cash in hand		2,192,508	5,249,764
	Cash at banks in current accounts			
	local currency		313,906,797	1,100,352,242
	foreign currency – US $ Nil (2006: US $ 148,020)		–	8,996,680
			313,906,797	1,109,348,922
	in saving accounts	32.1		
	local currency		313,897,483	16,750,635
	foreign currency – US $1,392 (2006: US $ 26,615)		85,410	1,617,640
			313,982,893	18,368,275
			630,082,198	1,132,966,961

32.1 Rate of return on balances in saving accounts ranges from 8% to 9% (2006: 8% to 9%) per annum.

		31 December 2007 Rupees	31 December 2006 Rupees
33	**SALES – NET**		
	Local	7,492,456,785	2,492,847,602
	Export	5,432,453,637	4,124,967,002
		12,924,910,422	6,617,814,604
	Add: Export rebate	12,031,454	6,949,191
	Less: Commission and brokerage	229,217,288	118,809,937
	Sales tax	399,119,703	991,696
		12,308,604,885	6,504,962,162

		Note	31 December 2007 Rupees	31 December 2006 Rupees
34	**COST OF SALES**			
	Raw material consumed	34.1	3,717,462,016	2,751,671,767
	Salaries, wages and benefits	34.2	973,358,370	632,755,940
	Fuel and power		589,692,197	621,964,605
	Stores, spares and loose tools consumed		205,108,752	120,730,506
	Traveling and conveyance and entertainment		85,805,784	46,802,918
	Rent, rates and taxes		4,987,260	10,550,385
	Insurance		48,929,687	29,653,432
	Repair and maintenance		51,212,603	38,413,582
	Processing charges		28,735,160	29,898,239
	Depreciation	19.5	718,906,320	527,321,109
	Amortization		16,495,533	16,273,349
	Printing and stationery		8,676,593	3,732,388
	Communication		9,736,459	2,813,485
	Others		69,992,896	38,484,257
			6,529,099,630	4,871,065,962
	Work in process			
	As at beginning of the year		342,640,598	227,469,465
	Transferred from trial run production		–	10,272,756
	As at end of the year		(799,992,413)	(342,640,598)
			(457,351,815)	(104,898,377)
	Cost of goods manufactured		6,071,747,815	4,766,167,585
	Finished goods			
	As at beginning of the year		464,722,688	266,773,678
	Purchased during the year		2,016,442,240	–
	Acquired through business combination			20,493,020
	Transferred from trial run production		–	23,446,575
	As at end of the year		(818,692,062)	(464,722,688)
			1,662,472,866	(154,009,415)
	Cost of sales		7,734,220,681	4,612,158,170

34.1 Raw material consumed

	31 December 2007 Rupees	31 December 2006 Rupees
As at beginning of the year	1,310,170,658	1,507,912,595
Acquired through business combination	–	3,952,058
Purchases during the year	3,330,863,806	2,571,333,521
	4,641,034,464	4,083,198,174
Sales during the year	(10,157,260)	(21,355,749)
As at end of the year	(913,415,188)	(1,310,170,658)
	3,717,462,016	2,751,671,767

34.2 These include charge in respect of employees retirement benefits amounting to Rs. 29,151,697 (2006: Rs. 14,746,685).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

		Note	31 December 2007 Rupees	31 December 2006 Rupees
35	**ADMINISTRATIVE AND SELLING EXPENSES**			
	Salaries, wages and benefits	35.1	247,394,097	160,585,218
	Traveling, conveyance and entertainment		66,131,262	70,997,114
	Fuel and power		5,179,603	5,135,713
	Repair and maintenance		10,140,344	5,835,059
	Rent, rates and taxes		16,307,067	3,429,834
	Insurance		4,617,600	2,374,346
	Freight and clearing		348,566,700	204,240,454
	Printing and stationery		4,838,616	3,648,302
	Communication		27,162,074	22,669,475
	Advertisement and sales promotion		34,090,806	7,543,790
	Legal and professional charges	35.2	44,986,045	26,764,515
	Depreciation	19.5	10,676,093	7,901,890
	Brand expenses		–	–
	Fee and subscription		5,915,422	8,032,648
	Donations	35.3	2,100,000	100,000
	Provision for doubtful debts	27.2	448,533	–
	Others		13,247,794	24,837,513
			841,802,056	554,095,871

