Annual Report 2010

DAWOOD HERCULES CHEMICALS LIMITED

Fueling Growth

Fueling
Growth

Growth is not possible, unless we nurture it, develop it, and fuel it.

We have envisioned where we want to be, and the direction to take; the plans are set, the wheels are in motion.

As part of capacity building, we are developing our people into a dynamic team to take us forward to the next level and beyond.

Safety for us is a major focus area. We understand that safety is essential for sustainability and growth.

Systems and processes have been improved and restructured for the best output. There is a culture of ownership and pride in what we do.

Social responsibility is a cornerstone of our existence. We promote sustainable practices in all aspects of our business. From conservation to saving, we leave no area unattended.

We are moving forward; we are evolving; we are fueling growth.

Contents

Vision 2
Mission 2
Strategy & Objectives 2
Business Ethics and Core Values 2
Company Information 3
Performance Highlights 4
Key Events 2010 4
Achievements 2010 5
Board of Directors 6
Committees 11
The Management 12

Operating Highlights 16
- Ten years at a Glance 16
- Horizontal Analysis (Balance Sheet) 18
- Vertical Analysis (Balance Sheet) 20
- Horizontal Analysis (Profit & Loss) 22
- Vertical Analysis (Profit & Loss) 22
- Statement of Value Addition 24

Notice of Annual General Meeting 28

Directors' Report 32
- Principal Activities 32
- Demerger 32
- Long Term Investment 32
- Business Review 32
- Health, Safety, Environment & Quality 34
- Projects 36
- Employee Development 36
- Corporate Citizenship 38
- Results of the Year 40
- Awards & Accolades 43
- Business Risks & Challenges 44
- Board of Directors 44
- Business Risks & Future Outlook 46
- Acknowledgement 47

Financial Statements 49
- Statement of Compliance 50
- Review Report on Statement of Compliance 52
- Auditor's Report to the Members 53
- Financial Statements 54
- Notes to the Financial Statements 60
- Consolidated Financial Statements Auditor's Report 95
- Consolidated Financial Statements 96
- Notes to the Consolidated Financial Statements 102
- Pattern of Shareholding 135
- Form of Proxy 139

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

Company Information

Board Of Directors:

Mr. Hussain Dawood	Chairman
Mr. Isar Ahmad	Chief Executive Officer
Mr. Javed Akbar	Director
Mr. M. Abdul Aleem	Director
Mr. S.M. Asghar	Director
Mr. A. Samad Dawood	Director
Mr. Shahzada Dawood	Director
Mr. Parvez Ghias	Director
Mr. Shahid Hamid Pracha	Director
Mr. Inam-ur-Rahman	Director

Board Audit Committee:

Mr. M. Abdul Aleem	Chairman
Mr. Javed Akbar	Member
Mr. Parvez Ghias	Member
Mr. Shahid Hamid Pracha	Member

Board Compensation Committee:

Mr. Hussain Dawood	Chairman
Mr. Javed Akbar	Member
Mr. A. Samad Dawood	Member
Mr. Parvez Ghias	Member

Company Secretary:

Mr. Aftab Ahmed Qaiser

Chief Financial Officer:

Mr. Gulzar Saleem

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.dawoodhercules.com

Plant:

28-KM Lahore Sheikhupura Road,
Chichoki Mallian, Sheikhupura
Tel: +92 (42) 37352762-7
Fax: +92 (42) 37313380

Bankers:

Bank Al-Habib Limited
Habib Bank Limited
Habib Metropolitan Bank Limited
Meezan Bank Limited
Barclays Bank PLC, Pakistan

Auditors:

M/s. KPMG Taseer Hadi & Co.
Chartered Accountants
53-L, Gulberg-III, Lahore
Tel: +92 (42) 35851587-88
Fax: +92 (42) 35781757

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

Legal Advisors:

Hassan & Hassan (Advocates)
PAAF Building 7-D, Kashmir/Egerton Road,
Lahore
Tel: +92 (42) 36360800-03
Fax: +92 (42) 36360811-12

Performance Highlights

Key Figures

Results from Operating Activities Up By

Rs. 3,821 Million

2010	Rs. 3,878 Million
2009	Rs. 57 Million

Gross Profit % Up By

4%

2010	40%
2009	36%

Profit attributable to Owners of the Company Up By

Rs. 3,930 Million

2010	Rs. 2,149 Million
2009	Rs. (1,781) Million

Earnings Per Share Up By

Rs. 32.66

2010	Rs. 17.86
2009	Rs. (14.80)

Key Events 2010

Shift over to Environment Friendly Non Chromate Treatment Program:
The chromate based cooling water and chilling water treatment has been shifted over to environment friendly phosphate based treatment. This undertaking is part of the Company's commitment towards a Healthy Environment.

Energy Conservation and Reduction in Greenhouse Gases:
Gas Turbine Generator (GTG) and Heat Recovery Steam Generator (HRSG) were commissioned with consequent significant energy savings and reduction in CO_2 emission.

Urea Production:
In spite of excessive natural gas curtailment the Company produced 456,120 MT Urea during the year 2010.

Energy Conservation Year:
The Company celebrated year 2010 as Energy Conservation year. All employees contributed to reduction in wastage of energy.

Achievements 2010

- **Environment Excellence Award 2010:**
  This award was received from the National Forum of Environment & Health in recognition of the Company's efforts for a cleaner environment

- **KSE Top 25 Companies Award:**
  11awards in last 15 years (latest 2009)

- **Best Corporate Report Award:**
  Among the winners of this award for the last five years in the Chemical and Fertilizer Sector

Board of Directors

From Left to Right

Seated -	Javed Akbar	M. Abdul Aleem	
Standing -	S.M. Asghar	Shahzada Dawood	Shahid H. Pracha

From Left to Right

Seated -	**Hussain Dawood** (Chairman)	Isar Ahmad (Chief Executive)	Inam Ur Rahman
Standing -	A. Samad Dawood	Parvez Ghias	

Directors' Profiles

HUSSAIN DAWOOD
CHAIRMAN

Elected Chairman of Dawood Hercules Chemicals Limited in 2002. He is also the Chairman of Engro Corporation Limited, Pakistan Poverty Alleviation Fund and The Dawood Foundation. His Social Responsibilities include Chairmanship of the International Advisory Council of the Cradle to Cradle Institute in San Francisco, Karachi Education Initiative / Karachi School for Business & Leadership. He also serves as a Member of the Govt. of Pakistan Education Task Force, Director of the Pakistan Business Council, Pakistan Centre for Philanthropy, Beaconhouse National University and is a Global Charter Member of The Indus Entrepreneurs (TiE). He is the Honorary Consul of Italy in Lahore and was conferred the award "Ufficiale Ordine al Merito della Repubblica Italiana" by the Italian Government. Mr. Dawood is an MBA from the Kellogg School of Management, Northwestern University, USA, and a graduate in Metallurgy from Sheffield University, UK.

ISAR AHMAD
CHIEF EXECUTIVE OFFICER

Was appointed as Chief Executive Officer of the Company in July 2010. He is the Chairman of Central Insurance Company Limited, Dawood Lawrencepur Limited, Tenaga Generasi Limited and Chairman & Chief Executive of DH Fertilizers Limited. He is also a Director on the Boards of Engro Corporation Limited, Engro Polymer and Chemicals Limited and Engro Foods Limited. 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 of England & Wales.

JAVED AKBAR
DIRECTOR

He has a Masters degree in Chemical Engineering from United Kingdom and has over 35 years experience in fertilizer and chemical business with Exxon, Engro and Vopak. He has managed Exxon and Engro fertilizer plants and their expansions in Pakistan, worked in Exxon's Chemical Technology divisions in USA and Canada, and served as Human Resources Manager in Exxon Pakistan. He was part of the buyout team when Exxon divested its stake in Engro. Prior to his retirement in 2006, Javed Akbar was Chief Executive of Engro Vopak Terminal Limited, a joint venture between Engro and Royal Vopak of Holland. After his retirement, he established a consulting company specializing in analyzing and forecasting petroleum, petrochemical and energy industry trends and providing strategic insight. He also serves on the Board of Directors of DH Fertilizers Limited, Engro Fertilizers Limited, Engro Powergen Limited, Engro Powergen Qadirpur Limited, Engro Vopak Terminal Limited, Javed Akbar Associates (Private) Limited, Pakistan Petroleum Limited and is also on the panel of environmental experts of Sindh Environmental Protection Agency.

M. ABDUL ALEEM
DIRECTOR

A Fellow Chartered Accountant (FCA) (Gold Medalist) and a Fellow Cost and Management Accountant (FCMA). Mr. Aleem has worked for 20 years in the oil refining, petrochemicals and oil marketing business. Between 1990 and 2004, he worked for British American Tobacco (BAT), including the last ten years as the CEO of BAT operations in Cambodia, Mauritius and Indian Ocean. Since 2004, Mr. Aleem has worked for large GOP owned corporations. His last assignment was as the Managing Director of Pakistan State Oil Company Limited. Mr. Aleem serves on the Board, as an independent director, of three listed companies and is the Chairman of a leading Asset Management Company. He is also a Director of Pakistan Institute of Corporate Governance.

Currently, he is the CE/Secretary General of OICCI.

S.M. ASGHAR
DIRECTOR

Joined the Board in 1999. He is also on the Boards of Dawood Lawrencepur Limited, DH Fertilizers Limited and Sui Northern Gas Pipelines Limited. Mr. Asghar is a Fellow Member of the Institute of Chartered Accountants of Pakistan and has over 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.

A. SAMAD DAWOOD
DIRECTOR

A graduate in Economics from University College London, UK and a Certified Director of Corporate Governance from the Pakistan Institute of Corporate Governance, he is the Chief Executive of Central Insurance Co. Limited and Dawood Corporation (Pvt.) Limited. He also serves as Director on the Board(s) of Dawood Hercules Chemicals Limited, Dawood Lawrencepur Limited, Engro Corporation Limited, Engro Fertilizers Limited, Inbox Business Technologies (Pvt) Limited, Pebbles (Private) Limited, Sui Northern Gas Pipelines Limited, Tenaga Generasi Limited and WWF Pakistan, Limited. Mr. Dawood is a member of Young President Organization, Pakistan Chapter.

SHAHZADA DAWOOD
DIRECTOR

Joined the Board in 1996. He is the Director of Avanceon Limited, Dawood Corporation (Private) Limited, Dawood Hercules Chemicals Limited, Dawood Lawrencepur Ltd, DH Fertilizers Limited, Engro Corporation Ltd, Engro Fertilizers Limited, Engro Foods Limited, Engro Polymer & Chemicals Limited, Engro Power Gen Limited, Engro Vopak Terminal Limited, Patek (Pvt.) Ltd., Pebbles (Pvt.) Ltd., Sach International (Pvt.) Limited, Sirius (Pvt.) Limited and Tenaga Generasi Limited. He is a member of the Board of Governors of National Management Foundation (LUMS) and also a member of Board of Trustees of Dawood Foundation. He is an M.Sc in Global Textile Marketing from Philadelphia University, USA, an LLB from Buckingham University, UK and a Certified Director of Corporate Governance from the Pakistan Institute of Corporate Governance.

PARVEZ GHIAS
DIRECTOR

Is the Chief Executive Officer at Indus Motor Company Limited, a leading automobile manufacturer of Toyota and Daihatsu brands. He is a fellow member of the Institute of Chartered Accountants England and Wales and holds a Bachelors Degree in Economics. He also serves as an independent director on the boards of Standard Chartered Bank Pakistan Limited and Dawood Hercules Chemicals Ltd. Prior to joining Indus Motors, he was Vice President and CFO at Engro Chemical Pakistan Limited where he also served as a member of the Board of Directors.

SHAHID HAMID PRACHA
DIRECTOR

Serves as Chief Executive of the Dawood Foundation, the philanthropic arm of the Dawood Group and as a Director on the Boards of Central Insurance Company Ltd., Dawood Hercules Chemicals Limited, DH Fertilizers Limited, Dawood Lawrencepur Ltd., Inbox Business Technologies (Pvt.) Ltd. and Tenaga Generasi Ltd. He is also a Director on the Board of Engro Powergen Ltd. and Engro Powergen Qadirpur Ltd. Mr. Pracha is a graduate electrical engineer from the University of Salford, UK and prior to joining the Dawood Group, 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 and previously served as the first CEO of the Karachi Education Initiative, the sponsoring entity of the Karachi School for Business & Leadership.

INAM UR RAHMAN
DIRECTOR

Is the CEO of Dawood Lawrencepur Limited – the Renewable Energy company of the Dawood Group. He holds an MBA from LUMS in addition to an Electrical Engineering degree from UET Lahore. His interest areas include Change Management and Business Strategy. Inam ran his own Management Services firm focused on growing family firms - advising clients on Business Development, HR and Entrepreneurship prior to joining the Dawood Group. He has also been part of the adjunct faculty at LUMS - teaching at the undergraduate level and also various Executive programs. Inam is also the CEO of Tenaga Generasi Limited and Sach International (Pvt.) Limited. He joined the Board in 2010 and also serves on the Boards of Sui Northern Gas Pipelines Limited, Sindh Engro Coal Mining Company, and Pebbles (Pvt.) Ltd.

Committees

Board Audit Committee

Board Audit Committee assists the Board in fulfilling its oversight responsibilities, primarily in reviewing and reporting financial and non-financial information to shareholders, systems of internal control and risk management and the audit process. It has the power to call for information from management and to consult directly with the external auditors or their advisors as considered appropriate.

The Board Audit Committee comprises of three non-executive and one executive Director. The Chief Executive Officer and Chief Financial Officer attend the meetings by invitation. The Committee also privately meets with the external auditors at least once a year. After each meeting the Chairman of the Committee reports to the Board. The Committee met five times during the year.

DIRECTORS' NAMES:

M. A. Aleem (Chairman)
Javed Akbar
Parvez Ghias
Shahid H. Pracha

The Secretary of the Committee is Aftab Qaiser, Company Secretary.


M. A. Aleem


Javed Akbar


Parvez Ghias


Shahid H. Pracha

Board Compensation Committee

Board Compensation Committee is responsible for reviewing and approving the company's executive compensation, overall compensation strategy, human resources mangement policies, performance evaluation and succession plans including career planning for employees with high potential.

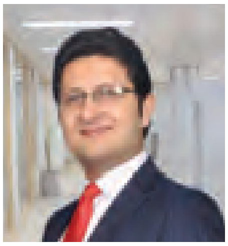
The Board Compensation Committee consists of three non-executive and one executive Director. The Chief Executive Officer attends the meetings by invitation.

DIRECTORS' NAMES

Hussain Dawood (Chairman)
Abdul Samad Dawood
Javed Akbar
Parvez Ghias

The Secretary of the Committee is Akram Durrani, Director Human Resources.


Hussain Dawood


A. Samad Dawood


Javed Akbar


Parvez Ghias

The Management

1 Aftab Ahmed Qaiser
(Company Secretary)

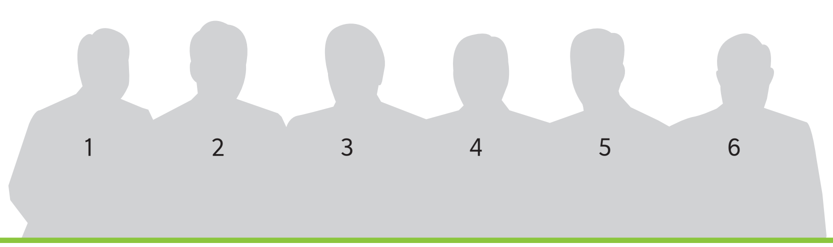
2 Muhammad Aslam
(Senior General Manager Projects)

3 Gulzar Saleem
(General Manager Finance)

4 Raja Khan Baig
(Manager Corporate Office Admin.)

5 Nadeem Tariq
(Senior General Manager Agri Business)

6 Asad Sabzwari
(Commercial Manager)



7 Ahmad Din
(Senior General Manager Plant)

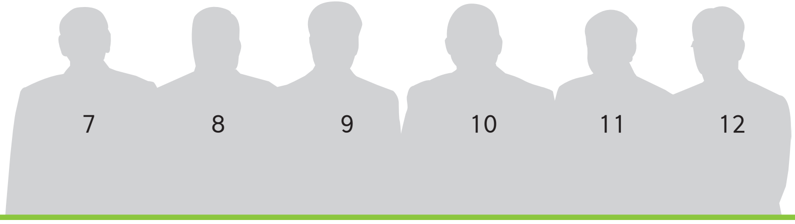
8 Abdus Sattar
(Engineering Manager)

9 Nasir Iqbal Toor
(Training & ISO Manager)

10 Dr. Sajid Hassan
(Technical Manager)

11 Arshad Mehmood
(Assistant General Manager Inventory Management)

12 Rana M. Saleem
(Health Safety & Environment Manager)



Fueling Growth through

Safe Practices

Safety is a basic requirement for sustainable business; safety for employees, for customers, and for the environment

Operating Highlights

Ten Years at a Glance

Sr#	Particulars		2010	2009 Restated	2008	2007
A)	INCOME STATEMENT					
1	Sales Value	Rs. in Million	8,716	11,040	7,429	5,011
2	Gross Profit	Rs. in Million	3,501	3,960	3,116	1,862
3	Operating Profit	Rs. in Million	3,878	57	2,952	10,551
4	EBITDA	Rs. in Million	4,086	207	4,943	11,551
5	Profit Before Taxation	Rs. in Million	2,969	(928)	3,900	10,674
6	Profit After Taxation	Rs. in Million	2,149	(1,781)	3,063	10,134
B)	DIVIDEND					
1	Cash Dividend	%	50	40	25	30
2	Stock Dividend	%	300	10	10	20
C)	BALANCE SHEET					
1	Fixed capital expenditure	Rs. in Million	2,238	2,075	1,396	1,374
2	Long term investments	Rs. in Million	19,290	19,290	19,206	16,610
3	Current Assets	Rs. in Million	5,696	5,987	5,027	11,237
4	Current Liabilities	Rs. in Million	2,320	2,983	1,577	3,573
5	Paid Up Capital	Rs. in Million	1,203	1,094	1,094	829
6	Reserves	Rs. in Million	18,341	16,761	16,289	18,061
7	No. of Ordinary Shares	Million	120.32	109.38	109.38	82.87
D)	RATIO ANALYSIS					
1	Gross Profit	%	40%	36%	42%	37%
2	Net Profit to Sales	%	25%	-16%	41%	202%
3	Earnings Per Share	Rs.	17.86	(14.80)	28.00	122.30
4	Inventory Turnover	Time	34.83	81.92	9.01	5.70
5	Age of Inventory	Days	10.48	4.46	40.61	64.04
6	Debtors Turnover	Time	1,433.6	1,171.4	1,095.4	1,383.24
7	Average Collection Period	Days	0.25	0.31	0.33	0.26
8	Operating Cycle	Days	10.73	4.77	40.95	64.30
9	Total Assets Turnover	Time	0.32	0.40	0.29	0.17
10	Fixed Assets Turnover	%	404.14	636.09	536.30	368.27
11	Break-up Value of Share	Rs.	162.43	163.23	158.91	227.95
12	Dividend Yield	%	2.52	2.22	1.13	0.76
13	Dividend Payout Ratio	%	28.00	(27.02)	8.93	3.24
14	Return on Equity	%	10.99	(9.98)	17.62	53.65
15	Debt Equity Ratio	Time	0.26	0.35	0.36	0.34
16	Current Ratio	Time	2.46	2.01	3.19	3.15
17	Quick Ratio	Time	1.59	1.24	2.01	2.51
18	Operating Profit Margin	%	44.49	0.52	39.74	210.56
19	Total Debt Ratio	Time	0.21	0.27	0.25	0.30
20	Interest Cover Ratio	Time	4.26	0.06	5.33	15.12
21	Dividend Cover Ratio	Time	3.57	(3.70)	11.20	30.88
22	Return on capital employed	%	15.57	0.23	12.27	41.14
23	EBITDA margin	%	46.88	1.87	66.53	230.52
24	Market Value per Share	Rs.	198.36	179.81	220.30	393.80
25	Market Capitalization	Rs. in Million	23,867	19,668	24,097	32,633
26	Price Earning Ratio	Times	11.11	(12.15)	7.87	4.25
E)	PRODUCTION					
1	Designed Production (for 12 months)	Thousand M.T.	445.50	445.50	445.50	445.50
2	Actual Production	Thousand M.T.	456.12	513.32	508.05	497.94
3	Capacity Utilization	%	102	115	114	112
4	Sales	Thousand M.T.	441.51	513.22	527.86	508.54
F)	OTHERS					
1	Employees	Nos.	564	576	478	474
2	Capital Expenditure	Rs. in Million	393.12	833.17	163.26	149.00
3	Contribution to the National Exchequer	Rs. in Million	783	1,003	1,059	857

