Annual Report 2009

Annual Report 2009 has been dispatched to all shareholders. The Report presents a comprehensive account of the financial and operational performance of the Company. We have named it the “dh Green Report ” because it highlights our increasing focus on adopting environment-friendly practices at all levels of the organization.

In line with the foregoing, the Report has been printed on environment-friendly paper certified by the Forest Stewardship Council (FSC), which means that it comes from forests that are managed to meet the social, economic and ecological needs of the present and future generations. The envelopes used for dispatch of Report are also made of recycled paper.

In this report

This Report presents a comprehensive account of the financial and operational performance of Dawood Hercules Chemicals Limited during the year 2009. Our guiding principal during the preparation of the Report was to provide accurate and relevant information in a professional and reader-friendly format in an aesthetically pleasing layout.

The Report documents all the major events and activities that have taken place in the year. It provides the stakeholder with the usual Operating Highlights, Financial Statements, Company Information, Vision and Mission, Business Ethics and Core Values and Directors' Report. We have also added the records that the Company has broken; the awards received; a calendar of the events in the forthcoming year and the Company organisational chart.

The Company has over the course of the year, increased its production, gross profit, capacity utilisation and sales. DH also commissioned and completed various in-house engineering projects such as coil replacement, overhauling of the main generator and ID fan turbine, the replacement of the supporting structure of the urea reactor at the Plant. All of these projects were done before the time allotted, showing the commitment and expertise of the DH team.

The DH Corporate Social Responsibility team has also undertaken a number of projects within the organisation as well as in the community. Within the Company we have instituted recycling of paper and waste, as well as ways to reduce the consumption of water. The CSR committee has worked with several reputable NGOs, which is described in detail within the Report. We hope that we have satisfied all aspects of our stakeholders’ queries and curiosity regarding their Company.

Think Green, Act Green

The Future of Earth lies in our hands.

“Climate Change” and “Global Warming” - two favourite catch phrases of the environmental activists have now entered the everyday vocabulary of the people. The sustainability threat is real and serious – the world is getting warmer; clean water is in short supply for agriculture and the polluted environment is posing serious health risks. The truth is that every single thing we do in our daily lives has an impact on the earth, good or bad. “Environmental friendliness” is neither a fad nor an option, it is a must for all of earth’s inhabitants. We owe this earth to our future generations and are individually and collectively answerable to what we are doing with it.

At Dawood Hercules, we have embarked on a journey to establish an eco-friendly culture at all levels of the organization. We believe that all economic activities must be carried out in a responsible manner to ensure zero or minimum impact on the environment. To quote Henry David Thoreau, “What's the use of a house if you haven't a tolerable planet to put it on?”. We want environment consciousness to become as much a part of our work habits as safety-consciousness. Over the years, safety has become a way of life in our organization – all our activities and operations have safety as the most fundamental prerequisite and the attitude and approach of our people reflects it. We now want to take environment-consciousness to the same level. We want to think green and act green, or in other words, live green. Small things like turning the lights off while leaving, reducing paper waste, using recycled paper and envelopes; buying energy efficient office equipment; using recycling bins; not leaving water taps dripping; etc. can make a huge difference. A cleaner and greener working environment also ensures enhanced productivity and efficiency. We are undertaking an awareness drive in the entire organization and devising a communication mechanism regarding our green initiatives.

Achievements 2009

Environment Excellence Award-2009

The Company's efforts for protecting the Environment were acknowledged by the National Forum for Environment and Health (NFEH) by awarding DHCL the 6th Annual Environment Excellence Award 2009.

Safe Man-hours Record

Safe man-hours record continuously improved. Last Lost Work Injury (LWI) occurred on February 23, 2002. Our Safety performance milestone of eight million safe man hours was achieved on 4th November 2009.

Production Record

The Company through operational excellence produced 513,315 M. Tons of urea, which is the highest production since the inception of the Company. A new record in urea production of 1,600 M. Tons in a single day was achieved on 19th October 2009.

Sales Record

Sales of Rs. 11,040 Million depicting an increase of 49% over last year is the highest in the history of the Company.

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dh Environmental Impact

Our fertilizer helps to replace nutrients removed from the soil through harvesting and therefore it supports the sustainable production of food, fibre and fuel. By optimizing production on existing farm land we contribute in minimizing the destruction of habitat and recreational land.

Vision

To excel in the fertilizer and allied business at national and international level by maintaining highest standards of product quality thereby playing our role in the development of the country's economy and adding value to the shareholders' investment.

Mission

- To offer consistent dividends to the shareholders.
- To chalk out a plan to improve production techniques and quality standards.
- To provide career grooming opportunities to the talented professionals.
- To become a good corporate citizen.
- To develop long-term relationship with the employees.
- To create high performing organizational environment in which bright ideas are generated and nurtured.
- To inculcate honest and ethical behaviour.
- To create safe and healthy environment and friendly atmosphere for the employees.
- To improve quality of life for the employees.

Strategy & Objectives

Our corporate strategy is aimed at developing and maintaining long term competitive advantage. For this, we constantly strive to develop systems which are not only consistent with our current needs but are also enablers of a futuristic culture. We want to make the best use of our resources and turn every challenge into an opportunity. While building upon our core strengths, we always explore new avenues for further growth.

"Value addition" and "sustainable development" are the most significant aspects of our corporate strategic objectives. Our goal is to add value to whatever we do and whoever we deal with. This is achieved through consistent focus on the concepts of continuous improvement and customer-orientation. The impact created in this way is not only profound but self-sustaining.

Business Ethics and Core Values

- Professionalism through leadership and integrity.
- Innovation, teamwork and partnership.
- Long term profitability and growth.
- Perpetual commitment to quality and continuous improvement.

Performance Highlights

Key Figures

Production
1%
Increase
5,265 M. Tons

2009	513,315 M. Tons	
2008	508,050 M. Tons	1%

Gross Profit
27%
Increase
Rs. 844 Million

2009	3,960 Million	
2008	3,116 Million	27%

Capacity Utilization
1%
Increase

2009	115%	
2008	114%	1%

Sales
49%
Increase
Rs. 3,611 Million

2009	11,040 Million	
2008	7,429 Million	49%

Key Events 2009

- Achieved Record Annual Production of 513,315 M. Tons.
- Record Sales of Rs. 11,040 Million
- Attainment of eight million safe man-hours.
- ICAP and ICMAP Award for the best presented annual report 2008

Calendar of Major Events 2010

January	• Annual Turnaround • Q4-2009 Board Meeting
March	• Safety Week Celebration • Sports Week Celebration • Annual General Meeting
April	• Q1 - 2010 Board Meeting
May	• Hajj Draw Ceremony
July	• Q2 - 2010 Board Meeting
August - September	• CBA Agreement 2010 -2012
October	• Tree Plantation - A Green DH Project • Q3 - 2010 Board Meeting

Food Security

Feeding a growing population is a major global challenge. The world agricultural productivity *needs* to be greatly improved, with a doubling of food production in order to create food security for a global population expected to reach 9.2 billion by 2050.

- Urea is the world's most produced chemical, at around 140 million tonnes per year.
- Demand for urea is growing at 3.7% globally – higher even than the rise in population.
- Infact, around 90% of the world's urea is used to fertilize crops.
- And more than 40% of all food grown in the world is fertilized by urea.

Operating Highlights

Ten Years at Glance

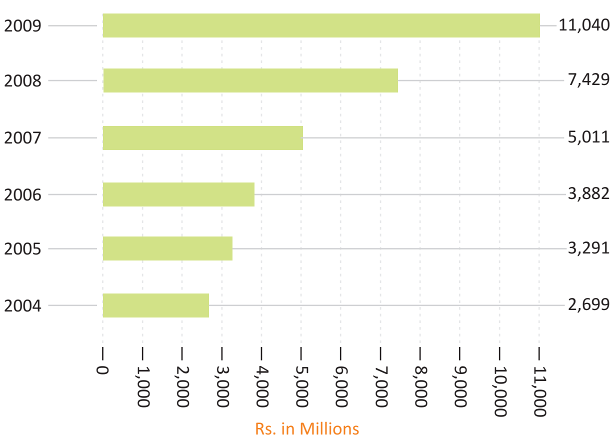
PARTICULARS	UNIT	2009	2008	2007
INCOME STATEMENT				
Sales Value	Rs. in Million	11,040	7,429	5,011
Gross Profit	Rs. in Million	3,960	3,116	1,862
Operating Profit	Rs. in Million	(560)	2,952	10,551
EBITDA	Rs. in Million	921	4,943	11,551
Profit Before Taxation	Rs. in Million	(213)	3,900	10,674
Profit After Taxation	Rs. in Million	(1,138)	3,063	10,134
DIVIDEND				
Cash Dividend	%	40	25	30
Stock Dividend	%	10	10	20
BALANCE SHEET				
Fixed Capital Expenditure	Rs. in Million	2,075	1,396	1,374
Investment in Associate	Rs. in Million	21,543	19,206	16,610
Current Assets	Rs. in Million	5,987	5,027	11,237
Current Liabilities	Rs. in Million	2,983	1,577	3,573
Paid Up Capital	Rs. in Million	1,094	1,094	829
Reserves	Rs. in Million	18,789	16,289	18,061
No. of Ordinary Shares	Million	109.38	109.38	82.87
RATIO ANALYSIS				
Gross Profit	%	36%	42%	37%
Net Profit to Sales	%	(10.31)	41.23	202.24
Earnings Per Share	Rs.	(10.41)	28.00	92.65
Inventory Turnover	Time	81.92	9.01	5.70
Age of Inventory	Days	4.46	40.61	64.04
Debtors Turnover	Time	1,171.42	1,095.38	1,383.24
Average Collection Period	Days	0.31	0.33	0.26
Operating Cycle	Days	4.77	40.95	64.30
Total Assets Turnover	Time	0.37	0.29	0.17
Fixed Assets Turnover	%	636.09	536.30	368.27
Break-up Value of Share	Rs.	181.77	158.91	227.95
Dividend Yield	%	2.22	1.13	0.76
Dividend Payout Ratio	%	(38.44)	8.93	3.24
Return on Equity	%	(5.72)	17.62	53.65
Debt Equity Ratio	Time	0.32	0.36	0.34
Current Ratio	Time	2.01	3.19	3.15
Quick Ratio	Time	1.24	2.01	2.51
Operating Profit Margin	%	(5.07)	39.74	210.56
Total Debt Ratio	Time	0.25	0.25	0.30
Interest Cover Ratio	Time	0.78	5.33	15.12
Dividend Cover Ratio	Time	(2.60)	11.20	30.88
Return on capital employed	%	(2.10)	12.27	41.14
EBITDA margin	%	8.34	66.53	230.52
Market Value per Share	Rs.	179.81	220.30	393.80
Market Capitalization	Rs. in Million	19,668	24,097	32,633
Price Earning Ratio	Time	(17.28)	7.87	4.25
PRODUCTION				
Designed Production (for 12 months)	Thousand mt	445.50	445.50	445.50
Actual Production	Thousand mt	513.32	508.05	497.94
Capacity Utilization	%	115	114	112
Sales	Thousand mt	513.22	527.86	508.54
OTHERS				
Employees	Nos.	573	478	474
Capital Expenditure	Rs. in Million	833.17	163.26	149.00
Contribution to the National Exchequer	Rs. in Million	1,003	1,059	857

FOR THE YEAR ENDED 31st DECEMBER

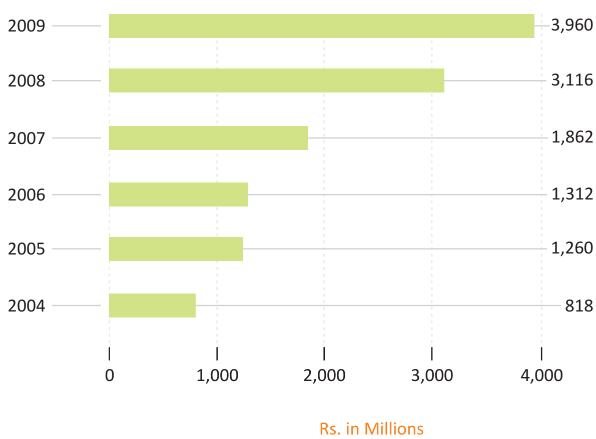
2006	2005	2004	2003	2002	2001	2000
3,882	3,291	2,699	2,983	2,810	2,851	2,886
1,312	1,260	818	1,060	1,010	745	970
2,052	2,777	1,176	1,721	1,132	823	1,057
2,903	3,534	1,663	1,810	1,214	906	1,140
2,266	3,201	1,464	1,686	1,131	823	1,057
2,054	2,868	1,240	1,379	793	595	764
80	85	105	100	95	100	100
Nil	15	Nil	Nil	50	20	Nil
1,347	690	530	464	334	400	419
6,292	5,733	2,001	2,758	2,487	1,869	1,869
8,510	6,364	9,757	6,180	2,267	2,111	1,902
6,672	3,345	4,379	2,994	520	758	698
829	721	721	721	480	480	400
8,444	8,635	7,114	5,645	4,010	3,055	3,020
82.87	72.06	72.06	72.06	48.04	48.04	40.00
34%	38%	30%	36%	36%	26%	34%
52.92	87.16	45.95	46.22	28.23	20.86	26.49
24.79	34.61	17.21	19.13	11.01	12.38	19.11
12.80	17.46	21.90	17.08	14.18	12.96	8.25
28.52	20.91	16.71	21.38	25.74	28.16	44.37
1,221.98	499.03	364.09	475.90	384.43	342.46	302.98
0.30	0.73	1.01	0.77	0.95	1.07	1.21
28.82	21.64	17.72	22.14	26.69	29.23	45.58
0.24	0.26	0.22	0.32	0.55	0.65	0.69
381.00	539.10	543.08	748.09	766.02	696.90	629.88
111.90	129.83	108.72	88.34	93.47	73.58	85.51
2.71	3.32	5.34	5.69	7.09	13.70	12.35
32.27	24.56	61.01	52.26	86.29	80.78	52.33
22.15	30.66	15.83	21.66	17.67	16.82	22.35
Nil	Nil	Nil	Nil	Nil	Nil	Nil
1.28	1.90	2.23	2.06	4.36	2.79	2.72
1.08	1.54	1.95	1.61	2.99	1.78	1.03
52.86	84.39	43.57	57.69	40.29	28.87	36.63
0.37	0.18	0.29	0.19	-	-	-
5.08	13.40	18.68	49.27	1,233.31	-	-
3.10	4.07	1.64	1.91	1.16	1.24	1.91
21.62	29.41	14.85	26.85	24.78	22.71	30.22
74.79	107.40	61.63	60.67	43.21	31.78	39.50
295.00	256.00	196.50	175.60	134.00	73.00	81.00
24,446	18,447	14,159	12,653	6,437	3,507	3,240
11.90	7.40	11.42	9.18	12.17	5.90	4.24
445.50	445.50	445.50	445.50	445.50	445.50	445.50
446.70	428.78	351.12	430.60	414.62	381.95	436.90
100	96	79	97	93	86	98
437.73	405.67	361.20	436.83	415.31	396.82	456.63
485	472	481	498	525	533	554
740.65	235.84	328.15	189.81	11.00	42.00	12.00
773	665	724	857	767	615	633

Graphical Presentation

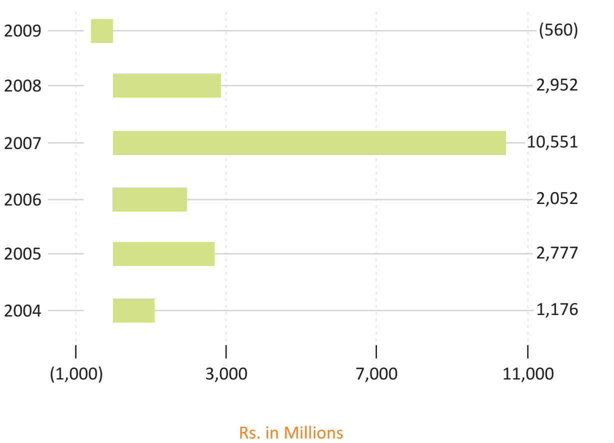
Sales



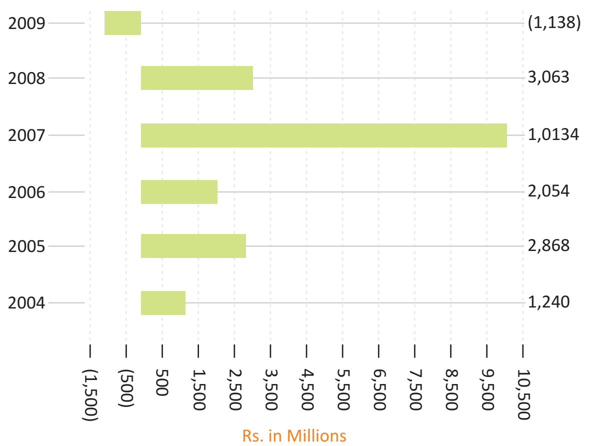
Gross Profit



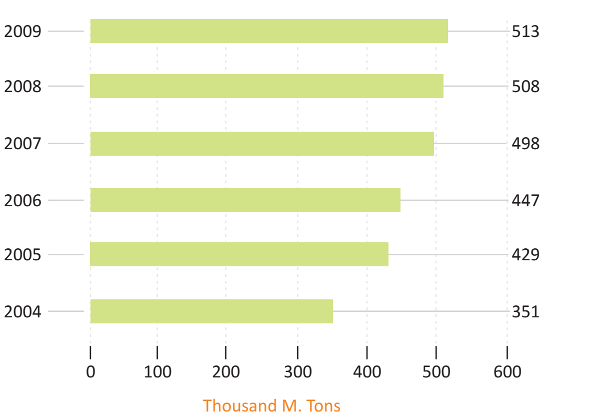
Operating Profit / (Loss)



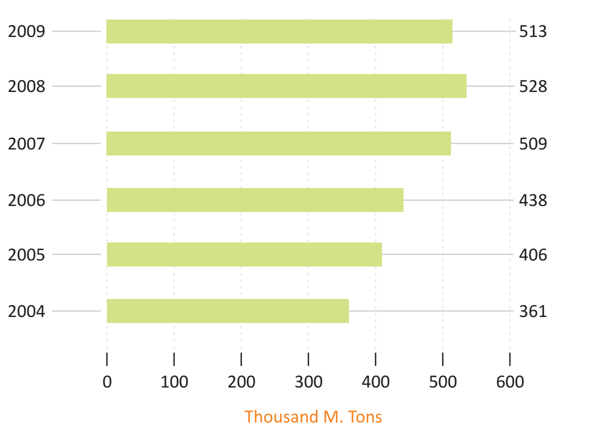
Profit / (Loss) after tax



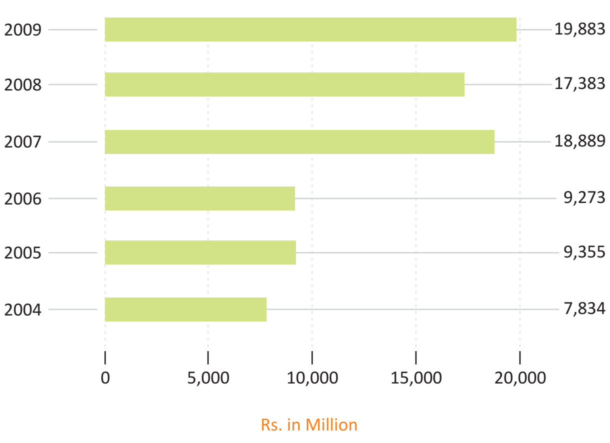
Urea Production



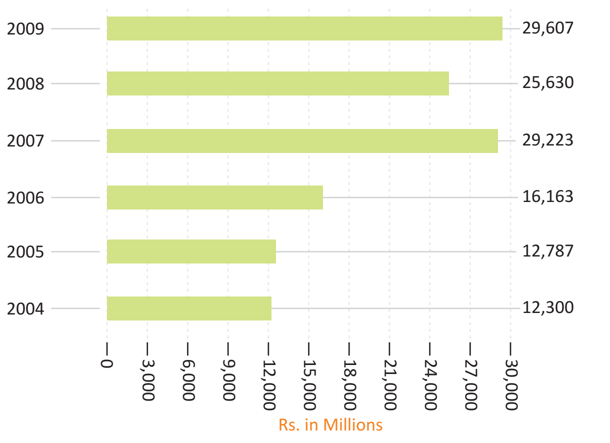
Urea Sale



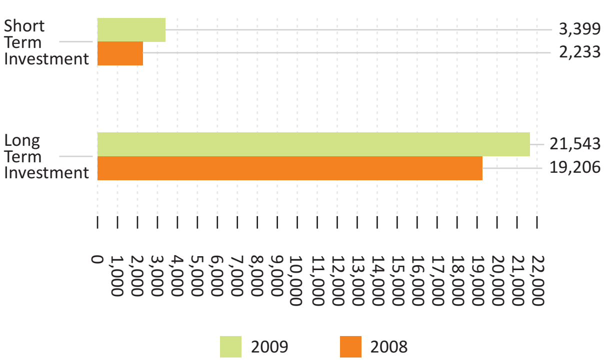
Shareholder Equity



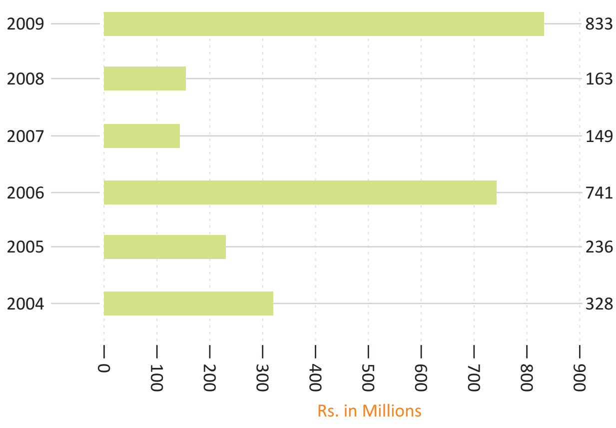
Total Assets Employed



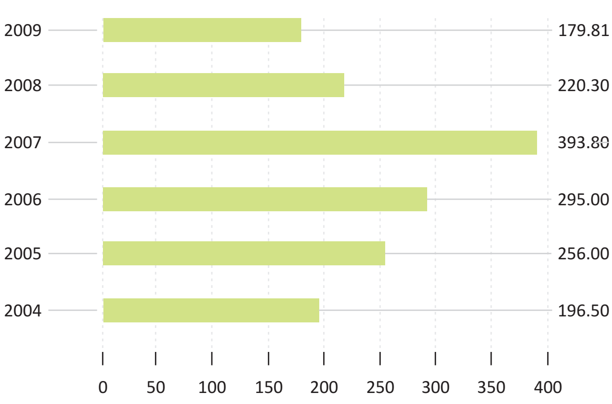
Investments



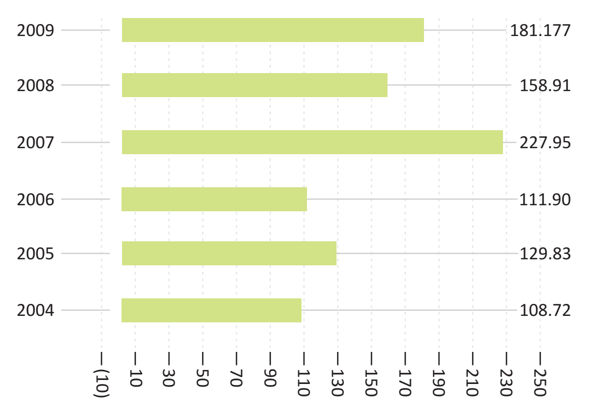
Capital Expenditure



Year End Market Value per Share (Rs)



Break-up Value of Share (Rs.)