35.1 These include charge in respect of employees retirement benefits amounting to Rs. 8,460,544 (2006: Rs. 5,457,261).

		31 December 2007 Rupees	31 December 2006 Rupees
35.2	These include following in respect of auditors' remuneration		
	Annual statutory audit	1,155,000	730,225
	Half yearly review	400,000	55,000
	Review report on code of corporate governance	35,000	35,000
	Certification and other services	460,000	315,000
		2,050,000	1,135,225

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

		Note	31 December 2007 Rupees	31 December 2006 Rupees
36	**OTHER INCOME –NET**			
	Financial assets			
	Gain on sale of investments		78,528,537	58,478,149
	Unrealized loss on investments at fair value through profit or loss		299,584,455	–
	Impairment loss on investments available for sale		–	(996,768)
	Return on term finance certificates		–	4,206,768
	Mark up on advances to employees		294,748	743,433
	Dividend income		–	6,079,924
	Unrealized loss on derivative financial instruments		(16,177,407)	–
	Foreign exchange gain		7,264,633	–
	Return on bank deposits		33,095,800	18,313,547
	Non–financial assets			
	Gain / (loss) on disposal of property plant and equipment	19.3	5,501,745	39,168
	Provision for Workers' Profit Participation Fund		(75,038,794)	(8,099,197)
	Income from experimental farm	36.1	428,521	111,758
	Miscellaneous		2,698,098	1,934,158
			336,180,336	80,810,940

36.1 This includes depreciation amounting to Rs. 7,575 (2006: Rs. 4,564).

		Note	31 December 2007 Rupees	31 December 2006 Rupees
37	**FINANCE COST**			
	Mark–up / interest on:			
	– redeemable capital		1,000,583,160	561,187,118
	– long term finances		257,460,359	285,288,527
	– short term borrowings		768,210,024	303,840,850
	– liabilities against assets subject to finance lease		6,219,064	7,911,405
	– workers' profit participation fund		318,839	1,014,852
			2,032,791,446	1,159,242,752
	Bank charges and commission		119,647,044	46,294,748
			2,152,438,490	1,205,537,500
38	**TAXATION**			
	Current			
	for the year – ANL	38.1	72,007,073	115,569,082
	for the year – APL	38.2	2,090	10,371
	for the year – PAFL	38.2	28,392,065	8,060,214
	for prior years		2,028,613	–
			102,429,841	123,639,667
	Deferred		360,405,969	(65,182,370)
			462,835,810	58,457,297

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

38.1 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.

38.2 Provision for current tax has been made in accordance with section 113 "Minimum tax on income of certain persons" of the Income Tax Ordinance 2001 ("the Ordinance").

38.3 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.

38.4 Assessment orders pertaining to ANL for the assessment years 2001-2002 and 2002-2003 and tax years 2003 to 2006 were amended under section 122(5A) of the Ordinance. ANL has filed appeals against the order before Commissioner of Income Tax - Appeals which is pending for adjudication. Based on the advice of the ANL's lawyers, the management of ANL expects a favourable outcome.

38.5 ANL has filed appeals in respect of cases pertaining to Nafees Cotton Mills Limited (now merged into ANL) against assessments for the years 1999-2000 to 2002-2003 before the Income Tax Appellate Tribunal and for tax year 2003 before Commissioner of Income Tax - Appeals. All these appeals are pending for adjudication. Based on the advice of the ANL's lawyers, the management of the ANL expects a favourable outcome.

38.6 Assessments pertaining to PAFL for assessment years 1999-2000 to 2002-2003 and tax year 2003 have been finalized. Assessments for the tax years 2004 to 2006 are deemed assessments in under section 120 (1) of the Ordinance.