For the Year Ended 31st December

2006	2005	2004	2003	2002	2001
3,882	3,291	2,699	2,983	2,810	2,851
1,312	1,260	818	1,060	1,010	745
2,052	2,777	1,176	1,721	1,132	823
2,903	3,534	1,663	1,810	1,214	906
2,266	3,201	1,464	1,686	1,131	823
2,054	2,868	1,240	1,379	793	595
80	85	105	100	95	100
Nil	15	Nil	Nil	50	20
1,347	690	530	464	334	400
6,292	5,733	2,001	2,758	2,487	1,869
8,510	6,364	9,757	6,180	2,267	2,111
6,672	3,345	4,379	2,994	520	758
829	721	721	721	480	480
8,444	8,635	7,114	5,645	4,010	3,055
82.87	72.06	72.06	72.06	48.04	48.04
34%	38%	30%	36%	36%	26%
53%	87%	46%	46%	28%	21%
24.79	34.61	17.21	19.13	11.01	12.38
12.80	17.46	21.90	17.08	14.18	12.96
28.52	20.91	16.71	21.38	25.74	28.16
1,221.98	499.03	364.09	475.90	384.43	342.46
0.30	0.73	1.01	0.77	0.95	1.07
28.82	21.64	17.72	22.14	26.69	29.23
0.24	0.26	0.22	0.32	0.55	0.65
381.00	539.10	543.08	748.09	766.02	696.90
111.90	129.83	108.72	88.34	93.47	73.58
2.71	3.32	5.34	5.69	7.09	13.70
32.27	24.56	61.01	52.26	86.29	80.78
22.15	30.66	15.83	21.66	17.67	16.82
Nil	Nil	Nil	Nil	Nil	Nil
1.28	1.90	2.23	2.06	4.36	2.79
1.08	1.54	1.95	1.61	2.99	1.78
52.86	84.39	43.57	57.69	40.29	28.87
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
21.62	29.41	14.85	26.85	24.78	22.71
74.79	107.40	61.63	60.67	43.21	31.78
295.00	256.00	196.50	175.60	134.00	73.00
24,446	18,447	14,159	12,653	6,437	3,507
11.90	7.40	11.42	9.18	12.17	5.90
445.50	445.50	445.50	445.50	445.50	445.50
446.70	428.78	351.12	430.60	414.62	381.95
100	96	79	97	93	86
437.73	405.67	361.20	436.83	415.31	396.82
485	472	481	498	525	533
740.65	235.84	328.15	189.81	11.00	42.00
773	665	724	857	767	615

Horizontal Analysis

Balance Sheet

Particulars	2005	2006	2007	2008	2009 Restated	2010
			Rs. in Million			
Share Capital and Reserves						
Issued, subscribed and paid up capital	720.58	828.66	828.66	1,093.83	1,093.83	1,203.22
Revenue reserves	6,728.43	8,204.37	17,841.62	20,415.40	16,756.87	18,205.35
Fair value reserve	1,906.24	240.11	219.05	(4,126.57)	3.98	135.76
Share holder's equity with FVR	**9,355.24**	**9,273.14**	**18,889.33**	**17,382.66**	**17,854.69**	**19,544.32**
Non Current Liabilities	87.10	217.89	6,760.55	6,670.36	6,516.30	5,362.05
Sub Total	**9,442.34**	**9,491.03**	**25,649.88**	**24,053.02**	**24,370.98**	**24,906.38**
Current Liabilities						
Current portion - long term loan				-	-	660.50
Short term financing - secured	2,334.90	5,924.51	2,281.43	70.14	1,196.60	45.72
Trade and other payables	631.69	490.45	512.95	538.13	648.23	694.72
Markup payable on secured loans	48.24	169.89	249.44	275.85	280.27	232.98
Provision for taxation	330.00	86.80	529.00	693.00	858.00	686.00
Sub Total	**3,344.83**	**6,671.65**	**3,572.82**	**1,577.12**	**2,983.10**	**2,319.93**
Total	**12,787.17**	**16,162.69**	**29,222.70**	**25,630.14**	**27,354.08**	**27,226.30**

Particulars	2005	2006	2007	2008	2009 Restated	2010
			Rs. in Million			
Assets						
Fixed capital expenditure	690.30	1,347.37	1,374.03	1,396.33	2,075.00	2,238.22
Long term investments	5,732.60	6,292.39	16,610.26	19,205.63	19,289.96	19,289.96
Long term loans and advances	0.64	12.80	1.11	1.26	2.42	1.68
Sub Total	**6,423.54**	**7,652.56**	**17,985.40**	**20,603.22**	**21,367.38**	**21,529.86**
Current Assets						
Stores, spares and loose tools	646.51	759.95	893.25	1,025.76	1,303.30	1,073.54
Stock in trade	164.43	237.30	867.51	89.57	83.28	216.12
Trade debts	3.85	2.50	4.74	8.82	10.03	2.13
Loans, advances, deposit, prepayments and other receivables including advance income tax	402.98	298.71	491.75	735.40	912.63	714.46
Short term investments	4,746.93	7,155.38	7,882.22	2,233.42	3,399.31	2,439.93
Cash and bank balances	398.92	56.29	1,097.82	933.94	278.15	1,250.26
Sub Total	**6,363.62**	**8,510.13**	**11,237.30**	**5,026.92**	**5,986.70**	**5,696.44**
Total Assets Employed	**12,787.17**	**16,162.69**	**29,222.70**	**25,630.14**	**27,354.08**	**27,226.30**

Percentage Change				
06 Over 05	07 Over 06	08 Over 07	09 Over 08	10 Over 09
15%	0%	32%	0%	10%
22%	117%	14%	-18%	9%
-87%	-9%	-1984%	-100%	3311%
-1%	104%	-8%	3%	9%
150%	3003%	-1%	-2%	-18%
1%	170%	-6%	1%	2%
154%	-61%	-97%	1606%	-96%
-22%	5%	5%	20%	7%
252%	47%	11%	2%	-17%
-74%	509%	31%	24%	-20%
99%	-46%	-56%	89%	-22%
26%	81%	-12%	7%	0%
		Percentage Change		
06 Over 05	07 Over 06	08 Over 07	09 Over 08	10 Over 09
95%	2%	2%	49%	8%
10%	164%	16%	0%	0%
1900%	-91%	14%	92%	-31%
19%	135%	15%	4%	1%
18%	18%	15%	27%	-18%
44%	266%	-90%	-7%	160%
-35%	90%	86%	14%	-79%
-26%	65%	50%	24%	-22%
51%	10%	-72%	52%	-28%
-86%	1850%	-15%	-70%	349%
34%	32%	-55%	19%	-5%
26%	81%	-12%	7%	0%

Vertical Analysis

Balance Sheet

Particulars	2005	2006	2007	2008	2009 Restated	2010
			Rs. in Million			
Share Capital and Reserves						
Issued, subscribed and paid up capital	720.58	828.66	828.66	1,093.83	1,093.83	1,203.22
Revenue reserves	6,728.43	8,204.37	17,841.62	20,415.40	16,756.87	18,205.35
Fair value reserve	1,906.24	240.11	219.05	(4,126.57)	3.98	135.76
Share holder's Equity with FVR	**9,355.24**	**9,273.14**	**18,889.33**	**17,382.66**	**17,854.69**	**19,544.32**
Non Current Liabilities	87.10	217.89	6,760.55	6,670.36	6,516.30	5,362.05
Sub Total	**9,442.34**	**9,491.03**	**25,649.88**	**24,053.02**	**24,370.98**	**24,906.38**
Current Liabilities						
Current Portion - Long Term Loan					-	660.50
Short term financing - secured	2,334.90	5,924.51	2,281.43	70.14	1,196.60	45.72
Trade and other payables	631.69	490.45	512.95	538.13	648.23	694.72
Markup payable on secured loans	48.24	169.89	249.44	275.85	280.27	232.98
Provision for taxation	330.00	86.80	529.00	693.00	858.00	686.00
Sub Total	**3,344.83**	**6,671.65**	**3,572.82**	**1,577.12**	**2,983.10**	**2,319.93**
Total	**12,787.17**	**16,162.69**	**29,222.70**	**25,630.14**	**27,354.08**	**27,226.30**

Particulars	2005	2006	2007	2008	2009 Restated	2010
			Rs. in Million			
Assets						
Fixed capital expenditure	690.30	1,347.37	1,374.03	1,396.33	2,075.00	2,238.22
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Cash and bank balances	398.92	56.29	1,097.82	933.94	278.15	1,250.26
Sub Total	**6,363.62**	**8,510.13**	**11,237.30**	**5,026.92**	**5,986.70**	**5,696.44**
Total Assets Employed	**12,787.17**	**16,162.69**	**29,222.70**	**25,630.14**	**27,354.08**	**27,226.30**

		Percentage			
2005	2006	2007	2008	2009	2010
6%	5%	3%	4%	4%	4%
53%	51%	61%	80%	61%	67%
15%	1%	1%	-16%	0%	0%
73%	57%	65%	68%	65%	72%
1%	1%	23%	26%	24%	20%
74%	59%	88%	94%	89%	91%
0%	0%	0%	0%	0%	2%
18%	37%	8%	0%	4%	0%
5%	3%	2%	2%	2%	3%
0%	1%	1%	1%	1%	1%
3%	1%	2%	3%	3%	3%
26%	41%	12%	6%	11%	9%
100%	100%	100%	100%	100%	100%

		Percentage			
2005	2006	2007	2008	2009	2010
5%	8%	5%	5%	8%	8%
45%	39%	57%	75%	71%	71%
0%	0%	0%	0%	0%	0%
50%	47%	62%	80%	78%	79%
5%	5%	3%	4%	5%	4%
1%	1%	3%	0%	0%	1%
0%	0%	0%	0%	0%	0%
3%	2%	2%	3%	3%	3%
37%	44%	27%	9%	12%	9%
3%	0%	4%	4%	1%	5%
50%	53%	38%	20%	22%	21%
100%	100%	100%	100%	100%	100%

Horizontal Analysis

Profit and Loss

Rs. in Million

Particulars	2005	2006	2007	2008	2009 Restated	2010
Sales - net	3,290.55	3,881.75	5,011.00	7,428.70	11,040.36	8,715.71
Cost of goods sold	2,030.60	2,570.25	3,148.55	4,312.46	7,080.46	5,214.37
Gross profit	**1,259.95**	**1,311.50**	**1,862.45**	**3,116.24**	**3,959.90**	**3,501.34**
Distribution expenses	(6.13)	(6.20)	(13.07)	(72.28)	(392.03)	(267.72)
Administrative expenses	(196.39)	(229.93)	(277.81)	(317.57)	(328.27)	(425.88)
Impairment loss	-	-	-	(100.31)	(3,791.09)	(2.39)
Other expenses	(56.50)	(70.51)	(74.37)	(183.93)	(159.51)	(115.87)
Other income	1,775.77	1,047.26	9,053.94	509.59	767.76	1,189.02
Result from operating activities	**2,776.70**	**2,052.12**	**10,551.14**	**2,951.74**	**56.76**	**3,878.50**
Finance cost	258.06	555.47	755.84	901.45	984.75	909.60
Share of profit from associate, net of tax	681.91	769.76	878.85	1,850.20	-	-
Profit / (Loss) before tax	**3,200.55**	**2,266.41**	**10,674.15**	**3,900.49**	**(927.99)**	**2,968.90**
Income tax expenses	(332.60)	(212.20)	(539.70)	(837.80)	(853.30)	(820.37)
Profit / (Loss) after tax	**2,867.95**	**2,054.21**	**10,134.45**	**3,062.69**	**(1,781.29)**	**2,148.53**
Earnings / (loss) per share (Rs.)	34.61	24.79	92.65	28.00	(14.80)	17.86

Vertical Analysis

Profit and Loss

Rs. in Million

Particulars	2005	2006	2007	2008	2009 Restated	2010
Sales - net	3290.55	3881.75	5,011.00	7,428.70	11,040.36	8,715.7
Cost of goods sold	2,030.60	2,570.25	3,148.55	4,312.46	7,080.46	5,214.37
Gross profit	**1,259.95**	**1,311.50**	**1,862.45**	**3,116.24**	**3,959.90**	**3,501.34**
Distribution expenses	(6.13)	(6.2)	(13.07)	(72.28)	(392.03)	(267.72)
Administrative expenses	(196.39)	(229.93)	(277.81)	(317.57)	(328.27)	(425.88)
Impairment loss	-	-	-	(100.31)	(3,791.09)	(2.39)
Other expenses	(56.5)	(70.51)	(74.37)	(183.93)	(159.51)	(115.87)
Other income	1,775.77	1,047.26	9,053.94	509.59	767.76	1,189.02
Result from operating activities	**2,776.70**	**2,052.12**	**10,551.14**	**2,951.74**	**56.76**	**3,878.50**
Finance cost	258.06	555.47	755.84	901.45	984.75	909.60
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Earnings / (loss) per share (Rs.)	34.61	24.79	92.65	28.00	(14.80)	17.86

For the Year Ended 31st December

Percentage Change				
06 Over 05	07 Over 06	08 Over 07	09 Over 08	10 Over 09
18%	29%	48%	49%	-21%
27%	22%	37%	64%	-26%
4%	**42%**	**67%**	**27%**	**-12%**
1%	111%	453%	442%	-32%
17%	21%	14%	3%	30%
-	-	-	3679%	-100%
25%	5%	147%	-13%	-27%
-41%	765%	-94%	51%	55%
-26%	**414%**	**-72%**	**-98%**	**6733%**
115%	36%	19%	9%	-8%
13%	14%	111%	-100%	
-29%	**371%**	**-63%**	**-124%**	**-420%**
-36%	154%	55%	2%	-4%
-28%	**393%**	**-70%**	**-158%**	**-221%**
-28%	274%	-70%	-153%	-221%

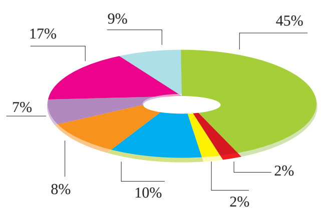
For the Year Ended 31st December

Percentage					
2005	2006	2007	2008	2009	2010
100%	100%	100%	100%	100%	100%
62%	66%	63%	58%	64%	60%
38%	34%	37%	42%	36%	40%
0%	0%	0%	1%	4%	3%
6%	6%	6%	4%	3%	5%
0%	0%	0%	1%	34%	0%
2%	2%	1%	2%	1%	1%
54%	27%	181%	7%	7%	14%
84%	53%	211%	40%	1%	45%
8%	14%	15%	12%	9%	10%
21%	20%	18%	25%	0%	0%
97%	58%	213%	53%	-8%	34%
10%	5%	11%	11%	8%	9%
87%	53%	202%	41%	-16%	25%

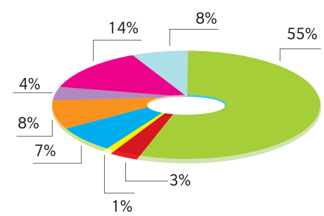
Statement of Value Addition

	2010 Rs. in '000	%	2009 Restated Rs. in '000	%
Value Additon				
Gross sales	8,741,005	88.03	11,061,481	93.51
Other income	1,189,023	11.97	767,762	6.49
	9,930,028	100.00	11,829,243	100.00
Value Distribution Cost of sales (excluding employees' costs)	4,471,358	45.03	6,441,276	54.45
Distribution expenses (excluding employees' costs)	196,575	1.98	345,407	2.92
Administrative expenses (including other charges and excluding employees' costs)	152,653	1.54	135,331	1.14
	349,228	3.52	480,738	4.06
Employees' costs				
- Salaries, wages, benefits and staff welfare	880,894	8.87	729,767	6.17
- Workers' profit particiaption fund	94,856	0.96	112,702	0.95
	975,750	9.83	842,469	7.12
Government				
- Income taxes	820,373	8.26	853,300	7.21
- Sales tax	25,294	0.25	21,120	0.18
- Workers' welfare fund	20,000	0.20	46,000	0.39
	865,667	8.72	920,420	7.78
To providers of Capital				
- Dividend to Shareholders	590,671	5.95	492,225	4.16
- Bonus shares	109,383	1.10	-	-
- Markup/interest on borrowed money	909,596	9.16	984,747	8.32
	1,609,650	16.21	1,476,972	12.48
Retained for reinvestment & future growth - Depreciation & retained profit	1,658,375	16.70	1,667,368	14.10
	9,930,028	100.00	11,829,243	100.00

2010



2009



- Cost of Sales
- Distribution expenses
- Administrative expenses
- Employees' costs
- Government
- Providers of Capital
- Retained in business
- Finance cost

Fueling Growth through

Capacity Building

People development, creating accountability, fostering a sense of ownership in all employees

Notice of Annual General Meeting

Notice is hereby given that the Forty-third Annual General Meeting of Dawood Hercules Chemicals Limited will be held at Avari Hotel, 87-Shahrah-e-Quaid-e-Azam, Lahore, at 1130 hours on Wednesday, 6th April 2011 to transact the following business:

ORDINARY BUSINESS:

1. To confirm the Minutes of the Forty-second Annual General Meeting held on Monday, 29th March 2010.

2. To receive, consider and adopt the Audited Accounts of the Company for the year ended 31st December 2010 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 2010 as recommended by the Board of Directors. This is in addition to the interim cash dividends of Rs. 4.00 per share (40%) already paid during the year.

4. To approve the issue of bonus shares in the ratio of 3 bonus shares for every 1 ordinary share held by the shareholders (300%) 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. 3,609,653,370/- (Rupees Three Billion Six Hundred Nine Million Six Hundred Fifty Three Thousand Three Hundred Seventy Only) be capitalized out of the un-appropriated profit of the Company and applied towards the issue of 360,965,337 ordinary shares of Rs. 10/- each as fully paid bonus shares to be allotted to the shareholders in proportion of 3 shares for every 1 existing ordinary share held by the members of the Company who are registered on the books of the Company on 25th March 2011 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 2010.

   For the purpose of giving effect to the foregoing, the Chief Executive Officer 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."

5. To appoint Auditors for the year ending 31st December 2011 and to fix their remuneration.

By Order of the Board

Karachi
17th February 2011

Aftab Ahmed Qaiser
Company Secretary

NOTES:

1. Closure of Share Transfer Books:

   The share transfer books of the Company will remain closed from Friday, 25th March 2011 to Wednesday, 6th April 2011 (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, 24th March 2011 will be treated in time for the purpose of above entitlements to the transferees.

2. 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.

3. 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.

4. Change of Address:

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

Fueling Growth through

Efficiency

Streamlining
of systems and
processes,
minimizing waste,
ongoing quality
improvement,
superior product

Directors' Report

The Directors of your Company are pleased to present their annual report and the audited financial statements for the year ended 31 December, 2010.

