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Company Information



BOARD OF DIRECTORS

Mr. Khalid A.H. Al-Sagar
Chairman
Mr. Ahmed H. Shaikh
Chief Executive
Mr. Aehsun M.H. Shaikh
Mr. Irfan Nazir Ahmed
Mr. Aamer Ghias
Mr. Usman Rasheed
Mr. Naseer Miyan

COMPANY SECRETARY

Mr. Muhammad Ijaz Haider

CHIEF FINANCIAL OFFICER

Mr. Abid Amin

AUDIT COMMITTEE

Mr. Khalid A.H. Al-Sagar
Mr. Aamer Ghais
Mr. Naseer Miyan

HUMAN RESOURCE COMMITTEE

Mr. Ahmed H. Shaikh
Mr. Irfan Nazir
Mr. A. Jaudet Bilal

LEGAL ADVISOR

Hamid Law Associates

AUDITORS

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

BANKERS

JS Bank Limited
MCB Bank Limited
Citibank N.A.
Faysal Bank Limited
Habib Bank Limited
HSBC Bank (Middle East) Limited
United Bank Limited
Standard Chartered Bank (Pakistan) Limited
NIB Bank Limited
National Bank of Pakistan
Allied Bank Limited
KASB Bank Limited
Silk Bank Limited
Summit Bank Limited
Al Baraka Bank Pakistan Limited

REGISTERED OFFICE

Ismail Aiwan-e-Science
Off Shahrah-e-Roomi Lahore, 54600
Ph: +92 (0)42 111-786-645
Fax: +92 (0) 3576-1791

PROJECT LOCATIONS

Textile & Apparel

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

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

Unit III
20 KM off Ferozepur Road,
6 KM Badian Road on Ruhi Nala,
Der Khurd, Lahore.
Ph: +92 (0)42 38460333, 38488862

Fertilizer

Unit I
Agritech Limited.
Iskanderabad,
District Mainwali.
Ph: +92(0)459 392346-49

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



Directors' Report to the Shareholders

The Directors of Azgard Nine Limited ("the Company") along with the management team, are pleased to present the Company's Annual Report accompanied by the Audited Financial Statements for the eighteen months period ended June 30, 2011.

These financial statements have been endorsed by the Chief Executive Officer and the Chief Financial Officer in accordance with the requirements of the Code of Corporate Governance, having been recommended for approval by the Audit Committee of the Board and approved by the Board of Directors for presentation.

Change in financial year

The Company's financial year has been changed from December 31st to June 30th effective January 01, 2010. This has been done with the respective approvals of concerned authorities. The financial statements for the eighteen months period from January 01, 2010 to June 30, 2011 have been prepared consequent upon the above said change of financial year. Thus the comparative figures in Profit and Loss Account, Cash Flow Statement, Statement of Changes in Equity, and related notes to the financial statements are not entirely comparable to the current period.

Principal Activities

The main business of your Company is the production and marketing of Denim focused Textile and Apparel products, ranging from raw cotton to retail ready goods. During the period under review, Azgard 9 maintained its position as one of the largest Denim Products Company by Sales in Pakistan.

The Company, through its subsidiaries Agritech and HPFL, also carries on the business of manufacturing and marketing of both Nitrogenous and Phosphatic fertilizers.

Period in review: Textiles and Apparel

During the period under review the Company continued to face wide ranging challenges due to the difficult financial, operational and global market conditions carried over from the previous periods. The rampant flood of 2010 increased the cotton prices to

extremely high levels in the Country. The availability of good quality cotton was also scarce as most of the cotton growing regions were under flood waters. Bad cotton crop in the US led to worldwide increase in cotton prices in 2010. India imposed ban on exports to protect its downstream value addition industry. Volatile and large scale variations in cotton prices ranging from Rs. 5000 to Rs. 14000 per maund established at inopportune times resulted in high cost at procurement and low margins at selling when the prices declined. To make matters worse, there was a significant delay in the completion of restructuring of financial debt and availability of working capital lines from the financial institutions. These adverse conditions had a compounding effect on the Company as the availability of working capital lines at the right time was not at our disposal. Due to the company's inability to purchase cotton adequately, it was unable to maximize production capacity which subsequently declined to 40% of installed capacity.