38.7 ANL's profits are subject to tax under the Final Tax Regime. Further, provision for current tax of subsidiaries has been made in accordance with section 113 "Minimum tax on income of certain persons" of the Ordinance. Therefore, there is no relationship between tax expense and accounting profit. Accordingly, no numerical reconciliation has been presented.

		31 December 2007	31 December 2006
39 EARNING PER SHARE			
Basic			
Profit attributable to ordinary shareholders of the Parent	Rupees	1,396,028,871	96,294,615
Weighted average number of ordinary shares outstanding during the year.	No. of shares	312,713,457	218,226,289
Earning per share	Rupees	4.46	0.44
Diluted			
Profit attributable to ordinary shareholders of the Parent	Rupees	1,396,028,871	96,294,615
Effect of dilutive potential ordinary shares			
Interest on convertible term finance certificates	Rupees	68,233,603	60,641,595
Preference dividend	Rupees	912,683	623,667
		69,146,286	61,265,262
Earning for diluted EPS	Rupees	1,465,175,157	157,559,877
Weighted average number of ordinary shares outstanding during the year for basic EPS	No. of shares	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	332,614,606	
Diluted EPS	Rupees	4.40	

The effect of conversion of preference shares and term finance certificates as at 31 December 2006 was anti-dilutive.

40 GOVERNMENT GRANT

The Company during the year has lodged claims amounting to Rs. 183.347 million (2006: 94.204 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.

	Note	31 December 2007 Rupees	31 December 2006 Rupees
41 CASH GENERATED FROM OPERATIONS			
Profit before tax		1,916,323,994	213,981,561
Adjustments for non–cash items			
Finance cost		2,152,438,490	1,205,537,500
Gain on sale of property, plant and equipment		(5,501,745)	(39,169)
Amortization		16,495,533	16,273,349
Exchange difference on translation of foreign subsidiary		5,163	–
Impairment loss on long term investment		–	996,768
Unrealized loss on investments at fair value through profit or loss		(299,584,455)	–
Unrealized loss on derivative financial instruments		16,177,407	–
Provision for doubtful debts		448,533	–
Provision for Workers' Profit Participation Fund		75,038,794	8,099,197
Return on investment in term finance certificates		–	(4,206,768)
Gain on sale of short term investments		(78,528,537)	(58,478,149)
Dividend income		–	(6,079,924)
Return on bank deposits		(33,095,800)	(18,313,547)
Depreciation		729,589,988	535,227,563
		2,573,483,371	1,679,016,820
Operating profit before changes in working capital		4,489,807,365	1,892,998,381
Changes in working capital			
Decrease / (Increase) in stores, spares and loose tools		3,900,220	(25,462,622)
(Increase) in stock in trade		(414,565,719)	(57,213,797)
(Increase) in trade receivables		(846,338,634)	(228,948,954)
(Increase) / decrease in advances, prepayments and other receivables		(598,624,417)	136,295,541
Increase in trade and other payables		1,687,134,144	118,964,086
(Increase) / decrease in long term deposits		(6,911,720)	8,867,653
(Increase) / decrease long term advances		(3,992,460)	35,055,746
Increase / (decrease) in long term payables		29,491,310	(1,263,753)
Cash generated from operations		4,339,900,089	1,879,292,281
42 CASH AND CASH EQUIVALENTS			
Cash and bank balances	32	630,082,198	1,132,966,961
		630,082,198	1,132,966,961

43 DIVIDEND PAID DURING THE YEAR

During the year, the ANL paid 8.95% (Re. 0.895 per share) dividend for the year ended 31 December 2007 on preference shares and 11% (Rs. 1.1 per share) dividend for the year ended 31 December 2006 on ordinary shares.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

44 SEGMENT INFORMATION

The primary reporting format followed by the Group is business segments. As at the reporting date 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.