Principal Activities

The Company is engaged in the production, purchase and sale of fertilizers such as Urea and DAP.

Demerger

The Board of Directors of Dawood Hercules Chemicals Limited approved the demerger of its fertilizers undertaking and its transfer to a wholly owned subsidiary, DH Fertilizers Limited which was incorporated on 2 August 2010. This decision was taken keeping in view the business growth strategy and rationalization of business structures. As a result of this demerger, Dawood Hercules Chemicals Limited will become a Holding Company.

The announcement for demerger was made on 17 June 2010 and the Scheme of Arrangement and the Petition were filed in the Lahore High Court and the requisite approvals were obtained from the creditors and shareholders of the Company. The Lahore High Court on 27 January 2011 has given its approval for the demerger which is to become effective from 1 January 2011. After receipt of the written Court Order and its registration with the Registrar, Securities and Exchange Commission of Pakistan, the assets and liabilities etc. relating to the fertilizers operations will be transferred to DH Fertilizers Limited. As a result of demerger, the name of Dawood Hercules Chemicals Limited will be changed to Dawood Hercules Corporation Limited which will focus on exploring investment opportunities to facilitate the Group's growth.

Long Term Investment

Over the years, Dawood Hercules Chemicals Limited has made long-term equity investment in Engro Corporation Limited (previously Engro Chemical Pakistan Limited), which is substantial in monetary terms and strategic in nature. The idea was to enhance DHCL shareholder value by diversification through equity participation in a well established business with good growth prospects. It is a matter of great satisfaction that Engro Corporation Limited today is one of the premier holding companies of the country with a market cap of over Rs. 60 billion and investments in several diversified business lines which include fertilizers, PVC resin, food, power generation, liquid chemical terminal, industrial automation and commodity trade. Its fertilizer subsidiary has more than doubled its manufacturing capacity by putting up the world's largest single train urea plant, which is now ready for commercial production. Other businesses of Engro Corp. are also doing well. and this augurs well for the shareholders of DHCL.

Business Review

Global Economic Context

The global recession of 2008/09, which spread to almost all parts of the world, resulted in business and consumer confidence declining to unprecedented low levels. Since mid-2009 the global economy has been growing slowly and according to the International Monetary Fund (IMF), world output, following a 0.6% contraction in 2009, is expected to increase by 4.3% in 2011.

In response to relatively stable supply/demand conditions since the beginning of 2009, international cereal prices in 2010 have remained fairly constant. The 2010 world cereal output was expected to reach a new record at 2.28 billion metric tons (Bt), according to FAO signifying a 1.5-2.0% increase over 2009. Global fertilizer demand in 2010 was expected at 164.1 million tons nutrients which would have meant an overall 5% growth over 2009.

In the medium term, increase in agricultural production will be required to meet global demand for food, feed, fiber and bio-energy. With limited expansion in cultivated land over the next five years in South America, Sub-Saharan Africa, and South Asia, yield gains would be the key.

Fertilizer Demand and Supply - Global

Global production capacity for Urea during 2010 was 15% higher than 2009 and stood at 179 million tons. In 2011, global production capacity would be around 188 million tons while actual production is expected to be about 163 million tons - 87% capacity utilization.

Demand for Urea stood at 146 million tons in 2009 and increased to 152 million tons in 2010. In the medium term, the positive agricultural outlook is expected to stimulate fertilizer demand. In 2011, it is expected to rise by about 6 million tons to reach 158 million tons and then continue rising at the rate of 3.1% p.a. to reach 175 million tons by the end of 2014.

Renewed focus is observed among farmers in P and K fertilizers in order to maintain or improve the soil fertility. In 2010/11, demand is likely to continue to rise at the rate of about 5% and growth rates of 4.5% for P and 18% for K fertilizers are anticipated.

Capacity growth in the short to medium term is seen as expanding at a slower pace than projected earlier. Several new projects have been announced for the near term since many countries continue to promote new capacity and to foster self-sufficiency. Global urea capacity is forecast to grow by 51.3 Mt, or 30% over 2009, to reach 222 Mt in 2014.

The demand for DAP at the global level is expected to increase at a CAGR of 4% from 30 million tons in 2010 to 34 million tons in 2014. Any increases in capacity are deemed to be absorbed by demand rising at 4% p.a. South Asia (essentially Bangladesh, India and Pakistan) is expected to become the world's leading importing region, with expanding import demand through 2014, particularly for DAP. It will rank as the world's second largest potash importing region, with imports exceeding 5 million tons in 2014.

Urea & DAP in Pakistan:

While demand for Urea in Pakistan declined by 6% in 2010 compared to 2009 levels, it is expected that in 2011 the demand would bounce back to reach closer to the 2009 level of about 6.5 million tons. Factors that contributed towards the depression in 2010 included the unprecedented rains and ensuing floods along with the emergence of Cotton Leaf Curl Virus (CLCV) in the peak urea application period of August. It may also be mentioned that the unusual growth in 2008 (12%) and 2009 (18%) versus a long term compound average growth rate of 4% also had a negative bearing on 2010 urea performance in the country.

Domestic production of Urea of 5.2 million tons in 2010, which was restricted by gas curtailment for the most part of the year, was marginally above 2009 output of 5 million tons. This changed market sentiment from long to short supply, especially in Q4 2010. Capacity additions to the tune of about 2 million tons urea equivalent were made in 2010.

DAP off take in the domestic market faced a sharp decline in 2010 following high off take in 2009 compounded by the effect of crop damage. DAP consumption surge was directly related to the increase in wheat support price by the Government in 2009. DHCL market share of DAP was around 5%.

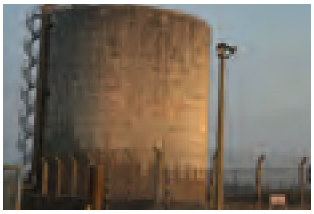
Health, Safety, Environment & Quality

Sustained performance is not possible without exercising due care in our operations for Health, Safety and the Environment (HSE). The protection of HSE is therefore one of our core values and translates into a vital concern for the health and safety of our employees and those we work with, as well as for the environment and the welfare of the communities in which we operate. As a measure of the Company's renewed commitment to HSE, the Board of DHCL has issued a revised HSE policy during 2010 which has been signed off by Board Members individually.

HSE Vision

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

At DHCL, HSE excellence means working toward an accident and injury free workplace, integrating HSE into operations, and using our HSE programs to provide competitive advantage. We are working continuously to improve in each of these areas in order to achieve our HSE Vision.



HSE Strategy

We will achieve our Vision by:

- Conducting business in a manner that protects public and occupational health, the environment and employee 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, neighbors and stockholders about managing health, safety and environmental issues.

DuPont Safety Project

From a safety performance perspective, we have undertaken a very important step in 2010 towards up -gradation of our safety standards. The Company signed a 3-year contract with Messrs. DuPont, who are internationally acknowledged as leaders in safety management, in order to align of our safety management system with best practice in this area.

The purpose of the DuPont Project is cultural transformation by adopting behavioral safety management and process safety management to achieve 'world class' performance. There are three phases of DuPont project; Safety Management Evaluation (SME), Behavioral Safety Management and Process Safety Management. DuPont Best Practices comprise of 22 elements and for each of these, team leaders have been appointed. The project was inaugurated on 5 May 2010 and so far 36% of project deliveries have been completed.

HSE Performance in 2010

Our performance/achievements during the year, apart from progress in the Dupont Safety Project, are summarized below:

- AEEA-2010 Award: The Company participated in the 7th Annual Environmental Excellence Award 2010 regarding environmental performance at our workplace. Our company consecutively won this prize a second time.
- IFA Benchmarking: The Company participated in International Fertilizer Industry Association (IFA) Safety Benchmarking for LTIR (Lost Time Injury Rate) for the year 2009 data. Our company has been rated at position # 5.
- TRIR (Total Recordable Incident Rate) of DHCL employees was 0.36 and that of the contractors was 0.34.
- Annual Surveillance audit 2010 of ISO-14001 (Environment) and OHSAS-18001 (Safety) standards conducted by MOODY International. There was no major or minor nonconformance.
- 48 Management employees were trained by DuPont consultant (SMAT Workshop) on behavioral audit and to report safe / unsafe / near-miss incidents. BO (Behavioral Observations) audits are being conducted as per schedule. As a result, reporting of unsafe acts and near misses has improved appreciably.
- As a part of Green DHCL project, a total of 1950 trees of different types including fruit trees have been planted.
- Earth Hour, World Environment Day, and No Smoking Day were celebrated.
- Health and Safety Week was celebrated in which health awareness session, safety presentations, and safety videos shows were held at the plant site and head office. During the week, safety improvement points, safety slogans, and safety awareness competitions were held.

Unfortunately, one LWI incident occurred during the year and as a result the ongoing 8.2 million safe man-hours record, spanning over eight years of safe operations, was lost.

Projects

Gas Turbine and HRSG

Gas Turbine and Heat Recovery Steam Generator (HRSG) co-generation were successfully commissioned early 2010, resulting in a saving of approximately 2.8 MMSCFD Fuel Gas along with risk mitigation in the event of breakdown of Turbo Generators.

Double Walled Ammonia Tank

Fabrication and Installation of new Double-walled Ammonia Storage Tank is scheduled to be completed and commissioned in the 1st Quarter 2011, is in final stages.

Energy Conservation Projects

Following projects for energy conservation are under active consideration:

1. Installation of 124-C in series with 1124-C at Ammonia plant.
2. Replacement of Turbines (104-JT & JAT).
3. Installation of Rich Reflux Reboiler (E-6) at Catacarb system.
4. Installation of Kettle Reboiler (E-4) at outlet of LTS.
5. Installation of Three Bed Basket at Ammonia Converter.

Employee Development

A structured plan has been initiated to strengthen the HR systems and processes based on best practices and methodologies to attract, develop and retain quality human resources. Following is a brief description of HR related initiatives/activities undertaken during the year:

Organizational Re-structuring

A consolidated restructuring of the Agri. Business was undertaken to enhance efficiency and build capacity through hiring of qualified and experienced marketing professionals. This restructuring will be complemented with investment in technology so that the organization is positioned to embrace emerging opportunities. Apart from focusing on the core business of the company, the Agri. Business will also explore other business avenues for generating new revenue streams. Furthermore, the management structure at the plant has been rationalized by reducing hierarchical layers.

Selection and Recruitment

During the year, hiring of professionally qualified and experienced individuals was made to address capacity gaps and to add value to the working of the various departments.

Necessary groundwork was completed for a structured pre-employment online assessment testing with three tiers of tests. Each assessment comprises of four components: English Language, Analytical Skills, Intelligence Quotient and IT Skills. This assessment will be rolled out from the beginning of 2011 as an additional tool for recruitment purposes.

Induction process for the Company's training schemes has also been revamped. A credible outside Agency has been engaged for processing pre-employment testing. The objective is to make the whole process more transparent and effective.

Training and Development

The Company continues to invest in the professional development and capacity building of its employees. Various in-house and external training programs, seminars and workshops in the areas of management, plant operation and maintenance, information technology and finance were arranged. A total of three hundred and thirty five employees attended.

The ongoing DuPont safety alignment initiative requires a behavioral and cultural change to set up a 'world class' safety environment in the organization. This necessitates extensive and ongoing training of the employees. A number of training sessions were conducted by DuPont consultants for element leaders and other stakeholders.

The company has an institutionalized training centre at its plant site, which trains young graduates in various technical disciplines. The following table gives a snapshot of these schemes:

Future Outlook

The Company intends to further invigorate the HR function during the upcoming year. A job evaluation exercise through an international consultancy firm will be initiated for making the compensation structure more equitable and performance driven. We then plan to revisit and update our HR policies accordingly. This will reflect market aligned equal opportunity, meritorious and legally compatible HR policies and procedures. Together with this, the Performance Management System will be revamped to make it goal oriented and encourage participative management. This will link individual performance with business objectives and rewards with results. On the basis of these initiatives, a simple, competitive and equitable compensation and benefits structure, offering a combination of monetary and non-monetary rewards and incentives to attract, reward and retain top talent, will be implemented.

Training Program	Scheme started on	Training Duration	Qualification	Total Trainees inducted so far
Graduate Engineers Training Program (GETP)	01-08-1975	1 year	B.Sc Engineering M.Sc Analytical Chemistry	494
Operator Training Scheme (OTS)	24-9-1977	1.5 years	F.Sc, B.Sc, DAE (Chemical)	333
Diploma Apprentices Training Scheme (DAE)	24-03-1977	2 years	3 year diploma from Polytechnic Institute	217
Matriculate Training Scheme. (MAS)	02-11-1974	3 years	Matric (Science)	423

Industrial Relations

The relations between DHCL management and the CBA have been exemplary throughout the forty-year history of the Company and industrial peace and harmony were maintained during 2010. A total of nineteen settlements have been negotiatedbetween CBA and the Management in a peaceful and amicable manner. The CBA and the workmen have always made proactive contribution towards achieving operational excellence. The 20th Settlement was finalized with the CBA recently.

Corporate Citizenship

In order to demonstrate responsibility towards the community and the employees of the company, Corporate Social Responsibility (CSR) is increasingly becoming one of the major yardsticks for judging a company's performance. The goal of CSR is to embrace responsibility for the company's actions and encourage a positive impact through its activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere.

As a responsible corporate entity, we continue to establish an enabling and high energy environment where employees get opportunities for decent work and personal and professional growth. We understand our social obligations and consider ourselves as a part of local, social, cultural and economic life and are always willing to give back to the communities in which we work and live.

Internal Perspective

Adherence to the principles of good corporate governance, adoption of best practices in all our activities, compliance with the highest standards of safety, an ethical approach and an enabling work environment are the distinguishing characteristics of our organizational culture.

We have taken a major business decision to align our processes with the 'world class' safety benchmarks of the DuPont Safety Management System. Our goal is to establish and maintain highest possible safety standards to ensure the wellbeing of our people and operations.

As a company committed to protecting the environment, we conduct our business in a manner that avoids harming public and occupational health and the surrounding environment. State of the art facilities have been set up to mitigate any risk to the environment.

External Perspective

Health, education, environment and calamity relief are the focus areas of our social efforts. Following is a summary of the CSR activities undertaken by the company during 2010:

Health

Eye Camps:

Weekly free eye camps have made a significant impact in the lives of poor people in villages adjacent to our manufacturing facility in Sheikhupura. Since November 2007, a total of 49,701 patients have obtained quality treatment for various eye ailments. The Company also sponsors cataract operations, which are carried out in a reputable eye hospital in Lahore. Free transportation and food are provided to these patients. The numbers below provide details of the activity.

	2009	2010	Total since inauguration
Camps held	44	48	198
Visits recorded	12,504	11,905	49,701
Cataract surgeries	615	503	2,174

Health Camps for Women:

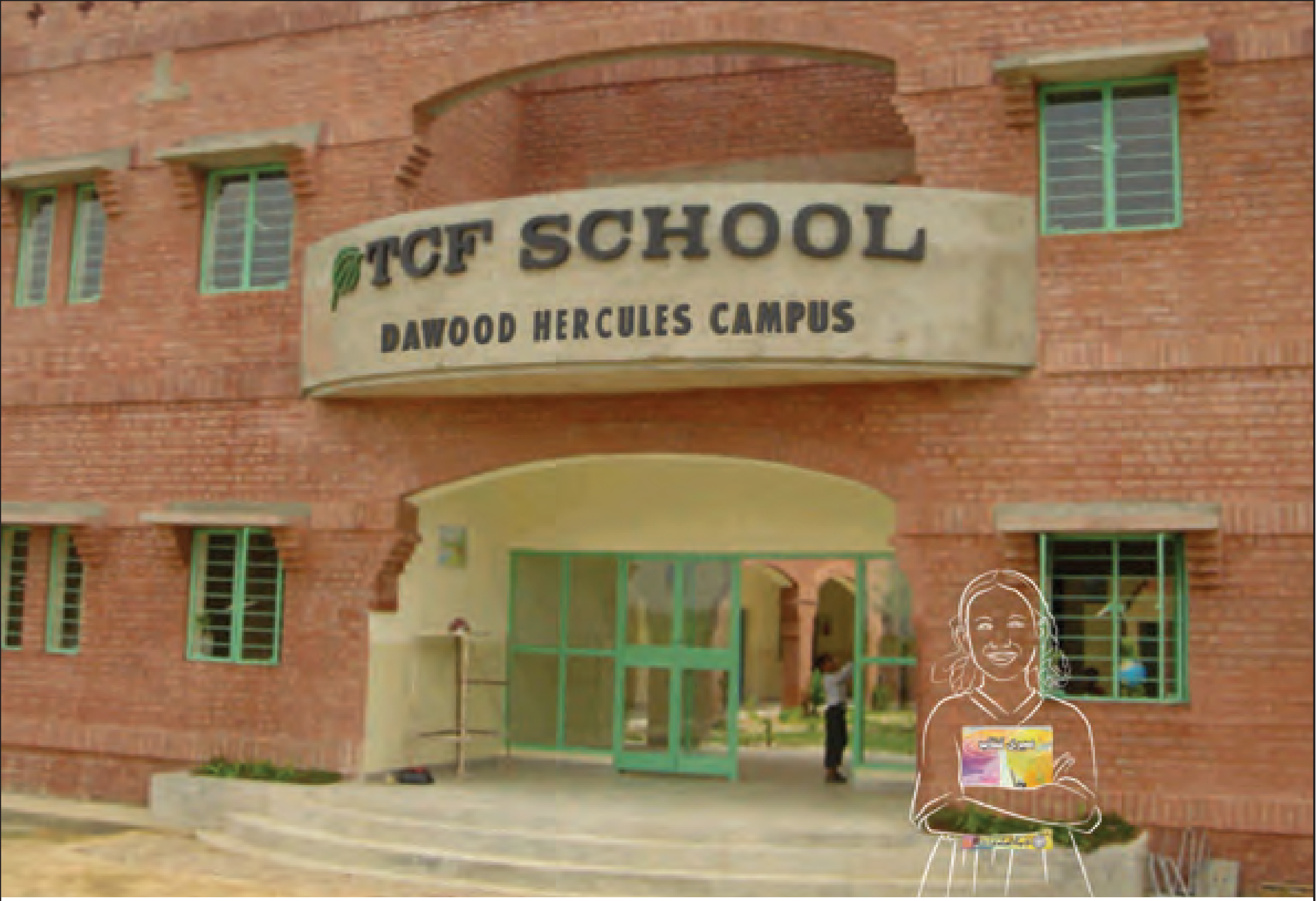
The segment of society that is most affected by poverty is women, especially those living in rural areas where medical facilities are scarce. In May 2008 the Company started free health camps for women on a weekly basis. The patients are provided free consultation, medicines and ultrasound facility. The following numbers reflect the success of this initiative.

	2009	2010	Total since inauguration
Camps held	49	47	124
Visits recorded	8,690	8237	20502

Education

TCF School-Dawood Hercules Campus:

A school set up by Dawood Hercules in collaboration with The Citizens Foundation is providing quality education to under-privileged children living in the areas near the Plant. A total of 368 students are currently enrolled in various grades up to level six. The company has also installed a water treatment plant at the campus to arrange supply of clean and healthy drinking water.



Vocational Education & Training

In collaboration with Aabro Educational Welfare Organization, Dawood Hercules sponsored two vocational training courses for young boys living in the outskirts of Lahore. Five batches of sixteen students each completed one hundred hours of training in mobile phone repairing. Another five batches of sixteen students each completed one hundred hours of training in repairing of home appliances. This vocational training has enabled a total of one hundred and eighty young boys to acquire practical skills that would enable them to make a positive impact in the lives of their families.