Horizontal Analysis

Balance Sheet

Rs. in Million

Particulars	2004	2005	2006	2007
Share Capital and Reserves				
Issued, subscribed and paid up capital	720.58	720.58	828.66	828.66
Revenue reserves	4,617.09	6,728.43	8,204.37	17,841.62
Fair value reserve	2,496.42	1,906.24	240.11	219.05
Share holder's Equity	**7,834.09**	**9,355.25**	**9,273.14**	**18,889.33**
Non Current Liabilities	86.71	87.10	217.89	6,760.55
Sub Total	**7,920.80**	**9,442.35**	**9,491.03**	**25,649.88**
Current Liabilities				
Short term financing - secured	3,620.59	2,334.90	5,924.51	2,281.43
Trade and other payables	549.84	631.68	490.46	512.95
Markup payable on secured loans	27.79	48.24	169.89	249.44
Provision for taxation	181.00	330.00	86.80	529.00
Sub Total	**4,379.22**	**3,344.82**	**6,671.66**	**3,572.82**
Total	**12,300.02**	**12,787.17**	**16,162.69**	**29,222.70**

Rs. in Million

Particulars	2004	2005	2006	2007
Assets				
Fixed Capital Expenditure	530.45	690.30	1,347.37	1,374.03
Investment in Associate	2,000.96	5,732.60	6,292.39	16,610.26
Long Term Loans and Advances	11.68	0.64	12.80	1.11
Sub Total	**2,543.09**	**6,423.54**	**7,652.56**	**17,985.40**
Current Assets				
Stores, spares and loose tools	564.91	646.51	759.95	893.25
Stock in trade	68.18	164.43	237.30	867.51
Trade debts	9.34	3.85	2.50	4.74
Loans, advances, deposit, prepayments and other receivables	583.06	402.99	298.71	491.76
Short term investments	7,458.89	4,746.93	7,155.38	7,882.22
Cash and bank balances	1,072.55	398.92	56.29	1,097.82
Sub Total	**9,756.93**	**6,363.63**	**8,510.13**	**11,237.30**
Total Assets Employed	**12,300.02**	**12,787.17**	**16,162.69**	**29,222.70**

2008	2009	05 Over 04	06 Over 05	07 Over 06	08 Over 07	09 Over 08
		Percentage Change				
1,093.83	1,093.83	0%	15%	0%	32%	0%
20,415.40	18,784.89	46%	22%	117%	14%	-8%
(4,126.57)	3.99	-24%	-87%	-9%	-1984%	-100%
17,382.66	**19,882.71**	**19%**	**-1%**	**104%**	**-8%**	**14%**
6,670.36	6,741.59	0%	150%	3003%	-1%	1%
24,053.02	**26,624.30**	**19%**	**1%**	**170%**	**-6%**	**11%**
70.14	1,196.60	-36%	154%	-61%	-97%	1606%
538.13	648.24	15%	-22%	5%	5%	20%
275.85	280.27	74%	252%	47%	11%	2%
693.00	858.00	82%	-74%	509%	31%	24%
1,577.12	**2,983.11**	**-24%**	**99%**	**-46%**	**-56%**	**89%**
25,630.14	**29,607.41**	**4%**	**26%**	**81%**	**-12%**	**16%**

2008	2009	05 Over 04	06 Over 05	07 Over 06	08 Over 07	09 Over 08
		Percentage Change				
1,396.33	2,075.00	30%	95%	2%	2%	49%
19,205.63	21,543.29	186%	10%	164%	16%	12%
1.26	2.42	-95%	1900%	-91%	14%	92%
20,603.22	**23,620.71**	**153%**	**19%**	**135%**	**15%**	**15%**
1,025.76	1,303.30	14%	18%	18%	15%	27%
89.57	83.29	141%	44%	266%	-90%	-7%
8.82	10.03	-59%	-35%	90%	86%	14%
735.41	912.62	-31%	-26%	65%	50%	24%
2,233.42	3,399.31	-36%	51%	10%	-72%	52%
933.94	278.15	-63%	-86%	1850%	-15%	-70%
5,026.92	**5,986.70**	**-35%**	**34%**	**32%**	**-55%**	**19%**
25,630.14	**29,607.41**	**4%**	**26%**	**81%**	**-12%**	**16%**

Vertical Analysis

Balance Sheet

Rs. in Million

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Issued, subscribed and paid up capital	720.58	720.58	828.66	828.66	1,093.83
Revenue reserves	4,617.09	6,728.43	8,204.37	17,841.62	20,415.40
Fair value reserve	2,496.42	1,906.24	240.11	219.05	(4,126.57)
Share holder's Equity	**7,834.09**	**9,355.25**	**9,273.14**	**18,889.33**	**17,382.66**
Non Current Liabilities	86.71	87.10	217.89	6,760.55	6,670.36
Sub Total	**7,920.80**	**9,442.35**	**9,491.03**	**25,649.88**	**24,053.02**
Current Liabilities					
Short term financing - secured	3,620.59	2,334.90	5,924.51	2,281.43	70.14
Trade and other payables	549.84	631.68	490.46	512.95	538.13
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Total	**12,300.02**	**12,787.17**	**16,162.69**	**29,222.70**	**25,630.14**

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Short term investments	7,458.89	4,746.93	7,155.38	7,882.22	2,233.42
Cash and bank balances	1,072.55	398.92	56.29	1,097.82	933.94
Sub Total	**9,756.93**	**6,363.63**	**8,510.13**	**11,237.30**	**5,026.92**
Total Assets Employed	**12,300.02**	**12,787.17**	**16,162.69**	**29,222.70**	**25,630.14**

	Percentage					
2009	2004	2005	2006	2007	2008	2009
1,093.83	6%	6%	5%	3%	4%	4%
18,784.89	38%	53%	51%	61%	80%	63%
3.99	20%	15%	1%	1%	-16%	0%
19,882.71	**64%**	**73%**	**57%**	**65%**	**68%**	**67%**
6,741.59	1%	1%	1%	23%	26%	23%
26,624.30	**64%**	**74%**	**59%**	**88%**	**94%**	**90%**
1,196.60	29%	18%	37%	8%	0%	4%
648.24	4%	5%	3%	2%	2%	2%
280.27	0%	0%	1%	1%	1%	1%
858.00	1%	3%	1%	2%	3%	3%
2,983.11	**36%**	**26%**	**41%**	**12%**	**6%**	**10%**
29,607.41	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

	Percentage					
2009	2004	2005	2006	2007	2008	2009
2,075	4%	5%	8%	5%	5%	7%
21,543.29	16%	45%	39%	57%	75%	73%
2.42	0%	0%	0%	0%	0%	0%
23,620.71	**21%**	**50%**	**47%**	**62%**	**80%**	**80%**
1,303.30	5%	5%	5%	3%	4%	4%
83.29	1%	1%	1%	3%	0%	0%
10.03	0%	0%	0%	0%	0%	0%
912.62	5%	3%	2%	2%	3%	3%
3,399.31	61%	37%	44%	27%	9%	11%
278.15	9%	3%	0%	4%	4%	1%
5,986.70	**79%**	**50%**	**53%**	**38%**	**20%**	**20%**
29,607.41	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Horizontal Analysis

Profit and Loss

Rs. in Million

Particulars	2004	2005	2006	2007
Sales - Net	2,699.14	3,290.55	3,881.75	5,011.00
Cost of goods sold	1,881.39	2,030.60	2,570.25	3,148.55
Gross Profit	**817.75**	**1,259.95**	**1,311.50**	**1,862.45**
Other Income	563.64	1,775.78	1,047.26	9,053.94
Distribution Expenses	5.56	6.13	6.20	13.07
Administrative Expenses	159.44	196.39	229.93	277.81
Impairment Loss	-	-	-	-
Other Expenses	39.89	56.50	70.51	74.37
Result from Operating activities	**1,176.50**	**2,776.71**	**2,052.12**	**10,551.14**
Finance Expenses	**82.78**	**258.06**	**555.47**	**755.84**
Share of profit from associate, net of tax	370.02	681.91	769.75	878.85
Profit / (Loss) before tax	**1,463.74**	**3,200.56**	**2,266.40**	**10,674.15**
Income tax expenses	223.60	332.60	212.20	539.70
Profit / (Loss) after tax	**1,240.14**	**2,867.96**	**2,054.20**	**10,134.45**
Earnings per share (Rs.)	17.21	34.61	24.79	92.65

Vertical Analysis

Profit and Loss

Rs. in Million

Particulars	2004	2005	2006	2007	2008
Sales - Net	2,699.14	3,290.55	3,881.75	5,011.00	7,428.70
Cost of goods sold	1,881.39	2,030.60	2,570.25	3,148.55	4,312.46
Gross Profit	**817.75**	**1,259.95**	**1,311.50**	**1,862.45**	**3,116.24**
Other Income	563.64	1,775.78	1,047.26	9,053.94	509.59
Distribution Expenses	5.56	6.13	6.20	13.07	72.28
Administrative Expenses	159.44	196.39	229.93	277.81	317.57
Impairment Loss	-	-	-	-	100.31
Other Expenses	39.89	56.50	70.51	74.37	183.93
Result from Operating activities	**1,176.50**	**2,776.71**	**2,052.12**	**10,551.14**	**2,951.74**
Finance Expenses	**82.78**	**258.06**	**555.47**	**755.84**	**901.45**
Share of profit from associate, net of tax	370.02	681.91	769.75	878.85	1,850.20
Profit / (Loss) before tax	**1,463.74**	**3,200.56**	**2,266.40**	**10,674.15**	**3,900.49**
Income tax expenses	223.60	332.60	212.20	539.70	837.80
Profit / (Loss) after tax	**1,240.14**	**2,867.96**	**2,054.20**	**10,134.45**	**3,062.69**

Percentage Change

2008	2009	05 Over 04	06 Over 05	07 Over 06	08 Over 07	09 Over 08
7,428.70	11,040.36	22%	18%	29%	48%	49%
4,312.46	7,080.46	8%	27%	22%	37%	64%
3,116.24	**3,959.90**	**54%**	**4%**	**42%**	**67%**	**27%**
509.59	150.97	215%	-41%	765%	-94%	-70%
72.28	389.08	10%	1%	111%	453%	438%
317.57	331.22	23%	17%	21%	14%	4%
100.31	3,791.10	-	-	-	-	3679%
183.93	159.51	42%	25%	5%	147%	-13%
2,951.74	**(560.04)**	**136%**	**-26%**	**414%**	**-72%**	**-119%**
901.45	**984.75**	**212%**	**115%**	**36%**	**19%**	**9%**
1,850.20	1,331.31	84%	13%	14%	111%	-28%
3,900.49	**(213.48)**	**119%**	**-29%**	**371%**	**-63%**	**-105%**
837.80	924.80	49%	-36%	154%	55%	10%
3,062.69	**(1,138.28)**	**131%**	**-28%**	**393%**	**-70%**	**-137%**
28.00	(10.41)	101%	-28%	274%	-70%	-137%

Percentage

2009	2004	2005	2006	2007	2008	2009
11,040.36	100%	100%	100%	100%	100%	100%
7,080.46	70%	62%	66%	63%	58%	64%
3,959.90	**30%**	**38%**	**34%**	**37%**	**42%**	**36%**
150.97	21%	54%	27%	181%	7%	1%
389.08	0%	0%	0%	0%	1%	4%
331.22	6%	6%	6%	6%	4%	3%
3,791.10	0%	0%	0%	0%	1%	34%
159.51	1%	2%	2%	1%	2%	1%
(560.04)	**44%**	**84%**	**53%**	**211%**	**40%**	**-5%**
984.75	**-3%**	**-8%**	**-14%**	**-15%**	**-12%**	**-9%**
1,331.31	14%	21%	20%	18%	25%	12%
(213.48)	**54%**	**97%**	**58%**	**213%**	**53%**	**-2%**
924.80	8%	10%	5%	11%	11%	8%
(1,138.28)	**46%**	**87%**	**53%**	**202%**	**41%**	**-10%**

Notice of Annual General Meeting

Notice is hereby given that the Forty Second Annual General Meeting of Dawood Hercules Chemicals Limited will be held at Avari Hotel, 87-Shahrah-e-Quaid-e-Azam, Lahore, at 1100 hours on Monday, 29th March 2010 to transact the following business:

Ordinary Business

1. To confirm the Minutes of the Forty First Annual General Meeting held on Thursday, 16th April 2009.

2. To receive, consider and adopt the Audited Accounts of the Company for the year ended 31st December 2009 together with the Auditors' and Directors' Reports thereon.

3. To consider and, if thought fit, approve payment of final cash dividend at the rate of Rs. 1.00 per share (10%) for the year ended 31st December 2009 as recommended by the Board of Directors. This is in addition to the interim cash dividends of Rs. 3.00 per share (30%) already paid during the year.

4. To approve the issue of bonus shares in the ratio of 1 bonus share for every 10 ordinary shares held by the shareholders (10%) as recommended by the Board of Directors. To give effect to the above, the Directors have recommended to consider and, if thought fit, pass, with or without modification, the following resolution as an Ordinary Resolution.

   “RESOLVED, that a sum of Rs. 109,383,430/- (Rupees one hundred nine million three hundred eighty three thousand four hundred thirty only) be capitalized out of the un-appropriated profit of the Company and applied towards the issue of 10,938,343 ordinary shares of Rs. 10/- each as fully paid bonus shares to be allotted to the shareholders in proportion of 1 share for every 10 existing ordinary shares held by the members of the Company who are registered on the books of the Company on 19th March 2010 and that, after allotment, such new shares shall rank pari passu in all respects with the existing ordinary shares of the Company. These bonus shares will not be eligible for the final cash dividend of 10% for the year ended 31st December 2009.

   Members entitled to fractions of shares as a result of their holding either less than 10 Ordinary Shares or in excess of an exact multiple of 10 Ordinary Shares shall be given the sale proceeds of their fractional entitlements for which purpose the fractions shall be consolidated and sold at the Stock Exchange.

   For the purpose of giving effect to the foregoing, the Chief Executive and the Company Secretary be and are hereby severally authorised to take all necessary actions under the law and to settle any questions or difficulties that may arise in the distribution of the said bonus shares or in the disposal of fractions and payment of proceeds thereof.”

5. To appoint Auditors for the year ending 31st December 2010 and to fix their remuneration.

By Order of the Board

Karachi
23rd January 2010

Aftab Ahmed Qaiser
Company Secretary

NOTES

Closure of Share Transfer Books:

The share transfer books of the Company will remain closed from Friday, 19th March 2010 to Monday, 29th March 2010 (both days inclusive). Transfers received in order at the office of our Shares Registrar, M/s. Corplink (Pvt.) Ltd., Wings Arcade, 1-K, Commercial, Model Town, Lahore, by the close of business (1700 hours) on Thursday, 18th March 2010 will be treated in time for the purpose of above entitlement to the transferees.

Participation in the Annual General Meeting:

All members of the Company are entitled to attend the Meeting and vote thereat in person or through Proxy. A Proxy, duly appointed, shall have such rights as respects speaking and voting at the meeting as are available to a member. The proxies shall produce their original CNICs or original Passports at the time of the Meeting.

Proxy:

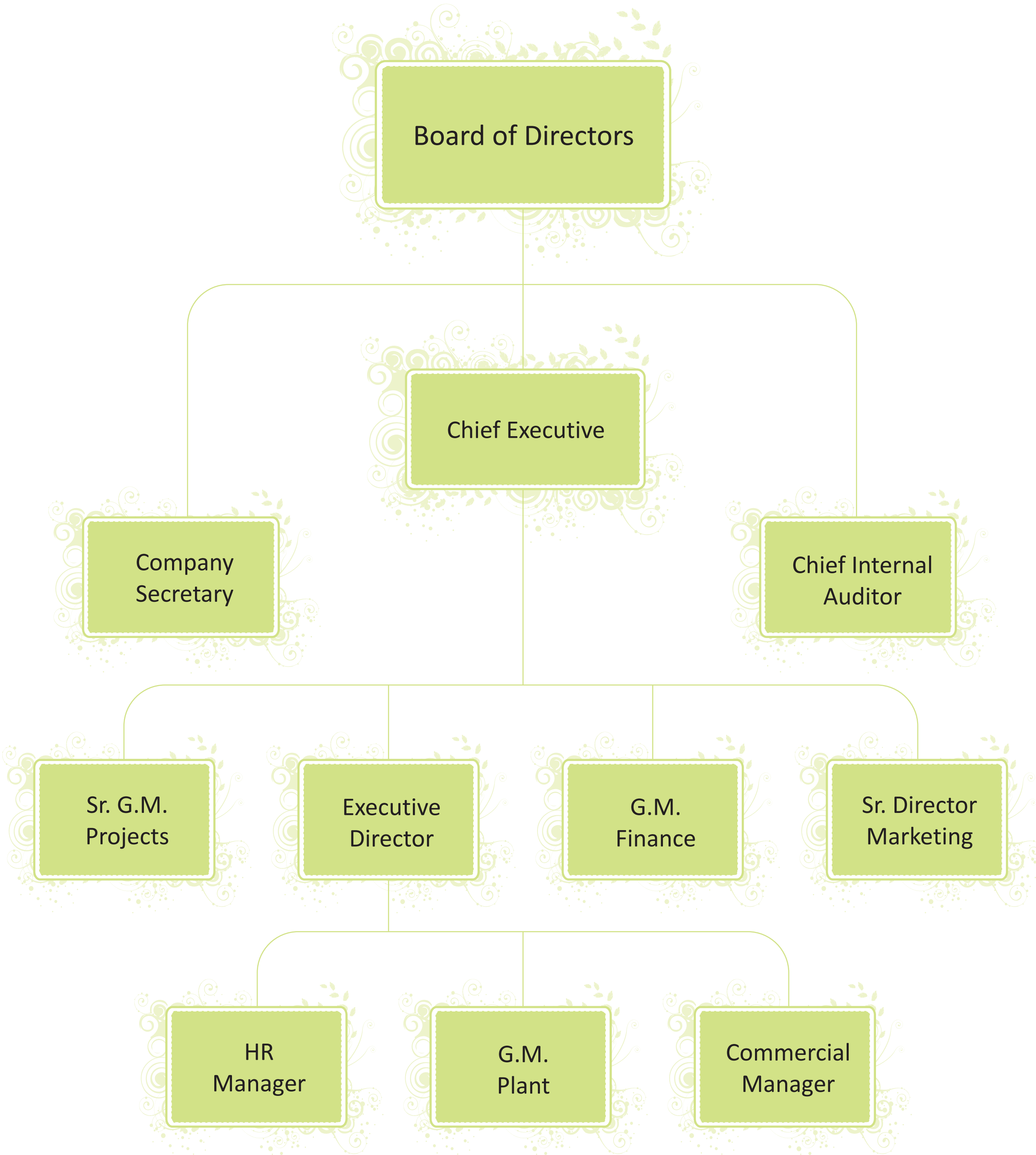
A member of the Company may appoint another member as his/her Proxy to attend and vote instead of him/her. A Corporation being a member may appoint any person, whether or not a member of the Company, as its Proxy. In the case of corporate entities, the Board of Directors' resolution / power of attorney with specimen signature of the person nominated to represent and vote on behalf of the corporate entity, unless provided earlier, shall be submitted to the Company along with the Proxy Form.

In order to be effective, Proxy Forms, duly filled and signed, must be received at the Registered Office of the Company, not less than forty eight (48) hours before the Meeting. A blank Proxy Form is attached herewith.

Change of Address:

Any change of address of Members should be notified immediately at the office of our Shares Registrar.

Organization Chart



Company Information

Board of Directors

Mr. Hussain Dawood
Chairman

Mr. Shahzada Dawood
Chief Executive

Mr. Isar Ahmad
Director

Khawaja Amanullah
Director

Mr. S.M. Asghar
Director

Mr. Aleem Ahmed Dani
Director

Mr. A. Samad Dawood
Director

Mr. Abdul Ghafoor Gohar
Director

Mr. Haroon Mahenti
Director

Mr. Shahid Hamid Pracha
Director

Board Audit Committee

Mr. Shahid Hamid Pracha
Chairman

Mr. Isar Ahmad
Member

Mr. A. Samad Dawood
Member

Mr. Haroon Mahenti
Member

Board Compensation Committee

Mr. Shahid Hamid Pracha
Chairman

Mr. S.M. Asghar
Member

Mr. A. Samad Dawood
Member

Mr. Shahzada Dawood
Member

Company Secretary

Mr. Aftab Ahmed Qaiser
qaiser@dawoodgroup.com

Chief Financial Officer

Mr. Gulzar Saleem
gulzar@dawoodgroup.com

Registered Office

35-A, Shahrah-e-Abdul Hameed Bin Baadees (Empress Road), Lahore.

Tel: +92 (42) 36301601-07
Fax: +92 (42) 36360343, 36364316
Email: info.dh@dawoodgroup.com
Web: www.dawoodhecules.com

Plant

28-KM Lahore Sheikhupura Road, Chichoki Mallian, Sheikhupura.

Tel: +92 (42) 37352762-7
Fax: +92 (42) 37313380

DHCL Agri Division

415-419 Al-Falah Building, Shahrah-e-Quaid-e-Azam, Lahore.
Tel: +92 (42) 36284808-12

Bankers

Bank Al-Habib Ltd.
Habib Bank Ltd.
Habib Metropolitan Bank Ltd.
MCB Bank Ltd.
Allied Bank Ltd.
United Bank Ltd.
Meezan Bank Ltd.
Emirates Global Islamic Bank Ltd.

Auditors

M/s. KPMG Taseer Hadi & Co.
Chartered Accountants

201-Office Block, Siddiq Trade Centre, 72-Main Boulevard, Gulberg-II, Lahore

Tel: +92 (42) 35781751-6
Fax: +92 (42) 35781757
Web: www.kpmg.com.pk

Shares Registrar

M/s. Corplink (Pvt.) Limited
Wings Arcade, 1-K, Commercial, Model Town, Lahore.

Tel: +92 (42) 35839182, 35916719
Fax: +92 (42) 35869037

Tax Consultants

UHY Hassan Naeem & Company
Chartered Accountants

193-A, Shah Jamal, Lahore-54000

Tel: +92 (42) 37599938, 37599948
Fax: +92 (42) 37599740
Email: info@uhy-hnco.com

Legal Advisors

Hassan & Hassan (Advocates)

PAAF Building, 7-D, Kashmir/ Egerton Road, Lahore

Tel: +92 (42) 36360800-03
Fax: +92 (42) 36360811-12
Web: www.hnh.com.pk

Board of Directors

Chairman

1. Hussain Dawood
Chairman

Joined the Board in 1974 and was elected as the Chairman of the Board of Directors in 2002. He is also the Chairman of Engro Corporation Limited, Karachi Education Initiative, Pakistan Poverty Alleviation Fund and The Dawood Foundation. He also serves as a member on the Board of Commonwealth Business Council. He is a Global Charter Member of The Indus Entrepreneurs (TIE) and the Honorary Consul of Italy, in Lahore. He is the first Pakistani to become a member of the World Economic Forum in 1992. Mr. Dawood is an MBA from the Kellogg School of Management, Northwestern University, USA, and a graduate in Metallurgy from Sheffield University, UK.

2. Shahzada Dawood
Vice Chairman & Chief Executive

Joined the Board in 1996 and was appointed as Chief Executive of the Company in 2005. He is the Chairman of Dawood Lawrencepur Limited and serves as a Director on the Boards of Engro Corporation Limited, Engro Foods Limited, Engro Polymer & Chemicals Limited, Engro Vopak Terminal Limited and Avanceon Limited. He is a member of the Board of Governors of National Management Foundation (LUMS) and also a member of the Board of Trustees of The Dawood Foundation. Mr. Shahzada Dawood is an M.Sc in Global Textile Marketing from Philadelphia University, USA, and LLB from Buckingham University, UK.

3. Isar Ahmad
Director

Mr. Ahmad is Managing Director of the Holding Company Group at The Dawood Group. Mr. Ahmad has diversified experience of working in senior management positions in multinational and large Pakistani Organizations, having served as Finance Director, Supply Chain Director and Head of Business Unit at Reckitt Benckiser (previously Reckitt & Colman), Managing Director, Haleeb Foods (previously CDL Foods Limited), as well as having been the Financial Advisor at Indus Motor Company Limited. He holds a Masters Degree in Economics and is a Chartered Accountant from the Institute of Chartered Accountants in England & Wales. Mr. Ahmad joined the Board in April 2008. He is also a Director on the Boards of Engro Corporation Limited, Engro Polymer & Chemicals Limited, Engro Foods Limited, Central Insurance Company Limited, Dawood Lawrencepur Limited and Tenaga Generasi Limited.

4. Khawaja Amanullah
Director

Joined the Board in 1987 and has served on the Boards of a number of public and private companies. He is a senior Director of the Company who has been associated with Dawood Hercules since its inception. His association with the Group spans over five decades and he has been a very important member of the top management all along. Mr. Amanullah holds an Honors Degree in Literature.

5. S.M. Asghar
Director

Joined the Board in 1999. He is also on the Boards of Sui Northern Gas Pipelines Limited and Dawood Lawrencepur Limited. Mr. Asghar is a Fellow Member of the Institute of Chartered Accountants of Pakistan and has 40 years experience in diversified fields of finance, taxation, projects, legal and corporate affairs. He is also a member of the Institute of Cost and Management Accountants of Pakistan and a Certified Director from the Pakistan Institute of Corporate Governance.

6. Aleem A. Dani

Director

Joined the Board in 2008. He has served as Director Finance and Director Corporate Affairs at Glaxo Welcome Pakistan Limited and has been on the Boards of Glaxo Welcome Pakistan Limited and Welcome Pakistan Limited. He has also worked at a senior position in finance at Harrisons & Crosfield Canada Limited. He is a certified Director from the Pakistan Institute of Corporate Governance and a Fellow Member of the Institute of Cost & Management Accountants of Pakistan. Mr. Dani graduated with honors from the Institute of Cost and Management Accountants of Canada.

7. A. Samad Dawood

Director

Joined the Board in 2002. He is the Chairman of Central Insurance Company Limited and the Chief Executive of Dawood Corporation (Pvt.) Limited. He is a Director on the Boards of Dawood Lawrencepur Limited, Engro Corporation Limited and Sui Northern Gas Pipelines Limited. He is the Director of WWF Pakistan and also a member of the Board of Trustees of The Dawood Foundation. Mr. Samad Dawood is a certified director from the Pakistan Institute of Corporate Governance and a graduate in Economics from the University College London, UK.

8. A.G. Gohar

Director

Joined the Board in 1991. He joined PIDC-National Gas Fertilizer Factory in 1958, as an Assistant Process Engineer at Daudkhel and received specialized training in fertilizer industry in France, Switzerland & Italy from October 1958 to June 1959 and worked at PAFL, Daudkhel and NGF, Multan till 30th April 1970. Mr. Gohar joined Dawood Hercules on 1st May 1970 and worked in various capacities including Director Operations and Director Projects.

9. Haroon Mahenti

Director

Joined the Board in 2005. He is also a Director of Central Insurance Company Limited and Dawood Lawrencepur Limited. He has been associated with The Dawood Group for the last five decades, during which he has managed a number of companies and trading activities. He has attended various Advance Management Courses and possesses a rich experience in the field of Financial Management, including Portfolio Management and Banking.

10. Shahid Hamid Pracha

Director

Joined the Board in 2008. He serves as a Chief Executive Officer of Karachi Education Initiative and The Dawood Foundation, the philanthropic arm of The Dawood Group. He is a Director on the Boards of Central Insurance Company Limited, Dawood Lawrencepur Limited, Engro Powergen (Pvt.) Limited, Inbox Business Technologies (Pvt.) Limited and Tenaga Generasi Limited. Prior to joining The Dawood Group, he spent a major part of his career with ICI Plc's Pakistan operations in a variety of senior roles including a period of international secondment with the parent company in the UK. He is also a founding member of the Pakistan Society for Human Resource Managers. Mr. Pracha is a graduate electrical engineer from the University of Salford, UK.

The Management

Corporate Office


AFTAB AHMED QAISER
Company Secretary


MUHAMMAD ASLAM
Senior General Manager Projects


GULZAR SALEEM
General Manager Finance


KH. AHMAD ARSALAN
Human Resources Manager


CH. ABDUL MUGHNI
Commercial Manager


ZUBAIR ABDULLAH
Manager Information Technology


IMRAN BASHIR
Chief Internal Auditor


RAJA KHAN BAIG
Manager Corporate Office Admin.

Plant


AHMAD DIN
General Manager Plant


FARRUKH S. BASHIR
Production Manager


DR. SAJID HASSAN
Technical Manager


NASIR IQBAL TOOR
Training & ISO Manager


ARSHAD MEHMOOD
Engineering Manager


RANA M. SALEEM
Health Safety & Environment Manager


ASAD SABZWARI

Committees

Board Audit Committee

The Board Audit Committee assists the Board of Directors in monitoring the framework of managing business risks and internal controls. The Committee also assists the Board in discharging its statutory and other responsibilities relating to internal controls, financial and accounting matters, compliance, and business and financial risk-management.

As per latest scope of Internal Audit, it is no more police function rather it keeps the heads of various functions of the Company to perform their duties more efficiently and diligently. The Board Audit Committee of the Company comprises of four members. The Board of directors is responsible to ensure that majority of the members of the Committee are financially literate and possess the professional skills and personal characteristics necessary to carry out their duties as members of the Committee. The Board recognizes that it is desirable that at least one member of the Committee be a financial professional, with accounting and auditing or related financial management expertise.