Increasing global options available to long standing customers and competitive strategies adopted by other textile manufacturing countries in the region created further pressure on margins at a time when local cost of operations continued to go up steadily due to across the board inflationary pressures. Continued high levels of discounting and finance costs also hampered performance. Massive gas and electric load shedding also increased cost due to higher cost energy alternatives.

The Company faced with a significant financial pressure has implemented major cost cutting measures and is aligning itself with the new realities of the market, by exploring every possible opportunity of reducing its costs

base and increasing its value chain efficiencies and improving its value proposition.

Cognizant of the changing industry dynamics and new realities, your company is steadfast on its stated strategic initiatives aimed at enhancing margins by drastically improving operations and affecting across the board cost reductions through consolidations, efficiency in manufacturing and induction of efficient plant and machinery and processes. Complimentary to these efforts is the goal to improve negotiated top line numbers through better product positioning, and enhanced portfolio of services offered to the customers. This is being achieved through a strong focus on developing and fostering a culture of working with the customers closely than ever before to develop highly customized teams in product design, marketing and manufacturing, which will act as an extension of the customer in their supply chain planning. Recently these efforts are beginning to pay off as the Company has been successful in achieving preferred supplier status with some key customers.



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

	Eighteen months ended June 30, 2011	Year ended December 31, 2009
Sales - Net	17,602,765,330	11,779,153,891
Operating Profit	(530,541,156)	2,616,316,454
Finance Cost	(3,998,409,630)	(2,424,424,504)
Profit before Tax	(4,528,950,786)	178,722,895
Profit after Tax	(4,702,240,421)	60,531,362
Earning per share	(10.403)	0.003

Consolidated Results Including Subsidiaries

	Eighteen months ended June 30, 2011	Year ended December 31, 2009
Sales - Net	29,048,101,839	26,340,569,015
Operating Profit	1,410,076,154	6,238,196,425
Finance Cost	(6,849,937,041)	(4,791,419,130)
Profit before Tax	(5,447,816,889)	1,363,060,912
Profit after Tax	(4,264,772,551)	1,537,928,573
Earning per share	(9.441)	3.35

Comparative figures have been rearranged and reclassified, where necessary, for the purpose of comparison.

Future Outlook

Uncertainties and long term challenges remain on the horizon in the shape of high interest rates, persisting energy crisis and rising utility costs, volatile cost of cotton, and deteriorating law and order conditions. The expected devaluation of Rupee and ever increasing inflation are the other causes of concern for this sector. In this difficult time, the textile sector expects very effective measures from the Government to protect export businesses of the Country of which textile sector is the biggest contributor.

On the manufacturing front the Company is slowly and surely regaining its footing and starting to rebuild capacity in its critical Apparels Business as efficiently and cost effectively as possible. By June a significant capacity enhancement was achieved and efforts are continuing to scale up operations at the most optimal rate.

Notwithstanding the steady achievement of improvements and successes, the recovery is estimated to be a slow paced one and one which will entail a long term effort to achieve and maintain the position of a truly competitive world class Textiles and Apparel Company.

As part of the strategic initiatives, a wide ranging IT systems implementation plan has been undertaken in all divisions which will allow better management of operations and finances through implementation and monitoring of policies, checks and controls throughout the complex supply chain processes. This period saw the development and deployment of some phases of ERP at various sites including Garments and Spinning division. The ERP is being installed in phases and it is expected to cover all three textile divisions in the future.



As a result of the major financial reprofiling exercise the Company hopes to be able to avert serious repercussions cascading out of the negative situation in the past years and is expected to overcome the near and long term challenges. Steps are being taken to improve the financial health of the Company by major overhauling and consolidation of the Company businesses which will result in a stronger balance sheet with significantly improved debt profile.