Environment

Tree Plantation Drive:

Thirty seven thousand trees planted on the land adjacent to the Plant have not only made the landscape beautiful but is also contributing towards reducing pollution in the area.

Flood Relief Efforts

The floods that played havoc with the lives of millions of our fellow Pakistanis during 2010 were one of the worst calamities in the country's history. The Company also played its part to help mitigate the effects of this tragedy. Relief goods were dispatched to the affected areas of Balochistan for distribution among the people there.

Results of the Year

Sales Performance

The year 2010 was marked by severe gas curtailment during the year resulting in significant production loss. On the other hand, unprecedented widespread floods during the summer badly affected the economy and the fertilizer market. As a result of the above factors, the Company sold only 441,510 M. tons of Urea during the year as compared to 513,221 M. Tons last year.

Because of the adverse situation of the DAP market during most of 2010, the Company imported only one shipment of DAP against three the year before. The sale of imported DAP, therefore, was also much lower than that of the previous year.

Market Share of Urea

The Company's market share including imported urea was slightly over 7% for the year 2010, as shown in the data produced by the National Fertilizer Development Corporation (NFDC), Islamabad.

Plant Performance

The plant has been operating smoothly and there was less than two day's closure due to equipment failure during the whole year.

The Company, however, could produce only 456,120 M. Tons of urea during 2010 as against 513,315 M. Tons in 2009. This shortfall in production is attributable entirely to the unprecedented gas curtailment imposed by the Government during the last eight months of the year. Fertilizer plants on Sui networks were subjected to 20% gas curtailment from the last week of April 2010 and it was not restored till the end of the year. The management is constantly trying to make the Plant operations more and more energy efficient to mitigate, as far as possible, the loss on account of gas curtailment.

Summary of Key Operating & Financial Data

The summary of the operating results of the Company for the year 2010 along with comparatives for the year 2009 are as under:

			Rupees in Million
Sr. No.	Particulars	2010	2009 (Restated)
1	Sale	8,716	11,040
2	Gross Profit	3,501	3,960
3	Impairment Loss on investments	2	3,791
4	Results from operating activities	3,878	57
5	Profit/(Loss) for the year from continuing operations	2,149	(1,781)
6	Earnings/(Loss) per share (Rupees)	17.86	(14.80)

Cash and Capital Investments

The following is an abridged statement of funds generated and applied during the year as compared to year 2009:

			Rupees in Million
Sr. No.	Particulars	2010	2009 Particulars
1	Sources of Funds	4,264	4,221
2	Less: Application of Funds	3,292	4,877
3	Increase/(Decrease) in cash and cash equivalents	972	(656)

The Company follows a pro-active approach of efficiently 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 2010 were Rs. 17.86 as compared to a loss of Rs. (14.80) per share (restated due to change in accounting policy) for the year 2009. The main adverse factor in the previous year was the impairment loss on short-term investments.

Market Capitalization

At the close of the year, the market capitalization was Rs. 23,868 million (2009: Rs 19,668 million), with a market value of Rs. 198.36 per share and break-up value of Rs. 162.77 per share.
The highest value of the share during the year reached Rs. 240.02 on 2 April 2010 and the lowest price was Rs. 151.81 on 1 June 2010.

Net Worth

The net worth of the Company on a Stand Alone Basis was Rs. 19,584 Million at the close of 2010 as against Rs. 17,895 Million last year; an increase of 9%.

Appropriations

During the year, the Board declared two interim cash dividends totaling Rs. 4.00 per share (40%), at the end of second and third quarter respectively.

In addition to the above, the Board has recommended a final cash dividend of Re 1.00 per share (10 %) and a stock dividend of three shares for one share held (300 %) for approval by the shareholders in the 43rd Annual General Meeting, making a total distribution of 350 % for the year.

Contribution to the National Exchequer and Economy

Dawood Hercules is one of the leading contributors to the National Exchequer. During the year the Company paid an aggregate sum of Rs. 783 million (2009: Rs. 1,003 Million) as taxes and levies. Furthermore, the Company's contribution to the National Exchequer as a withholding tax agent under different provisions of Income Tax Ordinance, 2001 amounted to Rs. 159 Million (2009: Rs. 139 Million).

Contribution to National Economy

The Company's contribution to the national economy by way of value addition was Rs.4,722 Million (2009: Rs. 1,579 Million). The beneficiaries were: the Government; receiving Rs.783 Million (2009: Rs. 1,003 Million), the Company employees; Rs.881 Million (2009: Rs. 730 Million), the shareholders; Rs.700 Million (2009: Rs. 492 Million) and the provider of Capital Rs.910 Million (2009: Rs. 985 Million). The amount of Rs. 1,448 Million (2009: Rs. (1,631) Million) was retained in the business.

Related Party Transaction

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 were reviewed by the Audit Committee and approved by the Board of Directors in their respective meetings.

Accounting Standards

The accounting policies of the Company fully reflect the requirements of the Companies Ordinance 1984 and the approved International Accounting Standards and International Financial Reporting Standards as have been notified through directives issued by the Securities and Exchange Commission of Pakistan.

Change in Accounting Policy

During the year the Company has changed its accounting policy relating to the measurement of investments in associate as required under IAS-28 “Investment in associate” and IAS-27 “Consolidated and separate financial statements”. This change has been necessitated because of incorporation of a subsidiary company, DH Fertilizers Limited. The foregoing has been explained in detail in Note 2.2 of the Financial Statements.

Had there been no change in accounting policy, the profit for the year would have been higher by Rs. 1.10 billion, investment by Rs. 3.48 billion, deferred taxation by Rs. 0.348 billion and earnings per share by Rs. 9.14.

Statement of Ethics and Business Practices

The Board has adopted the Statement of Ethics and Business Practices. The statement has been signed by all the directors and employees of the Company and all employees have been informed and are required to observe the Rules of Conduct in relation to business and its regulations.

Compliances with Secretarial Practices

The Company Secretary has 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.

Awards & Accolades

KSE Top 25 Companies Award

The Company was ranked amongst the Top 25 Companies for the Karachi Stock Exchange (KSE) Top Companies Award for the year 2009. The competition is held every year by the KSE to acknowledge the best performing companies and we feel pleased to inform that this award is DHCL's 11th award in the last 15 years.

Best Corporate Report Award 2009

The Annual Report 2009 of the Company was one of the 5-Best Reports in the Chemical and Fertilizer sector, as assessed by the Joint Committee of the Institute of Chartered Accountants of Pakistan (ICAP) and the Institute of Cost and Management Accountants of Pakistan (ICMAP). The Committee selects and awards five best Annual Reports from each sector on the basis of pre-announced comprehensive criteria. The Company has won this award for the 5th consecutive year.

National Environment Excellence Award 2010

Each year, the National Forum for Environment and Health gives the Environment Excellence Award at national level to participants from different sectors. The environmental performance is analyzed by an independent sector specialist, on the basis of the criteria set by NFEH. Dawood Hercules started participating in 2009 and has won the National Environment Excellence Award for years 2009 and 2010.

Business Risks & Challenges

The company uses a structured approach in identifying, assessing and frustrating the threats to its business through its risk management system. The Board of Directors has the overall responsibility for risk management. The Board oversees the process of identification of risks and execution of their mitigation plans by the management. Following are the main risks faced by the Company:

- **Manufacturing Risk**
  The Company's manufacturing risks include obsolescence, innovation, excessive gas curtailment, energy crisis, acts of terrorism, and fire to its assets.

- **Marketing Risk**
  After commissioning of large scale new capacity in the country, the Company's market share of Urea will reduce and competition will increase in near future. Unplanned import of urea is another marketing risk.

- **Financial Risk**
  The Company is exposed to equity risk, interest rate risk, currency risk, commodity risk and the risk of withdrawal of feed gas subsidy.

- **Financial Market Risk**
  The Company is exposed to 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 rates and commodity prices.

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

- **Environmental Risk**
  Environmental risks include natural disasters, fires, excessive ammonia leakages, and EPA environmental legislations.

Provident Funds and Gratuity Fund

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. 778 million. Fair value of the assets of the funded defined benefit gratuity plan for management staff was Rs. 108 million as at 31 December 2010, according to the actuarial valuation, whereas the value of assets of defined contribution gratuity plan for non-management staff was Rs. 44 million as on 30 June 2010.

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 43rd Annual General Meeting, as auditors of the Company for the year ending 31 December 2011.

Pattern of Shareholding

The Pattern of Shareholding of the Company as at 31 December 2010, together with other necessary information, is available at the end of this report along with the proxy form.

Board of Directors

Statement of Directors' Responsibilities

The Directors confirm compliance with Corporate and Financial Reporting Framework of SECP Code of Corporate Governance for the following:

1. The financial statements, prepared by the management of the Company, present fairly its state of affairs, the result of its operations, cash flows and change in equity.

2. Proper books of accounts of the Company have been maintained.

3. Appropriate accounting policies have been consistently applied in preparation of the financial statements except for changes resulting on initial application of standards, amendments or interpretations to existing standards and reclassification of capital spares. Accounting estimates are based on reasonable prudent judgment.

4. International Accounting Standards, as applicable in Pakistan, have been followed

in preparation of the financial statements and any departures therefrom have been adequately disclosed.

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

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

7. There is no material departure from the best practices of corporate governance, as detailed in the listing regulations.

Board Composition

The Board comprises of ten Directors.

Changes in the Board

During the year, Messrs. Aleem A. Dani, A.G. Gohar, Haroon Mahenti and Khawaja Amanullah resigned from the directorship of the Company on account of personal reasons. The Board would like to place on record its appreciation for the dedication, commitment and valuable contributions made by them as members of the Board.

The Board welcomes Messrs. M. Abdul Aleem, Javed Akbar, Parvez Ghias and Inam-ur-Rahman who joined the Board for the remainder of the term expiring on 28 April 2011, in place of the outgoing Directors.

The casual vacancies which occurred during the year, were filled within the statutory period in accordance with the Listing Regulations. All the Directors have signed declaration of awareness of their powers, duties and liabilities under the rules and regulations.

Change of Chief Executive Officer

After successfully managing the affairs of the Company for five years, Mr. Shahzada Dawood relinquished the charge of Chief Executive Officer and Mr. Isar Ahmad assumed the responsibilities with effect from 1 July 2010 as the new CEO of the Company.

The Board wishes to place on record its appreciation for the contributions made by Mr. Shahzada Dawood in the areas of increased production, sales and profitability as well as the strengthening of safety culture across the organization. He will continue to serve on the Board of the Company.

The Board welcomes Mr. Isar Ahmad as the new CEO of the Company and wishes him success in this role. Mr. Isar has diversified experience of working in leadership positions in numerous local and multinational organizations.

Demise of Director Khawaja Amanullah

The Board, management and the employees of the Company are deeply grieved at the sudden demise of their Senior Director Khawaja Amanullah, who had retired and relinquished charge in early 2010. An iconic figure of top management, Khawaja Amanullah's contributions towards the development of the Dawood Group and to the agricultural sector of Pakistan are reflective of his outstanding all around capabilities. Khawaja Sahib was renowned as an exemplar of great personal integrity who mentored many and inspired all with his truthfulness, trustworthiness and remarkable human qualities. He achieved the distinctive combination of being a meritorious high achiever with a beautiful sense of humility.

We pray that Almighty Allah in His infinite mercy blesses the departed soul with Paradise; Aameen.

Board Meetings & Attendance

Seven meetings of the Board were held during the year 2010, 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.

Attendance by each Director was as follows:

Name of the Director	Meetings Attended
Mr. Hussain Dawood	7/7
Mr. Isar Ahmad	7/7
Mr. Javed Akbar	6/6
Mr. M. Abdul Aleem	5/6
Mr. Khawaja Amanullah	0/1
Mr. S.M. Asghar	6/7
Mr. A. Samad Dawood	6/7
Mr. Shahzada Dawood	5/7
Mr. Parvez Ghias	6/6
Mr. A.G. Gohar	1/1
Mr. Haroon Mahenti	1/1
Mr. Shahid Hamid Pracha	6/7
Mr. Inam-ur-Rahman	6/6

Business Risks & Future Outlook

Gas curtailment is a major issue faced by the Company along with other fertilizer plants on the Sui networks. In the backdrop of 20% gas curtailment during the last 8 months of 2010, the year 2011 has started with complete gas shut down for 45 days, the longest ever winter gas stoppage. The gas supply has been started from 9 February 2011. Apart from the fact that fertilizer is the only industry that uses gas as raw material and provides the largest value addition to the molecule, the gas curtailment has resulted in an increase in the input cost of the farmers. In order to mitigate the lower availability of locally produced Urea, the Government has to resort to the import of more expensive Urea to ensure its availability. It is earnestly hoped that the Government will consider the full restoration of gas to the fertilizer industry.

On its part, the Company is looking at all possibilities of further improving the energy efficiency of its operations. The Company also plans to review its marketing strategy and improve its distribution management by investing in systems and automation. As a result of the de-merger and after the written Court Order is received, the fertilizer operations from 1 January 2011 onwards will be transferred to DH Fertilizers Limited, a 100% owned subsidiary of DHCL. DHCL as a holding company will manage the investment portfolios and will be better geared to explore new avenues of investment to enhance shareholder value.

Acknowledgement

The Board expresses its gratitude to all the shareholders for their confidence in these challenging times.

We would like to thank all stakeholders, including but not limited to financial institutions and those who have been associated with us, for their support and co-operation and assure our commitment to look after their respective interests.

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

On behalf of the Board

Hussain Dawood
Chairman

Isar Ahmad
Chief Executive

February 17, 2011

Financial Statements

Statement of Compliance with the Code of Corporate Governance

This statement is being presented to comply with the requirements of the Code of Corporate Governance contained in the listing regulations of Karachi, Lahore and Islamabad Stock Exchanges of Pakistan 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 on its Board of Directors. At present the Board comprises of ten Directors, which includes three independent non-executive Directors.

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

3. All the 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. Casual vacancies occurred in the Board during the year 2010 were filled within the statutory period.

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 CEO, have been taken by the Board.

8. During the year seven 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. The Board encourages the participation of its Directors and Executives in the orientation courses 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 CEO. However, no new appointment of Chief Financial Officer (CFO), Company Secretary and Head of Internal Audit were made during the year.

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

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

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

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

16. The Board has formed an audit committee. It comprises of four directors out of which three are independent 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, 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. During the year, the Head of Internal Audit function resigned. The new Head of Internal Audit function has been hired and will join the Company shortly.

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.

Hussain Dawood
Chairman

Isar Ahmad
Chief Executive

Karachi
February 17, 2011

KPMG Taseer Hadi & Co.
Chartered Accountants
53 L Gulberg III
Lahore Pakistan

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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, Islamabad and Lahore 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 the 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 transaction carried out on terms equivalent to those that prevail in arm's length transactions and the 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 undertaken 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 for the year ended 31 December 2010.

KPMG Taseer Hadi & Co.

Lahore
Date 17 February 2011

KPMG Taseer Hadi & Co.
Chartered Accountants
(Bilal Ali)

KPMG

KPMG Taseer Hadi & Co.
Chartered Accountants
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Auditors' Report to the Members

We have audited the annexed balance sheet of Dawood Hercules Chemicals Limited ("the Company") as at 31 December 2010 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 the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

a) in our opinion, proper books of accounts 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 the change 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 2010 and of the profit, 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 an Ushr Ordinance, 1980, was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

KPMG Taseer Hadi & Co.

Lahore
Date 17 February 2011

KPMG Taseer Hadi & Co.
Chartered Accountants
(Bilal Ali)

Profit and Loss

For the year ended 31 December 2010

	Note	2010 Rs '000	2009 Rs '000 Restated
Continuing operation			
Sales-net	5	8,715,711	11,040,361
Cost of sales	6	(5,214,376)	(7,080,457)
Gross profit		3,501,335	3,959,904
Distribution expenses	7	(267,724)	(392,030)
Administrative expenses	8	(425,878)	(328,272)
Impairment loss		(2,391)	(3,791,096)
Other operating expenses	9	(115,866)	(159,508)
Other operating income	10	1,189,023	767,762
Results from operating activities		3,878,499	56,760
Finance cost	11	(909,596)	(984,747)
Profit/(loss) before tax		2,968,903	(927,987)
Income tax expenses	12	(820,373)	(853,300)
Profit/(loss) for the year from continuing operation		2,148,530	(1,781,287)
Profit/(loss) attributable to owners of the Company		2,148,530	(1,781,287)
Earnings/(loss) per share - basic and diluted	31	17.86	(14.80)

The annexed notes 1 to 37 form an integral part of these financial statements.

Hussain Dawood
Chairman

Isar Ahmad
Chief Executive

Statement of Comprehensive Income

For the year ended 31 December 2010

	Note	2010 Rs '000	2009 Rs '000 Restated
Profit/(loss) for the year		2,148,530	(1,781,287)
Adjustment arising from measurement to fair value of investments		131,780	339,463
Total comprehensive income/(loss) for the year		2,280,310	(1,441,824)

The annexed notes 1 to 37 form an integral part of these financial statements.

Hussain Dawood
Chairman

Isar Ahmad
Chief Executive

Balance Sheet

As at 31 December 2010

	Note	2010 Rs '000	2009 Rs '000 Restated
LIABILITIES			
Share capital and reserves			
Authorized capital			
1,000,000,000 ordinary shares of Rs. 10 each		10,000,000	10,000,000
Issued, subscribed and paid up capital	13	1,203,217	1,093,834
Revenue reserves		18,205,346	16,756,870
Fair value reserve		135,765	3,985
		19,544,328	17,854,689
Non-current liabilities			
Long term loans	14	5,042,000	6,302,500
Deferred taxation	15	268,464	169,200
Staff retirement and other service benefits	16	51,590	44,595
		5,362,054	6,516,295
Current liabilities			
Current portion - long term loan	14	660,500	-
Short term financing - secured	17	45,725	1,196,603
Trade and other payables	18	694,717	648,229
Accrued markup		232,983	280,268
Provision for taxation		686,000	858,000
		2,319,925	2,983,100
Contingencies and commitments	19		
		27,226,307	27,354,084

The annexed notes 1 to 37 form an integral part of these financial statements.

Balance Sheet

As at 31 December 2010

	Note	2010 Rs '000	2009 Rs '000 Restated
ASSETS			
Non-current assets			
Property, plant and equipment	20	1,871,708	1,340,588
Capital work in progress	21	366,514	734,409
		2,238,222	2,074,997
Long term investments	22	19,289,962	19,289,962
Long term loans and advances	23	1,680	2,423
Current assets			
Stores, spares and loose tools	24	1,073,544	1,303,300
Stock in trade	25	216,117	83,285
Trade debts		2,131	10,028
Loans, advances, deposits, prepayments and other receivables	26	89,309	92,722
Advance income tax		625,148	819,908
Short term investments	27	2,439,931	3,399,314
Cash and bank balances	28	1,250,263	278,145
		5,696,443	5,986,702
		27,226,307	27,354,084

Hussain Dawood
Chairman

Isar Ahmad
Chief Executive

Cash Flow Statement

For the year ended 31 December 2010

	Note	2010 Rs '000	2009 Rs '000 Restated
Cash generated from operations	29	3,142,781	3,107,852
Finance cost paid		(956,881)	(980,327)
Taxes paid		(698,348)	(849,759)
Staff retirement and other service benefits paid		(24,906)	(16,205)
Decrease / (Increase) in long term loans and advances		743	(1,164)
Net cash generated from operating activities		1,463,389	1,260,397
Cash flow from investing activities			
Fixed capital expenditure		(393,117)	(833,174)
Proceeds from sale of property, plant and equipment		34,776	7,897
Proceeds from disposal of available for sale investments		1,835,913	1,145,649
Profit on time deposits		63,218	63,670
Investment at fair value through profit or loss		(560,000)	(1,929,785)
Investment in associated / subsidiary company		-	(1,623,148)
Dividends received		867,135	616,796
Net cash generated from/ (used in) investing activities		1,847,925	(2,552,095)
Cash flow from financing activities			
Short term financing		(1,150,878)	1,126,464
Long term loans		(600,000)	-
Dividends paid		(588,318)	(490,559)
Net cash (used in) / generated from financing activities		(2,339,196)	635,905
Net Increase / (decrease) in cash and cash equivalents		972,118	(655,793)
Cash and cash equivalents at the beginning of year		278,145	933,938
Cash and cash equivalents at the end of year	28	1,250,263	278,145

The annexed notes 1 to 37 form an integral part of these financial statements.