The Audit Committee functions within the scope of the Terms of Reference approved by the Board which determine the roles and responsibilities of the Committee and reflect the requirements of the Code of Corporate Governance. The role and responsibilities of the Board Audit Committee include determining appropriate measures to safeguard the Company's assets, reviewing quarterly, half-yearly and annual financial statements of the Company and preliminary announcements of results before approval by the Board and publication, reviewing the Company's statement on internal control systems prior to their approval by the Board, reviewing the external auditors letter to the management and its response thereto, ascertaining that the internal control system including financial and operational controls, accounting system and reporting structure are adequate and effective, considering major findings of internal audit and management's responses thereto, monitoring compliance with the best practices of corporate governance.

In addition, the Board Audit Committee reviews and approves the Company's Internal Audit Charter to ensure the adequacy of the internal audit function. The Chief Internal Auditor reports directly to the Chairman of the Board Audit Committee. The scope and extent of internal audit, including the annual Internal Audit Plan, are reviewed and approved by the Committee which also regularly monitors the progress. The Board Audit Committee reports to the Board on the audits undertaken by the internal and external auditors, the adequacy of disclosure of information, and the appropriateness and quality of the system of risk management and internal controls. Without interfering with the independence of the External and Internal Auditors, the Committee encourages coordination between them in the discharge of their respective functions.

The Board Audit Committee is also responsible for evaluating the effectiveness of audits, the independence and objectivity of the external auditors. It also makes recommendations to the Board on the appointment or re-appointment of the external auditors. The Board Audit Committee has explicit authority to investigate any matter within its terms of reference, and has the full cooperation of and access to Management. It has direct access to the internal and external auditors, and full discretion to invite any Director or executive officer to attend its meetings.

The Code of Corporate Governance requires the Board Audit Committee to meet at least once every quarter of the financial year prior to the approval of interim results of the Company by its Board of Directors. Accordingly the Board Audit Committee met 6 times during the financial year and at these meetings, the Chief Financial Officer, and Chief Internal Auditor were also in attendance. The following business was considered in these meetings:

Review of quarterly, half-yearly and annual financial statements of the Company along with any public announcements relating to them were reviewed and were recommended by the Committee before their consideration by the Board;

Review of major areas of judgment reflected in the accounts, significant adjustments resulting from the audit of financial statements, changes in accounting policies and practices, compliance with applicable accounting standards, compliance with listing regulations and other statutory and regulatory requirements;

Review of the results of audits performed by the Company's Internal Audit based on the approved audit plan;

Review of board and management letters issued by the external auditors;

Review of compliance with all relevant laws and regulations and other statutory requirements;

Compliance with the best practices of Code of Corporate Governance;

Determination of appropriate measures to safeguard company's assets;

Review of status of action items from the previous meetings; and

Recommendation to the Board for appointment and reappointment of External Auditors.

Internal Audit

The Internal Audit department comprises a team of 4 staff members, including the Chief Internal Auditor. The Internal Audit plan is reviewed and approved by the Board Audit Committee. The reviews performed by Audit are aimed at assisting the Board in promoting sound risk management and good corporate governance, through assessing the design and operating effectiveness of controls that govern key business processes and risks identified in the overall risk framework of the Company. Internal Audit's reviews also focus on compliance with the Company's policies, procedures and regulatory responsibilities, performed in the context of financial and operational and information systems reviews.

Considerable importance is placed on maintaining a strong internal control environment. There are documented procedures in place that cover management accounting, financial reporting and project appraisal, information systems security, compliance and other risk management issues. The systems that are in place are intended to provide reasonable but not absolute assurance against material misstatements or loss as well as to ensure the safeguarding of assets, the maintenance of proper accounting records, the reliability of financial information, compliance with applicable legislation, regulation and best practices, and the identification of business risks for the mitigation by the management. The Management, with the assistance of Internal Audit, follows up on the external auditors' recommendations as part of their role in reviewing the Company's system of internal controls.

To ensure that the internal audits are performed effectively, the Company employs suitably qualified professional staff with the requisite skill sets and experience. To ensure their technical knowledge remains current and relevant, Internal Audit department provides training and development opportunities for its staff.

Changes in the Audit Committee:

The Committee would like to place on record its appreciation on the valuable contribution made by Mr. Aleem Ahmed Dani, outgoing member towards accomplishment of tasks provided to it by the Board. The Committee also welcomes Mr. Isar Ahmad who joined the Committee in place of the outgoing member.

Name of the Members	Meetings Attended
Mr. Shahid Hamid Paracha	6
Mr. Isar Ahmad	3
Mr. A. Samad Dawood	6
Mr. Haroon Mehanti	5

External Auditors

M/s. KPMG Taseer Hadi & Co. retiring auditors of the Company, offer themselves for reappointment for the year 2010. As suggested by the Board Audit Committee, the Board of directors recommends their reappointment by the shareholders at 42nd Annual General Meeting, as auditors of the Company for the year ending 31 December 2010.

The external auditors have been given satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan (ICAP). The external auditors have confirmed that their firm is in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by the ICAP. The external auditors have not been appointed to provide other services except in accordance with the listing regulations and they have confirmed that they have observed IFAC guidelines and bye-laws of the ICAP in this respect.

Board Compensation Committee

The Board Compensation Committee assists the Board in carrying out its responsibilities with respect to salary and other perquisites of the Company's senior executives. It also assists the Board in matters regarding compensation in relation to retirement and, welfare and other benefits plans.

The Board Compensation Committee shall have the authority to retain such outside consultants or advisors as it determines appropriate to assist it in the performance of its functions, or to advise or inform the Committee. The Committee helps and decides the compensation philosophy of the Company. The functions of the Committee shall include the following:

- To review and approve the Chief Executive and Senior Executives' compensation;
- To establish all components of compensation for directors and recommend changes to the Board;
- To assist the Board in reviewing and monitoring processes related to succession plans;
- To review and monitor processes and initiatives related to work environment and culture;
- To report to the Board of Directors on Committee findings, recommendations, and any other matters that the Committee deems appropriate;
- To review proposed new compensation arrangements, review and recommend to the Board employment agreements and severance arrangements for senior executives; and
- To perform such other duties and responsibilities as may be assigned to the Board Compensation Committee from time to time by the Board of Directors.

The Committee comprises of four members and shall meet as often as may be deemed necessary or appropriate in its judgment and at such times and places as the Committee shall determine.

Management Committee

The Management Committee is the consultative body within the Company, which supports the development of policies and ensures the alignment and continuous implementation of key priorities and strategies across the Company. It works as the engine of the organization; determines and utilizes the resources and provides strategic leadership and planning to execute the Business Plan. It reviews the operational performance of the Company and gives direction on issues relating to laws in vogue, employees, resources and other policy matters including the day-to-day operations including Plant operations, production performance and product quality, major breakdown / failure of equipment, availability of raw material and energy efficiency, stores and spares inventory, implementation of capital projects and planning of capital expenditure, environmental, safety and security issues/initiatives, training and ISO activities and risk mitigation plans etc.

The Management Committee meets every month to review and direct management on operational policies and activities.

Human Resource Committee

The Human Resource (the "HR") Committee assists and makes recommendations to the Board of Directors on matters relating to organizational structure, management development, succession planning and establishing compensation policies. The Company invests substantial time and resources in training at all levels of the Company. The Company sees the greatest return on this investment in tough economic times. We have a core team of professionals that is prepared to handle the difficult conditions and to protect and enhance shareholders value over the long term. The Company firmly believes in happy and satisfied employees for its success. In order to ensure recruitment of dedicated and devoted professional employees and also retain the existing ones, responsibility of the HR Committee is to formulate and implement packages for new employees, consider promotions of existing staff through appraisal forms and review their remunerations with market competitive packages.

The Committee uses a mix of compensation that balances rewards for current and long-term performance. Although compensation programs are fine tuned as conditions change, the Company believes that it is important to maintain consistency in its compensation philosophy and approach.

The terms of reference of the Committee includes the following:

To ensure that HR policies and procedures are aligned with the vision and strategic objectives of the Company;

To maintain a consultative role with the Board Compensation Committee;

To ensure formulation of policies in the areas of HR Management and HR Development including Compensation, Benefits and Performance Management;

To provide general oversight and philosophy of the management cadre compensation package;

To discharge the responsibility relating to compensation packages by reviewing their competitiveness with the market to attract, retain and motivate the human assets;

To oversee the Company's plans for succession planning and development and submission of Management Succession Plan to the Board;

To ensure occupational health and safety of all cadres of employees;

To provide leadership and guidance for the organizational transformation required to achieve the corporate goals;

To ensure development of recruitment policy and procedures; and

To review and approve the revision and restructuring of Supervisors' Compensation Package and Development plans for key executives with high potential.

Lets secure the future of our children and grandchildren.

3 R Policy

Reduce: Reduce the amount of the Earth's resources that we use.

Reuse: Don't just bin it, could someone else make use of it?

Recycle: Can the materials be made into something new?

The 3R Policy is only successful when everybody in the system has its ownership and contributes for its true implementation.

We have launched an organization-wide drive to manage different categories of waste. Separate bins have been provided for this purpose.

Paper Waste: A campaign is underway to miminise the use of office paper and recycle the waste. Paper waste is being collected and will be sent to some paper mill for recycling and manufacturing of office stationary.

Metal Waste: Metal waste is stored at the scarpyard and then sold for recycling.

Glass Waste: Glass, plastic and rubber waste is disposed off in an environment friendly manner.

> There must be a reason why some people can afford to live well. They must have worked for it. I only feel angry when I see waste. When I see people throwing away things we could use.
>
> Mother Teresa

Directors’ Report

Fertilizer Marketing Review

Global Fertilizer Supply

Unstable condition of Global Fertilizer Market swing to stabilization in 2009 as fertilizer demand was virtually flat over the previous year. Global producer's production and sales dropped to un-precedent levels, due to the important inventory carry-over in the world-wide distribution system. Production decreased mostly on Potash and Phosphate products, while nitrogen product output rose moderately. Global capacity increased in exporting regions but at moderate compared with previous year. The completion of few projects was postponed, due to combination of soft market conditions and technical delays. However, in the long run very few developments have been cancelled, but the number of new projects faded, compared with the flurries of announcement in 2007-08.

For the second consecutive year, total world nutrients production in 2009 appeared to exceed sale and consumption. Translating in a significant build-up of inventories at producer ends. In 2008 global sales were also above world demand as several Key Importers increased their inventories by mid-year in anticipation of rising fertilizer prices and tight supply condition. Entering 2009, massive stocks carryover were available in the distribution system worldwide. During the year buyers used those stocks while limiting the purchase of additional products consequently by the end of 2009. Global consumption exceeded over all sale and left the supply pipelines rather empty.

In the nitrogen sector, Ammonia production was rather stable while Urea output expanded moderately, due to its rising store in global nitrogen fertilizer mix. Phosphate Acid production declined moderately in 2009 while that of Phosphate Rock dropped.

The Urea Industry operated at close to 95 percent of its effective capacity, on the basis of firm fertilizer demand and also from a combination of supply-driven factor, such as delays in the commissioning of new capacity and a much higher numbers of idled plants in 2009, due to shortfalls in some domestic supply of natural gas.

In November, 2009, the IFA Agriculture Committee projected global fertilizer demand in calendar year 2009 at 156.3 million tons nutrients showing a slight decline from the previous year on a nutrient basis, nitrogen and phosphate fertilizer consumption was relatively stagnant, while Potassium Fertilizer use dropped for the second consecutive year, by almost 9 percent over 2008.

Global fertilizer demand in 2010 would recover to 164.1 million tons nutrients. This would equate to an overall 5 percent growth over 2009.

World Fertilizer Consumption

M. T Nutrients	2008	2009 (e)	2010(f)
Nitrogen N	99.0	99.8	102.7
Phosphorous P205	34.6	34.6	37.0
Potassium K 20	24.0	21.9	24.4
Total	157.6	156.3	164.1

(e) estimated; (f) forecast   Source: IFA, June 2009

Global Urea production in 2009 was estimated at 151.7 million tons, representing a 4 percent increase over 2008. The main production expansions occurred in China, Oman, India and Russia. China contributed 55 percent to the net 1.7 Million tons increase of output. Production restarted in Nigeria, though at very low levels. Technical problems and shortages of natural gas supply led to reduced production or even some temporary shut-downs of a few plants in Netherlands, Bangladesh, Estonia, Turkey and

Ukraine. One plant closed permanently in Portugal in 2009, a total of 15 plants world-wide were idled, representing 5.4 million tons of Urea capacity. (1)

Global Urea Production and Trade

The global demand of urea is estimated at 148 million tons in 2009, up 1.2 percent over 2008, and at 156.4 million tons in 2010, representing an increase of 5.7 percent over 2009.

The global supply /demand balances shows a potential surplus of 10.5 million tons in 2009 compared with 5.4 million tons in 2008 and slightly reduced balance in 2010 at 8.9 million tons. Such surpluses are possible, but production level may vary in accordance with world demand and inventory changes. (2)

World Urea Supply / Demand

IFA estimated world urea trade in 2009 at 34 million tons representing 2.9% increase over 2008. Imports declined in virtually all countries, but a few showed distinct growth patterns in 2009, these included Bangladesh, Pakistan and Thailand. Firm import demand also prevailed in Viet Nam and Mexico. India and United States were the main importing countries, accounting for 65% of global trade.

Keeping in view the above facts and figures there will be no major downward change in price in the global Urea market. We do not expect any price deterioration in the local Urea market also. The world average price of urea remained around USD 300 per metric ton throughout the year. The DAP price remained between 370 to 430 USD per metric tons during this period.

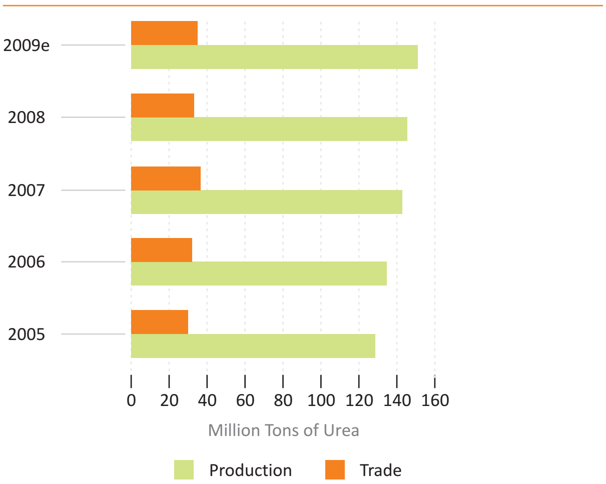
The world phosphate market was stagnant in 2009, following a drastic 10 percent plunge in demand in 2008. Indeed world phosphate fertilizer consumption was static in 2009 while sale in the Industrial Sector became further depressed.

Only three countries registered a significant positive growth, namely China, India and Pakistan. Almost all the other countries showed reduced consumption. Imports demand grew only in India and Pakistan.

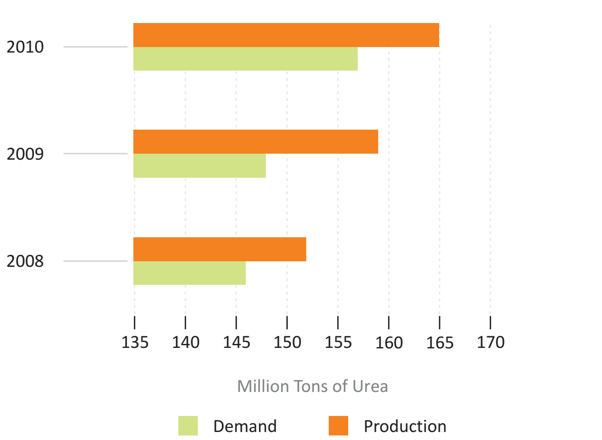
Pakistan Fertilizer Scenario

Pakistan's Fertilizer Industry comprises of 9 Urea and one DAP plant, having total production capacity of 4,922 thousand metric tons per annum. Recently few

(1)



(2)



The 3 staple grains

three grains dominate world cereal production, and play a particularly crucial role in feeding people.

1. Maize 2. Wheat and 3. Rice

Human beings, on average, get 48% of the calories from grain. Of these, wheat is the dominant grain as it feeds one third of the world population. It is also a staple cereal in the Pakistani diet. 36% of the total cropped areas is used to grow wheat.

Therefore, Pakistan faces considerable pressure to feed 167 million Pakistanis, making the role of fertilizers vital in food production.

plants of Single Super Phosphate (SSP) fertilizer have commenced their production.

Although all urea plants are running over their designed capacities still there is shortage of urea in the Country. To fill this gap between supply and demand, Government had to resort to imports for making available this important agricultural input.

Fertilizer Sector is the one of the major consumer of gas in the Country. Three companies namely Sui Northern Gas Pipelines Limited, Sui Southern Gas Company Limited and Mari Gas Company Limited are providing gas to Fertilizer Sector.

Fertilizer consumption in Pakistan is closely linked to the economic growth of the country. This fact is proved by the positive correlation between the fertilizer consumption per hectare and nominal GDP. The government has increased the support prices of wheat, and the prices of other cereals have also gone up. Therefore consumption of fertilizer in year 2009 was very high and expected to increase in near future.

Urea / DAP Local Market Scenario

In year 2008-09 the availability of urea in the country was 5.8 million tons. Production of urea remained 4.9 million tons and balance quantity was imported from different countries. Total consumption of urea during the year was 5.75 million tons.

During 2009-10 production of urea is estimated to be 5.2 million tons.

In view of new forthcoming plants, the gap between supply and demand is likely to narrow down.

During Kharif 2009 DAP consumption increased by 382% over last year's kharif. In calendar year 2009 this increase was 126% over last calendar year with sale of 1.7 million tons .The reasons for such a tremendous increase in DAP consumption was directly related to the increase in wheat support price by the Government. Another factor that influenced such a tremendous increase in DAP sales was very acceptable international DAP price. A major percentage of DAP in Pakistan is imported and only 0.675 million tons is expected to be produced indigenously. Hence domestic sale price index for DAP is highly dictated by the international market price. In the forecast no DAP plant has been planned for production in Pakistan and our supply chain shall remain dependent on the international DAP procurement. By year 2013 phosphate demand is

anticipated to reach 2.0 million tons. Import of phosphates are handled only by the Private Sector; the number of players has increased in recent years and the share of imports attributable to various companies changes frequently from year to year.

Agriculture Credit

Credit requirements of the farming sector have been increasing over the year mainly due to the rise in the use of Seed, Fertilizer, Pesticides as well as for purchase of agricultural machinery, etc. In order to cope with the increasing demand for agriculture credit, institutional credit to farmer is being provided thorough Zarai Tarqiate Bank Limited, (ZTBL), Commercial Banks, Punjab Provincial Cooperative Bank Limited (PPCBL) and domestic private banks. The government has allocated Rs. 250 billion for agriculture credit disbursement for the year 2008-09 which is 25% higher than the allocation of the preceding year i.e. Rs.200 billions .Out of the total credit target of Rs.250 billions Rs.119.5 billions were allocated to commercial banks, Rs.72 billions to ZTBL, Rs.6 billions to PPCBP and 52.5 billion to domestic private commercial banks.

Distribution Network

In the year 2008-09 indigenous production of urea was far less than demand. The gap between production and demand was met through huge imports of urea by the federal government. High price of fuel has compelled your company to restrain its sales to the adjoining districts of our plant. This measure besides giving us financial benefits has made our dispatches time efficient.

An agricultural adage says the tiny animals that live below the surface of a healthy pasture weigh more than the cows grazing above it. In a catalogue selling composting equipment I read that two handfuls of healthy soil contain more living organisms than there are people on the earth. What these beings are and what they can be doing is difficult to even begin to comprehend, but it helps to realize that even though they are many, they work as one.

Carol Williams, Bringing a Garden to Life, 1998

dh: The Farmer's Friend

dh has devised a 4 R Policy to educate the farmers.

4 R Policy

Right Product

Employing the right kind of fertilizer is critical to harnessing the maximum yield.

Right Rate

Applying the right amount of fertilizer is essential to avoid fertilizer burn.

Right Time

Using fertilizers at the right time is fundamental for ensuring maximum output.

Right Place

Placing nutrients appropriately for each farm situation reduces losses to the environment and maximises crop uptake.

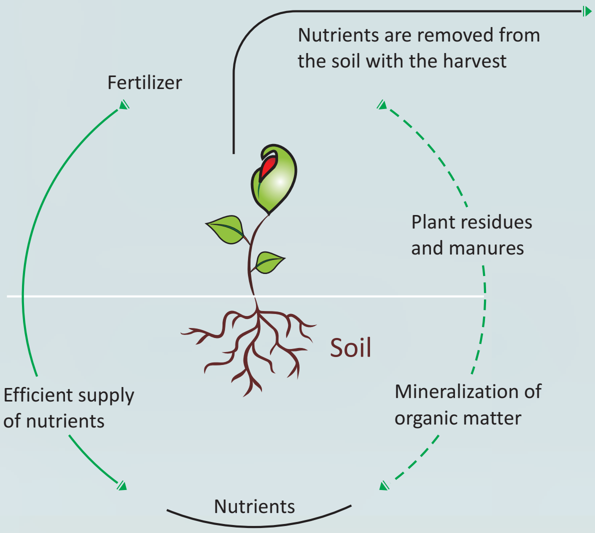
Why Fertilizer?

- Fertilizer is a major input in agricultural production
- Fertilizer application yields higher crop and returns
- Food insecurity affects close to one billion people
- Food production lies at the heart of dh business
- Food production per capita has declined since 1980s

World Population

1950	2.5 Billion
2009	6.9 Billion
2050 (f)	9.2 Billion

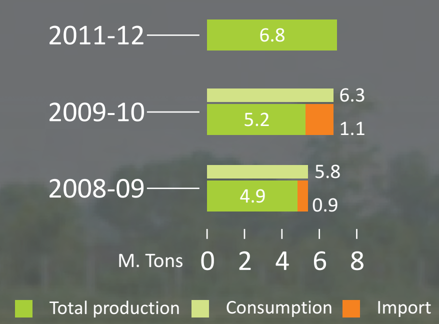
Source: UN



Dawood Hercules strives to continually increase its production to meet the market demand

Dawood Hercules is committed to expanding agricultural growth for increased food availability. To meet this burgeoning demand we need to adopt better fertilizer application techniques for growth in food production.

Fertilizer Demand-Supply Situation in Pakistan



Performance Review

The Board of Directors is delighted to present its review for the year 2009.

Market Review

Country wide off take of urea for the year 2009 was 6.463 Million tons as against 5.494 Million tons depicting an improvement of 18% over the last year. Domestic production of 5.042 Million tons of urea depicts an improvement of 1% over the last year. Import of 1.532 Million tons of urea by the Government as against 0.434 Million tons last year has helped in reducing the gap between demand and local production. Inventory of urea in the country as of 31st December 2009 was approximately 0.178 Million tons as against 0.061 Million tons a year before.

Sales Performance

For the year under review, the Company sold 513,221 M. Tons of urea as compared to 527,860 M. Tons last year. The Company sold its entire production for the year under review. However, sales for the current year were lower than last year because of smaller opening inventory as of 1st January 2009. (1)

Market Share of Urea

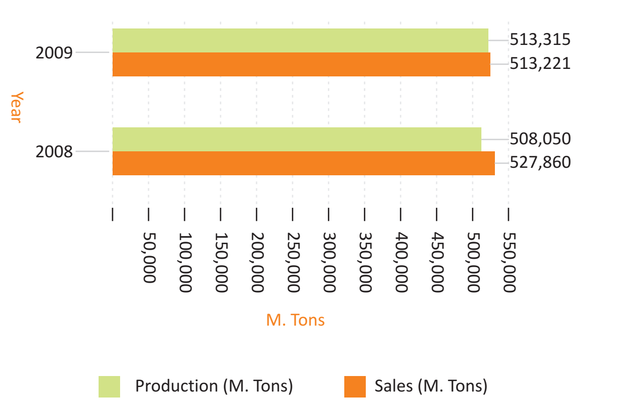
The Company's market share including imported urea stood at around 8% for the year 2009. This has been confirmed by National Fertilizer Development Corporation (NFDC), Islamabad.

Plant Performance

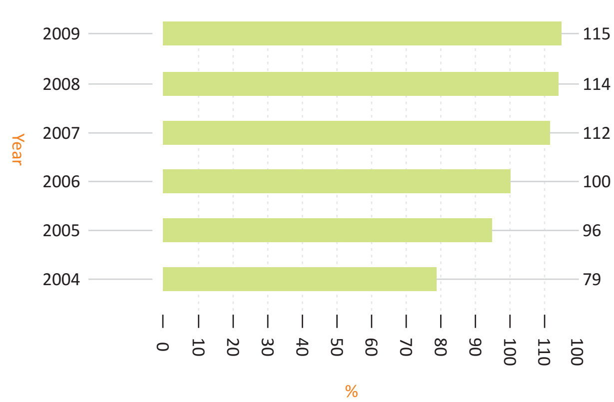
Through more efficient Plant operations, the Company was able to produce 513,315 M. Tons of urea, which is the highest annual production since its inception, as against 508,050 M. Tons last year. This was achieved in-spite of longer period of gas curtailment in the current year resulting in production loss of 27,851 M. Tons as against 9,830 M. Tons for the year 2008. (2)

The Company also achieved a new record in urea production 1,600 M. Tons in a single day on 19th October 2009, the highest in the Company's history. The capacity utilization of the Plant works out to be 115% as against 114% last year.

(1) Production / Sales (M.T)



(2) Capacity Utilisation



The summary of the operating results of the Company for the year 2009 along with comparatives for the year 2008 are as under:

Sr. No.	Particulars	Rupees in Million 2009	2008
1	Sales	11,040	7,429
2	Gross Profit	3,960	3,116
3	Impairment Loss	(3,791)	(100)
4	Results from operating activities	(560)	2,952
5	Share of Profit from Associate, net of income tax	1,331	1,850
6	(Loss) / Profit for the year from continuing operations	(1,138)	3,063
7	Earnings per share (Rupees)	(10.41)	28.00

Financial Performance

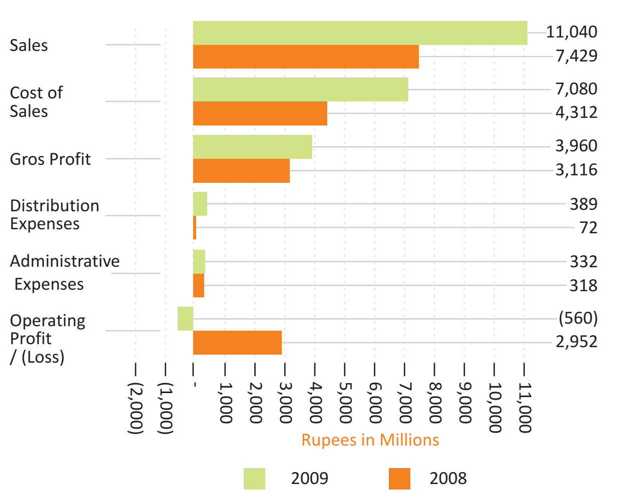
The Company recorded sales of Rs. 11,040 Million as compared to Rs. 7,429 Million for the year 2008, depicting an increase of 49% in sales value over last year, which is the highest in the history of the Company. Gross Profit for the year under review stood at Rs. 3,960 Million as against the gross profit of Rs. 3,116 Million for the year 2008.