Segment results for the year ended 31 December 2007 are as follows:

	Software	Fertilizer	Textile	Group
		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 the income statement:				
Depreciation	136,036	193,166,168	536,287,784	729,589,988
Amortization	–	–	16,495,533	16,495,533

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.

Segment liabilities

Segment liabilities comprise operating liabilities including derivative financial liabilities.

Capital expenditure

Capital expenditure comprises additions to property, plant and equipment and intangible assets, including additions resulting from acquisitions through business combination.

Segment assets and liabilities as at 31 December 2007 and capital expenditure for the year then ended are as follows:

	Software	Fertilizer	Textile	Group
		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

45 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:

45.1 Interest rate risk exposure

Information about the Group's exposure to interest rate risk based on contractual maturity dates, whichever is earlier and effective interest rates, when applicable is as follows:

	Note	Interest / mark–up bearing				Non – interest / mark–up bearing				Total	
		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	31 December 2007	31 December 2006
		Rupees				Rupees				Rupees	
Financial assets											
Long term investments	22	–	–	–	–	–	–	100,923	100,923	100,923	49,088
Long term deposits	23	–	–	–	–	–	–	28,253,239	28,253,239	28,253,239	24,260,779
Long term advances	24	–	–	–	–	–	–	15,807,453	15,807,453	15,807,453	8,895,733
Trade and other receivables	27	–	–	–	–	2,366,279,392	–	–	2,366,279,392	2,366,279,392	1,520,389,291
Derivative financial instruments	28	–	–	–	–	849,253,210	–	–	849,253,210	849,253,210	555,680,244
Advances, deposits and other receivables	29	–	–	–	–	429,501,274	–	–	429,501,274	429,501,274	177,273,687
Short term investments	31	–	–	–	–	882,894,125	–	–	882,894,125	882,894,125	–
Cash and bank balances	32	313,982,893	–	–	313,982,893	316,099,305	–	–	316,099,305	630,082,198	1,132,966,961
		313,982,893	–	–	313,982,893	4,844,027,306	–	44,161,615	4,888,188,921	5,202,171,814	3,419,515,783
Financial liabilities											
Redeemable capital	8	244,562,192	10,404,259,542	–	10,648,821,734	–	–	–	–	10,648,821,734	8,816,312,532
Long term finances	9	714,173,833	2,973,551,252	–	3,687,725,085	–	–	–	–	3,687,725,085	3,858,130,056
Liabilities against assets subject to finance lease	10	28,232,606	32,507,391	–	60,739,997	–	–	–	–	60,739,997	65,854,021
Long term payables	11	–	–	–	–	–	–	31,135,199	31,135,199	31,135,199	1,643,889
Short term borrowings	14	4,442,219,557	–	–	4,442,219,557	–	–	–	–	4,442,219,557	6,386,699,317
Derivative financial instruments	15	–	–	–	–	34,369,582	–	–	34,369,582	34,369,582	32,021,606
Trade and other payables	16	47,513,235	–	–	47,513,235	2,880,647,323	–	–	2,880,647,323	2,928,160,558	1,233,421,910
Mark up accrued on borrowings	17	–	–	–	–	473,174,881	–	–	473,174,881	473,174,881	468,744,586
Unclaimed dividend		–	–	–	–	9,694,014	–	–	9,694,014	9,694,014	22,312,061
		5,476,701,423	13,410,318,185	–	18,887,019,608	3,397,885,800	–	31,135,199	3,429,020,999	22,316,040,607	20,885,139,978
On balance sheet gap – 2007		(5,162,718,530)	(13,410,318,185)	–	(18,573,036,715)	1,446,141,506	–	13,026,416	1,459,167,922	(17,113,868,793)	(17,465,624,195)
On balance sheet gap – 2006		(7,899,838,296)	(11,249,254,810)	–	(19,149,093,106)	1,651,907,200	–	31,561,711	1,683,468,911		

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

		31 December 2007 Rupees	31 December 2006 Rupees
45.2	**Off balance sheet financial instruments**		
	Irrevocable letters of credit for:		
	– purchase of stores, spare and loose tools	25,432,674	25,669,934
	– purchase of raw material	682,638,653	174,397,707
		708,071,327	200,067,641
	Commitments for fixed capital expenditure	41,260,211	33,961,746

45.3 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.