Hussain Dawood
Chairman

Isar Ahmad
Chief Executive

Statement of Changes in Equity

For the year ended 31 December 2010

	Share capital	Revenue reserves			Fair value reserve	Total
		General reserve	Unappropriated profit	Total		
	Rs '000					
Balance as at 31 December 2008 as previously reported	1,093,834	700,000	19,715,396	20,415,396	(4,126,574)	17,382,656
Effect of restatement of Investment in associate (note - 2.2)	-	-	(1,385,014)	(1,385,014)	-	(1,385,014)
Balance as at 31 December 2008 - restated	1,093,834	700,000	18,330,382	19,030,382	(4,126,574)	15,997,642
Total comprehensive loss for the year	-	-	(1,781,287)	(1,781,287)	339,463	(1,441,824)
Impairment on available for sale investment transferred to profit and loss account as permitted under SRO 150(1)/2009	-	-	-	-	3,791,096	3,791,096
Final cash dividend @15% for the year ended 31 December 2008	-	-	(164,075)	(164,075)	-	(164,075)
1st interim cash dividend @ 15% for the year ended 31 December 2009	-	-	(164,075)	(164,075)	-	(164,075)
2nd interim cash dividend @ 15% for the year ended 31 December 2009	-	-	(164,075)	(164,075)	-	(164,075)
	-	-	(492,225)	(492,225)	-	(492,225)
Balance as at 31 December 2009 - restated	**1,093,834**	**700,000**	**16,056,870**	**16,756,870**	**3,985**	**17,854,689**
Balance as on 31 December 2009 as previously reported	1,093,834	700,000	18,084,894	18,784,894	3,985	19,882,713
Effect of restatement of Investment in associate (note-2.2)	-	-	(2,028,024)	(2,028,024)	-	(2,028,024)
Balance as at 01 January 2010 - restated	1,093,834	700,000	16,056,870	16,756,870	3,985	17,854,689
Total comprehensive income for the year	-	-	2,148,530	2,148,530	131,780	2,280,310
Final cash dividend @ 10% for the year ended 31 December 2009	-	-	(109,383)	(109,383)	-	(109,383)
Final stock dividend @ 10% for the year ended 31 December 2009	109,383	-	(109,383)	(109,383)	-	-
Ist interim cash dividend @ 20% for the year ended 31 December 2010	-	-	(240,644)	(240,644)	-	(240,644)
2nd interim cash dividend @ 20% for the year ended 31 December 2010	-	-	(240,644)	(240,644)	-	(240,644)
	109,383	-	(700,054)	(700,054)	-	(590,671)
Balance as at 31 December 2010	**1,203,217**	**700,000**	**17,505,346**	**18,205,346**	**135,765**	**19,544,328**

The annexed notes 1 to 37 form an integral part of these financial statements.

Hussain Dawood
Chairman

Isar Ahmad
Chief Executive

Notes to the Financial Statements

For the year ended 31 December 2010

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.

The Board of Directors in their meeting of 16th June 2010 decided to divide the Company into two companies by separating its fertilizer undertaking from the rest of the undertaking that is to be retained in the Company. In this regard, a wholly owned subsidiary namely DH Fertilizers Limited was incorporated on 2nd August 2010. The division was to be effected through a Scheme of Arrangement under Section 284 to 288 of the Companies Ordinance, 1984 whereby:

(a) the fertilizer undertaking would be transferred and vested in DH Fertilizers Limited against the issuance of ordinary shares of DH Fertilizers Limited to the Company;

(b) the retention of the retained undertaking in the Company and the change of the name of the Company to Dawood Hercules Corporation Limited. Dawood Hercules Corporation Limited would then become a Holding Company and oversee the business of new fertilizer subsidiary.

The de-merger required the approval of the Honorable Lahore High Court. After obtaining the requisite approvals from the creditors and the shareholders of the Company, the Lahore High Court approved the Scheme of Arrangement (Scheme) on 27th January 2011, which came into effect on 1st January 2011 (Effective Date). Meanwhile, written order from the court is awaited.

In accordance with the Scheme, the fertilizer business including all assets, liabilities, agreements, arrangements and other matters relating to the fertilizer undertaking were automatically transferred to DH Fertilizers Limited on the Effective Date against the issuance of 99,999,994 Ordinary shares of Rs. 10 each, in addition to existing 6, fully paid ordinary shares of Rs. 10 each plus the share premium. Such share premium is to be based on the difference between the net assets value of the fertilizer undertaking less the related fair value reserves/ surplus of the fertilizer undertaking on the effective date over Rs. 1,000,000,000/- being the paid-up face value of DH Fertilizers Limited.

The retained undertaking comprises of specific assets and liabilities as of the aforementioned effective dates as identified in the Scheme, which among other items include long term investments, short term investments in mutual funds and all reserves excluding fair value reserves on certain investments transferred to DH Fertilizers Limited.

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.

Notes to the Financial Statements

For the year ended 31 December 2010

2.2 Change in accounting policy

During the year the Company has changed its accounting policy relating to the measurement of investments in associates as required under IAS-28 "Investment in associate" and IAS -27 "Consolidated and separate financial statements". This change has been necessitated because of incorporation of a subsidiary by the Company, DH Fertilizers Limited. IAS-28 requires the investment in associates be measured at cost in the separate financial statements of the holding Company and accordingly the investment in associates is now measured at cost whereas previously, this was measured under equity method of accounting.

The change in accounting policy has been applied retrospectively and comparative information has been restated in accordance with the treatment prescribed by IAS-8 "Accounting policy, change in accounting estimate and errors". The accounting policy has been changed for accounting of investments in associates from equity method to cost method as required under IAS-28, in separate financial statements.

Had there been no change in accounting policy, effects on the financial statements on the current and prior period would be as under.

	2010 Rs '000	2009 Rs '000
	(Increase)/decrease	
Profit/loss after tax	(1,099,453)	643,010
Investments	(3,481,734)	(2,253,324)
Deferred tax	(348,136)	(225,300)
Earnings per share	(9.14)	5.3

2.3 New Accounting Standards and IFRIC interpretations that are not yet effective

The following standards, amendments and interpretations of approved accounting standards are effective from the dates specified below and are either not relevant to Company's operations or are not expected to have significant impact on the Company's financial statements other than certain increased disclosures:

- Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after 01 February, 2010). The IASB amended IAS 32 to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. This interpretation has no impact on the Company's financial statements.

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 01 July, 2010). This interpretation provides guidance on the accounting for debt for equity swaps. This interpretation has no impact on Company's financial statements.

- IAS 24 Related Party Disclosures (revised 2009) – effective for annual periods beginning on or after 01 January, 2011. The revision amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The amendment would result in certain changes in disclosures.

Notes to the Financial Statements
For the year ended 31 December 2010

- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 01 January, 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense. This amendment is not likely to have any impact on Company's financial statements.

- Improvements to IFRSs 2010 – In May 2010, the IASB issued improvements to IFRSs 2010, which comprise of 11 amendments to 7 standards. Effective dates, early application and transitional requirements are addressed on a standard by standard basis. The majority of amendments are effective for annual periods beginning on or after 01 January, 2011. The amendments include list of events or transactions that require disclosure in the interim financial statements and fair value of award credits under the customer loyalty programmes to take into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. Certain of these amendments will result in increased disclosures in the financial statements.

- Amendments to IAS 12 – Deferred tax on Investment Property (effective for annual periods beginning on or after 01 January 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. The amendment has no impact on financial statements of the Company.

- Amendments to IFRS 7 - Disclosures – Transfers of Financial Assets (effective for annual periods beginning on or after 01 July, 2011). The amendments introduce new disclosure requirements about transfers of financial assets including disclosures for financial assets that are not derecognized in their entirety; and financial assets that are derecognized in their entirety but for which the entity retains continuing involvement. These amendments will result in increased disclosures in the financial statements.

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 affects 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:

Notes to the Financial Statements

For the year ended 31 December 2010

	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 2010 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 2010 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 2010 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.

Notes to the Financial Statements
For the year ended 31 December 2010

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.

Notes to the Financial Statements

For the year ended 31 December 2010

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:

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

Notes to the Financial Statements

For the year ended 31 December 2010

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 utilized.

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

Associates are those entities in which the Company has significant influence and which is neither a subsidiary nor a joint venture of the Company.

During the year, the Company has changed its accounting policy with respect to the measurement of investment in associates as more fully explained in paragraph 2.2 above. Investment in associates where significant influence can be established are initially recognized at cost. At subsequent reporting dates, the recoverable amounts are estimated to determine the extent of impairment losses, if any, and carrying amounts of investments are adjusted accordingly. Impairment losses are recognized as an expense. Where impairment losses subsequently reverse, the carrying amounts of the investments are increased to the revised recoverable amounts but limited to the extent of initial cost of investments. A reversal of impairment loss is recognized in the profit and loss account.

Notes to the Financial Statements

For the year ended 31 December 2010

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.

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" 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, amortized 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.

Notes to the Financial Statements

For the year ended 31 December 2010

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 capitalized 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 recognized 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.

Notes to the Financial Statements

For the year ended 31 December 2010

		Note	2010 Rs '000	2009 Rs '000
5	**Sales - net**			
	Own manufactured		7,357,562	7,369,483
	Less: Sales tax		25,294	21,120
			7,332,268	7,348,363
	Purchased product		1,383,443	3,691,998
			8,715,711	11,040,361
6	**Cost of sales**			
	Raw and packing materials consumed	6.1	1,581,249	1,721,209
	Fuel and power		939,352	1,043,771
	Catalysts and chemicals		109,294	50,456
	Salaries, wages, benefits and staff welfare	6.2	560,483	507,908
	Stores and spares consumed		470,136	341,251
	Repairs and maintenance		167,286	101,020
	Travel and conveyance		63,594	56,768
	Rent, rates and taxes		1,873	2,216
	Insurance		25,215	22,610
	Depreciation	20	182,535	131,273
	Communication, stationery and office supplies		2,836	3,537
	Health and safety consultancy charges		25,664	2,021
	Other expenses		4,486	8,517
			4,134,003	3,992,557
	Add: Opening stock of work-in-process		10,367	8,033
	Less: Closing stock of work-in-process	25	7,657	10,367
			2,710	(2,334)
	Cost of goods manufactured		4,136,713	3,990,223
	Add: Opening stock of finished goods		58,218	50,093
	Less: Closing stock of finished goods	25	198,382	58,218
			(140,164)	(8,125)
	Cost of sales - Own manufactured		3,996,549	3,982,098
	- Purchased product		1,217,827	3,098,359
			5,214,376	7,080,457
6.1	**Raw and packing materials consumed**			
	Opening stock		14,700	31,442
	Add: Purchases		1,576,627	1,704,467
			1,591,327	1,735,909
	Less: Closing stock	25	10,078	14,700
			1,581,249	1,721,209

6.2 Salaries, wages, benefits and staff welfare include Rs. 12.231 million (2009: Rs. 9.650 million) in respect of contribution to gratuity funds and Rs. 19.165 million (2009: Rs. 17.367 million) in respect of provident funds.

Notes to the Financial Statements

For the year ended 31 December 2010

7 Distribution expenses

	Note	2010 Rs '000	2009 Rs '000
Product transportation and handling cost		132,320	328,664
Salaries, wages, benefits and staff welfare	7.1	67,114	43,844
Communication, stationery and office supplies		2,257	1,796
Rent, rates and taxes		4,617	3,441
Travel and conveyance		1,795	2,837
Insurance		406	467
Depreciation	20	4,035	2,779
Repairs and maintenance		1,605	1,282
Sales promotion, advertising and market development		53,542	6,887
Other expenses		33	33
		267,724	392,030

7.1 Salaries, wages, benefits and staff welfare include Rs. 0.437 million (2009: Nil) in respect of gratuity funds and Rs. 0.412 million (2009: Rs. 0.710 million) in respect of provident funds.

8 Administrative expenses

	Note	2010 Rs '000	2009 Rs '000
Salaries, wages, benefits and staff welfare	8.1	253,297	178,015
Communication, stationery and office supplies		45,459	37,794
Rent, rates and taxes		30,190	24,870
Travel and conveyance		22,996	22,491
Repairs and maintenance		23,920	24,913
Depreciation	20	20,938	15,732
Legal and professional charges		14,086	11,529
Insurance		1,708	1,567
Donations	8.2	1,574	868
Other expenses		11,710	10,493
		425,878	328,272

8.1 Salaries, wages, benefits and staff welfare include Rs. 6.258 million (2009: Rs. 4.318 million) in respect of contribution to staff gratuity funds and Rs. 9.315 million (2009: Rs. 7.649 million) in respect of provident funds.

8.2 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.

9 Other operating expenses

	Note	2010 Rs '000	2009 Rs '000
Workers' profits participation fund	18.3	94,856	112,702
Workers' welfare fund	9.1	20,000	46,000
Auditors' remuneration:			
- Audit fee		750	600
- Half year review and other certifications		175	150
- Out of pocket expenses		85	56
		115,866	159,508

Notes to the Financial Statements
For the year ended 31 December 2010

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.

		2010 Rs '000	2009 Rs '000
9.1	Expense for the period	60,000	46,000
	Reversal of prior year excess provision	(40,000)	-
		20,000	46,000

10 Other operating income

	Note	2010 Rs '000	2009 Rs '000 Restated
Income from financial assets:			
Realized gain on disposal of short term investments available for sale		179,413	4,194
Realized gain on disposal of investments at fair value through profit or loss		4,049	23,273
Unrealized gain due to fair value adjustment of investment at fair value through profit or loss		3,681	14,822
Profit on bank deposits and others		63,218	63,670
		250,361	105,959
Income from related parties:			
Dividend income from:			
Sui Northern Gas Pipelines Limited		139,964	-
Engro Corporation Limited		727,170	616,796
		867,134	616,796
Income from non-financial assets:			
Sale of scrap		12,376	8,976
Profit on sale of property, plant and equipment		12,392	3,170
Liabilities no longer payable written back		7,657	1,472
Insurance claim - related party		16,347	-
Other income		22,756	31,389
		71,528	45,007
		1,189,023	767,762

11 Finance cost

	Note	2010 Rs '000	2009 Rs '000
Mark-up:			
Short term borrowings		68,803	100,314
Long term loans		840,340	884,172
Interest on workers' profits participation fund	18.3	453	261
		909,596	984,747

12 Income tax expenses

	2010 Rs '000	2009 Rs '000
Current		
- for the year	686,000	858,000
- prior year	35,109	-
Deferred	99,264	(4,700)
	820,373	853,300

Notes to the Financial Statements
For the year ended 31 December 2010

	2010 %	2009 %
12.1 Reconciliation of tax charge for the year		
Applicable tax rate	35.00	35.00
Tax effect of amounts that are not deductible for tax purposes	2.14	-
Tax effect of amounts exempt from tax	(2.21)	-
Tax effect of amount taxed at lower rate	(7.30)	-
	27.63	-

In view of accounting loss in 2009, tax reconciliation has not been presented for the previous year.

13 Issued, subscribed and paid up capital

2010 Number of shares	2009 Number of shares		2010 Rs '000	2009 Rs '000
13,900,000	13,900,000	Ordinary shares of Rs. 10 each fully paid in cash	139,000	139,000
106,421,779	95,483,436	Ordinary shares of Rs. 10 each issued as bonus shares	1,064,217	954,834
120,321,779	109,383,436		1,203,217	1,093,834

13.1 Reconciliation of Issued, subscribed and paid up capital

	2010 Number of shares	2009 Number of shares
Outstanding as at 01 January	109,383,436	109,383,436
Bonus shares issued during the year	10,938,343	-
Closing as at 31 December	120,321,779	109,383,436

13.2 Shares held by related parties

	2010	2009
Dawood Lawrencepur Limited Percentage of equity held 16.19% (2009: 16.19%)	19,482,974	17,711,795
Dawood Corporation (Private) Limited Percentage of equity held 0.02% (2009: 0.02%)	25,461	23,147
The Dawood Foundation Percentage of equity held 3.95% (2009: 3.95%)	4,752,997	4,320,907
Central Insurance Company Limited Percentage of equity held 2.97% (2009: 2.97%)	3,574,940	3,249,946
Patek (Private) Limited Percentage of equity held 0.032% (2009: 0.032%)	38,821	35,292
Sach International (Private) Limited Percentage of equity held 0.001% (2009: 0.001%)	1,749	1,590

Notes to the Financial Statements

For the year ended 31 December 2010

14 Long term loans - participatory redeemable capital - secured

	Note	2010 Rs '000	2009 Rs '000
Opening balance		6,302,500	6,302,500
Redemption during the year under call option		(600,000)	-
Closing balance	14.1	5,702,500	6,302,500
Transfer to current portion		(660,500)	-
Closing balance		5,042,000	6,302,500

14.1 Participatory

	2010		2009	
	Number of Sukuk Certificates '000	Face value of consolidated Sukuk Certificates Rs '000	Number of Sukuk Certificates '000	Face value of consolidated Sukuk Certificates Rs '000
Banks/Financial Institutions				
Habib Bank Limited	54	2,714,286	60	3,000,000
Meezan Bank Limited	18	904,762	20	1,000,000
Allied Bank Limited	18	904,762	20	1,000,000
United Bank Limited	11	542,857	12	600,000
MCB Bank Limited	13	633,333	14	700,000
Meezan Tahaffuz Pension Fund	-	2,500	-	2,500
Total	114	5,702,500	126	6,302,500

Participatory redeemable capital represents Islamic Sukuk Certificates issued to banks/financial institutions 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.

Notes to the Financial Statements
For the year ended 31 December 2010

Term of payment

The principal amount is repayable according to the following schedule:

Payment

	2010 Rs '000	2009 Rs '000
First tranche due on 18 September 2011	661,000	1,103,000
Second tranche due on 18 March 2012	2,521,000	2,600,000
Third tranche due on 18 September 2012	2,521,000	2,600,000
	5,703,000	6,303,000

In case of default in payment, the Company will be liable to pay markup at the rate of six months 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.