The Company suffered a loss of Rs. 1,138 Million for the year 2009 as against a net profit of Rs. 3,063 Million against last year. The main reasons for the loss are recognition of impairment loss of Rs. 3,791 Million pursuant to SRO 150(1) 2009 dated 13th February 2009 issued by the Securities & Exchange Commission of Pakistan and decline in share of profit from associate by Rs. 519 Million during the year. (3)

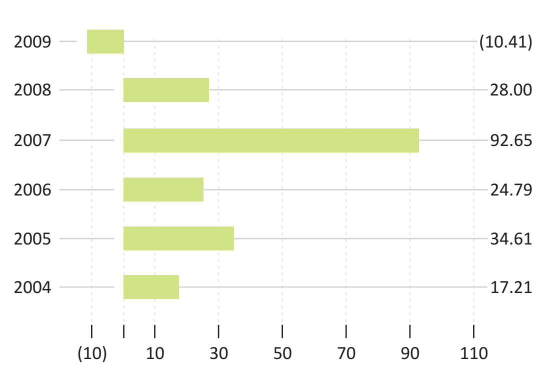
Impairment Loss

Securities and Exchange Commission of Pakistan (SECP) granted relaxation in the accounting treatment for equity securities held by companies under the head 'Available for Sale' as required under the International Accounting Standard 'Financial Instrument' Recognition and Measurement (IAS-39) vide SRO 150(I)/2009 dated 13th February 2009 due

(3) Financial Results



(4) Earnings Per Share (Rs.)



to prevalent market conditions, closure of stock markets for four months and very low trading volumes on stock markets, which has made the application of impairment test (i.e. arriving at fair value) difficult as the current economic conditions in the country were 'rare circumstances' and the plunge in the equity markets cannot be considered to be a fair reflection of the equity values, in the light of representations from various stakeholders.

In accordance with said notification, an impairment loss of Rs. 335 Million has been reversed during the year due to improvement in market price of equity shares of the SNGPL and impairment loss of Rs. 3,791 million has been charged to Profit and Loss Account for the year ended 31st December 2009 based on market price prevailing at Balance Sheet date. Had impairment loss not been charged, the loss after tax of Rs. 1,138 Million could have been a profit after tax of Rs. 2,653 Million.

Summary of Cash Activity

The following is the abridged statement of funds generated and applied during the year as compared to year 2008:

		Rupees in Million	
Sr. No.	Name	2009	2008
1	Sources of Funds	4,221	7,431
2	Less Application of Funds	4,877	7,595
3	Decrease in cash and cash equivalents	(656)	(164)

Your Company follows a pro-active approach of managing its cash and liquidity. Excess cash is invested and funds are borrowed on short term and long term basis as and when the situation warrants. At present, the Company sees no immediate pressure on its short term and long term financing needs. There are adequate back up arrangements with the banks to meet any contingency in liquidity.

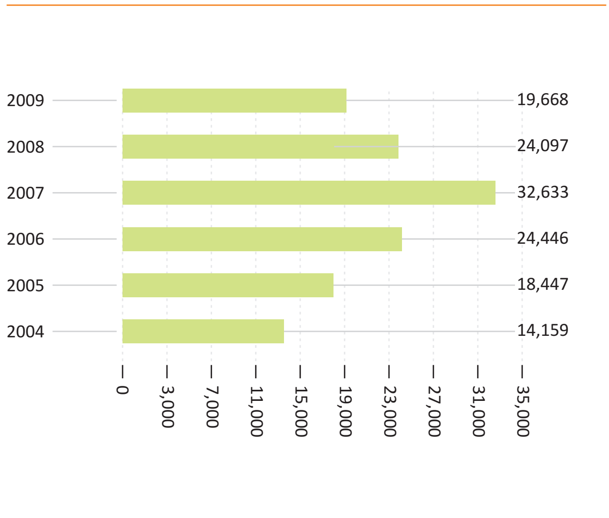
Earnings Per Share

Earnings per share for the year 2009, including the share of profit from associate, stood at Rs. (10.41) as compared to Rs. 28.00 per share for the year 2008. The main reasons for the loss are the impairment loss on short term investments and decline in the share of profit from associate. (4)

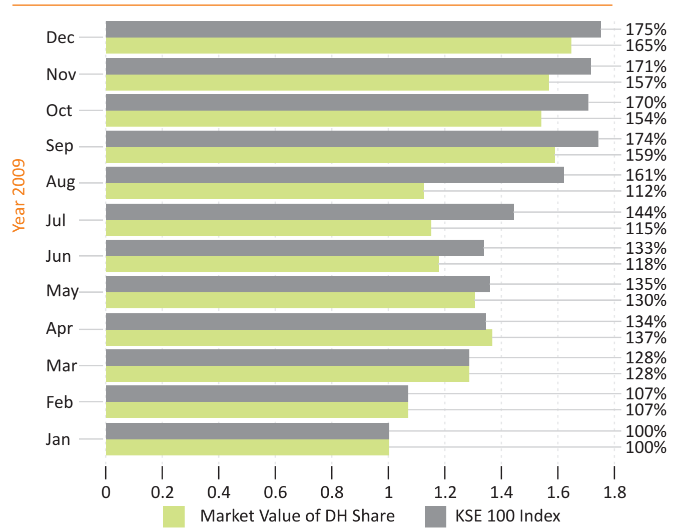
Market Capitalization

At the close of the year, the market capitalization was Rs. 19,668 Million, with a market value of Rs. 179.81 per share and break-up value of Rs. 181.77 per share.

(5) Market Capitalization (Rs. in Million)



(6) DHCL Share Price / KSE 100 Index



The highest value of the share during the year reached Rs. 215.26 on 8th October 2009 and the lowest price of Rs. 98.75 was hit on 27th January 2009. (5)

Net Worth

The net worth of the Company stood at Rs. 19,883 Million as against Rs. 17,383 Million last year depicting an increase of 2,500 Million over the last year.

Market Value of Shares Vs KSE 100 Index (2009)

During the year, the KSE 100 Index increased by 60% whereas the stock of your Company decreased by 18%.(6)

Appropriations

During the year, the Board declared two interim cash dividends totaling Rs. 3.00 per share (30%) at the end of second and third quarter respectively.

In addition to the above, the Board has recommended a final cash dividend of Rs. 1.00 per share (10%) and a stock dividend of 1 share for 10 shares held (10%) for approval by the shareholders in the 42nd Annual General Meeting, making a total distribution of 50% for the year. (7)

Contribution to the National Exchequer

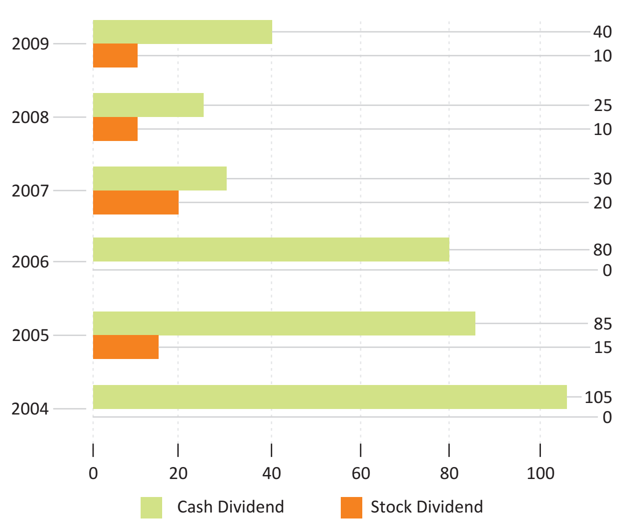
Dawood Hercules is one of the leaders in contribution to the National Exchequer. Our Company's input amounted to Rs. 1,003 Million as compared to Rs. 1,059 Million of the preceding year. This includes Rs. 850 Million (2008: Rs. 766 Million) as Income Tax, Rs. 24 Million (2008: Rs. 237 Million) as Sales Tax, Rs. 129 Million (2008: Rs. 56 Million) as Custom and Excise Tax.

Furthermore, the Company's contribution to the National Exchequer as withholding tax agent under different provisions of Income Tax Ordinance 2001, amounted to Rs. 139 Million (2008: Rs. 123 Million).(8)

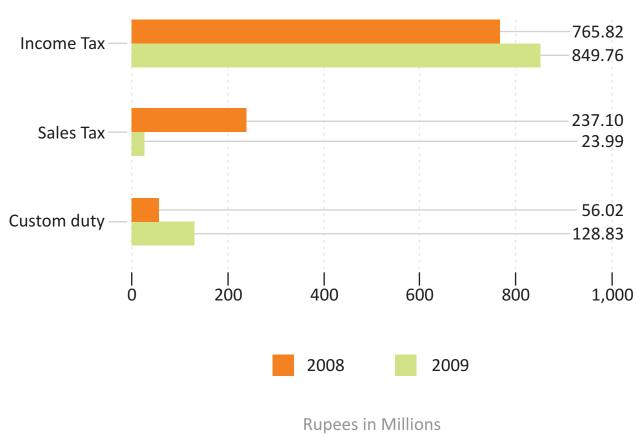
Contribution to National Economy

Your Company's contribution to the national economy by way of value addition was Rs. 1,579 Million (2008: Rs. 5,701 Million). The beneficiaries were: the Government; receiving Rs. 1,003 Million (2008: Rs. 1,059 Million), the Company employees; Rs. 730 Million (2008: Rs. 678 Million), the shareholders; Rs. 492 Million (2008: Rs. 489 Million) and the provider of Capital Rs. 985 Million (2008: Rs. 901 Million). The amount of Rs. (1,631) Million (2008: Rs. 2,574 Million) was retained in the business.

(7) Total Distribution %



(8) Contribution to the National Exchequer



Highest Urea Production in the history of dh

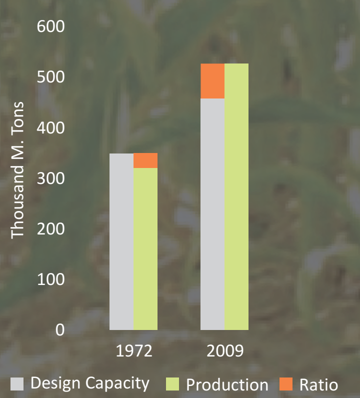
In 1972, Plant production ratio was

(7.88%)

which was less than the designed capacity, with some major changes in 2006, Plant production ratio exceeds the designed capacity. In 2009, the production ratio is

15.2%

highest in dh history



The design capacity of dh Plant was 345,000 M. Tons when it was commissioned in 1971. In the year 1972, we produced 317,826 M. Tons which was less than the design due to problem in Syn. gas compressor and waste heat boiler (101-C). Capacity was increased to 445,500 M. Tons after implementation of BMR in 1991. In the year 2006, primary reformer Harp Assembly and WHB (1101-C) were replaced. In the year 2008, we crossed 500,000 M. Tons dh had the ever highest production in the year 2009, when we produced 513,315 M. Tons. This was higher than the design capacity.

Corporate Affairs

Corporate Governance

We promote the principles of corporate governance by being honest, trustworthy, open and committed to the company. Your Company is committed to high standards of corporate governance. The Company remains committed to conduct its business in line with the listing regulations of the Stock Exchanges. We respect the rights of shareholders and help them to exercise those rights by effectively communicating the information that is understandable and accessible and also encourage them to participate in the general meetings.

We have the fiduciary responsibility, which requires us to act in good faith and trust for the benefit of the Company. We are loyal and the company's interest always takes precedence over personal interests of individual Board members. We recognize that we have legal and other obligations to all legitimate stakeholders. Apart from internal stakeholders like shareholders, directors, management and employees, there are several external stakeholders including Government, Regulatory Authorities, Customers, Creditors and Public-at-large.

As a good corporate citizen, we recognize that we have a responsibility to respect the individuals, the community and the environment in a way that when devising or implementing any rightful business strategy, it will abide by laws and regulations by maintaining a high standard of business ethics, working as part of the community, protecting the environment and by engaging in fair trade and business practices, as well as fair workplace relations.

Board Meetings

Four meetings of the Board were held during the year 2009, which were all presided over by the Chairman.

The Company Secretary and Chief Financial Officer also attended the meetings as required by the Code of Corporate Governance.

It was ensured that the quorum should be present for all the Board meetings in accordance with the Memorandum and Articles of Association of the Company.

Attendance of each Director was as under:

Name of the Director	Meetings Attended
Mr. Hussain Dawood	4
Mr. Isar Ahmad	2
Khawaja Amanullah	1
Mr. S.M. Asghar	3
Mr. Aleem A. Dani	1
Mr. A. Samad Dawood	4
Mr. Shahzada Dawood	4
Mr. Abdul Ghafoor Gohar	4
Mr. Haroon Mahenti	2
Mr. Shahid Hamid Pracha	3

As required under listing regulation 35(xxiv) of the Karachi Stock Exchange, the financial statements, duly endorsed under the respective signatures of Chief Executive and Chief Financial Officer were presented for consideration and approval of the Board.

The half-yearly and annual financial statements were initialed by the external auditors before presentation to the Audit Committee and the Board for approval.

The agenda along with details were circulated to all the Board members seven days before the meeting. The minutes of the Audit and Board meetings were circulated within 14 days of the holding of meeting and were accordingly signed by the respective Chairman.

Best Corporate Report Award 2008

For the 4th consecutive year

Mr. Aftab Ahmed Qaiser, the Company Secretary receiving the award.

Investment in Engro Corporation Limited (Engro) Shares

We treat Investment in Engro as strategic with the goal of generating safe and steady returns for the shareholders.

The Board of Engro in its meeting held on 21st January 2009 decided to issue 40% Right Shares at a price of Rs. 50/- per share. By virtue of its holding in Engro, DHCL became entitled to 32,462,963 ordinary shares of Engro to be issued as Right Shares. The Directors of DHCL recommended subscription of these shares not only because it was required to maintain the Company's holding percentage but also because the price of Rs. 50/- per share was much below its real worth.

At the 41st Annual General Meeting (AGM) of the Company held on 16th April 2009, the shareholders gave their approval under section 208 of the Companies Ordinance, 1984 for this investment.

Accordingly, your Company had subscribed to the full entitlement of 32,462,963 Ordinary Shares of Engro at a cost of Rs. 1,623 Million.

Listing of Shares at Islamabad Stock Exchange (Guarantee) Limited

The Islamabad Stock Exchange (Guarantee) Limited, being the youngest Stock Exchange of the Country, is known for high standards of transparency in its operations, excellent risk management and dynamic market technology.

The shares of the Company were listed at Islamabad Stock Exchange in April 2009 and trading was started with effect from 23rd April 2009.

Shareholder Value

To facilitate the shareholders in the best possible way, the final cash dividend for the year 2008, approved by the shareholders of the Company in the Annual General Meeting (AGM) held on 16th April 2009 was delivered to the shareholders attending the AGM on the same day. The dividend warrants of the remaining shareholders were also dispatched on the date of AGM.

Both the interim cash dividends for the year 2009 were also dispatched to the shareholders within 10 days instead of the statutory period of 30 days.

As per requirements of Central Depository Company of Pakistan Limited (CDC), an audit was conducted by M/s. KPMG Taseer Hadi & Co., the external auditors of the Company, relating to CDS transactions, and we feel pleased to inform our shareholders, that: *No Non-Compliance Issues were reported by the Auditors.*

The annual financial statements of the Company since the year 2003 along with all relevant quarterly financial statements can be accessed at the website of the Company i.e. www.dawoodhercules.com. The information regarding Board of Directors, Management, CSR activities and other Announcements is also available at the website.

Best Corporate Report Award 2008

The Annual Report 2008 of the Company has won the

4th position in the Chemical & Fertilizer category, assessed by the joint committee of the Institute of Chartered Accountants of Pakistan and the Institute of Cost and Management Accountants of Pakistan.

National Environment Excellence Award 2009

The Company has been awarded the National Environment Excellence Award 2009 by the National Forum for Environment & Health (NFEH).

Appointment of Cost Auditors

To comply with the requirements of Companies (Audit of Cost Accounts), Rules, 1998, the Board of Directors of your Company has approved the appointment of M/s. Anjum Asim Shahid Rahman, Chartered Accountants, as Cost Auditors of the Company for the year ended 31st December 2009.

Related Party Transactions

In order to comply with the requirements of listing regulations, the Company presented all related party transactions before the Audit Committee and Board for their review and approval. These transactions are approved by the Audit Committee and Board of Directors in their respective meetings.

Corporate and Financial Reporting

The Financial Statements together with the notes thereto have been drawn up by the management in conformity with the Companies Ordinance, 1984. International Accounting and Reporting Standards, as applicable and notified by the SECP, have been followed in the preparation of the financial statements. These statements present the Company's state of affairs, the results of its operations, cash flow and changes in equity.

Proper books of accounts have been maintained by the Company. Appropriate accounting policies have been consistently applied in the preparation of the financial statements and accounting estimates are based on reasonable and prudent judgment.

The system of internal control is sound in design and has been effectively implemented and monitored.

There are no significant doubts upon the Company's ability to continue as a going concern.

The annual report including the annual audited financial statements are circulated well before the prescribed time. There has been no departure from the best practices of Code of Corporate Governance, as detailed in the listing regulations of the Stock Exchanges.

Compliance with the Code of Corporate Governance

The Company's Statement of Compliance with the Code of Corporate Governance as set out in the listing regulations of the Karachi, Lahore and Islamabad Stock Exchanges, and the review report of the auditors to the members on the statement of compliance with the best practices of code of corporate governance is annexed to this report.

Statement of Ethics and Business Practices:

The Board has adopted the Statement of Ethics and Business Practices. All employees have been informed and are required to observe the Rules of Conduct in relation to business and its regulations.

Compliance with Secretarial Practices

The Company Secretary furnished a Secretarial Compliance Certificate, in the prescribed form, as required under listing regulation 37 (xxv) of Karachi Stock Exchange, as part of the annual return filed with the Registrar of Companies to certify that the secretarial and corporate requirements of the

Companies Ordinance, 1984, and listing regulations have been duly complied with.

Ownership

As at 31st December 2009, there were 2,763 shareholders on the record of the Company.

Pattern of Shareholding

The Pattern of Shareholding of the Company as at 31st December 2009, along with the necessary information is available at the end to this report along with the proxy form.

Provident and Gratuity Funds

The funded retirement benefits of the employees of the Company are audited at regular intervals and are adequately covered by appropriate investments. The value of the investments of the two provident funds as per the last audited accounts aggregated to Rs. 719.75 million. Fair value of the assets of the funded defined benefit gratuity plan for management staff was Rs. 106.17 million as at 31st December 2009, according to the actuarial valuation, whereas the value of assets of defined contribution plan for non-management staff was Rs. 41.16 million as on 30th June 2009.

Auditors

M/s. KPMG Taseer Hadi & Co., Chartered Accountants, the retiring auditors of the Company, offer themselves for re-appointment. The Board Audit Committee and the Board of Directors recommend their re-appointment by the shareholders at the 42nd Annual General Meeting, as auditors of the Company for the year ending 31st December 2010.

Notice Received from Competition Commission of Pakistan (CCP)

In November 2009, the Competition Commission of Pakistan issued Show Cause Notices to various fertilizer manufacturing companies alleging violation of Section 3 of the Competition Commission Ordinance, 2007. DHCL has strongly denied all violation charges as well as the very status of it being a dominant position holder. It is hope that the information and explanations provided by the Company will satisfy the Commission.

Date of Authorization of Financial Statements

These financial statements were authorized for issue on 23rd January 2010 by the Board of Directors of the Company.

Business Risks and Challenges

Your Company is committed to mitigate the threats to its business activities in the form of risk, through its risk management system.

The Company has exposure to the following risks:

Manufacturing Risk

The Company's manufacturing risks includes obsolescence, innovation, gas load shedding and restricted supply of gas.

Marketing Risk

The availability of DAP and other Urea substitutes depicts marketing risk of the Company.

Financial Risk

Your Company is exposed to equity risk, interest rate risk, currency risk, commodity risk and withdrawn of feed gas stock subsidiary.

Financial Market Risk

The Company is exposed the reduction in the value of its portfolio, either as investment portfolio or trading portfolio due to change in the market risk factor such as interest rates, foreign exchange rate sand commodity prices.

Human Resources Risk

The Company's Human Resources Risks includes dearth of trained personnel, attrition of manpower, frauds and incompetence.

Environmental/Natural Disaster Risk

Your Company is exposed to earthquakes, fires and other regularity laws.

Global Risk

Global risks includes restrictions imposed by foreign supplier and cyclically oil prices.

The Board of Directors has the overall responsibility for mitigation and risk management. The Board has delegated the responsibility of the risk management to the Chief Executive of the Company.

The Board oversees how management monitors the Company's risk management process adopted by the Company. The Board is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad-hock reviews of risk facing the Company, the results of which are reported to the Board.

Your Company uses a structured approach in identifying, assessing and controlling risks to support better decision making for effective and efficient use of resources. The Company endeavors to mitigate its risk through hedging Biz-planning, succession planning, training and internal audit.

The Company mitigates the risks of fire of its assets viz-a-viz - urea stocks, stores and spares, plant and machinery, building, furniture and fixture, equipment and electrical appliances by acquiring fire insurance, while the Company has a comprehensive insurance cover for its vehicles. The Company also insures its imported and local consignments of goods by employing marine insurance cover.

Health, Safety and Environment

Sustained economic success is impossible without Health, Safety and Environmental Protection. We must continue to strive towards excellence and leadership for our Health, Safety, and Environment programs. HSE is one of our core values that will not be sacrificed in the name of profits. The health and safety of our employees and those we work with are vitally important. The protection of the environment is equally important.

To DHCL, HSE excellence means working towards an incident-free workplace, finding business-driven value in HSE, integrating HSE into operations, and using our HSE programs to provide competitive advantage. We are continually working to improve in each of these areas. Our lost time incident and recordable incident rates continue to improve as a result of our emphasis on hazard identification and risk analysis.

We will strive to make DHCL a recognized leader in Health, Safety and Environment in our industrial sector and across all industries. This is our goal, and we look forward to working together with all of our employees and stakeholders to make it happen.

We want to make sure that the company's commitment to HSE excellence is reflected in management's day-to-day activities. One injury, one near mishap, even one unsafe practice is too many. We are committed to an incident-free workplace, and that includes environmental incidents as well as health and safety incidents.

From a safety performance perspective, 2009 was the most successful year in the history of our company. TRIR (Total Recordable Incident Rate) of the Company was 0.28 during the year 2009 and fortunately all of the incidents were without long-term health effects. Nevertheless, we need to work together with our contractors to improve their HSE Performance.

Mission Statement

The health of its employees, customers and public is protected.

All of our activities will be carried out safely with a commitment of Zero Injury.

Environmental Performance meets legislative requirements.

Vision

To see health, safety & environment as a cornerstone of a civilized society and, with that, to achieve a record of workplace health, safety & environment that leads the world.

HSE Strategy

We will achieve our vision by:

Conducting business in a manner that protects public and occupational health, the environment and employees safety.

Striving to eliminate all accidents and environmental incidents.

Complying with all applicable HSE laws and regulations.

Reducing emissions and waste and using energy and natural resources efficiently and intelligently.

Working with our employees, suppliers, customers, contractors and partners to promote responsible management of products and processes.

Encouraging constructive communication with our employees, suppliers, customers, neighbor and stockholders about managing health, safety and environmental issues.

Our Performance in 2009

HSE performance during the year was consistent, which reflects management commitment towards safe work practices and spirit of continual improvement. First time in the history of company, new safety performance milestone of 8 million safe man-hours and 7 years of safe operation days without any lost work injury were achieved this year.

1. Annual surveillance audit 2009 of ISO-14001 (Environment) and OHSAS-18001 (Safety) standards conducted by MOODY International. There was no major or minor nonconformance.

2. New breathing air (16 cylinders) system with dedicated breathing air mask system installed and commissioned.

Safety Statistics for the year 2009

	Jan	Feb	Mar	April	May	June	July	Aug	Sep	Oct	Nov	Dec
LWI (dh)	0	0	0	0	0	0	0	0	0	0	0	0
LWI (Contractor)	0	0	0	0	0	0	0	0	0	0	1	0
Injury (dh)	0	0	0	0	0	0	0	0	0	0	0	0
Injury (contractor)	0	0	0	0	0	1	0	0	0	0	1	1
Fire Incidents	3	0	0	1	2	2	0	0	0	1	0	0
Near Miss	8	2	1	2	1	0	1	1	0	0	0	2
Highway Accidents	0	0	1	0	3	0	3	1	0	0	2	0
Work Accidents	0	0	0	1	0	0	0	0	1	0	2	1
Occupational Illness	0	0	0	0	0	0	0	0	0	0	0	0

This clean breathing air emergency supply will be an alternative source in case of normal supplied air contamination.

3. DuPont consultant conducted in-house Process Hazard Analysis (PHA) training workshop and first ever PHA of plant site was started this year.

4. New Management Safety Audit (MSA) program started in which all management employees including CEO participated. The purpose of this safety audit program is to create safety awareness, improve two-way communication between workers and management and strengthen concept of visible management commitment.

5. Unsafe situation per audit hour started to explore unsafe situations at plant site.

6. Environment day was celebrated on June 22, 2009. Banners were displayed and awareness sessions were also conducted.

7. New trees including fruit trees plantation carried out as a part of green dh project. About 700 new fruit trees were planted.

8. As a part of green dh project 42 acres of agricultural land was developed and wheat crop was cultivated in record shortest time.

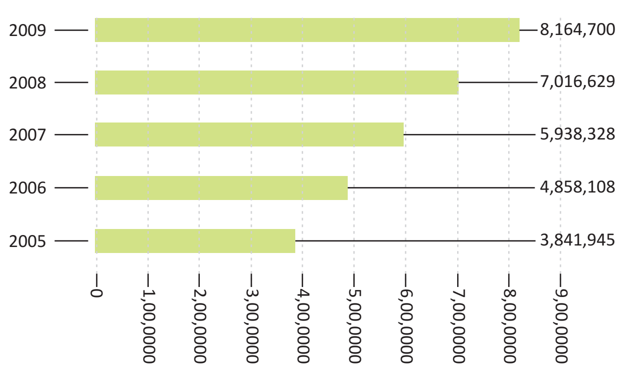
Safe Man-hours Record

Safe man-hours record in earlier years was not impressive but with Management commitment for safe work practices and objective of continual improvement, our safe man-hours record continually improved. Last LWI (Lost Work Injury) occurred on February 25, 2002.

Safe operation till December 2009 reflected in new safety performance milestone of 8 million safe man-hours on November 04, 2009.