45.4 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. 5,202,171,814 (2006: Rs. 3,419,515,783), financial assets which are subject to credit risk amount to Rs. 1,353,016,804 (2006: Rs. 911,943,381). 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.

45.5 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.

45.6 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.

46 EVENTS AFTER THE BALANCE SHEET DATE

The Board of Directors of the Parent, in its meeting held on 07 March 2008 has proposed to pay cash dividend @ 12.5% i.e. Rs. 1.25 per ordinary share of Rs.10 each. This dividend is subject to approval by the shareholders at the forthcoming Annual General Meeting and has not been included as a liability in the financial statements.

47 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.

Details of transactions and balances with related parties are as follows:

	31 December 2007 Rupees	31 December 2006 Rupees
Transactions with related parties		
Associates		
Underwriting fee	–	13,864,624
Purchases of chemicals	37,969,056	9,033,908

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:

	Chief Executive	Directors	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
31 December 2007	6,234,333	6,408,000	143,654,021
31 December 2006	3,804,000	6,273,328	84,090,998
No. of persons			
31 December 2007	1	6	87
31 December 2006	1	6	64

	Note	31 December 2007 Rupees	31 December 2006 Rupees
Balances with related parties			
Associates			
Investment in ordinary shares	31.1	747,460,000	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

		Unit	31 December 2007 Rupees	31 December 2006 Rupees
48	**PLANT CAPACITY AND ACTUAL PRODUCTION**			
	Spinning			
	Number of rotors installed	No.	2,050	1,752
	Plant capacity on the basis of utilization converted into 6.5s count	Kgs	12,303,563	10,490,946
	Actual production converted into 6.5s count	Kgs	9,489,468	7,938,061
	Number of spindles installed	No.	54,408	53,520
	Plant capacity on the basis of utilization converted into 20s count	Kgs	12,814,834	15,224,439
	Actual production converted into 20s count	Kgs	11,688,092	12,085,687
	Weaving			
	Number of looms installed	No.	166	166
	Annual capacity on the basis of utilization converted into 38 picks	Mtrs	23,608,088	23,608,088
	Actual production converted into 38 picks	Mtrs	14,121,408	14,126,437
	Garments			
	Number stitching machines installed	No.	1,876	1,144
	Annual capacity on the basis of utilization	Pcs	7,951,615	7,566,326
	Actual production	Pcs	6,063,532	3,094,111

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.

		01 January 2007 to 31 December, 2007	01 July 2006 to 31 December, 2006
Urea Fertilizer			
Rated capacity on the basis of utilization – 330 days (2006: 184 days)	M. Tons	346,500	193,200
Actual production – 341 days (2006: 182 days)	M. Tons	376,908	194,759
Production efficiency	% age	104%	102%

49 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on 7 March 2008 by the Board of Directors of the Company.

50 GENERAL

Figures have been rounded off to the nearest rupee.

Comparative figures have been reclassified and rearranged, where necessary for the purpose of comparison. Significant reclassifications and rearrangements and there rationale are referred to in relevant notes to the financial statements.

Lahore CHIEF EXECUTIVE DIRECTOR

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 Monday the March 31, 2008 at 11:00 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 ______________ 2008.

WITNESSES:

1. Signature: ______________

   Name ______________

   Address ______________

   ____

   NIC: ______________

Affix Revenue
Stamp of Rs. 5/-

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

ANNUAL REPORT 2007

AZGARD-9

AZGARD NINE LIMITED

ISMAIL AIWAN-E-SCIENCE, SHAHRAH-E-ROOMI,
LAHORE-54600, TEL: +92 (0)42 111-786-645
WWW.AZGARD9.COM

VANTAGE