15 Deferred taxation

	Note	2010 Rs '000	2009 Rs '000 Restated
Deferred liability arising due to accelerated depreciation allowance		286,520	184,700
Deferred (asset) arising in respect of provision for compensated absences		(18,056)	(15,500)
		268,464	169,200

16 Staff retirement and other service benefits

	Note	2010 Rs '000	2009 Rs '000
Defined benefit plan funded for management staff	16.1	-	198
Compensated absences	16.3	51,590	44,397
		51,590	44,595

Notes to the Financial Statements

For the year ended 31 December 2010

	Note	2010 Rs '000	2009 Rs '000
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	143,455	148,767
Fair value of plan assets	16.1.2	(107,904)	(106,171)
Unrecognized actuarial losses		(35,551)	(42,398)
Liability as at 31 December		-	198
Net liability as at 01 January		198	587
Charge to profit and loss account	16.1.3	16,502	11,637
Contribution made by the Company		(16,700)	(12,026)
Liability as at 31 December		-	198
16.1.1 Movement in liability for defined benefit obligation			
Present value of defined benefit obligation as at 01 January		148,767	112,044
Current service cost		16,323	12,808
Interest cost		17,852	16,807
Benefits paid during the year		(40,280)	(9,469)
Actuarial loss on present value of defined benefit obligation		793	16,577
Present value of defined benefit obligation as at 31 December		143,455	148,767
16.1.2 Movement in fair value of plan assets			
Fair value of plan assets as at 01 January		106,171	92,608
Expected return on plan assets		12,740	13,891
Funds receivable from Workers Gratuity Fund		7,990	4,936
Contributions made during the year		16,700	12,026
Benefits paid during the year		(40,280)	(9,469)
Actuarial / (loss) gain on plan assets		4,583	(7,821)
Fair value of plan assets as at 31 December		107,904	106,171
Plan assets consist of the following:			
Funds placed under mark up arrangements with banks		88,334	81,235
Investment company		11,580	10,000
Open ended mutual funds		-	10,000
Funds receivable from Workers Gratuity Fund		7,990	4,936
		107,904	106,171

Notes to the Financial Statements

For the year ended 31 December 2010

	Note	2010 Rs '000	2009 Rs '000
16.1.3 Charge to profit and loss account			
Current service cost		16,323	12,808
Interest cost		17,852	16,807
Expected return on plan assets		(12,741)	(13,891)
Contributions receivable from workers gratuity fund		(7,990)	(4,936)
Actuarial loss recognized during the year		3,058	849
		16,502	11,637

16.1.4 Actual return on plan assets of funded gratuity scheme was Rs. 17.323 million (2009: Rs. 6.070 million).

16.1.5 Historical information

	2010	2009	2008	2007	2006
	Rupees in thousands				
Present value of defined benefit obligation	143,455	148,767	112,044	101,938	86,625
Fair value of plan assets	(107,904)	(106,171)	(92,608)	(72,006)	(76,476)
Deficit in the plan	35,551	42,596	19,436	29,932	10,149
Experience adjustment arising on plan liabilities	793	16,577	2,113	11,129	3,139
Experience adjustment arising on plan assets	4,583	(7,821)	10,857	(8,848)	(2,147)

16.1.6 The Company expects to pay Rs. 20.907 million as contribution to defined benefit plan in 2011.

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

	2010 % per annum	2009 % per annum
Discount rate	13	12
Expected rate of return on plan assets	12	15
Expected rate of increase in salary	12	11

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

Notes to the Financial Statements

For the year ended 31 December 2010

	Note	2010 Rs '000	2009 Rs '000
16.2 Defined Contributory gratuity funded for non-management staff			
Balance as at 01 January		-	485
Expenses recognized during the year		2,428	2,332
Payments made during the year		(2,428)	(2,817)
Balance as at 31 December		-	-
16.3 Compensated absences			
Balance as at 01 January		44,397	39,091
Expenses recognized during the year	16.3.3	12,972	6,669
Payments made during the year		(5,779)	(1,363)
Balance as at 31 December	16.3.1	51,590	44,397
16.3.1 Movement in liability for defined benefit obligation			
Present value of defined benefit obligation as at 01 January		44,397	39,091
Current service cost		4,921	2,138
Interest cost		5,328	5,864
Benefits paid during the year		(5,779)	(1,363)
Actuarial loss on present value of defined benefit obligation		2,723	(1,333)
Present value of defined benefit obligation as at 31 December		51,590	44,397
16.3.2 Balance Sheet liability as on 31 December			
Present value of defined benefit obligations as on 31 December		51,590	44,397
16.3.3 Charge to profit and loss account			
Current service cost		4,921	2,138
Interest cost		5,328	5,864
Actuarial loss / (gains) charge		2,723	(1,333)
		12,972	6,669

16.3.4 Assumptions used for valuation are as under:

	2010 % per annum	2009 % per annum
Discount rate	13	12
Expected rate of eligible salary increase in future years	12	11

Notes to the Financial Statements

For the year ended 31 December 2010

	Note	2010 Rs '000	2009 Rs '000
17 Short term financing - secured			
Running finance	17.1	45,725	122,324
Murabaha finance	17.2	-	400,000
Murabaha finance	17.2	-	674,279
		45,725	1,196,603

17.1 This represents utilized portion of short term running finance facilities available from Habib Bank Limited and Habib Metropolitan Bank Limited under mark-up arrangements. This facility aggregates Rs. 1,148 million (2009: Rs. 398 million) and expires on various dates latest by 30 April 2011, carries mark-up at the rate of one month KIBOR plus 150 bps (2009: one month KIBOR plus 150 bps) and 3 months KIBOR plus 75 bps (2009: Nil) respectively. These facilities are secured by pledge of shares held as investments. The market value of these investments as at 31 December 2010 was Rs. 1,658 million (2009: Rs. 595 million).

17.2 These finances have been repaid during the year.

18 Trade and other payables

	Note	2010 Rs '000	2009 Rs '000
Trade creditors			
Related parties	18.1	177,657	228,400
Others		18,722	37,664
		196,379	266,064
Advances from customers		20,486	10,402
Unclaimed dividends		20,130	17,777
Accrued expenses		253,743	117,935
Sales tax payable		1,215	908
Deposits	18.2	25,609	11,423
Workers' profits participation fund	18.3	95,309	112,963
Workers' welfare fund		70,251	96,994
Others		11,595	13,763
		694,717	648,229

18.1 This includes amount payable to M/s SNGPL against purchase of Natural Gas amounting to Rs. 177.61 million (2009: Rs. 228.111 million) and amount payable to M/s Avanceon Limited against purchase of plant spare parts amounting Rs. 044 million (2009 : Nil).The maximum aggregate amount due to related parties at the end of any month during the year was Rs. 248.037 million (2009: Rs. 240.538 million).

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

Notes to the Financial Statements
For the year ended 31 December 2010

	Note	2010 Rs '000	2009 Rs '000
18.3 Workers' profits participation fund			
Balance at the beginning of the year		112,963	91,479
Add: Allocation for the year	9	94,856	112,702
Interest on funds used in the Company's business	11	453	261
		208,272	204,442
Less: Amount paid to the fund		112,963	91,479
		95,309	112,963

19 Contingent liabilities and commitments

19.1 Contingent liabilities

The Company is contingently liable for:

	2010 Rs '000	2009 Rs '000
Counter guarantees given to the bank	2,171	2,171
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 program (contingent liability of capital nature)	2,960	2,960
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)	1,651	1,651
Pending law suits	120	120

19.2 Commitments

	2010 Rs '000	2009 Rs '000
Commitments in respect of contracts for capital expenditure	57,500	253,604
Commitments in respect of store purchases	54,355	158,916

Notes to the Financial Statements

For the year ended 31 December 2010

20 Property, plant and equipment

Particulars	Net book value as at 1 Jan 2010	Additions	Disposals (at NBV)	Depreciation charge	Net book value as at 31 Dec 2010	Cost as at 31 Dec 2010	Accumulated depreciation as at 31 Dec 2010	Net book value as at 31 Dec 2010	Depreciation rate (% per annum)
	Reconciliation of net carrying value					Reconciliation of gross carrying value			
	Rupees in thousands					Rupees in thousands			
Freehold land	250,657	-	-	-	250,657	250,657	-	250,657	-
Buildings on freehold land	33,194	-	-	3,678	29,516	114,636	85,120	29,516	5.0
Railway siding	23	-	-	-	23	2,314	2,291	23	5.0
Plant and machinery	861,367	705,028	-	135,134	1,431,261	3,472,084	2,040,823	1,431,261	7.5
Catalysts	57,206	-	-	26,254	30,952	216,213	185,261	30,952	10 - 50
Furniture, fittings and equipment	22,771	9,524	63	3,972	28,260	75,155	46,895	28,260	10 - 12.5
Data processing equipment	12,095	9,090	38	6,797	14,350	118,143	103,793	14,350	33.3
Motor vehicles	103,275	37,370	22,283	31,673	86,689	171,028	84,339	86,689	20.0
2010	1,340,588	761,012	22,384	207,508	1,871,708	4,420,230	2,548,522	1,871,708	

Particulars	Net book value as at 1 Jan 2009	Additions	Disposals (at NBV)	Depreciation charge	Net book value as at 31 Dec 2009	Cost as at 31 Dec 2009	Accumulated depreciation as at 31 Dec 2009	Net book value as at 31 Dec 2009	Depreciation rate (% per annum)
	Reconciliation of net carrying value					Reconciliation of gross carrying value			
	Rupees in thousands					Rupees in thousands			
Freehold land	250,657	-	-	-	250,657	250,657	-	250,657	-
Buildings on freehold land	37,074	-	-	3,880	33,194	114,636	81,442	33,194	5.0
Railway siding	23	-	-	-	23	2,314	2,291	23	5.0
Plant and machinery	885,695	61,153	-	85,481	861,367	2,767,056	1,905,689	861,367	7.5
Catalysts	87,453	-	-	30,247	57,206	216,213	159,007	57,206	10 - 50
Furniture, fittings and equipment	9,060	15,575	-	1,864	22,771	65,706	42,935	22,771	10 - 12.5
Data processing equipment	5,771	11,673	-	5,349	12,095	109,507	97,412	12,095	33.3
Motor vehicle	53,048	77,918	4,728	22,963	103,275	183,798	80,523	103,275	20.0
2009	1,328,781	166,319	4,728	149,784	1,340,588	3,709,887	2,369,299	1,340,588	

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

	2010 Rs '000	2009 Rs '000
Cost of sales - (Note 6)	182,535	131,273
Distribution expenses - (Note 7)	4,035	2,779
Administrative expenses - (Note 8)	20,938	15,732
	207,508	149,784

- Property, plant and equipment that are fully depreciated amounts to Rs. 1,076,187,708 (2009: Rs. 819,521,689)

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 in thousands				
Motor Vehicles	Employees					
Prado Jeep	Mr. Shahzada Dawood	10,759	3,048	7,711	8,473	As per Company Policy
Honda Civic VTI Oriel PT	Mr. Nabiel Sawaiz	1,914	64	1,850	1,877	As per Company Policy
Honda Civic VTI Oriel PT	Mr. Farrukh S. Bashir	1,911	191	1,720	1,768	As per Company Policy
Honda Civic	Khawaja Amanullah	1,892	410	1,482	1,584	As per Company Policy
Toyota Corolla GLI	Khawaja Ahmed Arsalan	1,383	184	1,199	1,245	As per Company Policy
Honda Civic	Mr. Akhlaq Mazhar	1,790	597	1,193	1,342	As per Company Policy
Toyota Corolla GLI	Mr. S.M.Amin Saleem	1,393	209	1,184	1,304	As per Company Policy
Toyota Corolla GLI	Ch. Abdul Mughani	1,383	207	1,176	1,228	As per Company Policy
Toyota Corolla GLI	Mr. Imran Bashir	1,383	231	1,152	1,285	As per Company Policy
Suzuki Cultus	Mr. Khalid Pervaiz Qureshi	855	199	656	705	As per Company Policy
Toyota Corolla XLI	Ch. Abdul Mughani	933	327	606	688	As per Company Policy
Honda Civic VTI Oriel PT	Mr. Abdul Ghafoor Gohar	1,501	900	601	825	As per Company Policy
Toyota Corolla GLI	Mr. Shahid Riaz	1,000	617	383	568	As per Company Policy
Suzuki Cultus	Mr. Ashraf Hussain	613	429	184	363	As per Company Policy
Suzuki Alto	Mr. Muhammad Arshad	510	348	162	269	As per Company Policy
Toyota Corolla GLI	Mr. Arshad Mahmood	1,005	871	134	407	As per Company Policy
Toyota Corolla GLI	Mr. Nabiel Sawaiz	1,005	871	134	407	As per Company Policy
Suzuki Cultus	Mr. Iftikhar Ahmad	613	480	133	333	As per Company Policy
Suzuki Cultus	Mr.Tayyab Ahmad	606	475	131	333	As per Company Policy
Hyundai Santro	Mr. Abdul Razzaq	661	540	121	430	As per Company Policy
Toyota Corolla XLI	Mr. Farrukh S. Bashir	906	785	121	317	As per Company Policy
Toyota Corolla GLI	Mr. Abdul Sattar	1,005	904	101	455	As per Company Policy
Aggregate of other items of property, plant and equipment with individual book values not exceeding Rupees 50,000		15,648	15,398	250	8,570	As per Company Policy
		50,669	28,285	22,384	34,776	

Notes to the Financial Statements

For the year ended 31 December 2010

		Note	2010 Rs '000	2009 Rs '000 Restated
21	**Capital work in progress**			
	Plant and machinery		366,514	734,409
22	**Long term investments**			
	Investment in subsidiary company	22.1	-	-
	Investment in associate	22.2	19,289,962	19,289,962
			19,289,962	19,289,962

22.1 Investment in subsidiary company

DH Fertilizers Limited - unquoted		
6 (2009: Nil) ordinary shares of Rs.10 each		
Percentage of equity held 100% (2009: Nil)	-	-

DH Fertilizers Limited has been incorporated on 2 August, 2010 as a Public Unlisted Company under the Companies Ordinance, 1984 for the transfer and vesting of fertilizer business, as referred in note 1. As at 31 December, 2010, the issued share capital comprise 6 ordinary shares of Rs. 10 each, held by six directors of the Company as nominees thereof.

22.2 Investment in associate Engro Corporation Limited

	Note	2010 Rs '000	2009 Rs '000 Restated
113,620,371 (2009: 81,157,408) ordinary shares of Rs.10 each		19,289,962	17,666,814
Add: Cost of Nil (2009: 32,462,963) right shares acquired during the year		-	1,623,148
124,982,408 (2009 : 113,620,371) ordinary shares of Rs.10 each	22.2.2	19,289,962	19,289,962
Percentage of equity held - 38.13% (2009: 38.13%)			

22.2.1 Market value of investments in associate Rs. 24,223 million (2009: Rs. 20,823 million).

22.2.2 During the year the Company has received 11,362,037 (2009: Nil) bonus shares from Engro Corporation Limited

23 Long term loans and advances - unsecured considered good

	Note	2010 Rs '000	2009 Rs '000
Executives	23.1 & 23.3	931	1,852
Other employees	23.2	749	571
		1,680	2,423

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.

Notes to the Financial Statements

For the year ended 31 December 2010

		2010 Rs '000	2009 Rs '000
23.3	**Reconciliation of carrying amounts of loans to executives**		
	Balance as at 01 January	9,875	5,943
	Disbursement during the year	6,163	11,549
	Promotion of non-executive employees as executives	2,476	864
	Loan recovered during the year	(10,865)	(8,481)
	Balance as at 31 December	7,649	9,875
	Less: Current portion shown under current assets	6,718	8,023
		931	1,852

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. 10.109 million (2009: Rs. 9.875 million)

24 Stores, spares and loose tools

	2010 Rs '000	2009 Rs '000
Stores	417,934	433,462
Spares	823,971	793,661
Loose tools	14,714	13,061
Stores and spares in transit	52,590	298,781
	1,309,209	1,538,965
Less: Provision for obsolete items	235,665	235,665
	1,073,544	1,303,300

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

25 Stock in trade

Raw and packing materials	10,078	14,700
Material in process	7,657	10,367
Finished goods - own manufactured	198,382	58,218
	216,117	83,285

26 Loans, advances, deposits, prepayments and other receivables

These receivables are all unsecured and considered good:		
Advances to suppliers for goods and services	26,220	40,118
Advances and loans:		
Executives	6,718	8,023
Employees	9,510	20,677
Prepayments	3,143	2,956
Deposits	2,109	2,109
Due from subsidiary Company - DH Fertilizers Limited	6,121	-
Insurance claim receivable	16,347	-
Others	19,141	18,839
	89,309	92,722

Notes to the Financial Statements

For the year ended 31 December 2010

26.1 Chief Executive and Directors have not taken any loan/advance from the Company (2009: Nil).

27 Short term investments

	Note	2010 Rs '000	2009 Rs '000
Available for sale	27.1	1,879,401	2,505,426
Financial assets at fair value through profit or loss	27.2	560,530	893,888
		2,439,931	3,399,314

27.1 Available for sale
Related parties - Quoted

Sui Northern Gas Pipelines Limited

	2010 Rs '000	2009 Rs '000
100,442,350 (2009: 100,442,350) ordinary shares of Rs. 10 each - at cost	6,282,067	6,282,067
Cost of 30,460,195 (2009: Nil) shares disposed off during the year	(1,905,103)	-
Cost of 69,982,155 shares of Rs. 10 each - at cost	4,376,964	6,282,067
Percentage of equity held: 12.75% (2009: 18.29%)		
Less: Cumulative Impairment loss	2,641,407	3,791,096
	1,735,557	2,490,971
Fair value adjustment	135,765	-
	1,871,322	2,490,971

Others - Quoted

Southern Electric Power Company Limited

	2010 Rs '000	2009 Rs '000
3,622,900 (2009: 6,270,000) ordinary shares of Rs.10 each - at cost	68,431	118,431
Cost of Nil (2009: 2,647,100) shares disposed off during the year	-	(50,000)
Cost of 3,622,900 shares of Rs. 10 each	68,431	68,431
Percentage of equity held: 2.65% (2009: 2.65%)		
Less: Cumulative Impairment loss	60,352	57,961
	8,079	10,470
Fair value adjustment	-	3,985
	8,079	14,455
	1,879,401	2,505,426

Notes to the Financial Statements
For the year ended 31 December 2010

	Note	2010 Rs '000	2009 Rs '000
27.2 Financial assets at fair value through profit or loss			
ABL Income Fund			
2,917,015.8612 (2009: 29,611,770.2888) units of Rs. 10 each		27,870	288,458
Adjustment arising from measurement to fair value		1,328	7,935
		29,198	296,393
Meezan Cash Fund-Growth Units			
4,199,685.3632 (2009: 5,655,874.2274) units of Rs. 50 each		208,979	293,808
Adjustment arising from measurement to fair value		1,174	3,013
		210,153	296,821
UBL Liquidity Plus Fund-Class C			
800,447.0736 (2009: 2,929,825.0073) units of Rs. 100 each		80,000	296,800
Adjustment arising from measurement to fair value		202	3,874
		80,202	300,674
ABL Cash Fund			
24,075,792.1313 (2009: Nil) units of Rs. 10 each		240,000	-
Adjustment arising from measurement to fair value		977	-
		240,977	-
		560,530	893,888

28 Cash and bank balances

	Note	2010 Rs '000	2009 Rs '000
With banks:			
On current accounts		3,605	163,371
On saving accounts			
-local		1,245,327	113,808
-foreign		686	686
	28.1	1,246,013	114,494
Cash in hand		645	280
		1,250,263	278,145

28.1 These carry mark up at the rate ranging from 5% to 10.5% per annum (2009: 5% to 11%).

Notes to the Financial Statements

For the year ended 31 December 2010

	Note	2010 Rs '000	2009 Rs '000 Restated
29 Cash flow from operating activities			
Profit / (loss) before taxation		2,968,903	(927,987)
Adjustment for non cash expenses and other items:			
Depreciation		207,508	149,784
Finance cost		909,596	984,747
Profit on sale of property, plant and equipment		(12,392)	(3,170)
Profit on sale of short term investments available for sale		(183,462)	(27,467)
Unrealized gain on investment at fair value through profit or loss		(3,681)	(14,822)
Impairment loss on available for sale investments		2,391	3,791,096
Dividend income		(867,134)	(616,796)
Provision for staff retirement and other service benefits		31,901	20,638
Profit on time deposits		(63,218)	(63,670)
		21,509	4,220,340
Cash flow from operations before working capital changes		2,990,412	3,292,353
Working capital changes			
Decrease/(Increase) in current assets:			
Stocks, stores and spares		96,924	(271,250)
Trade debtors		7,897	(1,207)
Loans, advances, prepayments and other receivables		3,413	(20,472)
Increase in current liabilities:			
Trade and other payables		44,135	108,428
		152,369	(184,501)
Cash generated from operations		3,142,781	3,107,852

30 Remuneration of Chief Executive, Directors and Executives

	2010			2009		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
	Rupees in thousands			Rupees in thousands		
Managerial remuneration	8,470	31,955	173,283	7,190	39,604	132,227
Retirement benefits including ex-gratia	30,585	24,617	19,731	1,170	3,281	25,780
Rent and utilities	3,760	18,525	56,677	3,762	14,438	46,741
Leave fare assistance	-	298	-	-	596	-
Medical	24	1,417	6,646	-	2,216	7,007
	42,839	76,812	256,337	12,122	60,135	211,755
Number of employees (Including those who worked part of the year)	2	6	98	1	6	89

Chief Executive, 6 directors (2009: 6) and some of the executives of the Company (2009: 89) are provided with cars owned and maintained by the Company.