Divestment of shareholding in Agritech Limited

During the period, the Company divested 20.13% comprising 79,006,816 ordinary shares held by it in Agritech Limited, through a combination of private placement and public offering, at a price of Rs. 30 per shares, including a premium of Rs. 20 per share. Further, the shareholders of the Company, in the extraordinary general meeting held on July 23, 2010, have approved the divestment of remaining 79.87% shares held in Agritech Limited. Majority of the funds generated through divestment of remaining shares will be utilized towards repayment/prepayment of some of the Company's debts. This process is at an advanced stage of negotiations with the investors.

With the successful restructuring/reprofiling of the Company's debts and proposed divestment of shareholding in Agritech Limited, the management of the Company envisages that sufficient financial resources will be available for the continuing operations of the Company. With positive impact on the finance costs and more effective management of resources and raw material procurement, the company is expected to continue its operations profitably, subject to impact, if any, of uncontrollable external circumstances including volatile raw material costs, power crises and global market conditions.





Period in review: Fertilizer Business

Urea Fertilizer

The period in review was extremely difficult for the fertilizer manufacturing sector in Pakistan as it faced unprecedented and extended gas load shedding and production curtailment on account of measures taken to provide respite to the electric consumers from extended load shedding.

As a consequence of extensive and unplanned natural gas load shedding to the Company, there was a considerable reduction in plant operation days which resulted in a significantly lower production of Urea compared to the previous period. As a consequence, the profit of the Company declined.

SSP Fertilizer

Hazara Phosphate continues to post a strong performance. The management has taken major debottlenecking initiatives, which resulted in current production achievement. The plant is also on track to further increase the capacity of the SSP plant to 162,000 in 2012 at a marginal capital expenditure. Moreover, significant breakthrough has been achieved in replacing imported phosphate rock with local phosphate rock as a key raw material for SSP production, which has consequently enhanced the margins. Going forward, an increased competition due to new capacities coming on line will drive competitive pricing. The Company retains its cost leadership advantage over competitors partly due to local rock usage.

DAP Fertilizer

As part of business risk management policy, the DAP trading business has been temporarily discontinued by the Company. This is to mitigate the Company's risk in prevailing volatile international DAP market, currency volatility and expected lowering of demand in the local market due to higher prices.

Future Outlook - Fertilizer Business

Despite current problems in natural gas supplies, the fertilizer sector enjoys a positive outlook in Pakistan which is a major consumer of fertilizer with area under cultivation of approximately 23 million HA. The strategic importance of fertilizer usage and its related benefits to the agriculture sector cannot be ignored in the long run. The gas availability issue is a national issue which will be a challenge for the fertilizer industry to manage. However, the strong international Urea prices coupled with Rupee devaluation will make fertilizer imports more expensive and unaffordable for the GOP. Consequently, we expect the gas availability to improve over the next few months.

International Phosphate market currently shows a strong upwards trend, supporting the local SSP pricing and margins. Hazara Phosphate is expected to deliver a staggering performance in the year 2012 on the back of lowest cost technology, strong pricing and premium brand positioning.

Debt Re-profiling of Agritech

The debt amortization profile, higher interest cost and associated liquidity problems have forced the Company to consider the restructuring of its debt obligations to ensure continued timely discharge of its commitments to its lenders. The Company initiated the debt restructuring process with the help of the key lending banks and successfully completed the first round of restructuring of its debt in December 2010. This was supposed to improve the Company's financial health and liquidity of the Company. However, unfortunately the Company had to face unavoidable circumstances in the form of gas load shedding and curtailment by SNGPL. Due to this, Urea plant remained non-operational for a significant period resulting in huge production loss. This situation nullified the expected positive impacts of restructuring.