Safety Statistics and Trends

DHCL Employees----Safe Man-hours Record



The Nutrients Supply Chain

Humans, animals and plants rely on a safe, healthy supply of food and nutrients for proper growth and development. Plant nutrients are the 'food' that plants need to generate the food humans eat. Fertilizers provide a precise and controlled way to provide plants with these natural and safe nutrients.

dh GREEN REPORT

Urea is a naturally occurring substance in nature. Because it contains carbon, by definition it is 'organic' although this definition is often used somewhat differently by organic gardeners. Organic gardeners today use the term 'organic' about fertilizers to describe recycled products which used to be human, animal or plants such as composted manure, bone meal, blood meal, compost from vegetables, etc

Corporate Social Responsibility

Corporate Social Responsibility (CSR) is increasingly becoming one of the major yardsticks for judging a Company's performance. Your Company considers sustainability initiatives and social causes as strategic imperatives for business growth and is therefore, proactively working to integrate it into the overall objectives of the organization. We believe that good corporate citizenship is an integral part for sustainability and value addition. Our vision is to become a leading enterprise with strong sense of social consciousness. We intend to achieve this vision through a two-pronged strategy, internal and external.

Internal Perspective

As a responsible corporate entity, we have established an enabling and high-energy environment where people get opportunities for decent work and personal and professional growth. We continuously endeavour to further improve our working conditions. Employee engagement is an integral part of our CSR strategy and we are working to foster a culture of philanthropy and promote employee volunteering for community service.

We strictly adhere to the principles of good corporate governance and comply with all applicable laws and regulations. Whatever we do is coherent with our business ethics and core values i.e.

- Professionalism through leadership and integrity
- Innovation, teamwork and partnership
- Long term profitability and growth
- Perpetual commitment to quality and continual improvement

Adherence to safety requirements has become a part of our work culture - a way of life. We have established the highest safety standards and integrated them into all our activities and operations. The 8 million safe man-hours milestone achieved during the year is a manifestation of this commitment.

We continuously strive to ensure that our production activities do not harm the environment. We follow the best safe operating practices and have set up state-of-the-art treatment facilities. We have been consistently complying with National Environment Quality Standards (NEQs) over the years. This year we got ISO 14001 certification and received 6th Annual Environment Excellence Award.

We are actively working to establish a culture of environment friendliness at all levels of the organization. Our aim is to make environment consciousness as much a part of our work culture as safety consciousness. Recycling and energy saving are fast becoming a trend at our places.

In our ever deteriorating environment the importance of trees as absorbers and removers of carbon dioxide from air cannot be ignored and as good corporate citizens it becomes our responsibility to contribute towards their protection and preservation. One step towards this commitment can be to recycle our paper waste, as for every one ton of paper that is recycled we save 17 trees. For realization of this goal CSR Committee decided to recycle all paper waste available at DH Plant and Head Office. The envelope in which you received this Report is made of recycled paper.

In the Society

We understand our social obligations and consider ourselves a part of the local social, cultural & economic life and are always willing to give back to the communities in which we work and live. Health, education, environment and emergency relief are the four focus areas of our social efforts.

Health

Eye Camps

Free eye camp held every Wednesday at the Plant has become one of the flagship CSR initiatives of Dawood Hercules. Since inception on 26 November 2007, the camp has been attracting large number of needy patients who are provided quality treatment for various eye ailments free of cost. Over 275 patients are attended in every camp. The Company also sponsors cataract operations which are carried out in a hospital in Lahore. Free transportation and food is provided to these patients. The following figures reflect the impact these camps have so far made:

	2009	2008	Total since inauguration
Camps held	44	48	150
Visits recorded	12,504	11,399	34,796
Cataract surgeries conducted	615	788	1,671

Considering the immense utility of this initiative, the CSR Committee has decided to continue funding it in the year 2010.

Women Health Camps

Weekly free health camp for women was initiated on 22 May 2008. The objective was to provide free medical assistance to the less privileged women of the area who otherwise do not have access to proper medical care and to save them from quackery. The Camp is conducted every Thursday at the Plant and around 175 women patients visit it every week. The patients are provided free consultation, medicines and ultrasound facility. Female employees of the Company volunteer to assist the doctor. Comparative figures are given below:

	2009	2008	Total since inauguration
Camps held	49	28	77
Visits recorded	8,690	3,575	12,265

We intend to continue this activity in the year 2010.

Health and Hygiene Awareness

A new initiative was undertaken during the year whereby awareness sessions on health and hygiene were arranged for the people visiting the eye camps and women health camps. Company Medical Consultant conducted a series of such sessions covering various diseases and health related issues. This activity will continue during next year. We also plan to arrange such sessions for the children of TCF-School – DH Campus.

Water Purification Plant

Dawood Hercules donated a water filtration plant to the Children's Hospital, Lahore . The plant has been installed near the Emergency Block of the Hospital. Around 500 patients visit the emergency every day. These patients, their attendants and the hospital staff will benefit from this facility. This is the fifth water filtration plant that DH has sponsored so far. Before this, three plants have been installed in villages near the Plant and another at Mayo Hospital in Lahore.

Misc. Operations

As reported last year, a seven year student of the TCF School, born with a cleft lip was picked up for operation. All costs were borne by the Company to repair the child's lip and teeth. He is currently undergoing post-operation dental and medical care.

We are also sponsoring reconstructive surgery of a young girl with multiple deformities and functional disturbances. She is undergoing multiple operative procedures including repair of palatal fistula and lateral lip scars, complete secondary repair of upper lip including vermillion and closure of upper sulcus-nasal fistula and reconstruction of nasal deformity.

These operations besides culminating the woes of these individuals and their families will, InshaAllah, completely change the quality of their lives helping them recover from the social and emotional scars which such deformities usually leave.

Education

TCF School-Dawood Hercules Campus

The school set up in collaboration with The Citizen Foundation is providing quality education to the under-privileged children near the Plant area. Currently 320 students are enrolled with the school.

Vocational Education

In today's knowledge-based economy the role of skilled and technically educated manpower cannot be over-emphasized. The aim of vocational education is to impart specialized and practical knowledge and skills to a person thus enabling him or her to start decent work in an industry or through self employment. There is a huge mismatch between the skilled manpower required and that available. Considering its importance, the CSR Committee decided to start focusing on vocational training of both boys and girls.

Vocational Training for Boys

We have decided to collaborate with Aabroo Educational Welfare Organization for imparting free vocational training to the poor children in the slum areas. The objective is to help them take up decent employment after acquiring necessary skills.

Aabroo Educational Welfare Organization is a non-for-profit organization with focus on getting the impoverished students off the streets and lure them into class rooms for academic and vocational pursuits. Currently 1,500 students are enrolled in three schools where besides free education, books, clothes and free meals are also provided to them.

Dawood Hercules is sponsoring two vocational training programs for boys.

Mobile phone repairing course is for Aabroo school students and young people living in the adjoining areas. This is a one-year course for which laboratory and equipment already exist. Dawood Hercules is sponsoring the salary of the teacher and recurring expenses. Five batches of 16 students each will complete 100 hours of training in one year duration.

Home Appliances repair and maintenance course is a new initiative of the Aabroo Educational Welfare Organization. Dawood Hercules is providing laboratory tools and equipment and sponsor the salary of the teacher and recurring expenses. Five batches of 16 students each will complete 100 hours of training in one year duration.

A total of 160 students will benefit from these two courses.

Course content is 20% theoretical and 80% hands on practical. The course syllabi have special focus on safety aspects and job ethics.

To raise money for their projects and help protect the environment, M/s Aabroo are running a waste management programme. The trash collected is sold to raise funds and provide free meals to their students. We have joined hands with them in this programme by donating our canteen/cafeteria trash (empty milk/food packs and pet bottles).

Vocational Training for Girls

We are also very keen to do our bit to help the poor women of Sheikhupura so as to enable them to start a decent life and live respectfully. For this, we have collaborated with Sanatzar, a vocational training institute for women in Sheikhupra. As a first step, we sponsored a three months stitching course. Participants for this course were selected from villages surrounding our manufacturing facility. A batch of 25 ladies were trained and to help them start a life of self employment, sewing machines were gifted to them for this purpose.

Dissemination of information through street theater on better management practices in agriculture to reduce environmental effect, in collaboration with

WWF
-Pakistan

Training & Apprenticeship Opportunities

Dawood Hercules provides practical training to young engineering graduates, operators, diploma holders and matriculate apprentices. The interactive teaching methodology includes hands-on practical experience and class room sessions. The passouts of these courses are providing valuable services not only at Dawood Hercules but also at numerous leading industries throughout the country. This year, batches of trainee engineers, diploma holders and matriculate apprentices completed training.

Creating Opportunities

We are equal opportunity employers but at the same time actively pursuing to create opportunities for the marginalized sections of the society. The 25th batch of the Graduate Engineers Training Programme which completed training this year had a distinct feature i.e. induction of three female engineers - 10% quota was reserved for girls in this batch. Two girls were inducted on special quota while one qualified on open merit. This affirmative action reflects the Company's social consciousness and is aimed at encouraging and developing young female engineers in the country and promoting diversity in the organization. In the 26th batch, three female engineers have been inducted on special quota. Additionally, in order to provide opportunity to students from remote areas, two engineers from Balochistan have also been inducted on special quota.

Internship Opportunities

We believe that university-industry liaison is a must if we want to make education, especially professional education, relevant and market-specific. On our part, we have increased internships for young students from engineering universities and business schools to provide them an opportunity to acquire hands-on and practical knowledge in their respective areas of studies. This year a total of 49 (2008:36) students underwent a systemized internship programme at our plant and the head office. The feedback we received from these students was very positive.

Factory Visits for Students

Dawood Hercules welcomes students/trainees of various institutions to visit its manufacturing facility. Apart from introducing them to the fertilizer manufacturing technology, these visits give these young men and women a peek into the working of a large professional organization. This year 731 (2008: 875) students and trainees visited the factory from all over Pakistan.

Environment

Plantation Drive

The 37,000 trees planted on the land adjacent to the Plant have now reached the self-sustaining stage and are already making valuable contribution towards making the environment of the area cleaner. In a few years from now, these trees will be mature enough to not only trap significant amounts of CO_2 and contaminants from the air but will also provide the much needed habitat for birds. Trees are also good sound absorbers and will, therefore, be instrumental in reducing noise pollution in the area.

Better Management Practices in Agriculture

We have decided to work with Word Wide Fund for Nature Pakistan (WWF-Pakistan) to pursue joint projects in the filed of environment protection. This year, we collaborated with them on their initiative on Better Management Practices (BMPs) in agriculture. The objective of this initiative is to promote sustainable practices to reduce environmental impact of agriculture in the rural areas of Pakistan . Dawood Hercules sponsored street theatres which involved dissemination of BMP messages through performance by the professional stage artists. Street theatre as a form of communication is deeply rooted in our rural traditions. In recent times this form has been used to propagate social and political messages and to create awareness amongst the masses regarding critical issues. Street theatre breaks the formal barriers and approaches the people directly.

A total of 14 performances were arranged in remote villages of Jhang and Faisalabad. Apart from providing opportunity for fun and entertainment, the play aimed at educating the farmers in better agriculture practices like balanced use of fertilizer; impact of pesticides on the environment; better soil and seed health; best sowing/tilling methods, etc. The play demonstrated through a well plotted story that sustainable crop production is possible through efficient use of inputs.

It turned out to be a very successful activity. Approximately 4,000 people, including women and children, watched the shows. The CSR team spoke to local farmers who were very excited about these shows and gave an encouraging feedback on the usefulness of such street plays.

Emergency Relief

Your CSR team has always acted swiftly whenever there is a natural or man-made catastrophe in any part of the country.

Help for IDPs of Swat and Wana

The military action against the militants in Swat and Wana unfortunately resulted in the biggest ever displacement of the innocent and peace loving people of Swat. These internally displaced persons (IDPs) were accommodated in make shift camps where they struggled to cope with the rigors of living refugees' life in their own country. The CSR Committee decided to send food and essential household items to bring some relief in the lives of some of these IDPs. All logistic and administrative arrangements were made in the shortest possible time. Packets containing food items (flour, cooking oil, pulses, sugar, tea, rice, salt and dry milk), blankets and utensils (cooking pot, spoon, plate, soap-cakes, etc) were dispatched. A total of 400 families were catered for during two rounds of this relief activity. The swift action was made possible by the employees who volunteered in large number.

Non-Profit Organizations supported during 2009

1. Aabroo Educational Welfare Organization, Lahore
2. Pakistan Poverty Alleviation Fund
3. Roshni Foundation
4. Sanatzaar
5. The Children's Hospital & the Institute of Child Health, Lahore
6. The Citizens Foundation
7. WWF-Pakistan

We recognize that all these activities are successful only because of continuous engagement of the communities themselves; support of our shareholders and enthusiasm of our employees. We express our gratitude for all of them.

Human Resource Management

2009 was one of the most challenging years for businesses in Pakistan owing largely to the global economic slowdown, energy crisis and security situation in the country. Workers become the first victim of a precarious and uncertain economy. We have seen large scale layoffs throughout the world, Pakistan not being an exception. For a people-centric organization like Dawood Hercules, the challenges become even greater due to the need for a strategic alignment of people's economic and social needs with the overall objectives of the business. With the Grace of Allah, your Company was able to continue its strategic imperative of investing in its people and there was not a single layoff at any level. We believe that the extraordinary production, sales and safety records achieved during the year are the outcome of the combined efforts of a highly competent and committed workforce operating in a performance driven high-energy environment .

We hire employees considering them as soft assets in the company who will manage and optimize the use of the hard assets of the company in future. Employees are the only physical assets that appreciate in value. As the employees, learn more and more about the business and about their own role, their performance increases over the time.

Following is a brief description of HR related initiatives undertaken during the year:

Organizational Development

Inspection and testing function is very critical in a process industry for ensuring integrity of the plant equipment and machinery. A full-fledged and independent Inspection Department was set up during the year to streamline the inspection activities. For this purpose, a gap-analysis was carried out through interaction with other industries having professional inspection setup to get a better understanding of the best practices in this field.

The Department will have two sections: Machinery Inspection and Equipment & Piping Inspection. The following shall be the core responsibilities of the Department:

- Equipment integrity assessment
- Machinery condition monitoring
- Corrosion monitoring and protection
- Shutdown / turnaround inspections
- Failure analysis / post-failure analysis
- Material Inspection

The preventive maintenance function of the Engineering Department and corrosion control function of the Technical Department have been transferred to the new department. Inspection Department is being equipped with state-of-the-art inspection, testing and measuring tools and necessary trainings of all personnel is also being arranged.

Shipments coordination and ammonia sales functions were merged into the AgriDivision. The objective was to consolidate the sales function and optimize resource allocation.

Training & Development

Company's training & development efforts are aimed at increasing its current and future ability to meet its goals. As a responsible corporate citizen, the Company has played a significant role in training young people for highly technical jobs.

A total of 478 graduates in the fields of chemical, mechanical, electrical, electronics and metallurgical engineering as well as master degree holders in

Chemistry have so far benefited from the Graduate Engineers Training Program (GETP) since its inception in August 1975. This is an extensive training program for entry level engineers with equal focus on theoretical and practical training. During the year, the 25th batch completed its training. The distinctive feature of this batch was the induction of three female engineers. As a gesture of a responsible corporate citizen, the Company reserved a 10% quota for girls in this batch. Resultantly, two girls were inducted on special quota while one qualified on open merit. This affirmative action reflects the Company's social consciousness and is aimed at encouraging and developing young female engineers in the country and promoting diversity in the organization. The 25th batch undertook a team building adventure trip to the base camp of Malika Parbat in July this year. This provided them with an opportunity to develop their leadership, coordination, team building and problem solving skills. 26th batch has been inducted. This year, three seats have been reserved for girls. Additionally, two engineers from remote areas of Bolochistan province have also been inducted on special quota.

Under Company's Diploma Apprentices Training Scheme (DAS), 217 young people with three year diploma from a polytechnic institute have undergone training for various maintenance related technical disciplines since March 1974. 15th batch of the scheme will complete training in February 2010.

Operators Training Scheme (OTS) trains young science graduates and diploma holders in chemical technology for operating a chemical plant. A total of 315 persons have been trained since the start of the scheme in September 1977. 22nd batch completed training this year; all trainees were inducted on permanent role. Induction process for next batch is under process.

Matriculate Apprentices Scheme (MAS) is a statutory scheme under Apprenticeship Ordinance, 1962. 384 young people with basic qualification of matriculation have benefited from it since November 1974. 16th batch completed training this year. Selection of next batch has been finalized and the candidates will start training in January 2010.

The Company continued to invest in the professional development of its employees. Various in-house and outside training programs, seminars and workshops in the areas of management, plant operation and maintenance, information technology, finance, training etc were arranged throughout the year. A total of 68 employees attended management training courses in reputed institutions of the country. Various in-house training workshops and seminars were also arranged by the Training Department attended by 436 employees.

Two team building adventure tours for employees were arranged during the year. Employees trekked to Nanga Parbat Base Camp and Mukhspuri Top. The trip involved extensive traveling, trekking, hiking, camping, and group activities. Such trips involve participants in pursuing real and tangible results and are very effective on account of being

- a good team building exercise
- a good training tool for developing leadership qualities through exposure to physical challenge
- an opportunity for stepping out of the everyday routine and getting recharged for performance optimization in personal and professional lives.

Policy Formulation

The management of the Company is actively trying to develop an enabling framework whereby various HR policies and procedures are being updated.

Company Car Policy was revised to upgrade car entitlements for the management employees. A Laptop Policy has been formulated to provide Laptop Computers to management employees for efficient and effective performance of their duties. All other HR policies, procedures and standards are being updated to make them consistent with the Company's overall strategic objectives.

Compensation & Benefits

For the last three years running, significant remuneration adjustments have been made for the management cadre employees so that the competitive edge could be retained. This year the Company plans to undertake another salary adjustment exercise. For this purpose, the Company participated in a salary survey to gauge its competitive position. Salaries of the non-management staff were also significantly increased under Settlement.

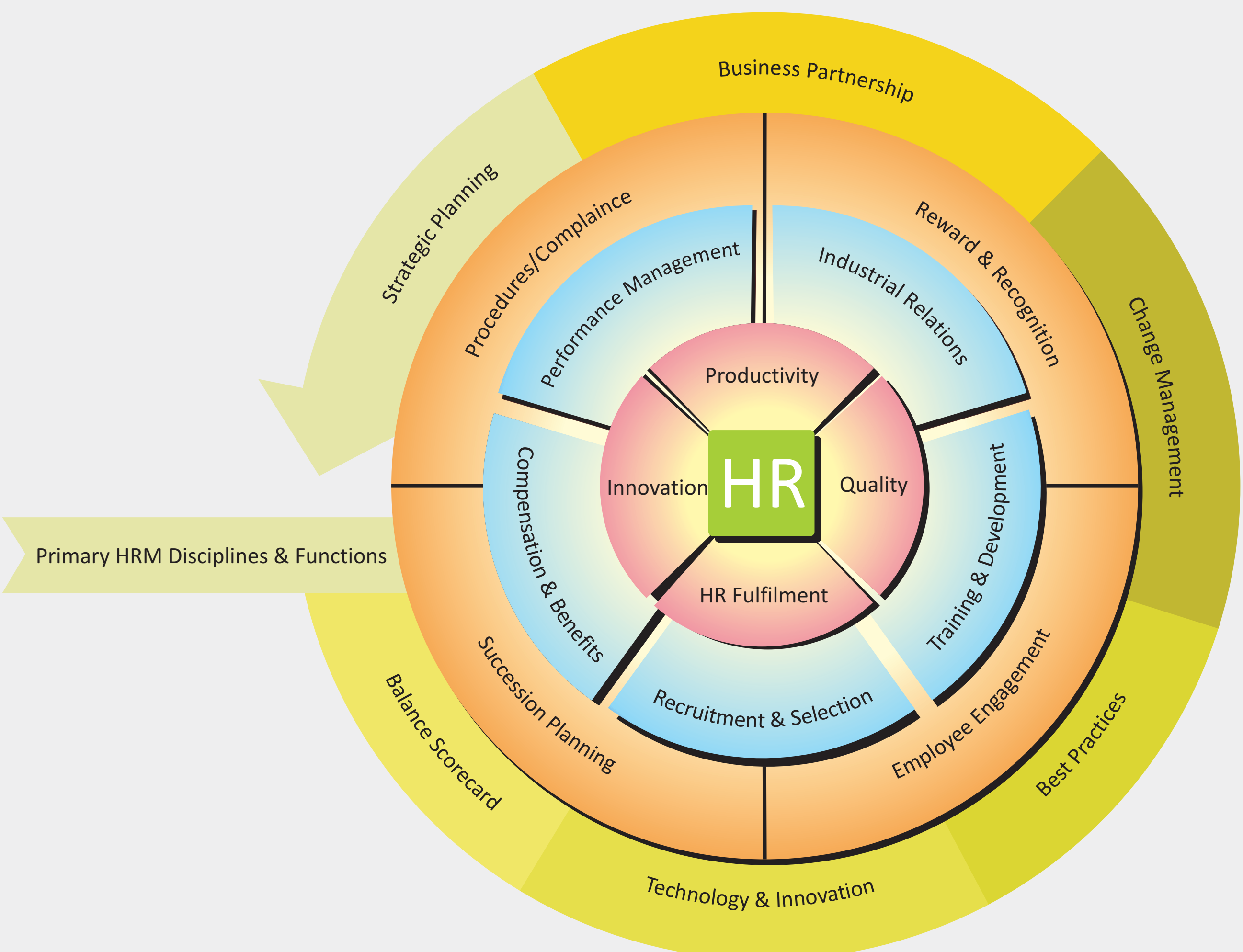
Industrial Relations

The Company continued to benefit from the exemplary management-employees relationship. CBA elections were held and a new CBA was sworn in. The whole process was conducted in a peaceful and amicable manner.

Employees Welfare

16 employees performed Hajj under Company's Hajj Scheme. A total of 357 employees have performed the sacred pilgrimage since 1988 under this scheme.

This year, 36 employees performed Umrah under Company's Production Incentive Umrah Scheme making the aggregate of 336 employees since the inception of the scheme in 1997. Under this scheme, four employees are sent for Umrah in the month when a specified production target is achieved.



Dawood Hercules Green Projects

Save Water Save life

A careful planning and management is needed to address rapidly increasing scarcity of water, one of the most precious necessities of life. We have successfully completed many projects for economizing water use and maximizing re-utilization of effluents.

Water Purification Plant

Drinking contaminated water is one of the major health risks in the Third World countries. As a CSR initiative, DHCL has so far installed five Water Purification Plants, three in villages around our Plant and two in Hospitals of Lahore (Mayo and Children Hospital).

Waste Water Treatment

Packing water return from HP Ammonia pumps is contaminated. A system was developed whereby ammonia pollution from this source has not only been curtailed but overall condensate drainage has also significantly reduced. The sewerage water of plant is carried to the three septic ponds at the offsite area. A blower is provided there to add additional oxygen in sewage before its discharge to septic ponds to ensure BOD (Biochemical Oxygen Demand) requirements. This water is then reused for watering of trees in the forest area.

Chromate Omission

Chromium, previously used as a corrosion inhibitor in cooling water system is a recognized heavy metal and acts as a carcinogenic agent in animals and humans. This environmental hazard is completely removed. DHCL decided to eliminate use of hazardous material and adopted cooling water new environment friendly phosphate system.

Plant Trees for your Future

Our forest covered area is fast depleting because tree cutting rate in Pakistan is the highest in the world. We at dh are well aware of the positive impact of tree plantation on the environment. We have initiated a Green DH project whereby large scale tree plantation is being carried out within and around the plant area.

Land for Forest

We have dedicated around 50 acres of land solely for the purpose of tree plantation. During the past four years, approximately 50,000 trees have been planted. Most of these trees have reached the self-sustaining stage. This year another 6000 trees were planted on 3 acres of land. A new raw water tanker has been arranged for watering of embryonic stage plants in offsite area.

Fruit Plantation

During 2009 , another 700 trees of different verities including 300 fruit trees (mango , citrus and jamboline) were planted at plant site and the forest area. We now have plans to plant fruit trees in open area near the warehouse.

Wheat Cultivation

A large area (42 acres) covered with root mat of grass was turned into a model agriculture farm . The land was properly developed, channels for irrigation were constructed in record shortest time and tube-well water was provided along with canal water supply. The result: an excellent crop of wheat.

Sustainable Agricultural Environment

Our country has been facing significant food shortage forcing us to rely on imports. Our business is directly related to agriculture and our mission is to increase yield so that the country could achieve self-reliance. In order to cater to the need for balanced used of fertilizers, we are importing DAP along with manufacturing urea fertilizer

Best Management Practices (BMPs)

People must learn not be wasteful and adopt practices which help them to indulge in judicious use of agriculture inputs so as to reduce the environmental impact on agriculture in the rural areas. DH collaborated with W.W.F. Pakistan on their initiative on Best Management Practices (BMPs) in agriculture by sponsoring street theatres involving dissemination of BMP messages through performance by professional stage artists. The shows were well attended showing a growing interest of farmers in these messages.

Reducing Emissions

Air pollution is considered as major environmental hazard. We have contributed by decreasing substantial amount of Green House Gas (GHG) at our Plant site. New gas turbine project has been successfully commissioned and this project shall help to reduce Co_2 (GHG) by 72 tons per day.

Production Portfolio

Agriculture is our biggest sector and the exploding population is our biggest concern. To feed these growing numbers we need to increase our agriculture produce. Without fertilizer inputs this goal cannot be realized as fertilizers play a vital role in enhancing agriculture yields. With this mission in mind, despite the gas constraint, DH has continually improved its urea production from 1350 MT/day to 1600 MT/day.

Shifting to Low Carbon Lifestyles

We have undertaken many projects to minimize the impact of our operations. New gas turbine generator has been successfully commissioned. This project shall help to reduce considerable amount of natural gas in combined cycle gas turbine project. Another project is aimed at using solar cells to provide power supply to street lights of housing colony.

Energy Efficiency

Some of the measures taken for energy efficiency during 2009:

Rewinding of two 11 kv existing motors and installation of two new ones.

Installation of automatic ON/OFF system for street lights at the plant.

Replacements of lights with energy savers at Plant site and head office.

Environment day

Every year, 5 June is celebrated as Environment Day in the organization whereby an awareness campaign is launched. Topic for this year' campaign was “Ozone Depletion, Consequences and Mitigation Measures”.

Waste Segregation for Recycling

Separate bins have been provided for handling different categories of waste. Metal waste is collected and stored at scrap yard and then sold. Glass, plastic and rubber waste is disposed off in an environment friendly manner. Paper waste is being used for recycling purposes.