During the year Mr. Shahzada Dawood resigned as chief executive of the Company w.e.f 30 June 2010 and Mr. Isar Ahmad joined as Chief Executive w.e.f 1 July 2010.

Notes to the Financial Statements

For the year ended 31 December 2010

Meeting fees amounting to Rs. 2,602,000 (2009: 22,000) were paid to 5 directors (2009: 10 directors including Chief Executive).

31 Earnings/(Loss) per share

Basic and diluted

		2010	2009 Restated
Profit/(loss) after taxation	Rs '000	2,148,530	(1,781,287)
Weighted average number of ordinary shares	No. of shares	120,321,779	120,321,779
Earnings/(loss) per share - basic	Rupees	17.86	(14.80)

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

32 Financial Instruments

The Company has exposures to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors has 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.

32.1 Credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties fail completely to perform as contracted and arises principally from trade receivables and investment in debt securities. Out of the total financial assets of Rs. 3,723.59 million (2009: Rs. 3,734.82 million), the financial assets which are subject to credit risk amounted to Rs. 3,723.59 million (2009: Rs.3,734.82 million).

To manage exposure to credit risk in respect of trade receivables, management performs credit reviews taking into account the customer's financial position, past experience and other factors, furthermore, the company deals its customers receipt against sale on advance basis. The management has set a maximum credit period of one month in respect of its fertilizer sales to reduce the credit risk.

All investing transactions are settled / paid for upon delivery as per the advice of investment committee. The Company's policy is to enter into financial instrument contract by following internal guidelines such as approving counterparties and approving credits.

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 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:

Notes to the Financial Statements

For the year ended 31 December 2010

	2010 Rs '000	2009 Rs '000
Available for sale financial assets	1,879,401	2,505,426
Financial assets at fair value through profit or loss	560,530	893,888
Loans, advances and deposits and other receivables	31,914	47,612
Trade debts	2,131	10,028
Bank balances	1,249,618	277,865
	3,723,594	3,734,819

The Company believes that it is not exposed to major concentration of credit risk.

Available for sale investment comprise of ordinary shares of Sui Northern Gas Pipelines Limited and Southern Electric Power Company Limited listed on Stock Exchanges. Financial assets at fair value through profit or loss comprise of investments in Open End Mutual Funds .

The trade debts as at the balance sheet date are classified as follows:

	2010 Rs '000	2009 Rs '000
Domestic	2,131	10,028

The maximum exposure to credit risk before any credit enhancements for trade receivables at the reporting date by type of customer was:

	2010 Rs '000	2009 Rs '000
Trade receivables	2,131	10,028

The aging of trade receivables at the reporting date is:

	2010	2009
Past due 1-30 days	215	9,350
Past due 30-150 days	17	37
Past due 150 days	1,899	641
	2,131	10,028

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.

32.2 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.

Notes to the Financial Statements

For the year ended 31 December 2010

The following are the contractual maturities of the financial liabilities, including estimated interest payments:

	Carrying amount	Contractual Cash flows	Six months or less	Six to tweleve months	One to two years	Two to five years
	Rupees in thousands					
2010						
Financial Liabilities						
Short term financing - secured	45,725	47,257	47,257	-	-	-
Long term finances	5,702,500	6,808,779	162,270	1,070,831	5,575,678	-
Trade and other payables	481,847	481,847	481,847	-	-	-
Accrued markup	232,983	232,983	232,983	-	-	-
	6,463,055	7,570,866	924,357	1,070,831	5,575,678	-
2009						
Financial Liabilities						
Short term financing - secured	1,196,603	1,226,100	1,226,100	-	-	-
Long term finances	6,302,500	8,255,609	182,015	1,033,363	804,053	6,236,178
Trade and other payables	415,539	415,539	415,539	-	-	-
Accrued markup	280,268	280,268	280,268	-	-	-
	8,194,910	10,177,516	2,103,922	1,033,363	804,053	6,236,178

32.3 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.

32.3.1 Currency risk

The Company is exposed to currency risk on import of raw materials and stores and spares mainly denominated in US dollars and on foreign currency bank accounts. The Company's exposure to foreign currency risk for US Dollars is as follows:

	2010 Rs '000	2009 Rs '000
Foreign currency bank account	686	686
Outstanding letters of credit	(54,355)	(158,916)
Net exposure	(53,669)	(158,230)

The following significant exchange rate has been applied:

Average rate Reporting date rate

	Average rate		Reporting date rate	
	2010 Rupees	2009 Rupees	2010 Rupees	2009 Rupees
USD to PKR	85.35	81.90	85.90	84.30

Notes to the Financial Statements

For the year ended 31 December 2010

Sensitivity analysis

At reporting date, if the PKR had strengthened by 10% against the US Dollar with all other variables held constant, post-tax profit for the year would have been higher by the amount shown below.

	2010 Rs '000	2009 Rs '000
Effect on profit or loss		
USD	5,367	15,823
Effect on balance sheet		
USD	-	-

The weakening of the PKR against US Dollar would have had an equal but opposite impact on the post tax loss / profits.

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

32.3.2 Interest rate risk

At the reporting date the interest rate profile of the Company's significant interest bearing financial instruments was as follows:

	Effective rate		Carrying amount	
	2010 %	2009 %	2010 Rs '000	2009 Rs '000
Financial assets				
Financial liabilities				
Variable rate instruments				
Long term loan	13.64 to 14.10	13.64 to 15.19	5,702,500	6,302,500
Short term running finance	12.79 to 14.84	13.07 to 14.67	45,725	1,196,603

Fair value sensitivity analysis for fixed rate instruments

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 decreased / (increased) profit / (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 2009.

Notes to the Financial Statements
For the year ended 31 December 2010

	Profit and loss 100 bps Increase Rs '000	Profit and loss 100 bps Decrease Rs '000
As at 31 Dec 2010		
Cash flow sensitivity-Variable rate financial liabilities	(57,482)	57,482
As at 31 Dec 2009		
Cash flow sensitivity-Variable rate financial liabilities	(70,329)	70,329

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

32.3.3 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). Other price risk arises from the Company's investment in ordinary shares of listed companies. To manage its price risk arising from aforesaid investments, the Company actively monitors the key factors that affect stock price movement.

A 10% increase/decrease in share prices at year end would have decreased/increased the surplus on re-measurement of investments in 'available for sale' investments as follows:

	2010 Rs '000	2009 Rs '000
Effect on equity	187,132	1,446
Effect on profit and loss account	808	249,097

32.4 Fair value of financial instruments

The carrying values of other financial assets and financial liabilities reported in balance sheet approximate their fair values.

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:
- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument

- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3: Valuation techniques using significant un-observable inputs.

Investment in ordinary shares of listed companies is valued using quoted prices in active market, hence, fair value of such investments fall within Level 1 in fair value hierarchy as mentioned above.

Notes to the Financial Statements

For the year ended 31 December 2010

32.5 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 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 Dec 2010 and at 31 Dec 2009 were as follows:

	2010 Rs '000	2009 Rs '000
Total debt	5,748,225	7,499,103
Less: Cash and Cash equivalents	(1,250,263)	(278,145)
Net Debt	4,497,962	7,220,958
Total equity	19,544,328	17,854,689
Debt-to-equity ratio	23%	40%

The decrease in the debt-to-equity ratio in 2010 resulted primarily due to repayment of long term borrowings and less reliance on short term borrowings

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.

33. Operating Segments

The financial information has been prepared on the basis of a single reportable segment.

33.1 Sales from fertilizer products represent 100% (2009: 100%) of total revenue of the Company.

33.2 All sales are made by the Company in Pakistan.

34. Related party transactions

The related parties comprise subsidiary and 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:

Notes to the Financial Statements

For the year ended 31 December 2010

	2010 Rs '000	2009 Rs '000
Subsidiary Company		
Expenses incurred on behalf of subsidiary	6,121	-
Associated company		
Sale of goods and services	14,400	5,745
Purchase of goods and services	2,348,821	2,575,550
Right issue	-	1,623,148
Dividend Income	867,134	616,796
Insurance claim receivable	16,347	-
Reimbursement of expenses from related party	4,757	2,770
Reimbursement of expenses to related party	4,582	1,404
Other related parties		
Gratuity funds	18,930	13,969
Provident funds	28,892	25,726

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

35. Production capacity

As against the annual production capacity of 445,500 tons (2009: 445,500 tons) of urea fertilizer the plant produced 456,120 tons (2009: 513,315 tons) which was 102.38 % (2009: 115.22%) of designed capacity.

36 Post balance sheet events

The Board of Directors at its meeting held on 17 February 2011 has proposed a final cash dividend @ Rs.1 per share amounting to Rs.120,321,780 and 300% stock dividend for the year ended 31 December 2010 for approval of the members at the Annual General Meeting to be held on 6 April 2011. These financial statements do not reflect this proposed dividend.

37. General

37.1 These financial statements have been authorized for issue by the Board of Directors of the Company on 17 February 2011.

37.2 Corresponding figures have been re-classified and re-arranged, where necessary for better presentation as per reporting framework.

37.3 All financial information is presented in Pak Rupee and has been rounded to the nearest thousand

Hussain Dawood
Chairman

Isar Ahmad
Chief Executive

Consolidated Financial Statements

CHEMICALS

KPMG Taseer Hadi & Co.
Chartered Accountants
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Lahore Pakistan

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Auditors' Report to the Members

We have audited the annexed consolidated financial statements of Dawood Hercules Chemicals Limited ("the Holding Company") and its subsidiary company DH Fertilizers Limited (herein after referred as "the Group") comprising consolidated balance sheet as at 31 December 2010 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity, together with the notes forming part thereof, for the year then ended. We have also audited the separate financial statements of Dawood Hercules Chemicals Limited and its subsidiary company DH Fertilizers Limited.

These consolidated financial statements are the responsibility of the Holding Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards requires that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material mistatement. 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 the management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the consolidated financial statements present fairly the consolidated financial position of the Group as at 31 December 2010 and the consolidated results of its operations, its consolidated cash flows and consolidated changes in equity for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

KPMG Taseer Hadi & Co.

Lahore
Date: 17 February 2011

KPMG Taseer Hadi & Co.
Chartered Accountants
(Bilal Ali)

Consolidated Profit and Loss Account

For the year ended 31 December 2010

	Note	2010 Rs '000	2009 Rs '000
Continuing operation			
Sales-net	5	8,715,711	11,040,361
Cost of sales	6	(5,214,376)	(7,080,457)
Gross profit		3,501,335	3,959,904
Distribution expenses	7	(267,724)	(392,030)
Administrative expenses	8	(431,999)	(328,272)
Impairment loss		(2,391)	(3,791,096)
Other operating expenses	9	(115,866)	(159,508)
Other operating income	10	461,853	150,966
Results from operating activities		3,145,208	(560,036)
Finance cost	11	(909,596)	(984,747)
Profit/(loss) before share of associate and tax		2,235,612	(1,544,783)
Share of profit from associate, net of income tax	22	1,955,580	1,331,306
Profit/(loss) before tax		4,191,192	(213,477)
Income tax expenses	12	(943,209)	(924,800)
Profit/(loss) for the year from continuing operation		3,247,983	(1,138,277)
Profit/(loss) attributable to owners of the Company		3,247,983	(1,138,277)
Earnings/(loss) per share - basic and diluted	31	26.99	(9.46)

The annexed notes 1 to 37 form an integral part of these consolidated financial statements.

Hussain Dawood
Chairman

Isar Ahmad
Chief Executive

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	2010 Rs '000	2009 Rs '000
Profit/(loss) for the year	3,247,983	(1,138,277)
Adjustment arising from measurement to fair value of investments	131,780	339,463
Total comprehensive income/(loss) for the year	3,379,763	(798,814)

The annexed notes 1 to 37 form an integral part of these consolidated financial statements.

Hussain Dawood
Chairman

Isar Ahmad
Chief Executive

Consolidated Balance Sheet
As at 31 December 2010

	Note	2010 Rs '000	2009 Rs '000
LIABILITIES			
Share capital and reserves			
Authorized capital			
1,000,000,000 ordinary shares of Rs. 10 each		10,000,000	10,000,000
Issued, subscribed and paid up capital	13	1,203,217	1,093,834
Revenue reserves		21,332,823	18,784,894
Fair value reserve		135,765	3,985
		22,671,805	19,882,713
Non-current liabilities			
Long term loans	14	5,042,000	6,302,500
Deferred taxation	15	616,600	394,500
Staff retirement and other service benefits	16	51,590	44,595
		5,710,190	6,741,595
Current liabilities			
Current portion - long term loan	14	660,500	-
Short term financing - secured	17	45,725	1,196,603
Trade and other payables	18	694,717	648,229
Accrued markup		232,983	280,268
Provision for taxation		686,000	858,000
		2,319,925	2,983,100
Contingencies and commitments	19		
		30,701,920	29,607,408

The annexed notes 1 to 37 form an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2010

	Note	2010 Rs '000	2009 Rs '000
ASSETS			
Non-current assets			
Property, plant and equipment	20	1,871,708	1,340,588
Capital work in progress	21	366,514	734,409
		2,238,222	2,074,997
Investments in associates	22	22,771,696	21,543,286
Long term loans and advances	23	1,680	2,423
Current assets			
Stores, spares and loose tools	24	1,073,544	1,303,300
Stock in trade	25	216,117	83,285
Trade debts		2,131	10,028
Loans, advances, deposits, prepayments and other receivables	26	83,188	92,722
Advance income tax		625,148	819,908
Short term investments	27	2,439,931	3,399,314
Cash and bank balances	28	1,250,263	278,145
		5,690,322	5,986,702
		30,701,920	29,607,408

Hussain Dawood
Chairman

Isar Ahmad
Chief Executive

Consolidated Cash Flow Statement

For the year ended 31 December 2010

	Note	2010 Rs '000	2009 Rs '000
Cash generated from operations	29	3,142,781	3,107,852
Finance cost paid		(956,881)	(980,327)
Taxes paid		(698,348)	(849,759)
Staff retirement and other service benefits paid		(24,906)	(16,205)
Decrease / (Increase) in long term loans and advances		743	(1,164)
Net cash generated from operating activities		1,463,389	1,260,397
Cash flow from investing activities			
Fixed capital expenditure		(393,117)	(833,174)
Proceeds from sale of property, plant and equipment		34,776	7,897
Proceeds from disposal of available for sale investments		1,835,913	1,145,649
Profit on time deposits		63,218	63,670
Investment at fair value through profit or loss		(560,000)	(1,929,785)
Investment in associated company		-	(1,623,148)
Dividends received		867,135	616,796
Net cash generated from/ (used in) investing activities		1,847,925	(2,552,095)
Cash flow from financing activities			
Short term financing		(1,150,878)	1,126,464
Long term loans		(600,000)	-
Dividends paid		(588,318)	(490,559)
Net cash (used in) / generated from financing activities		(2,339,196)	635,905
Net Increase / (decrease) in cash and cash equivalents		972,118	(655,793)
Cash and cash equivalents at the beginning of year		278,145	933,938
Cash and cash equivalents at the end of year	28	1,250,263	278,145

The annexed notes 1 to 37 form an integral part of these consolidated financial statements.

Hussain Dawood
Chairman

Isar Ahmad
Chief Executive

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Share capital	Revenue reserves: General reserve	Revenue reserves: Unappropriated profit	Revenue reserves: Total	Fair value reserve	Total
	Rs '000					
Balance as at 01 January 2009	1,093,834	700,000	19,715,396	20,415,396	(4,126,574)	17,382,656
Total comprehensive loss for the year	-	-	(1,138,277)	(1,138,277)	339,463	(798,814)
Impairment on available for sale investment transferred to profit and loss account as permitted under SRO 150(1)/2009	-	-	-	-	3,791,096	3,791,096
	1,093,834	700,000	18,577,119	19,277,119	3,985	20,374,938
Final cash dividend @15% for the year ended 31 December 2008	-	-	(164,075)	(164,075)	-	(164,075)
1st interim cash dividend @ 15% for the year ended 31 December 2009	-	-	(164,075)	(164,075)	-	(164,075)
2nd interim cash dividend @ 15% for the year ended 31 December 2009	-	-	(164,075)	(164,075)	-	(164,075)
	-	-	(492,225)	(492,225)	-	(492,225)
Balance as at 31 December 2009	**1,093,834**	**700,000**	**18,084,894**	**18,784,894**	**3,985**	**19,882,713**
Balance as at 01 January 2010	1,093,834	700,000	18,084,894	18,784,894	3,985	19,882,713
Total comprehensive income for the year	-	-	3,247,983	3,247,983	131,780	3,379,763
	1,093,834	700,000	21,332,877	22,032,877	135,765	23,262,476
Final cash dividend @ 10% for the year ended 31 December 2009	-	-	(109,383)	(109,383)	-	(109,383)
Final stock dividend @ 10% for the year ended 31 December 2009	109,383	-	(109,383)	(109,383)	-	-
Ist interim cash dividend @ 20% for the year ended 31 December 2010	-	-	(240,644)	(240,644)	-	(240,644)
2nd interim cash dividend @ 20% for the year ended 31 December 2010	-	-	(240,644)	(240,644)	-	(240,644)
	109,383	-	(700,054)	(700,054)	-	(590,671)
Balance as at 31 December 2010	**1,203,217**	**700,000**	**20,632,823**	**21,332,823**	**135,765**	**22,671,805**

Hussain Dawood
Chairman

Isar Ahmad
Chief Executive

Notes to the Consolidated Financial Statements
For the year ended 31 December 2010

1 Legal status and nature of business

1.1 The Dawood Group consists of Dawood Hercules Chemicals Limited ("the Holding Company") and its wholly owned subsidiary company DH Fertilizers Limited ("the Subsidiary Company").

1.2 Dawood Hercules Chemicals Limited ("the Holding 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. DHCL and DH Fertilizers Limited are collectively referred to as ("the Group") in these financial statements.

1.3 DH Fertilizers Limited is a public unlisted company incorporated on 2nd August 2010 in Pakistan under the Companies Ordinance, 1984, for the transfer and vesting of fertilizer business, as referred to in note 1.4. As at 31 December 2010, the issued share capital comprised of six ordinary shares of Rs.10 each, held by six directors of the Holding Company as nominees thereof.

1.4 The Board of Directors in their meeting of 16th June 2010 decided to divide the Holding Company into two companies by separating its fertilizer undertaking from the rest of the undertaking that is to be retained in the Holding Company. In this regard, a wholly owned subsidiary namely DH Fertilizers Limited was incorporated on 2nd August 2010. The division was to be effected through a Scheme of Arrangement under Section 284 to 288 of the Companies Ordinance, 1984 whereby:

(a) the fertilizer undertaking would be transferred and vested in DH Fertilizers Limited against the issuance of ordinary shares of DH Fertilizers Limited to the Holding Company;

(b) the retention of the retained undertaking in the Holding Company and the change of the name of the Holding Company to Dawood Hercules Corporation Limited would then become a Holding Company and oversee the business of new fertilizer subsidiary.