In lieu of the prevailing situation, the Company again decided to undergo restructuring of its entire debt and initiated the process in early 2011. The Company requested banks and financial institutions for a second round of restructuring. Lenders understood the situation, showed confidence in the business and management, and approved the restructuring. The terms of these supplemental agreements are effective from July 31, 2011. As part of restructuring, overdue markup of approximately PKR 3,200 million is also being converted into Preference Shares / Term Finance Certificates. In this regard, investors have provided their consent and the Company is in the process of making final arrangements for the same. This restructuring will help the Company to smoothen out its operations, which in turn will improve its financial health and allow the Company to service its debts on a timely basis.

Loss per share

The loss per share for the Company for the period ended June 30, 2011 was Rs. 10.403 per share.

Dividend

Due to circumstances already discussed the Board of Directors does not recommend dividend for the 18 months ended June 30, 2011.

Corporate governance & financial reporting framework

As required by the Code of Corporate Governance, the directors are pleased to report that:

- The financial statements prepared by the management of the Company present accurate state of Company's operations, cash flows and changes in equity;
- Proper books of account of the Company have been maintained.
- Appropriate accounting policies have been consistently applied in the preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International accounting standards, as applicable in Pakistan, have been followed in the preparation of financial statements.
- The system of internal control is sound and has been effectively implemented and monitored.
- The Board is satisfied that the Company is performing well as going concern under the Code of Corporate Governance.
- There has been no material departure from the best practices of corporate governance as detailed in the listing regulations of the stock exchanges.
- Key operating and financial data for the last six years is annexed.
- There are no statutory payments on account of taxes, duties, levies, and charges which are outstanding as on June 30, 2011 except for those disclosed in the financial statements.
- The value of provident fund investments as at June 30, 2011 was Rs. 17.8 million.
- No material changes and commitments affecting the financial position of the Company have occurred between the end of the financial

- period to which this balance sheet relates and the date of the Director's Report.

Board of directors

The Board comprises two non executive Directors and five Executive Directors (including the Chief Executive Officer). The Non Executive Directors bring to the Company their vast experience of business contributing valuable input and ensuring the Company's operations at a high standard of the principles of legal and corporate compliance.

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

Name of Director	Eligibility	Attended
Mr. Mueen Afzal	6	4
Mr. Ahmed H. Shaikh	6	6
Mr. Aehsun M.H. Shaikh	6	6
Mr. Ahmed Jaudet Bilal	3	2
Mr. Irfan Nazir Ahmed	6	6
Mr. Usman Rasheed	4	3
Mr. Aamer Ghias	4	4
Mr. Khalid A.H Al-Sagar	6	3
Chief Justice (R) Mian Mahboob Ahmad	1	1

* Held during the period the concerned Director was a member of the Board.

Consolidated financial statements

Consolidated financial statements of the Company together with its subsidiary companies Farital A.B, Montebello S.r.l, Agritech Limited and Hazara Phosphate Fertilizers (Private) Limited are also included.

Events after the reporting period (if any)

Auditor's observations

In context of the liquidity and other issue emphasized upon by the auditors in their opinion and as already stated, the Company envisages that, with the successful restructuring of debts, propose divestment of shareholding in Agritech Limited, Sufficient financial resource will be available for the continues operations of the Company.

With positive impact on the finance cost and more effective management resources and raw material procurement, the Company is expected to continue its operations profitably, subject to impact, of an, of uncontrollable external circumstances including volatile raw material costs, power crisis and globe market conditions.

Appointment of Auditors

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

Audit committee

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

Internal audit function

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

Shareholding pattern

The shareholding pattern as at June 30, 2011 including the information under the Code of Corporate of Governance, for ordinary and preference shares, is annexed.