Outlook 2010

Urea demand for 2010 is expected to show a moderate growth of around 4%. This, however, is subject to adequate water availability. Consumption of phosphatic fertilizer will react inversely, to the price changes, which in turn will be driven by fluctuations in the international prices and the amount of subsidy.

Local production of urea will be augmented by the commissioning of two new plants during the year 2010 and the import thereof will be reduced accordingly.

To maintain its competitive edge, the Company is undertaking technical studies to maximize the plant's production and energy efficiency.

Acknowledgment

We would like to express our gratitude to all the shareholders for their confidence in these challenging times and also express hope that their confidence will be rewarded in the years to come.

We would like to thank the Government, financial institutions, all stakeholders and those who have been associated with us for their support, understanding & co-operation.

We would also like to extend our thanks to the management and employees for their sincere contributions to the ongoing success of the Company.

We plan to enter the year 2010 with full vigor and determination, as your Company is built on good financial foundation and its corporate governance is among one of the best.

On behalf of the Board

Shahzada Dawood
Chief Executive

There is a great pleasure in working in the soil, apart from the ownership of it. The man who has planted a garden feels that he has done something for the good of the world.

Charles Dudley Warner, 1870

Quality Management System

The vision of our Quality Management System (QMS) is to fully utilize state of the art technologies in order to improve processes and operations applying both proactive and reactive techniques.

The Company's QMS is built upon a set of policies, processes and procedures that have been specifically formulated for the efficient execution of the Company's core business activities. It enables the Company to identify, measure, control and integrate various processes within the organisation for a systematic approach leading to continuous improvement of business performance.

The compatibility of the Company's existing QMS with internationally recognised standards for Quality Management System provides a framework to ensure customer satisfaction about the quality of our product.

The Company's policy towards professionalism, quality consciousness and customer satisfaction has given it the privilege of being the first Pakistani fertilizer manufacturer to obtain ISO 9002:1994 certification and subsequently certification for compliance to the requirements of ISO 9001:2000 for review of quality management system. Now it is being further upgraded to ISO-9001:2008. The Management Review Meetings are held on a regular basis for effective adherence and system control requirements.

The essential elements of Company's QMS are as under:

- Improving personnel skills through training and qualification.
- Controlling the Product Specifications.
- Controlling Documentation.
- Controlling Purchase.
- Defining and Controlling Production Processes.
- Constituting Corrective and Preventive Action against errors.
- Installation of Product Handling, Storage and Distribution.

Business Process Re-Engineering

Implementing the concept of Process Re-Engineering in DHCL and reap its benefits, both short and long term projects have been undertaken. The salient features of these projects are cost reducing, efficiency improvements, energy conservation through interception of latest innovations in technology.

Among the long term projects are intervention of latest innovative technologies in Ammonia and Urea Plants original processes through revamp incorporating the advanced state of the art technologies currently offered by internationally renowned Process Licensors. Feasibility study is being performed by expert firms to enhance production capacities of Ammonia and Urea Plants to 1,200 and plus 2,000 MTPD respectively and curtailment of energy consumption to 7.0~7.5 Giga calories / Metric ton Ammonia.

The short term projects underway includes re-engineering of power generation system and addressing safety concerns thereby mitigate Ammonia leakage risk from existing 38 years old single walled liquid Ammonia Storage Tank.

The installation of Gas Turbine Power generator with Heat Recovery Steam Generator (HRSG) in co-generation scenario at Utility Plant will replace existing steam turbo generator and direct fired Utility Boiler affecting 1.5 MMSCFD natural gas fuel saving. This replacement is also of vital importance to avert the power outages for ensuring sustained plant production.

The fabrication and installation of new double walled Ammonia Storage Tank adjacent to the existing tank will ensure safety of plant personnel in particular and plant site vicinity population in general.

Reduction of

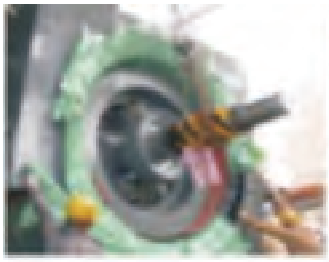
85 M. Tons / day

Greenhouse Gases (Co2) and saving of

1.5 MMSCFD

Natural Gas Fuel

Engineering Excellence




CO_2 Compressor Motor Stator Rewinding (MC-201A)

Compressor motor damaged stator winding coils were replaced with new coils. Rotor poles were also repaired. This job was done by M/S Intersel Dubai in 21 days against the planned duration of 30 days. Motor was successfully commissioned. This job was the first ever job of coil replacement in DH. All difficult and heavy rigging, dismantling and assembling jobs were done by DH staff.

Overhauling of Main Generator (G-401B)

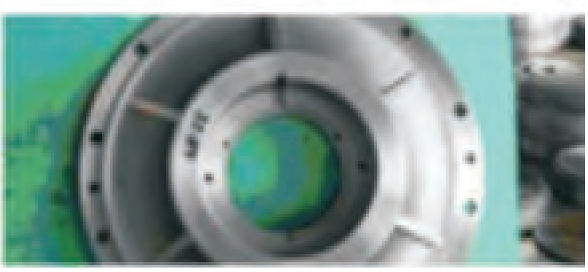
Generator was completely overhauled by M/S Intersell Dubai. All stator winding wedges were replaced and rotor was tested & varnished. Job was completed in record time of 12 days against planned duration of 15 days. The job was completed at one - fourth cost of the previous overhaul thus having a cost saving of Rs. 5 Million

Replacement of Supporting Structure of Urea Reactor (V-2201B)

Bundle supporting structure alongwith all new baffle plates were replaced with modified material 2RE69 (Sandvik) due to decrease in thickness over 19 years of service life. The whole job was done without the services of VSM. The job was completed in 15 days against vendor's proposal of 21 days. Total saving achieved was Rs. 25 million.

Overhaul of ID Fan Turbine (1101-BJT)

Complete overhauling of turbine was carried out without the services of VSM. It was successfully put on load. The vibration levels and temperature at the bearings were within the prescribed limits. Total saving achieved was Rs. 3.3 Million



Local Development of Critical Spares.

Total saving achieved due to the local development of critical parts for ammonia, urea, utilities & Bagging shipping units was Rs. 6.38 million

"When you plant a tree, never plant only one. Plant three one for shade, one for fruit, one for beauty."

African proverb

Did you know trees are longest living organism on earth?

- A single tree produces up to 260 pounds of oxygen a year. That is more than enough to supply oxygen to a family of four people.
- Trees get about 90% of their nutrition from the atmosphere (carbon dioxide, etc), and only about 10% from the soil.
- Trees help cool down the atmosphere. They can bring down your air conditioning costs by up to 20 percent.
- Trees improve water quality by slowing and filtering rain water, as well as protecting aquifers and watersheds.

Financial Statements

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

The statement is being presented to comply with the requirements of the Code of Corporate Governance contained in the listing regulations of the stock exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the Code in the following manner:

1. The Company encourages representation of independent non-executive Directors. At present, the Board comprises of ten Directors including the Chief Executive.

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

3. All the Directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a Development Financial Institution (DFI) or a Non-Banking Financial Institution (NBFI) or, being a member of a Stock Exchange, has been declared as a defaulter by that Stock Exchange.

4. No causal vacancy occurred in the Board during the year.

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

6. The Board of Directors has developed a Vision/Mission statement. All significant policies of the Company are revised and updated from time to time as appropriate.

7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive has been taken by the Board.

8. During the year four meetings of the Board were held, which were all presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated seven days before the meetings. The minutes of the Board meetings were appropriately recorded, circulated within 14 days from the date of meetings and signed by the Chairman.

9. All material information as required under the relevant rules has been provided to the stock exchanges and to the Securities & Exchange Commission of Pakistan within the prescribed time limit.

10. Orientation courses for Directors and Executives were arranged to apprise them of their duties and responsibilities.

11. The Board approves appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the Chief Executive.

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

13. The financial statements of the Company were duly endorsed by the Chief Executive and CFO before approval of the Board. The half-yearly and annual financial statements were also initialed by the external auditors before presentation to the Board.

14 The Directors, Chief Executive and Executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

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

16 The Board has formed an audit committee. It comprises of four members, majority of whom are non-executive Directors.

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

18 The Board has setup an effective internal audit function. The function is managed by suitably qualified staff, involved in the internal audit function on a full time basis.

19 All related party transactions entered during the year were on arm's length basis and these have been placed before the Audit Committee and Board of Directors. These transactions are duly reviewed and approved by the Audit Committee and Board of Directors.

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

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

22 We confirm that all other material principles contained in the Code have been complied with.

Karachi
23rd January 2010

Shahzada Dawood
Chief Executive

Auditors' Report to the Members

We have audited the annexed balance sheet of Dawood Hercules Chemicals Limited ("the Company") as at 31 December 2009 and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

We conducted our audit in accordance with auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

b) in our opinion:

   i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for changes referred to in note 2.2 to the financial statements with which we concur;

   ii) the expenditure incurred during the year was for the purpose of the Company's business; and

   iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 31 December 2009 ` and of the loss, its comprehensive income, its cash flows and changes in equity for the year then ended; and

d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980, was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Lahore:
23rd January 2010

KPMG Taseer Hadi & Co.
Chartered Accountants

Review Report to the Members on Statement of Compliance with best practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Dawood Hercules Chemicals Limited ("the Company") to comply with the Listing Regulations of Karachi, Lahore and Islamabad Stock Exchanges.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code. As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Further, Sub- Regulation (xiii a) of Listing Regulation No. 35 (previously Regulation No. 37) notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated 19 January 2009 requires the Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee.

We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were under taken at arm's length price.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company the year ended 31 December 2009.

Lahore:
23rd January 2010

KPMG Taseer Hadi & Co.
Chartered Accountants

PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2009

	Note	2009 Rupees	2008 Rupees
Continuing operation			
Sales - net	5	11,040,361,936	7,428,702,879
Cost of sales	6	(7,080,456,675)	(4,312,462,959)
Gross Profit		**3,959,905,261**	**3,116,239,920**
Other operating income	7	150,966,516	509,591,425
Distribution expenses	8	(388,784,294)	(72,275,770)
Administrative expenses	9	(331,518,806)	(317,571,019)
Impairment loss	27.3	(3,791,096,493)	(100,310,990)
Other operating expenses	10	(159,508,447)	(183,934,447)
Results from operating activities		**(560,036,263)**	**2,951,739,119**
Finance costs	11	(984,747,229)	(901,450,815)
(Loss)/Profit before share of associate and tax		**(1,544,783,492)**	**2,050,288,304**
Share of profit from associate, net of income tax		1,331,306,662	1,850,199,953
(Loss)/Profit before tax		**(213,476,830)**	**3,900,488,257**
Income tax expenses	12	(924,800,000)	(837,800,000)
(Loss)/Profit for the year from continuing operation		**(1,138,276,830)**	**3,062,688,257**
(Loss)/Profit attributable to owners of the Company		**(1,138,276,830)**	**3,062,688,257**
Earnings per share - basic and diluted	30	(10.41)	28.00

The annexed notes 1 to 35 form an integral part of these financial statements.

Karachi
23 January 2010

Shahzada Dawood
Chief Executive

A.G. Gohar
Director

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2009

	2009 Rupees	2008 Rupees
(Loss)/Profit for the year	**(1,138,276,830)**	**3,062,688,257**
Adjustment arising from measurement to fair value of investment and others	339,462,639	(4,127,014,788)
Fair value reserve transferred to profit and loss account on disposal of investments	-	(218,609,980)
Other Comprehensive Income net of tax	**339,462,639**	**(4,345,624,768)**
Total Comprehensive Income for the year	**(798,814,191)**	**(1,282,936,511)**

The annexed notes 1 to 35 form an integral part of these financial statements.

Karachi
23 January 2010

Shahzada Dawood
Chief Executive

A.G. Gohar
Director

BALANCE SHEET
As at 31 December 2009

	Note	2009	2008
		Rupees	Rupees
LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorized capital			
1,000,000,000 ordinary shares of Rs. 10 each		10,000,000,000	10,000,000,000
Issued, subscribed and paid up capital	13	1,093,834,360	1,093,834,360
Revenue reserves		18,784,894,035	20,415,396,327
Fair value reserve		3,985,191	(4,126,573,941)
		19,882,713,586	17,382,656,746
NON CURRENT LIABILITIES			
Long term loans	14	6,302,500,000	6,302,500,000
Deferred taxation	15	394,500,000	327,700,000
Staff retirement and other service benefits	16	44,595,036	40,162,519
		6,741,595,036	6,670,362,519
CURRENT LIABILITIES			
Short term financing - secured	17	1,196,603,573	70,139,213
Trade and other payables	18	648,227,335	538,132,695
Accrued markup		280,268,454	275,848,576
Provision for taxation		858,000,000	693,000,000
		2,983,099,362	1,577,120,484
CONTINGENCIES AND COMMITMENTS	19		
		29,607,407,984	25,630,139,749

The annexed notes 1 to 35 form an integral part of these financial statements.

Karachi
23 January 2010

Shahzada Dawood
Chief Executive

A.G. Gohar
Director

BALANCE SHEET
As at 31 December 2009

	Note	2009	2008
ASSETS		**Rupees**	**Rupees**
NON - CURRENT ASSETS			
FIXED CAPITAL EXPENDITURE			
Property, plant and equipment	20	1,340,587,535	1,328,779,975
Capital work in progress	21	734,408,738	67,553,966
		2,074,996,273	**1,396,333,941**
INVESTMENT IN ASSOCIATE	22	**21,543,286,520**	**19,205,628,008**
LONG TERM LOANS AND ADVANCES	23	**2,423,235**	**1,259,750**
CURRENT ASSETS			
Stores, spares and loose tools	24	1,303,296,999	1,025,764,636
Stock in trade	25	83,285,699	89,568,216
Trade debts		10,028,308	8,821,267
Loans, advances, deposits, prepayments and other receivables	26	92,723,661	72,251,421
Advance income tax		819,907,916	663,149,343
Short term investments	27	3,399,312,900	2,233,424,979
Cash and bank balances	28	278,146,473	933,938,188
		5,986,701,956	**5,026,918,050**
		29,607,407,984	**25,630,139,749**

The annexed notes 1 to 35 form an integral part of these financial statements.

Karachi
23 January 2010

Shahzada Dawood
Chief Executive

A.G. Gohar
Director

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CASH FLOW STATEMENT
For the year ended 31 December 2009

	Note	2009	2008
Cash flow from operating activities		Rupees	Rupees
(Loss) / Profit before taxation		**(213,476,830)**	**3,900,488,257**
Adjustment for non cash expenses and other items:			
Depreciation		149,784,249	140,571,813
Finance costs		984,747,229	901,450,815
Profit on sale of property, plant and equipment		(3,169,502)	(135,709)
Profit on sale of short term investments available for sale		(27,467,091)	(88,968,571)
Unrealized (gain)/loss due to fair value adjustment of investment at fair value through profit or loss		(14,821,940)	3,891,637
Impairment loss on available for sale investments		3,791,096,493	100,310,990
Share of profit of associate, net of tax		(1,331,306,662)	(1,850,199,953)
Dividend income		-	(351,548,225)
Provision for staff retirement and other service benefits		20,637,816	47,136,679
		3,569,500,592	**(1,097,490,524)**
Profit before working capital changes		**3,356,023,762**	**2,802,997,733**
Working capital changes			
(Increase)/decrease in current assets:			
Stocks, stores and spares		(271,249,846)	645,431,803
Trade debtors		(1,207,041)	(4,078,784)
Loans, advances, prepayments and other receivables		(20,472,240)	(6,833,364)
Increase/(decrease) in current liabilities:			
Trade and other payables		108,428,021	24,671,615
		(184,501,106)	**659,191,270**
Cash generated from operations		**3,171,522,656**	**3,462,189,003**
Finance costs paid		(980,327,351)	(875,038,320)
Taxes paid		(849,758,573)	(765,816,009)
Staff retirement and other service benefits paid		(16,205,299)	(60,327,967)
(Increase) in long term loans and advances		(1,163,485)	(146,625)
Net cash inflow from operating activities		**1,324,067,948**	**1,760,860,082**
Cash flow from investing activities			
Fixed capital expenditure		(833,174,164)	(163,260,995)
Proceeds from sale of property, plant and equipment		7,897,085	519,583
Proceeds from disposal of available for sale short-term investments		1,145,648,750	573,313,944
Proceeds from disposal of investments at fair value through profit or loss		-	4,199,230,015
Investment at fair value through profit and loss		(1,929,785,000)	(3,508,904,290)
Investment in associated company		(1,623,148,150)	(1,291,140,550)
Dividends received		616,796,300	897,516,243
Net cash (outflow) / inflow from investing activities		**(2,615,765,179)**	**707,273,950**
Cash flow from financing activities			
Short term financing		1,126,464,360	(2,211,288,896)
Long term loans		-	(197,500,000)
Dividends paid		(490,558,844)	(223,231,063)
Net cash inflow/(outflow) from financing activities		**635,905,516**	**(2,632,019,959)**
Net decrease in cash and cash equivalents		**(655,791,715)**	**(163,885,927)**
Cash and cash equivalents at the beginning of year		933,938,188	1,097,824,115
Cash and cash equivalents at the end of year	28	**278,146,473**	**933,938,188**

The annexed notes 1 to 35 form an integral part of these financial statements.

Karachi
23 January 2010

Shahzada Dawood
Chief Executive

A.G. Gohar
Director

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2009

	Share capital	Revenue reserves: General reserve	Revenue reserves: Unappropriated profit	Revenue reserves: Total	Fair value reserve	Total
	Rupees					
Balance as on 31 December 2007	828,662,400	700,000,000	17,141,618,878	17,841,618,878	219,050,827	18,889,332,105
Comprehensive income for the year	-	-	3,062,688,257	3,062,688,257	(4,345,624,768)	(1,282,936,511)
Final cash dividend @15% for the year ended 31 December 2007	-	-	(124,299,360)	(124,299,360)	-	(124,299,360)
Final stock dividend @ 20 % for the year ended 31 December 2007	165,732,480	-	(165,732,480)	(165,732,480)	-	-
1st interim stock dividend @ 10% for the year ended 31 December 2008	99,439,480	-	(99,439,480)	(99,439,480)	-	-
1st interim cash dividend @ 10% for the year ended 31 December 2008	-	-	(99,439,488)	(99,439,488)	-	(99,439,488)
	265,171,960	**-**	**(488,910,808)**	**(488,910,808)**	**-**	**(223,738,848)**
Balance as on 31 December 2008	1,093,834,360	700,000,000	19,715,396,327	20,415,396,327	(4,126,573,941)	17,382,656,746
Comprehensive income for the year	-	-	(1,138,276,830)	(1,138,276,830)	339,462,639	(798,814,191)
Impairment on available for sale investment transferred to profit and loss account as permitted under SRO 150(1)/2009 (Note# 27.3)	-	-	-	-	3,791,096,493	3,791,096,493
	-	**-**	**(1,138,276,830)**	**(1,138,276,830)**	**4,130,559,132**	**2,992,282,302**
Final cash dividend @15% for the year ended 31 December 2008	-	-	(164,075,154)	(164,075,154)	-	(164,075,154)
1st interim cash dividend @ 15% for the year ended 31 December 2009	-	-	(164,075,154)	(164,075,154)	-	(164,075,154)
2nd interim cash dividend @ 15% for the year ended 31 December 2009	-	-	(164,075,154)	(164,075,154)	-	(164,075,154)
	-	**-**	**(492,225,462)**	**(492,225,462)**	-	**(492,225,462)**
Balance as on 31 December 2009	1,093,834,360	700,000,000	18,084,894,035	18,784,894,035	3,985,191	19,882,713,586

The annexed notes 1 to 35 form an integral part of these financial statements.

Karachi
23 January 2010

Shahzada Dawood
Chief Executive

A.G. Gohar
Director

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2009

1 LEGAL STATUS AND NATURE OF BUSINESS

Dawood Hercules Chemicals Limited ("the Company") is a public limited company. It was incorporated in Pakistan in 1968 under the Companies, Act 1913 (now the Companies Ordinance, 1984) and is listed on Karachi, Lahore and Islamabad Stock Exchanges. The principal activity of the Company is production, purchase and sale of fertilizer. The registered office of the Company is situated at 35-A, Shahrah-e-Abdul Hameed Bin Baadees, Lahore.

2 BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under 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 shall prevail.

2.2 Change in accounting policies

Starting 01 January 2009, the Company has changed its accounting policies in the following areas:

IAS 1 (revised), 'Presentation of Financial Statements'. The revised standard prohibits the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement. Companies can choose whether to present one performance statement (the statement of comprehensive income) or two statements (profit and loss account and statement of comprehensive income).

The Company has preferred to present two statements; a profit and loss account and a statement of comprehensive income. The financial statements have been prepared under the revised disclosure requirements.

The SECP vide S.R.O. 411 (1) / 2008 dated 28 April 2008 notified the adoption of IFRS 7 'Financial Instruments: Disclosures'. IFRS 7 is mandatory for Company's accounting periods beginning on or after the date of notification i.e. 28 April 2008. IFRS 7 has superseded IAS 30 ' Disclosures in Financial Statements of Banks and Similar Financial Institutions' and disclosure requirements of IAS 32, ' Financial Instruments: Presentation' . Adoption of IFRS has only impacted the format and extent of disclosures presented in the financial statements.

2.3 Standards, interpretations and amendments to published approved accounting standards

Effective in current year

"Effective but not relevant"

Following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2009 and are also relevant to the Company. However, the adoption of these new standards and amendments to standards did not have any significant impact on the financial statements of the Company.

IFRS 2 (Amendment), Share based payment;
IFRS 8 Operating segments;
IAS 23 (Amendment) Borrowing costs;
IAS 28 (Amendment) Investment in associates;
IAS 36 (Amendment) Impairment of assets;

IAS 38 (Amendment) Intangible assets;
IAS 39 (Amendment) Embedded derivatives;
IFRIC 4 Insurance contracts;
IFRIC 13 Customers loyalty programmes;
IFRIC 15 Agreement for the construction of real estate;
IFRIC 16 Hedges of a net investment in a foreign operation; and
IAS 41 Agriculture

Standard, amendments and interpretations effective in 2010

The following standards, amendments and interpretations of approved accounting standards will be effective for accounting periods beginning on or after 1 January 2010.

IFRS 3 (Revised) Business combinations;
IAS 27 (Revised) Consolidated and separate financial statements;
IAS 39 (Amendments) Financial instruments: recognition and measurement;
IFRIC 15 Agreement for the construction of real estate;
IFRIC 17 Distributions of non-cash assets to owners;
IFRS 5 (Amendments) - improvements to IFRSs - IFRS 5 Non-current assets held for sale and discontinued operations.

3 BASIS OF MEASUREMENT

These financial statements have been prepared on the basis of historical cost convention, except for revaluation of certain financial instruments at fair value and recognition of certain employee retirement benefits at present value.

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions and judgments are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision effects both current and future periods. The areas where various assumptions and estimates are significant to Company's financial statements or where judgments were exercised in application of accounting policies are:

	Note
retirement and other benefits	4.2
residual value and useful life of depreciable assets	4.3
provision for taxation	4.6
provisions and contingencies	4.13

4 SIGNIFICANT ACCOUNTING POLICIES

4.1 Revenue Recognition

Revenue represents the fair value of the consideration received or receivable for goods sold, net of discounts and sales tax. Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Company and the amount of revenue, and the associated cost incurred, or to be incurred, can be measured reliably.

Revenue from sale of goods is recognized when the significant risk and rewards of ownership of the goods are transferred to the buyer.

Return on deposits is accrued on a time proportion basis by reference to the principal outstanding and the applicable rate of return.

Dividend income is recognized as income when the right of receipt is established.

4.2 Retirement and other benefits

Defined benefit plan- Gratuity

The Company operates an approved funded defined benefit gratuity plan for management staff having a service period of more than five years . Provisions are made in the financial statements to cover obligations on the basis of actuarial valuations carried out annually. The most recent valuation was carried out on 31 December 2009 using the "Projected Unit Credit Method".

The amount recognized in balance sheet represents the present value of the defined benefit obligation as on 31 December 2009 as adjusted for unrecognized actuarial gains and losses.

Cumulative net unrecognized actuarial gains and losses at the end of the previous year which exceed 10% of the greater of the present value of the Company obligations and the fair value of plan assets are amortized over the expected average working lives of the participating employees.

Accumulated compensated absences

Provisions are made annually to cover the obligation for accumulating compensated absences based on actuarial valuation and are charged to profit and loss. The most recent valuation was carried out on 31 December 2009 using the "Projected Unit Credit Method".

The amount recognized in the balance sheet represents the present value of the defined benefit obligations. Actuarial gains and losses are charged to income immediately in the period when these occur.

Other benefits

Defined contribution plan

The Company maintains a defined contributory Gratuity Fund for its non-management staff. Monthly contributions are made to the fund by the Company as per agreement with the Union.

Provident Fund

The Company also operates approved contributory provident funds for all employees. Equal contribution is made both by employees and the Company. The funds are administrated by the Trustees.

4.3 Fixed capital expenditure

Property, plant and equipment

Property, plant and equipment except freehold land are stated at cost less accumulated depreciation and any identified impairment loss. Freehold land is stated at cost less any identified impairment loss.

The Company provides depreciation under the "straight line method" so as to write off the historical cost of the asset over its estimated useful life at the following rates:

	Percentage
Buildings on freehold land	5
Railway siding	5
Plant and machinery	7.5
Furniture	10
Fittings and equipment	12.5
Motor vehicles	20
Data processing equipment	33.33
Catalysts	10 to 50

Depreciation is provided at the above rates subject to 1% retention of the original cost except for Catalysts, which are fully depreciated over their estimated useful lives.

Assets residual values' and useful lives' are reviewed at each financial year end and adjusted if impact on depreciation is significant.

Depreciation is charged on prorata basis on additions from the following month in which the asset is put to use and on disposals up to the month of disposal.

The Company assesses at each balance sheet date whether there is any indication that property, plant and equipment may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in income currently. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognized, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to income during the period in which they are incurred.

The initial catalysts cost in Ammonia plant was capitalized with plant and machinery whereas costs of subsequent replacement of such catalysts are separately included in property, plant and equipment and depreciated over their estimated useful life.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as an income or expense.

Capital work-in-progress

Capital work in progress is stated at cost less any identified impairment loss and represents expenditure incurred on property, plant and equipment during the construction and installation. Cost also includes applicable borrowing costs. Transfers are made to relevant property, plant and equipment category as and when assets are available for use.

4.4 Inventories

Inventories are valued at lower of cost and net realizable value. Cost is determined as follows:

Stocks	
Raw material	at moving average cost
Materials in process	at average cost
Finished goods	at average cost
Stores, spares and loose tools	at moving average cost. Items which are identified as slow moving and are surplus to the Company's requirements are written down to their estimated net realisable value.
Stores and spares in transit	at cost, comprising invoice value plus other charges incurred thereon.