Web presence

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

Acknowledgment

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

On behalf of the Board of Directors

Chief Executive Officer

October 10, 2011

Financial Highlights

Six years at a glance

Azgard Nine Limited	Eighteen months ended June 30, 2011	Year ended December 31				
		2009	2008	2007	2006	2005
Operating performance (Rs. 000)						
Sales-Net	17,602,765	11,737,857	10,113,499	6,628,342	4,889,682	4,422,472
Export Sales-Gross	14,469,060	10,017,267	8,222,024	5,430,603	4,128,679	3,832,201
Local Sales-Gross	2,859,903	1,725,461	1,966,476	1,262,415	817,706	791,645
Gross profit	180,213	3,191,493	3,453,276	2,007,353	1,186,320	1,133,686
Operating profit	(530,541)	2,616,317	3,622,166	2,240,007	1,916,487	1,107,156
Profit before tax	(4,528,951)	178,723	999,503	1,151,460	1,260,084	792,137
Profit after tax	(4,702,240)	60,531	897,284	1,079,453	1,144,514	741,294
EBITDA	122,253	3,214,070	4,178,278	2,792,791	2,178,423	1,411,716

Financial position (Rs. 000)

Total Equity	10,269,064	14,500,553	10,125,083	9,720,054	9,174,168	3,093,102
Surplus on revaluation of property, plant and equipment	3,724,870	3,969,152	219,356	239,073	257,360	278,944
Long term debt	8,468,567	7,080,736	8,189,851	8,460,143	6,245,842	3,152,187
Property, plant and equipment	13,835,133	14,054,500	8,653,622	7,811,638	7,122,546	5,572,699

Financial analysis

Current ratio (times) *	1.48	0.82	1.25	1.79	1.21	1.21
Debt to equity (ratio)	38:62	33:67	45:55	47:53	41:59	50:50

Profitability analysis

EBITDA to Sales (%)	0.69	27.38	41.31	42.13	44.55	31.92
Operating profit to sales (%)	(3.01)	22.29	35.82	33.79	39.19	25.03
Earnings per share (Rs.)	(10.403)	0.003	2.650	3.260	4.970	7.420

*(excluding current portion of long term debt)

Consolidated	Eighteen months ended June 30, 2011	Year ended December 31				
		2009	2008	2007	2006	2005
Operating performance (Rs. 000)						
Sales-Net	29,048,102	26,276,262		12,308,605	6,504,962	4,460,828
Export Sales-Gross	13,296,159	11,751,841	8,238,448	5,432,454	4,131,916	3,870,557
Local Sales-Gross	15,889,321	14,680,850	11,724,806	7,492,457	2,492,848	791,644
Gross profit	3,686,308	8,293,405	6,675,682	4,574,384	1,892,804	1,138,480
Operating profit	1,410,076	6,238,196	6,013,480	4,143,801	1,409,305	1,105,088
Profit before tax	(5,447,817)	1,363,061	1,629,430	1,916,324	213,982	790,069
Profit after tax	(4,264,773)	1,537,929	1,397,393	1,453,448	155,524	739,212
EBITDA	4,877,359	7,289,830	6,949,771	4,889,886	1,960,805	1,409,902

Financial position (Rs. 000)

Total Equity	7,243,546	11,842,203	9,759,139	9,329,302	7,952,063	3,093,775
Surplus on revaluation of property, plant and equipment	7,003,958	3,969,152	219,356	239,073	257,361	278,943
Long term debt	26,561,610	20,127,565	21,040,014	11,459,503	12,740,294	3,152,187
Property, plant and equipment	50,168,926	37,077,131	25,631,529	20,483,035	20,013,878	5,594,458

Financial analysis

Current ratio (times) *	0.60	0.98	0.98	1.19	0.83	1.20
Debt to equity (ratio)	65:35	63:37	68:32	55:45	62:38	50:50

Profitability analysis

EBITDA to Sales (%)	16.79	27.74	35.21	39.73	30.14	31.61
Operating profit to sales (%)	4.85	23.74	30.47	33.67	21.67	24.77
Earnings per share (Rs.)	(9.441)	4.220	4.220	4.460	0.440	7.400

*(excluding current portion of long term debt)

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