Cost of work in process and finished goods comprises of cost of direct materials, labour and appropriate manufacturing overheads.

Net realisable value signifies the estimated selling price in the ordinary course of business less costs of completion and selling expenses.

4.5 Foreign Currencies

All monetary assets and liabilities in foreign currencies are translated into rupees at exchange rates prevailing at the balance sheet date. Transactions in foreign currencies are translated into rupees at exchange rates prevailing at the date of transaction. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into rupees at exchange rates prevailing at the date of transaction. Non-monetary assets and liabilities denominated in foreign currency that are stated at fair value are translated into rupees at exchange rates prevailing at the date when fair values are determined. Exchange gains and losses are included in the income currently.

4.6 Taxation

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

Current

Provision of current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year if enacted after taking into account tax credits, rebates and exemptions, if any. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilised.

Deferred tax assets and liabilities are calculated at the rates that are expected to apply to the period when the asset is realized or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except in the case of items credited or charged to equity in which case it is included in equity.

4.7 Investments

Investment in Associate

Associated companies, where the Company holds 20% or more of the voting power of the investee company and where the Company has significant influence, but not control, over the financial and operating policies, are accounted for using the equity method.

The financial statements of the Company include the Company's share of the income and expenses of the associate accounted for under equity method, after adjustments, if required, to align the accounting policies of associate with those of the Company from the date when significant influence is established until the date when that significant influence ceases. When the Company's share of losses exceed its interest in associate accounted for under equity method, the carrying amount of that interest is reduced to zero and recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

Unrealised gains arising from transactions, if any, with the associate accounted for under equity method are eliminated against the investment to the extent of the Company's interest in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Available for Sale Investments

Investments which are intended to be held for an indefinite period of time but may be sold in response to the need for liquidity are classified as available for sale. Available for sale investments are recognized initially at cost being the fair value of the consideration given plus any directly attributable transaction costs. After initial recognition, these are stated at fair values unless fair values can not be measured reliably, with any resulting gains and losses being taken directly to equity until the investment is disposed or impaired. At each reporting date, these investments are remeasured at fair value, unless fair value cannot be reliably measured. At the time of disposal, the respective surplus or deficit is transferred to income currently. Fair value of quoted investments is their bid price on Karachi Stock Exchange at the balance sheet date.

Unquoted investments, where active market does not exist, are carried at cost as it is not possible to apply any other valuation methodology.

Investments intended to be held for less than twelve months from the balance sheet date or to be sold to raise operating capital, are included in current assets, all other investments are classified as non-current.

Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

All purchases and sales of investments are recognized on the trade date which is the date that the Company commits to purchase or sell the investment.

Available for sale investments are tested for impairment at each reporting date. Investments are considered to be impaired if there is a significant or prolonged decline in the fair value of the investments at the reporting date.

Investments at fair value through profit or loss

Investments which are acquired principally for the purpose of generating profits from short term fluctuations in price or dealer margin are classified as "Investments at fair value through profit or loss" these are initially recognized on trade date at cost being the fair value of the consideration given and derecognized by the Company on the date it commits to sell them off. Transaction costs are charged to profit and loss account as and when incurred. At each balance sheet date, fair value is determined on the basis of year-end bid prices obtained from stock exchange quotations. Any resultant increase/(decrease) in fair value is recognized in the profit and loss account for the year.

4.8 Financial Assets and Liabilities

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. All financial assets and liabilities are initially measured at cost, which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value, amortised cost or cost, as the case may be. The particular measurement methods adopted are disclosed in the individual policy statements associated with each item. The Company derecognizes the financial asset and financial liability when it ceases to be a party to such contractual provisions of the instrument.

4.9 Offsetting of Financial Assets and Liabilities

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

4.10 Trade Debts

Trade debts are recognized initially at original invoice amount which is the fair value of consideration to be received in future and subsequently measured at amortized cost less an estimate made for doubtful debts based on a review of all outstanding amounts at the year end. A provision for impairment of trade debts is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Bad debts are written off when identified.

4.11 Cash and Cash Equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand and cash with banks in current and saving accounts.

4.12 Trade and Other Payables

Liabilities for trade and other amounts payable are initially recognized at cost which is the fair value of the consideration to be paid in future for goods and services and subsequently at amortized cost using effective interest rate method.

4.13 Provisions

Provisions are recognized when the Company has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. However, provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

4.14 Borrowing Costs

Mark-up, interest and other charges on borrowings are capitalised up to the date of commissioning of the related property, plant and equipment acquired out of the proceeds of such borrowings. All other mark-up, interest and other charges are charged to income in the period in which they are incurred.

4.15 Impairment

The Company assesses at each balance sheet date, whether there is any indication that asset may be impaired. If such an indication exists, the carrying amount of such assets is reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed their respective recoverable amounts, assets are written down to their recoverable amount and resulting impairment loss is recognised in income currently. The recoverable amount is higher of an asset’s fair value less costs to sell and value in use.

4.16 Related party transactions

The Company enters into transactions with related parties on an arm's length basis. Prices for transactions with related parties are determined using admissible valuation methods, except in extremely rare circumstances where, subject to approval of the Board of Directors, it is in the interest of the Company to do so.

4.17 Dividend

Dividend distribution to the Company's shareholders is recognized as a liability in the period in which the dividends are approved.

5 SALES - NET

	2009 Rupees	2008 Rupees
Own manufactured	7,369,483,426	6,381,652,996
Less: Sales tax	21,119,946	222,546,528
	7,348,363,480	**6,159,106,468**
Purchased product	3,691,998,456	1,283,552,991
Less: Sales tax	-	13,956,580
	3,691,998,456	**1,269,596,411**
	11,040,361,936	**7,428,702,879**

6 COST OF SALES

	Note	2009 Rupees	2008 Rupees
Raw and packing materials consumed	6.1	1,721,209,295	1,585,352,674
Fuel and power		1,043,770,526	860,132,540
Catalysts and chemicals		50,456,381	37,009,876
Salaries, wages, benefits and staff welfare	6.2	507,907,809	487,080,799
Stores and spares consumed		341,250,736	241,688,565
Repairs and maintenance		101,020,126	51,759,132
Travel and conveyance		56,767,935	49,065,658
Rent, rates and taxes		2,216,075	2,191,778
Insurance		22,610,268	22,243,496
Depreciation	20	131,272,508	123,586,514
Communication, stationery and office supplies		3,537,426	3,236,669
Other expenses		10,537,808	7,999,709
		3,992,556,893	3,471,347,410
Add: Opening stock of work-in-process		8,033,236	9,643,989
Less: Closing stock of work-in-process	25	10,366,776	8,033,236
		(2,333,540)	**1,610,753**
Cost of goods manufactured		3,990,223,353	3,472,958,163
Add: Opening stock of finished goods		50,092,662	150,131,038
Less: Closing stock of finished goods	25	58,218,429	50,092,662
		(8,125,767)	**100,038,376**
Cost of sales - Own manufactured		**3,982,097,586**	**3,572,996,539**
Purchased product		3,098,359,089	739,466,420
Cost of sales		7,080,456,675	4,312,462,959

6.1 Raw and packing materials consumed

	Note	2009 Rupees	2008 Rupees
Opening stock		31,442,318	3,777,142
Add: Purchases		1,704,467,471	1,613,017,850
		1,735,909,789	**1,616,794,992**
Less: Closing stock	25	14,700,494	31,442,318
		1,721,209,295	1,585,352,674

6.2 Salaries, wages, benefits and staff welfare include Rs. 9.650 million (2008: Rs. 7.582 million) in respect of contribution to staff gratuity funds and Rs. 17.367 million (2008: Rs. 14.244 million) in respect of provident funds.

7 OTHER OPERATING INCOME

	Note	2009 Rupees	2008 Rupees
Income from financial assets			
Realized gain on disposal of short term investments available for sale		4,194,400	48,241,570
Realized gain on disposal of investments at fair value through profit or loss		23,272,691	40,727,001
Unrealized gain/(loss) due to fair value adjustment of investment at fair value through profit or loss		14,821,940	(3,891,637)
Profit on bank deposits		63,670,466	41,648,350
		105,959,497	**126,725,284**
Income from related parties			
Dividend income from			
Sui Northern Gas Pipelines Limited		-	351,548,225
Income from non-financial assets			
Sale of scrap		8,976,392	11,116,520
Gain on redemption of Sukuks from Meezan Islamic Income fund		-	15,331,925
Profit on sale of property, plant and equipment		3,169,502	135,709
Compensation received from income tax department		21,109,516	-
Liabilities no longer payable written back		1,471,637	-
Other income		10,279,972	4,733,762
		45,007,019	**31,317,916**
		150,966,516	**509,591,425**

8 DISTRIBUTION EXPENSES

	Note	2009 Rupees	2008 Rupees
Product transportation and handling cost		328,664,215	40,686,140
Salaries, wages, benefits and staff welfare	8.1	43,844,495	21,750,309
Communication, stationery and office supplies		1,796,262	697,431
Rent, rates and taxes		3,440,927	1,265,726
Travel and conveyance		2,836,649	528,962
Repairs and maintenance		1,282,000	470,065
Sales promotion, advertising and market development		6,886,906	6,855,445
Other expenses		32,840	21,692
		388,784,294	**72,275,770**

8.1 Salaries, wages, benefits and staff welfare include Rs. 0.710 million (2008: Rs.Nil) in respect of provident funds.

9 ADMINISTRATIVE EXPENSES

	Note	2009 Rupees	2008 Rupees
Salaries, wages, benefits and staff welfare	9.1	178,015,489	169,111,296
Communication, stationery and office supplies		37,793,850	45,791,858
Rent, rates and taxes		24,870,464	28,690,192
Travel and conveyance		22,490,802	25,658,650
Repairs and maintenance		24,912,600	18,183,303
Depreciation	20	18,511,741	16,985,299
Legal and professional charges		11,528,750	2,175,801
Insurance		2,034,690	331,162
Donations		868,333	962,799
Other expenses		10,492,087	9,680,659
		331,518,806	**317,571,019**

9.1 Salaries, wages, benefits and staff welfare include Rs. 4.318 million (2008: Rs. 3.735 million) in respect of contribution to staff gratuity funds and Rs. 7.649 million (2008: Rs. 6.327 million) in respect of provident funds.

9.2 None of the Directors of the Company or any of their spouses have any interest in or are otherwise associated with any of the recipients of donations made by the Company during the year.

10 OTHER OPERATING EXPENSES

	Note	2009 Rupees	2008 Rupees
Workers' profits participation fund	18.3	112,702,447	91,210,941
Workers' welfare fund	18	46,000,000	92,000,000
Auditors' remuneration:			
Audit fee		600,000	600,000
Half year review and other certifications		150,000	80,000
Out of pocket expenses		56,000	43,506
		159,508,447	**183,934,447**

The provision for workers' profits participation fund is based on profits caused by business and trade, and excludes other income in accordance with the law, as advised by the legal advisors of the Company.

11 FINANCE COSTS

	Note	2009 Rupees	2008 Rupees
Mark-up:			
Short term borrowings		100,314,620	90,811,676
Long term loans		884,171,679	810,593,802
Interest on workers' profits participation fund	18.3	260,930	45,337
		984,747,229	**901,450,815**

12 INCOME TAX EXPENSES

	2009	2008
Current - for the year	858,000,000	693,000,000
Deferred	66,800,000	144,800,000
	924,800,000	**837,800,000**

12.1 Reconciliation of tax charge for the year

	2009 %	2008 %
Applicable tax rate	35.00	35.00
Tax effect of amounts that are not deductible for tax purposes	-	1.35
Tax effect of amounts exempt from tax	-	(0.76)
Tax effect of amount taxed at lower rate	-	(2.25)
Tax effect of associate	-	(11.86)
Effective tax rate	**-**	**21.48**

In view of accounting loss, tax reconciliation has not been presented for the current year.

13 ISSUED, SUBSCRIBED AND PAID UP CAPITAL

2009 Number of shares	2008 Number of shares		2009 Rupees	2008 Rupees
13,900,000	13,900,000	Ordinary shares of Rs. 10 each fully paid in cash	139,000,000	139,000,000
95,483,436	95,483,436	Ordinary shares of Rs. 10 each issued as bonus shares	954,834,360	954,834,360
109,383,436	**109,383,436**		**1,093,834,360**	**1,093,834,360**

-

13.1 Reconciliation of Issued, subscribed and paid up capital

	2009 Number of shares	2008 Number of shares
Outstanding as at 01 January	109,383,436	82,866,240
Bonus shares issued during the year	-	26,517,196
Closing as at 31 December	**109,383,436**	**109,383,436**

13.2 Shares held by related parties

	2009	2008
Dawood Lawrencepur Limited Percentage of equity held 16.19% (2008: 16.19%)	17,711,795	17,711,795
Dawood Corporation (Private) Limited Percentage of equity held 0.02% (2008: 0.02%)	23,147	23,147
The Dawood Foundation Percentage of equity held 3.95% (2008: 3.95%)	4,320,907	4,320,907
Central Insurance Company Limited Percentage of equity held 2.97% (2008: 2.97%)	3,249,946	3,249,946
Patek (Private) Limited Percentage of equity held 0.032% (2008: 0.032%)	35,292	35,292
Sach International (Private) Limited Percentage of equity held 0.001% (2008: 0.001%)	1,590	1,590

14 LONG TERM LOANS

Participatory redeemable capital - secured

14.1 Long term loans

	2009 Rupees	2008 Rupees
Opening balance	6,302,500,000	6,500,000,000
Redemption during the year	-	(197,500,000)
Closing balance	**6,302,500,000**	**6,302,500,000**

14.2 Participatory

	2009		2008	
	Number of Sukuk Certificates	Face value of Consolidated Sukuk Certificates Rupees	Number of Sukuk Certificates	Face value of Consolidated Sukuk Certificates Rupees
Banks/Financial Institution				
Habib Bank Limited	60,000	3,000,000,000	60,000	3,000,000,000
Meezan Bank Limited	20,000	1,000,000,000	20,000	1,000,000,000
Allied Bank Limited	20,000	1,000,000,000	20,000	1,000,000,000
United Bank Limited	12,000	600,000,000	12,000	600,000,000
MCB Bank Limited	14,000	700,000,000	14,000	700,000,000
Meezan Tahaffuz Pension Fund	50	2,500,000	50	2,500,000
Total	**126,050**	**6,302,500,000**	**126,050**	**6,302,500,000**

Participatory redeemable capital represents Islamic Sukuk certificates issued to banks/financial institution under musharaka arrangements. The facility is secured by a first charge created by way of hypothecation over the specific fixed assets of the Company up to the extent of Rs. 7.72 billion, comprising various machinery of urea and ammonia plant. The facility carries mark-up at average six months ask side KIBOR plus 120 bps payable half yearly subject to a minimum of 3.5% per annum and a maximum of 25% per annum.

Trustee

In order to protect the interest of the Certificate Holders, an investment agent (Meezan Bank Limited) has been appointed as trustee under a trust deed dated 12 September 2007 at a fee of Rs. 500,000 each year till the expiry of the agreement. In case the Company defaults on any of its obligations, the trustee may enforce the Company's obligations in accordance with the terms of the trust deed.

Term of payment

The principal amount is repayable according to the following schedule:

Payment	Rs. in 000'
First tranche due on 17 September 2011	1,102,500
Second tranche due on 18 March 2012	2,600,000
Third tranche due on 18 September 2012	2,600,000
	6,302,500

In case of default in payment, the Company will be liable to pay an markup at the rate six month KIBOR plus 200 bps per annum of the unpaid amount.

Face value of each Sukuk certificate is Rs. 50,000 which consist of 13 Sukuk units.

Call option

Under the Musharaka arrangement the Company carries a right to exercise "Call Option" to purchase all or any of the Sukuk units from certificate holders at their applicable Buy Out Prices (Pre Purchase) at any time after the expiry of one year from the issue date. The "Call Option" can be exercised by the Company after giving a prior written notice of at least thirty days of its intention to purchase all or any of the remaining Sukuk Units having aggregate face value of multiple of Rs. 100 million.

		Note	2009 Rupees	2008 Rupees
15	**DEFERRED TAXATION**			
	Deferred liability arising due to accelerated depreciation allowance		184,700,000	187,500,000
	Deferred liability arising due to unrealized profits from associate		225,300,000	153,800,000
	Deferred (asset)/liability arising in respect of provision for leave encashment		(15,500,000)	(13,600,000)
			394,500,000	**327,700,000**
16	**STAFF RETIREMENT AND OTHER SERVICE BENEFITS**			
	Defined benefit plan funded for management staff	16.1	197,745	586,278
	Defined contributory gratuity funded for non-management staff	16.2	-	485,421
	Compensated absences	16.3	44,397,291	39,090,820
			44,595,036	**40,162,519**

		Note	2009 Rupees	2008 Rupees
16.1	**Defined benefit plan funded - for management staff**			
	Amounts recognized in the balance sheet are as follows:			
	Present value of defined benefit obligation	16.1.1	148,766,983	112,043,566
	Fair value of plan assets	16.1.2	(106,170,992)	(92,607,699)
	Unrecognized actuarial losses		(42,398,246)	(18,849,589)
	Liability as at 31 December		**197,745**	**586,278**
	Net liability as at 01 January		586,278	162,973
	Charge to profit and loss account	16.1.3	11,637,093	9,762,761
	Contribution made by the Company		(12,025,626)	(9,339,456)
	Liability as at 31 December		**197,745**	**586,278**
16.1.1	**Movement in liability for defined benefit obligation**			
	Present value of defined benefit obligation as at 01 January		112,043,566	101,938,100
	Current service cost		12,808,298	8,594,571
	Interest cost		16,806,535	10,193,810
	Benefits paid during the year		(9,468,560)	(10,795,483)
	Actuarial loss on present value of defined benefit obligation		16,577,144	2,112,568
	Present value of defined benefit obligation as at 31 December		**148,766,983**	**112,043,566**
16.1.2	**Movement in fair value of plan assets**			
	Fair value of plan assets as at 01 January		92,607,699	72,006,260
	Expected return on plan assets		13,891,155	7,200,626
	Funds receivable from Workers Gratuity Fund		4,936,055	4,000,000
	Contributions made during the year		12,025,626	9,339,456
	Benefits paid during the year		(9,468,560)	(10,795,483)
	Actuarial (loss)/gain on plan assets		(7,820,983)	10,856,840
	Fair value of plan assets as at 31 December		**106,170,992**	**92,607,699**
	Plan assets consist of the following			
	Funds placed under mark up arrangements with banks		81,234,937	92,607,699
	Investment company		10,000,000	-
	Open ended mutual funds		10,000,000	-
	Funds receivable from Workers Gratuity Fund		4,936,055	-
			106,170,992	**92,607,699**
16.1.3	**Charge to profit and loss account**			
	Current service cost		12,808,298	8,594,571
	Interest cost		16,806,535	10,193,810
	Expected return on plan assets		(13,891,155)	(7,200,626)
	Contributions receivable from workers gratuity fund		(4,936,055)	(4,000,000)
	Actuarial loss recognized during the year		849,470	2,175,006
			11,637,093	**9,762,761**

16.1.4 Actual return on plan assets of funded gratuity scheme was Rs. 6.070 million (2008: Rs. 18.057 million).

16.1.5 Historical information

	2009 Rupees	2008 Rupees	2007 Rupees	2006 Rupees	2005 Rupees
Present value of defined benefit obligation	148,766,983	112,043,566	101,938,100	86,624,636	83,827,648
Fair value of plan assets	(106,170,992)	(92,607,699)	(72,006,260)	(76,475,907)	(79,168,843)
Deficit in the plan	**42,595,991**	**19,435,867**	**29,931,840**	**10,148,729**	**4,658,805**
Experience adjustment arising on plan liabilities	16,577,144	2,112,568	11,128,796	3,139,055	(890,429)
Experience adjustment arising on plan assets	(7,820,983)	10,856,840	(8,848,133)	(2,147,213)	(1,772,405)

16.1.6 The Company expects to pay Rs. 22.140 million as contribution to defined benefit plan in 2010.

16.1.7 Assumptions used for valuation of the defined benefit schemes for management staff are as under:

	2009 % per annum	2008 % per annum
Discount rate	12	15
Expected rate of return on plan assets	15	10
Expected rate of increase in salary	11	14

Average expected remaining working life time of management employees is 9 years .

16.2 Defined contributory gratuity funded for non-management staff

	Note	2009 Rupees	2008 Rupees
Net liability as at 01 January		485,421	571,396
Charge to profit and loss account		2,331,719	1,554,517
Contribution made by the Company		(2,817,140)	(1,640,492)
Liability as at 31 December		**-**	**485,421**

16.3 Compensated absences

	Note	2009	2008
Opening balance		39,090,820	52,619,438
Expenses recognized during the year	16.3.3	6,669,004	35,819,401
Payments made during the year		(1,362,533)	(49,348,019)
Closing balance	16.3.1	**44,397,291**	**39,090,820**

16.3.1 Movement in liability for defined benefit obligation

	2009	2008
Present value of defined benefit obligation as at 01 January	39,090,820	52,619,438
Current service cost	2,138,459	4,278,139
Interest cost	5,863,623	5,261,944
Loss due to settlements	-	24,920,892
Benefits paid during the year	(1,362,533)	(49,348,019)
Actuarial loss on present value of defined benefit obligation	(1,333,078)	1,358,426
Present value of defined benefit obligation as at 31 December	**44,397,291**	**39,090,820**

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16.3.2 Balance Sheet liability as on 31st December 2009

	2009 Rupees	2008 Rupees
Present value of defined benefit obligations as on 31 December 2009	44,397,291	-

16.3.3 Charge to profit and loss account

	2009 Rupees	2008 Rupees
Current service cost	2,138,459	4,278,139
Interest cost	5,863,623	5,261,944
Actuarial (gains) / loss charge	(1,333,078)	1,358,426
Loss due to settlements	-	24,920,892
	6,669,004	35,819,401

16.3.4 Assumptions used for valuation are as under:

	2009 % per annum	2008 % per annum
Discount rate	12	15
Expected rate of eligible salary increase in future years	11	14

17 SHORT TERM FINANCING - SECURED

	Note	2009 Rupees	2008 Rupees
Running finance	17.1	122,324,265	70,139,213
Murabaha finance	17.2	400,000,000	-
Murabaha finance	17.3	674,279,308	-
		1,196,603,573	70,139,213

17.1 This represents utilized portion of short term running finance facility available from Habib Bank Limited under mark-up arrangement. This facility aggregates Rs. 398 million (2008: Rs. 398 million) and expires on 31 December 2009, carries mark-up at the rate of one month KIBOR plus 150 bps (2008: one month KIBOR plus 200 bps) per annum. The facility is secured by pledge of shares held as investments and first hypothecation charge of Rs. 427 million on finished goods, stores and spares. The market value of these investments as at 31 December 2009 was Rs. 595 million (2008: Rs. 515 million).

17.2 This represents balance amount of short term Murabaha finance facility availed during the year from Meezan Bank Limited to subscribe to the right issue of Engro Chemical Pakistan Limited. The facility aggregates to Rs. 800 million and expires on 19 May 2010. The facility carries markup @ 6 months KIBOR plus 40 bps payable in two equal installments and is secured against pledge of shares having market value of Rs.1,246 million (2008: Rs. Nil).

17.3 This represents balance amount of short term Murabaha finance facilities availed from Bank AL Habib Limited for import of DAP Fertilizer. The facility carries markup @ 3 months average KIBOR plus 50 bps payable in monthly instalments and expires on latest by 08 April 2010. This facility is secured against pledge of shares having market value of Rs. 2,126 million (2008:Rs. Nil).

18 TRADE AND OTHER PAYABLES

	Note	2009 Rupees	2008 Rupees
Trade creditors			
Related parties	18.1	228,399,979	6,947,626
Others		37,663,969	46,361,842
		266,063,948	53,309,468
Advances from customers		10,402,106	163,106,101
Unclaimed dividends		17,777,177	16,110,559
Accrued expenses		117,934,990	97,234,387
Sales tax payable		907,713	-
Deposits	18.2	11,422,678	14,573,293
Workers' profits participation fund	18.3	112,963,377	91,479,433
Workers' welfare fund	10	96,994,234	92,000,000
Others		13,761,112	10,319,454
		648,227,335	538,132,695

18.1 This includes amount payable to SNGPL against purchase of Sui Gas amounting to Rs. 228.111 million and amount payable to Engro Polymer Chemicals Limited against purchase of chemicals amounting to Rs. 0.288 million. The maximum aggregate amount due to related parties at the end of any month during the year was Rs. 240.538 million (2008: Rs. 869.320 million).

18.2 The above deposits are interest free and repayable on demand or otherwise adjustable in accordance with the Company's policy.

18.3 Workers' profits participation fund

	Note	2009 Rupees	2008 Rupees
Balance at the beginning of the year		91,479,433	40,978,956
Add: Allocation for the year	10	112,702,447	91,210,941
Interest on funds used in the Company's business	11	260,930	45,337
		204,442,810	**132,235,234**
Less: Amount paid to the fund		91,479,433	40,755,801
		112,963,377	91,479,433

19 CONTINGENCIES AND COMMITMENTS

19.1 Contingent liabilities

The Company is contingently liable for:

Counter guarantees given to the bank	2,171,467	2,171,467
Indemnity bonds/guarantees given to Customs authorities equivalent to duties chargeable on import of machinery payable if matter is decided by the FBR against the Company regarding the eligibility of certain machinery and equipment for duty free import under BMR programme (contingent liability of capital nature)	2,959,510	2,959,510
Indemnity bonds given to Customs authorities equivalent to duties chargeable on import of machinery which shall be released on production of installation certificate from competent authority (contingent liability of capital nature)	1,650,770	1,650,770
Pending law suits	120,000	120,000

19.2 Commitments

	2009 Rupees	2008 Rupees
Commitments in respect of contracts for capital expenditure	253,604,000	416,880,644
Commitments in respect of store purchases	158,916,140	119,711,876

20 PROPERTY, PLANT AND EQUIPMENT - AT COST LESS ACCUMULATED DEPRECIATION

2009

Rupees

	COST				DEPRECIATION				Net book value
	As at 01 January 2009	Additions	Disposals	As at 31 December 2009	As at 01 January 2009	For the year	Disposals	As at 31 December 2009	As at 31 December 2009
Freehold land	250,656,856	-	-	250,656,856	-	-	-	-	250,656,856
Buildings on freehold land	114,635,802	-	-	114,635,802	77,561,576	3,880,272	-	81,441,848	33,193,954
Railway siding	2,314,451	-	-	2,314,451	2,291,307	-	-	2,291,307	23,144
Plant and machinery	2,705,903,371	61,152,799	-	2,767,056,170	1,820,208,660	85,480,839	-	1,905,689,499	861,366,671
Catalysts	216,212,551	-	-	216,212,551	128,760,000	30,246,935	-	159,006,935	57,205,616
Furniture, fittings and equipment	50,130,427	15,575,585	-	65,706,012	41,070,145	1,864,360	-	42,934,505	22,771,507
Data processing equipment	97,833,460	11,673,019	-	109,506,479	92,062,854	5,349,266	-	97,412,120	12,094,359
Motor vehicles	119,912,528	77,917,989	14,032,198	183,798,319	66,864,929	22,962,577	9,304,615	80,522,891	103,275,428
	3,557,599,446	166,319,392	14,032,198	3,709,886,640	2,228,819,471	149,784,249	9,304,615	2,369,299,105	1,340,587,535

Depreciation charge for the year has been allocated as follows:	2009 Rupees	2008 Rupees
Cost of sales - (Note 6)	131,272,508	123,586,514
Administrative expenses - (Note 9)	18,511,741	16,985,299
	149,784,249	140,571,813

Property, plant and equipment that are fully depreciated amounts to Rs. 1,791,288,331 (2008 : Rs. 1,743,453,325)

2008

Rupees

	COST				DEPRECIATION				Net book value
	As at 01 January 2008	Additions	Disposals	As at 31 December 2008	As at 01 January 2008	For the year	Disposals	As at 31 December 2008	As at 31 December 2008
Freehold land	250,656,856	-	-	250,656,856	-	-	-	-	250,656,856
Buildings on freehold land	114,635,802	-	-	114,635,802	73,641,339	3,920,237	-	77,561,576	37,074,226
Railway siding	2,314,451	-	-	2,314,451	2,291,307	-	-	2,291,307	23,144
Plant and machinery	2,531,689,209	174,214,162	-	2,705,903,371	1,744,388,878	75,819,782	-	1,820,208,660	885,694,711
Catalysts	137,640,283	78,572,268	-	216,212,551	94,300,162	34,459,838	-	128,760,000	87,452,551
Furniture, fittings and equipment	47,725,400	2,405,027	-	50,130,427	39,750,764	1,319,381	-	41,070,145	9,060,282
Data processing equipment	96,540,902	1,292,558	-	97,833,460	83,614,966	8,447,888	-	92,062,854	5,770,606
Motor vehicles	96,102,060	24,587,275	776,807	119,912,528	50,653,175	16,604,687	392,933	66,864,929	53,047,599
	3,277,304,963	281,071,290	776,807	3,557,599,446	2,088,640,591	140,571,813	392,933	2,228,819,471	1,328,779,975

20.1 Disposal of property, plant and equipment

Type of property, plant and equipment	Sold to	Original cost	Accumulated depreciation	Written down value	Sale proceeds	Mode of disposal
		Rupees	Rupees	Rupees	Rupees	
Motor vehicles	**Employees**					
Honda Civic	Mr. Shahid Pracha	1,500,500	525,175	975,325	1,087,863	As per Company Policy
Toyota Corolla	Ashraf Rashid Karimi	1,034,000	430,833	603,167	710,875	As per Company Policy
Toyota Corolla GLI	Mr. Isar Ahmad	1,309,000	850,850	458,150	670,863	As per Company Policy
Suzuki Potohar	Ch. Abdul Mughni	686,000	297,267	388,733	615,200	As per Company Policy
Toyota Corolla GLI	Dr. Sajid Hassan	1,004,650	636,279	368,371	695,956	As per Company Policy
Suzuki Cultus	Mr. Muhammad Saleem	613,157	245,263	367,894	520,831	As per Company Policy
Honda Civic	Mr. Aleem A. Dani	1,288,000	944,533	343,467	660,100	As per Company Policy
Honda City	Syed Ahmad Ashraf	500,007	200,002	300,005	350,005	As per Company Policy
Suzuki Alto	Mr. S. Hamid M. Qadri	520,250	225,442	294,808	360,919	As per Company Policy
Toyota Corolla XLI	Mr. Gulzar Saleem	905,555	618,796	286,759	441,458	As per Company Policy
Suzuki Alto	Mr. Shakeel Ahmad	518,490	319,735	198,755	294,876	As per Company Policy
Suzuki Mehran	Mr. Abdul Aziz	388,310	310,649	77,661	151,764	As per Company Policy
Aggregate of other items of property, plant and equipment with individual book values not exceeding Rupees 50,000		3,764,279	3,699,791	64,488	1,336,375	As per Company Policy
		14,032,198	9,304,615	4,727,583	7,897,085	

21 CAPITAL WORK IN PROGRESS

	2009 Rupees	2008 Rupees
Plant and machinery	734,408,738	1,853,966
Advance for plant and machinery	-	65,700,000
	734,408,738	67,553,966

22 INVESTMENT IN ASSOCIATE

Engro Chemical Pakistan Limited (ECPL)

	2009 Rupees	2008 Rupees
81,157,408 (2008: 73,779,462) ordinary shares of Rs. 10 each	19,205,628,008	16,610,255,523
Add: Cost of 32,462,963 (2008:7,377,946) right shares acquired during the year	1,623,148,150	1,291,140,550
Share of post acquisition profits	1,331,306,662	1,850,199,953
	2,954,454,812	**3,141,340,503**
Percentage of equity held - 38.13% (2008: 38.13%)	22,160,082,820	19,751,596,026
Less: Dividends received during the year	616,796,300	545,968,018
	21,543,286,520	19,205,628,008

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22.1 Fair value of investments in associate Rs. 20,823 million (2008: Rs. 7,828 million).

22.2 The financial year end of ECPL is 31 December and due to non-availability of the financial statements of ECPL at the time of preparation of these financial statements, the financial results as of 30 September have been used for the purpose of application of equity method.

22.3 Summarized financial information of ECPL is as follows:

	2009 Rupees	2008 Rupees
Total assets as at 30 September	124,193,084,000	73,689,867,000
Total liabilities as at 30 September	95,635,234,000	52,085,942,000
Revenue (12 months period from 01 October to 30 September)	53,410,778,000	41,077,709,000
Profit after taxation (12 months period from 01 October to 30 September)	**3,491,037,000**	**4,851,712,000**

22.4 Subsequent to year end, the fertilizer business of Engro Chemical Pakistan Limited has been demerged and the Scheme of Arrangement for the demerger of Engro Chemical Pakistan Limited into a fertilizer company business (Engro Fertilizers Limited) and rest of the undertaking's business into Engro Chemical Pakistan Limited has been approved by Honorable Sindh High Court, Karachi vide its order dated 09 December 2009 and is effective from 01 January 2010. In accordance with the scheme of arrangement, fertilizer business has been transferred to Engro Fertilizers Limited, a wholly owned subsidiary of Engro Chemical Pakistan Limited. Moreover, in accordance with the Scheme of Arrangement, Sindh High Court, Karachi has approved the change of name of Engro Chemical Pakistan Limited to Engro Corporation Limited.

23 LONG TERM LOANS AND ADVANCES - UNSECURED CONSIDERED GOOD

	Note	2009 Rupees	2008 Rupees
Executives	23.1 & 23.3	1,852,500	416,660
Other employees	23.2	570,735	843,090
		2,423,235	**1,259,750**

23.1 Loans to executives are provided interest free as temporary financial assistance and are repayable in 18 equal monthly installments.

23.2 Loans to other employees are interest free and repayable within two years. These include loans to workers under agreement with the Workers Union.

23.3 Reconciliation of carrying amounts of loans to executives

	2009 Rupees	2008 Rupees
Opening balance	5,942,610	3,301,690
Disbursement during the year	11,549,405	5,549,400
Promotion of non-executive employees as executives	864,070	3,159,385
Loan recovered during the year	(8,481,030)	(6,067,865)
Closing balance	**9,875,055**	**5,942,610**
Less: Current portion shown under current assets	8,022,555	5,525,950
	1,852,500	**416,660**

23.4 None of the loans are outstanding for periods exceeding three years.

23.5 The maximum amount due from executives at any month end during the year was Rs.9.875 million (2008 : Rs. 8.076 million)

24 STORES, SPARES AND LOOSE TOOLS

	2009 Rupees	2008 Rupees
Stores	433,458,784	367,278,446
Spares	793,661,275	750,143,399
Loose tools	13,060,775	12,066,057
Stores and spares in transit	298,781,165	131,941,734
	1,538,961,999	**1,261,429,636**
Less: Provision for obsolete items	235,665,000	235,665,000
	1,303,296,999	**1,025,764,636**

Stores and spares include items which may result in fixed capital expenditure but are not distinguishable.

25 STOCK IN TRADE

	Note	2009 Rupees	2008 Rupees
Raw and packing materials		14,700,494	31,442,318
Material in process		10,366,776	8,033,236
Finished goods - own manufactured		58,218,429	50,092,662
		83,285,699	**89,568,216**

26 LOANS, ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	Note	2009 Rupees	2008 Rupees
These receivables are all unsecured and considered good:			
Advances to suppliers for goods and services	26.1	40,118,497	35,037,713
Advances and loans:			
Executives		8,022,555	5,525,950
Employees		20,678,294	8,149,025
Sales Tax receivable		-	7,952,358
Prepayments		2,956,345	6,726,477
Deposits		2,109,318	2,100,118
Others		18,838,652	6,759,780
		92,723,661	**72,251,421**

26.1 This includes due from related parties, i.e. Inbox Business Technology and Avanceon Limited amounting to Rs. 0.448 million (2008: Rs. 2.433 million) and 0.423 million (2008: Rs. Nil) respectively.
Maximum aggregate amount due from at the end of any month during the year was Rs. 9.076 million (2008:Rs. 2.762 million).

26.2 Chief Executive and directors have not taken any loan/advance from the Company (2008: Rs. Nil).

26.3 Advances and loans to executives and employees include Rs. 23.394 million (2008: Rs. 11.757 million) being current portion of the loans described under note 23 and the balance represents interest free advance.

27 SHORT TERM INVESTMENTS

	Note	2009 Rupees	2008 Rupees
Available for sale	27.1	2,505,425,652	2,173,613,132
Financial assets at fair value through profit and loss	27.2	893,887,248	59,811,847
		3,399,312,900	**2,233,424,979**

27.1 Available for sale

	Note	2009 Rupees	2008 Rupees
Related parties - Quoted			
Sui Northern Gas Pipelines Limited			
Opening cost of 100,442,350 (2008 : 108,672,850) ordinary shares of Rs. 10 each - at cost		6,282,066,773	6,796,835,201
Cost of Nil (2008 : 8,230,500) shares disposed off during the year		-	(514,768,428)
Closing cost of 100,442,350 shares of Rs. 10 each - at cost		**6,282,066,773**	**6,282,066,773**
Percentage of equity held: 18.29% (2008 : 18.29%)			
Impairment loss	27.3	(3,791,096,493)	(4,126,573,941)
		2,490,970,280	2,155,492,832
Others - Quoted			
Southern Electric Power Company Limited			
6,270,000 (2008 : 6,270,000) ordinary shares of Rs.10 each at carrying cost		18,120,300	118,431,290
Cost of 2,647,100 shares disposed off during the year		(7,650,119)	-
Closing carrying cost of 3,622,900 (2008 : 6,270,000) shares of Rs. 10 each		**10,470,181**	**118,431,290**
Percentage of equity held: below 10% (2008 : below 10%)			
Adjustment arising from measurement to fair value		3,985,191	-
Impairment loss		-	(100,310,990)
		3,985,191	**(100,310,990)**
		14,455,372	18,120,300
		2,505,425,652	2,173,613,132

27.2 Financial assets at fair value through profit or loss classified as held for trading

ABL Income Fund		
29,611,770.2888 (2008: Nil) units of Rs. 10 each	288,458,012	-
Adjustment arising from measurement to fair value	7,935,080	-
	296,393,092	-
Meezan Cash Fund-Growth Units		
5,655,874.2274 (2008: Nil) units of Rs. 50 each	293,807,759	-
Adjustment arising from measurement to fair value	3,012,520	-
	296,820,279	-
UBL Liquidity Plus Fund-Class C		
2,929,825.0073 (2008: Nil) units of Rs. 100 each	296,799,537	-
Adjustment arising from measurement to fair value	3,874,340	-
	300,673,877	-
KASB Islamic Income Fund		
Nil (2008: 640,247) units of Rs. 100 each	-	63,703,484
Adjustment arising from measurement to fair value	-	(3,891,637)
	-	**59,811,847**
	893,887,248	59,811,847

27.3 As directed by the SECP vide SRO 150(I) dated 13 February 2009, the Company has taken the amount of impairment on available for sale investments after adjustment/effect for price movements in 2009 from equity to Profit and Loss account on quarterly basis during the calendar year ended on 31 December 2009. The impairment loss recognised in profit and loss account during the year is as follows:

	2009
	Rupees
Impairment loss as on 31st December 2008 recognised in equity	4,126,573,941
Price improvement during the year	(335,477,448)
Impairment loss charged to profit and loss	3,791,096,493

28 CASH AND BANK BALANCES

	Note	2009	2008
		Rupees	Rupees
With banks:			
On current accounts		163,371,330	112,476,736
On saving accounts	28.1	114,494,826	720,970,090
Time deposits		-	100,000,000
		277,866,156	**933,446,826**
Cash in hand		**280,317**	**491,362**
		278,146,473	933,938,188

28.1 These carry mark up at the rate ranging from 5% to 11% per annum (2008: 5% to 10.9%).

29 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	2009 Rupees			2008 Rupees		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
Managerial remuneration	7,189,600	39,604,072	132,227,336	6,720,987	27,296,439	109,689,286
Retirement benefits	1,170,233	3,281,131	25,779,741	993,127	2,418,854	11,256,721
Rent and utilities	3,762,000	14,438,395	46,740,742	3,015,650	8,003,208	32,948,864
Leave fair assistance	-	596,452	-	-	568,522	-
Medical	-	2,216,012	7,006,623	-	820,782	3,008,242
	12,121,833	60,136,062	211,754,442	10,729,764	39,107,805	156,903,113
Number of employees	**1**	**6**	**89**	**1**	**4**	**66**

(Including those who worked part of the year).

Chief Executive, 6 directors (2008: 4) and 89 executives of the Company (2008: 66) are provided with free use of cars owned and maintained by the Company.

Meeting fees amounting to Rs. 22,000 (2008: 36,000) were paid to 10 (2008: 10) directors including Chief Executive.

30 EARNINGS PER SHARE

		2009	2008
Basic and diluted			
(Loss) / Profit after taxation	Rupees	(1,138,276,830)	3,062,688,257
Weighted average number of ordinary shares	No. of shares	109,383,436	109,383,436
Earnings per share- basic	Rupees	(10.41)	28.00

There is no dilution effect on the basic earnings per share of the Company.

-

31 FINANCIAL INSTRUMENTS

The Company has exposure to the following risks from its use of financial instruments.

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors have the overall responsibility for the establishment and oversight of Company's risk management framework. The Board is also responsible for developing and monitoring the Company's risk management policies.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk and the Company's management of capital.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to react to changes in market conditions and the Company's activities.

31.1 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and loans to/due from related parties.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. To manage exposure to credit risk in respect of trade receivables, management reviews credit worthiness, references, establish purchase limits taking into account the customer's financial position, past experience and other factors. Limits are reviewed periodically and the customers may transact with the Company only on a prepayment basis.

Concentration of credit risk arises when a number of counter parties are engaged in similar business activities or have similar economic features that would cause their abilities to meet contractual obligation to be similarly effected by the changes in economic, political or other conditions. The Company believes that it is not exposed to major concentration of credit risk.

The carrying amount of financial assets represents the maximum credit exposure before any credit enhancements. The maximum exposure to credit risk at the reporting date is:

	2009	2008
	Rupees	Rupees
Available for sale financial assets	2,505,425,651	2,173,613,132
Financial assets at fair value through profit or loss	893,887,248	59,811,847
Long term loans and advances	26,663,912	11,756,670
Trade debts	10,028,308	8,821,267
Other receivables	18,838,652	6,759,780
Bank balances	277,866,156	933,446,826
Deposits	2,112,153	2,093,597
	3,734,822,080	**3,196,303,119**

The trade debts as at the balance sheet date are classified as follows:		
Domestic	**10,028,308**	**8,821,267**

The aging of trade receivables at the reporting date is:	2009 Rupees	2008 Rupees
Past due 1 - 3 months	9,349,838	8,187,202
Past due 4 - 6 months	36,500	5,599
Past due 7 - 10 months	9,706	-
Past due above one year	632,264	628,466
	10,028,308	**8,821,267**

Based on past experience the management believes that no impairment allowance is necessary in respect of trade receivables past due as some receivables have been recovered subsequent to the year end and for other receivables there are reasonable grounds to believe that the amounts will be recovered in short course of time.

31.2 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. For this purpose the Company has sufficient running finance facilities available from various commercial banks to meet its liquidity requirements. Further liquidity position of the Company is closely monitored through budgets, cash flow projections and comparison with actual results by the Board.

Following is the maturity analysis of financial liabilities:

	Less than 6 months Rupees	Between 6 to 12 months Rupees	Between 1 to 5 years Rupees	Total Rupees
Non derivative financial liabilities				
Short term financing - secured	1,196,603,573	-	-	1,196,603,573
Long term finances	-	-	6,302,500,000	6,302,500,000
Trade and other payables	397,760,050	-	-	397,760,050
Accrued markup	280,268,454	-	-	280,268,454
2009	**1,874,632,077**	**-**	**6,302,500,000**	**8,177,132,077**
Non derivative financial liabilities				
Short term financing - secured	70,139,213	-	-	70,139,213
Long term finances	-	-	6,302,500,000	6,302,500,000
Trade and other payables	160,863,309	-	-	160,863,309
Accrued markup	275,848,576	-	-	275,848,576
2008	**506,851,098**	**-**	**6,302,500,000**	**6,809,351,098**

31.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

31.3.1 Interest rate risk

Interest rate risk is the risk that the value of financial instrument will fluctuate due to changes in market interest rates. Significant interest rate risk exposures are primarily managed by a mix of borrowings at fixed and variable interest rates and entering into interest rate swap contracts. At the reporting date the interest rate profile of the Company's significant interest bearing financial instruments was as follows:

	2009	2008	2009	2008
	Effective rate (in Percentage)		Carrying amount (Rupees)	
Financial liabilities				
Variable rate instruments:				
Long term finances	13.64 to 15.19	11.21 to 15.19	6,302,500,000	6,302,500,000
Short term financing	13.07 to 14.67	10.29 to 13.53	1,196,603,573	70,139,213

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit and loss account.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/ (decreased) loss for the year by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2008.

	100 bps	
	2009	2008
	Increase	Decrease
	Rupees	
Effect on loss - 31 December 2009	(70,328,597)	70,328,597
Effect on profit - 31 December 2008	(73,041,889)	73,041,889

The sensitivity analysis prepared is not necessarily indicative of the effects on loss for the year and assets / liabilities of the Company.

31.3.2 Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). Equity price risk arises from available-for-sale equity securities held. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Board. The primary goal of the Company's investment strategy is to maximise investment returns.

Sensitivity analysis

The table below summarises the impact of increase/decrease in the Karachi Stock Exchange (KSE) Index on the Company's loss after tax for the year and on equity (fair value reserve). The analysis is based on the assumption that the equity index had increased / decreased by 5% with all other variables held constant and all the Company's equity instruments moved according to the historical correlation with the index:

Index	Impact on (Loss)/ Profit after taxation		Impact on other components of equity (fair value reserve)	
	2009	2008	2009	2008
	(Rupees)		(Rupees)	
KSE 100 (5% increase)	124,548,514	906,015	722,769	107,774,642
KSE 100 (5% decrease)	(124,548,514)	(906,015)	(722,769)	(107,774,642)

Equity (fair value reserve) would increase/decrease as a result of gains / losses on equity investments classified as available for sale.

31.3.3 Fair value of financial instruments

The carrying values of the financial assets and financial liabilities approximate their fair values. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Capital management

The Board's policy is to maintain an efficient capital base so as to maintain investor, creditor and market confidence and to sustain the future development of its business. The Board of Directors monitors the return on capital employed, which the Company defines as operating income divided by total capital employed. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Company's objectives when managing capital are:

i) to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and

ii) to provide an adequate return to shareholders.

The Company manages the capital structure in the context of economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may, for example, adjust the amount of dividends paid to shareholders, issue new shares, or sell assets to reduce debt.

The Company monitors capital on the basis of the debt-to-equity ratio - calculated as a ratio of total debt to equity.

The debt-to-equity ratios as at 31 December 2009 and at 31 December 2008 were as follows:

	2009	2008
	Rupees	Rupees
Total debt	7,499,103,573	6,372,639,213
Less: Cash and cash equivalents	(278,146,473)	(933,938,188)
Net debt	**7,220,957,100**	**5,438,701,025**
Total equity	19,882,713,586	17,382,656,746
Debt -to -equity ratio	0.36	0.31

The increase in the debt-to-equity ratio in 2009 has resulted primarily from increase in short term borrowings amounting to Rs. 1,126 million and placement of funds in open ended mutual funds.

Neither there were any changes in the Company's approach to capital management during the year nor the Company is subject to externally imposed capital requirements.

32 RELATED PARTY TRANSACTIONS

The related parties comprise local associated companies, related group companies, directors of the Company, companies where directors also hold directorship, and key management employees. The Company in the normal course of business carries out transactions with various related parties. Amounts due from and to related parties are shown under receivables and payables. Details of transactions with related parties, other than those which have been specifically disclosed elsewhere in these accounts are as follows:

	2009	2008
Associated company	Rupees	Rupees
Sale of goods and services	5,745,161	3,260,708,720
Purchase of goods and services	2,575,550,006	2,331,658,187
Right issue	1,623,148,150	1,291,140,550
Dividend Income	616,796,300	545,968,018
Gratuity funds	13,968,812	11,317,278
Provident funds	25,726,000	20,571,000

No buying or selling commission has been paid to any related party.

33 PRODUCTION CAPACITY

As against the annual production capacity of 445,500 tons (2008: 445,500 tons) of urea fertilizer the plant produced 513,315 tons (2008: 508,050 tons) which was 115.22 % (2008: 114.04%) of designed capacity.

34 POST BALANCE SHEET EVENTS

The Board of Directors at its meeting held on 23 January 2010 has proposed a final cash dividend @ Rs.1.00 per share amounting to Rs.109,383,436 and 10% stock dividend for the year ended 31 December 2009 for approval of the members at the Annual General Meeting to be held on 29 March 2010. These financial statements do not reflect this proposed dividend.

35 GENERAL

35.1 These financial statements have been authorised for issue by the Board of Directors of the Company on 23 January 2010.

35.2 Administrative and selling expenses for 2008 amounting to Rs. 389,846,789 have been reclassified as Administrative expenses amounting to Rs. 317,571,019 and Distribution expenses amounting to Rs. 72,275,770 respectively, for better presentation.

35.3 Figures have been rounded off to the nearest rupee.

Karachi
23 January 2010

Shahzada Dawood
Chief Executive

A.G. Gohar
Director

PATTERN OF SHAREHOLDING
As at 31 December 2009
Disclosure Requirement under the Code of Corporate Governance

Details of holding on 31.12.2009:

Associated Companies, Undertakings and Related Parties	
Dawood Lawrencepur Limited	17,711,795
Dawood Foundation	4,320,907
Central Insurance Company Ltd.	3,249,946
Patek (Pvt.) Ltd.	35,292
Dawood Corporation (Pvt.) Ltd.	23,147
Sach International (Pvt.) Ltd.	1,590
NIT & ICP	
National Bank of Pakistan, Trustee Department	592,331
Investment Corporation of Pakistan	211
Directors & Chief Executive (including holding of their spouses & minor children)	
Mr. Hussain Dawood - Chairman	9,820,754
Mr. Shahzada Dawood - Chief Executive	1,122,227
Mr. A. Samad Dawood	1,122,614
Mr. Haroon Mahenti	390
Khawaja Amanullah	3
Mr. Abdul Ghafoor Gohar	3
Syed Muhammad Asghar	1
Executives	949
Public Sector Companies and Corporations	-
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas & Mutual Funds	21,584,898
Shareholders holding ten percent or more shares	
Faisal Private Bank (Switzerland) SA	15,148,425
Dawood Lawrencepur Limited	17,711,795

PATTERN OF SHAREHOLDING
As at 31 December 2009
Category-wise

Categories of Shareholders	Number of Shareholders	Total Shares Held	Percentage
Individuals	2,686	17,368,513	15.88
Joint Stock Companies	41	62,459,967	57.10
Financial Institutions	9	17,502,719	16.00
Insurance Companies	5	6,486,065	5.93
Investment Companies	2	20,092	0.01
Educational/Charitable Institutions	5	4,624,798	4.23
Modarabas	4	28,954	0.03
Mutual Funds	7	817,106	0.75
Leasing Companies	2	61,450	0.06
The Administrator, Abandoned Properties, Government of Pakistan	1	13,769	0.01
Securities & Exchange Commission of Pakistan	1	3	0.00
Total	**2,763**	**109,383,436**	**100.00**

PATTERN OF SHAREHOLDING
As at 31 December 2009

Shareholding Range		Number of Shareholders	Total Shares Held
From	To		
1	100	498	23,284
101	500	1,421	488,287
501	1,000	311	240,487
1,001	5,000	383	867,235
5,001	10,000	51	373,994
10,001	15,000	23	290,802
15,001	20,000	12	204,314
20,001	25,000	10	226,913
25,001	30,000	10	266,853
30,001	35,000	1	33,834
35,001	40,000	5	187,387
40,001	45,000	1	44,853
45,001	50,000	1	49,667
50,001	55,000	1	50,365
55,001	60,000	1	60,000
60,001	65,000	1	60,500
70,001	75,000	2	144,823
95,001	100,000	2	199,000
100,001	105,000	1	101,324
110,001	115,000	2	222,113
120,001	125,000	1	123,750
180,001	185,000	1	184,333
190,001	195,000	1	192,020
280,001	285,000	1	282,949
335,001	340,000	1	336,406
340,001	345,000	1	342,408
385,001	390,000	1	386,607
410,001	415,000	1	412,699
480,001	485,000	1	482,022
1,040,001	1,045,000	1	1,041,855
1,120,001	1,125,000	3	3,367,068
1,245,001	1,250,000	1	1,250,000
1,275,001	1,280,000	1	1,279,407
2,680,001	2,685,000	1	2,682,907
3,245,001	3,250,000	1	3,249,946
4,320,001	4,325,000	1	4,320,907
8,235,001	8,240,000	2	16,473,090
8,695,001	8,700,000	1	8,698,527
8,720,001	8,725,000	2	17,443,640
9,835,001	9,840,000	1	9,836,640
15,145,001	15,150,000	1	15,148,425
17,710,001	17,715,000	1	17,711,795
		2,763	**109,383,436**