The de-merger required the approval of the Honorable Lahore High Court. After obtaining the requisite approvals from the creditors and the shareholders of the Holding Company, the Lahore High Court approved the Scheme of Arrangement (Scheme) on 27th January 2011, which came into effect on 1st January 2011 (Effective Date). Meanwhile, written order from the court is awaited.

In accordance with the Scheme, the fertilizer business including all assets, liabilities, agreements, arrangements and other matters relating to the fertilizer undertaking were automatically transferred to DH Fertilizers Limited on the Effective Date against the issuance of 99,999,994 Ordinary shares of Rs. 10 each, in addition to existing 6, fully paid ordinary shares of Rs. 10 each plus the share premium. Such share premium is to be based on the difference between the net assets value of the fertilizer undertaking less the related fair value reserves/ surplus of the fertilizer undertaking on the effective date over Rs. 1,000,000,000/- being the paid-up face value of DH Fertilizers Limited.

The retained undertaking comprises of specific assets and liabilities as of the aforementioned effective dates as identified in the Scheme, which among other items include long term investments, short term investments in mutual funds and all reserves excluding fair value reserves on certain investments transferred to DH Fertilizers Limited.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2010

Consequent to restructuring of its businesses by Dawood Hercules Chemicals Limited, effective 1st January 2011, the entire trading operations of fertilizers business of DHCL i.e. production, purchase, import and sale of fertilizers from DHCL will be transferred to DH Fertilizers Limited.

2 Basis of preparation

2.1 Statement of compliance

These consolidated 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 New Accounting Standards and IFRIC interpretations that are not yet effective

The following standards, amendments and interpretations of approved accounting standards are effective from the dates specified below and are either not relevant to the Group's operations or are not expected to have significant impact on the consolidated financial statements other than certain increased disclosures:

- Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after 01 February 2010). The IASB amended IAS 32 to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. This interpretation has no impact on these consolidated financial statements.

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 01 July 2010). This interpretation provides guidance on the accounting for debt for equity swaps. This interpretation has no impact on these consolidated financial statements.

- IAS 24 Related Party Disclosures (revised 2009) – effective for annual periods beginning on or after 01 January 2011. The revision amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The amendment would result in certain changes in disclosures.

- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 01 January 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense. This amendment is not likely to have any impact on these consolidated financial statements.

- Improvements to IFRSs 2010 – In May 2010, the IASB issued improvements to IFRSs 2010, which comprise of 11 amendments to 7 standards. Effective dates, early application and transitional requirements are addressed on a standard by standard basis. The majority of amendments are

Notes to the Consolidated Financial Statements
For the year ended 31 December 2010

effective for annual periods beginning on or after 01 January, 2011. The amendments include list of events or transactions that require disclosure in the interim financial statements and fair value of award credits under the customer loyalty programmes to take into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. Certain of these amendments will result in increased disclosures in these consolidated financial statements.

- Amendments to IAS 12 – Deferred tax on Investment Property (effective for annual periods beginning on or after 01 January 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. The amendment has no impact on these consolidated financial statements.

- Amendments to IFRS 7 - Disclosures – Transfers of Financial Assets (effective for annual periods beginning on or after 01 July 2011). The amendments introduce new disclosure requirements about transfers of financial assets including disclosures for financial assets that are not derecognized in their entirety; and financial assets that are derecognized in their entirety but for which the entity retains continuing involvement. These amendments will result in increased disclosures in these consolidated financial statements.

3 Basis of measurement

These consolidated 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 these consolidated 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 affects both current and future periods. The areas where various assumptions and estimates are significant to consolidated financial statements or where judgments were exercised in application of accounting policies are:

	Note
- retirement and other benefits	4.3
- residual value and useful life of depreciable assets	4.4
- provision for taxation	4.7
- provisions and contingencies	4.14

Notes to the Consolidated Financial Statements
For the year ended 31 December 2010

4 Significant accounting policies

4.1 Basis of consolidation

These consolidated financial statements include the financial statements of DHCL and its wholly owned subsidiary company DH Fertilizers Limited (DHFL), referred to as ("the Group").

Subsidiaries are those enterprises in which parent company directly or indirectly controls, beneficially owns or holds more than 50% of the voting securities or otherwise has power to elect and appoint more than 50% of its directors. The financial statements of the subsidiary are included in the consolidated financial statements from the date control commences until the date that control ceases.

The assets and liabilities of subsidiary company have been consolidated on a line by line basis and the carrying value of investment held by the parent company is eliminated against parent company's share in paid up capital of the subsidiary.

Material intra-group balances and transactions have been eliminated.

4.2 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 Group 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.

4.3 Retirement and other benefits

Defined benefit plan- Gratuity

The Holding 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 Holding company financial statements to cover obligations on the basis of actuarial valuations carried out annually. The most recent valuation was carried out on 31 December 2010 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 2010 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 Group obligations and the fair value of plan assets are amortized over the expected average working lives of the participating employees.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2010

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 2010 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 Holding Company maintains a defined contributory Gratuity Fund for its non-management staff. Monthly contributions are made to the fund by the Holding company as per agreement with the Union.

Provident fund

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

4.4 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 Group 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.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2010

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 Group 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 Group 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.

4.5 Inventories

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

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 Holding Company's requirements are written down to their estimated net realizable value.
Stores and spares in transit	at cost, comprising invoice value plus other charges incurred thereon.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2010

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

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

4.6 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.

4.7 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 utilized.

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.

4.8 Investments

Investment in associate

Associates are those entities in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2010

The consolidated financial statements of the Group include the group'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 Group from the date when significant influence is established until the date when that significant influence ceases. When the Group'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 Group 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 Group'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 Group commits to purchase or sell the investment.

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” are initially recognized on trade date at cost being the fair value of the consideration given and derecognized by the Group 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.

4.9 Financial assets and liabilities

Financial assets and liabilities are recognized when the Group 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, amortized 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 Group derecognizes the financial asset and financial liability when it ceases to be a party to such contractual provisions of the instrument.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2010

4.10 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 Group's 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.

4.11 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 Group will not be able to collect all amounts due according to the original terms of receivables. Bad debts are written off when identified.

4.12 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.

4.13 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.

4.14 Provisions

Provisions are recognized when the Group 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.

4.15 Borrowing costs

Mark-up, interest and other charges on borrowings are capitalized 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.

4.16 Impairment

The Group 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 recognized in income currently. The recoverable amount is higher of an asset's fair value less costs to sell and value in use.

4.17 Related party transactions

The Group 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 Group to do so.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

4.18 Dividend

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

	Note	2010 Rs '000	2009 Rs '000
5 Sales - net			
Own manufactured		7,357,562	7,369,483
Less: Sales tax		25,294	21,120
		7,332,268	7,348,363
Purchased product		1,383,443	3,691,998
		8,715,711	11,040,361
6 Cost of sales			
Raw and packing materials consumed	6.1	1,581,249	1,721,209
Fuel and power		939,352	1,043,771
Catalysts and chemicals		109,294	50,456
Salaries, wages, benefits and staff welfare	6.2	560,483	507,908
Stores and spares consumed		470,136	341,251
Repairs and maintenance		167,286	101,020
Travel and conveyance		63,594	56,768
Rent, rates and taxes		1,873	2,216
Insurance		25,215	22,610
Depreciation	20	182,535	131,273
Communication, stationery and office supplies		2,836	3,537
Health and safety consultancy charges		25,664	2,021
Other expenses		4,486	8,517
		4,134,003	3,992,557
Add: Opening stock of work-in-process		10,367	8,033
Less: Closing stock of work-in-process	25	7,657	10,367
		2,710	(2,334)
Cost of goods manufactured		4,136,713	3,990,223
Add: Opening stock of finished goods		58,218	50,093
Less: Closing stock of finished goods	25	198,382	58,218
		(140,164)	(8,125)
Cost of sales - Own manufactured		3,996,549	3,982,098
Purchased product		1,217,827	3,098,359
		5,214,376	7,080,457

Notes to the Consolidated Financial Statements
For the year ended 31 December 2010

6.1 Raw and packing materials consumed

	Note	2010 Rs '000	2009 Rs '000
Opening stock		14,700	31,442
Add: Purchases		1,576,627	1,704,467
		1,591,327	1,735,909
Less: Closing stock	25	10,078	14,700
		1,581,249	1,721,209

6.2 Salaries, wages, benefits and staff welfare include Rs. 12.231 million (2009: Rs. 9.650 million) in respect of contribution to gratuity funds and Rs. 19.165 million (2009: Rs. 17.367 million) in respect of provident funds.

7 Distribution expenses

	Note	2010 Rs '000	2009 Rs '000
Product transportation and handling cost		132,320	328,664
Salaries, wages, benefits and staff welfare	7.1	67,114	43,844
Communication, stationery and office supplies		2,257	1,796
Rent, rates and taxes		4,617	3,441
Travel and conveyance		1,795	2,837
Insurance		406	467
Depreciation	20	4,035	2,779
Repairs and maintenance		1,605	1,282
Sales promotion, advertising and market development		53,542	6,887
Other expenses		33	33
		267,724	392,030

7.1 Salaries, wages, benefits and staff welfare include Rs. 0.437 million (2009: Nil) in respect of gratuity funds and Rs. 0.412 million (2009: Rs. 0.710 million) in respect of provident funds.

8 Administrative expenses

	Note	2010 Rs '000	2009 Rs '000
Salaries, wages, benefits and staff welfare	8.1	253,297	178,015
Communication, stationery and office supplies		45,459	37,794
Rent, rates and taxes		30,190	24,870
Travel and conveyance		22,996	22,491
Repairs and maintenance		23,920	24,913
Depreciation	20	20,938	15,732
Legal and professional charges		20,207	11,529
Insurance		1,708	1,567
Donations	8.2	1,574	868
Other expenses		11,710	10,493
		431,999	328,272

8.1 Salaries, wages, benefits and staff welfare include Rs. 6.258 million (2009: Rs. 4.318 million) in respect of contribution to staff gratuity funds and Rs. 9.315 million (2009: Rs. 7.649 million) in respect of provident funds.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

	Note	2010 Rs '000	2009 Rs '000
9 Other operating expenses			
Workers' profits participation fund	18.3	94,856	112,702
Workers' welfare fund	9.1	20,000	46,000
Auditors' remuneration:			
Audit fee		750	600
Half year review and other certifications		175	150
Out of pocket expenses		85	56
		115,866	159,508

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 Holding Company.

	2010 Rs '000	2009 Rs '000
9.1 Expense for the period	60,000	46,000
Reversal of prior year excess provision	(40,000)	-
	20,000	46,000

10 Other operating income

	2010 Rs '000	2009 Rs '000
Income from financial assets:		
Realized gain on disposal of short term investments available for sale	179,413	4,194
Realized gain on disposal of investments at fair value through profit or loss	4,049	23,273
Unrealized gain due to fair value adjustment of investment at fair value through profit or loss	3,681	14,822
Profit on bank deposits and others	63,218	63,670
	250,361	105,959
Income from related parties:		
Dividend income from:		
Sui Northern Gas Pipelines Limited	139,964	-
Income from non-financial assets:		
Sale of scrap	12,376	8,976
Profit on sale of property, plant and equipment	12,392	3,170
Liabilities no longer payable written back	7,657	1,472
Insurance claim - related party	16,347	-
Other income	22,756	31,389
	71,528	45,007
	461,853	150,966

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

	Note	2010 Rs '000	2009 Rs '000
11 Finance cost			
Mark-up:			
Short term borrowings		68,803	100,314
Long term loans		840,340	884,172
Interest on workers' profits participation fund	18.3	453	261
		909,596	984,747

12 Income tax expenses

	2010 Rs '000	2009 Rs '000
Current		
- for the year	686,000	858,000
- prior year	35,109	-
Deferred	222,100	66,800
	943,209	924,800

12.1 Reconciliation of tax charge for the year

	2010 %	2009 %
Applicable tax rate	35.00	35.00
Tax effect of amounts that are not deductible for tax purposes	1.55	-
Tax effect of amounts exempt from tax	(1.56)	-
Tax effect of amount taxed at lower rate	(0.83)	-
Tax effect of associate	(11.66)	-
	22.49	-

In view of accounting loss in 2009, tax reconciliation has not been presented for the previous year.

13 Issued, subscribed and paid up capital

2010 Number of shares	2009 Number of shares		2010 Rs '000	2009 Rs '000
13,900,000	13,900,000	Ordinary shares of Rs. 10 each fully paid in cash	139,000	139,000
106,421,779	95,483,436	Ordinary shares of Rs. 10 each issued as bonus shares	1,064,217	954,834
120,321,779	109,383,436		1,203,217	1,093,834

13.1 Reconciliation of Issued, subscribed and paid up capital

	2010 Number of shares	2009 Number of shares
Outstanding as at 01 January	109,383,436	109,383,436
Bonus shares issued during the year	10,938,343	-
Closing as at 31 December	120,321,779	109,383,436

Notes to the Consolidated Financial Statements
For the year ended 31 December 2010

	2010 Number of Shares	2009 Number of Shares
13.2 Shares held by related parties		
Dawood Lawrencepur Limited	19,482,974	17,711,795
Percentage of equity held 16.19% (2009: 16.19%)		
Dawood Corporation (Private) Limited	25,461	23,147
Percentage of equity held 0.02% (2009: 0.02%)		
The Dawood Foundation	4,752,997	4,320,907
Percentage of equity held 3.95% (2009: 3.95%)		
Central Insurance Company Limited	3,574,940	3,249,946
Percentage of equity held 2.97% (2009: 2.97%)		
Patek (Private) Limited	38,821	35,292
Percentage of equity held 0.032% (2009: 0.032%)		
Sach International (Private) Limited	1,749	1,590
Percentage of equity held 0.001% (2009: 0.001%)		

14 Long term loans - participatory redeemable capital - secured

	Note	2010 Rs '000	2009 Rs '000
Opening balance		6,302,500	6,302,500
Redemption during the year under call option		(600,000)	-
Closing balance	14.1	5,702,500	6,302,500
Transfer to current portion		(660,500)	-
Closing balance		5,042,000	6,302,500

14.1 Participatory

	2010 Number of Sukuk Certificates '000	2010 Face value of consolidated Sukuk Certificates Rs '000	2009 Number of Sukuk Certificates '000	2009 Face value of consolidated Sukuk Certificates Rs '000
Banks/Financial Institutions				
Habib Bank Limited	54	2,714,286	60	3,000,000
Meezan Bank Limited	18	904,762	20	1,000,000
Allied Bank Limited	18	904,762	20	1,000,000
United Bank Limited	11	542,857	12	600,000
MCB Bank Limited	13	633,333	14	700,000
Meezan Tahaffuz Pension Fund	-	2,500	-	2,500
Total	114	5,702,500	126	6,302,500

Notes to the Consolidated Financial Statements
For the year ended 31 December 2010

Participatory redeemable capital represents Islamic Sukuk Certificates issued to banks/financial institutions under musharaka arrangements. The facility is secured by a first charge created by way of hypothecation over the specific fixed assets of the Holding 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 Holding Company defaults on any of its obligations, the trustee may enforce the Holding 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	2010 Rs '000	2009 Rs '000
First tranche due on 18 September 2011	661,000	1,103,000
Second tranche due on 18 March 2012	2,521,000	2,600,000
Third tranche due on 18 September 2012	2,521,000	2,600,000
	5,703,000	6,303,000

In case of default in payment, the Holding Company will be liable to pay markup at the rate of 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 Holding 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 Holding 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

	Note	2010 Rs '000	2009 Rs '000
15 Deferred taxation			
Deferred liability arising due to accelerated depreciation allowance		286,520	184,700
Deferred liability arising due to unrealized profits from associate		348,136	225,300
Deferred (asset) arising in respect of provision for compensated absences		(18,056)	(15,500)
		616,600	394,500
16 Staff retirement and other service benefits			
Defined benefit plan funded for management staff	16.1	-	198
Compensated absences	16.3	51,590	44,397
		51,590	44,595
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	143,455	148,767
Fair value of plan assets	16.1.2	(107,904)	(106,171)
Unrecognized actuarial losses		(35,551)	(42,398)
Liability as at 31 December		-	198
Net liability as at 01 January		198	587
Charge to profit and loss account	16.1.3	16,502	11,637
Contribution made by the Company		(16,700)	(12,026)
Liability as at 31 December		-	198
16.1.1 Movement in liability for defined benefit obligation			
Present value of defined benefit obligation as at 01 January		148,767	112,044
Current service cost		16,323	12,808
Interest cost		17,852	16,807
Benefits paid during the year		(40,280)	(9,469)
Actuarial loss on present value of defined benefit obligation		793	16,577
Present value of defined benefit obligation as at 31 December		143,455	148,767

Notes to the Consolidated Financial Statements
For the year ended 31 December 2010

	Note	2010 Rs '000	2009 Rs '000

16.1.2 Movement in fair value of plan assets

Fair value of plan assets as at 01 January		106,171	92,608
Expected return on plan assets		12,740	13,891
Funds receivable from Workers Gratuity Fund		7,990	4,936
Contributions made during the year		16,700	12,026
Benefits paid during the year		(40,280)	(9,469)
Actuarial / (loss) gain on plan assets		4,583	(7,821)
Fair value of plan assets as at 31 December		107,904	106,171

Plan assets consist of the following:

Funds placed under mark up arrangements with banks		88,334	81,235
Investment company		11,580	10,000
Open ended mutual funds		-	10,000
Funds receivable from Workers Gratuity Fund		7,990	4,936
		107,904	106,171

16.1.3 Charge to profit and loss account

Current service cost		16,323	12,808
Interest cost		17,852	16,807
Expected return on plan assets		(12,741)	(13,891)
Contributions receivable from workers gratuity fund		(7,990)	(4,936)
Actuarial loss recognized during the year		3,058	849
		16,502	11,637

16.1.4 Actual return on plan assets of funded gratuity scheme was Rs. 17.323 million (2009: Rs. 6.070 million).

16.1.5 Historical information

	2010	2009	2008	2007	2006
	Rupees in thousands				
Present value of defined benefit obligation	143,455	148,767	112,044	101,938	86,625
Fair value of plan assets	(107,904)	(106,171)	(92,608)	(72,006)	(76,476)
Deficit in the plan	35,551	42,596	19,436	29,932	10,149
Experience adjustment arising on plan liabilities	793	16,577	2,113	11,129	3,139
Experience adjustment arising on plan assets	4,583	(7,821)	10,857	(8,848)	(2,147)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

16.1.6 The Company expects to pay Rs. 20.907 million as contribution to defined benefit plan in 2011.

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

	2010 % per annum	2009 % per annum
Discount rate	13	12
Expected rate of return on plan assets	12	15
Expected rate of increase in salary	12	11

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

16.2 Defined Contributory gratuity funded for non-management staff

	Note	2010 Rs '000	2009 Rs '000
Balance as at 01 January		-	485
Expenses recognized during the year		2,428	2,332
Payments made during the year		(2,428)	(2,817)
Balance as at 31 December		-	-

16.3 Compensated absences

	Note	2010	2009
Balance as at 01 January		44,397	39,091
Expenses recognized during the year	16.3.3	12,972	6,669
Payments made during the year		(5,779)	(1,363)
Balance as at 31 December	16.3.1	51,590	44,397

16.3.1 Movement in liability for defined benefit obligation

	2010	2009
Present value of defined benefit obligation as at 01 January	44,397	39,091
Current service cost	4,921	2,138
Interest cost	5,328	5,864
Benefits paid during the year	(5,779)	(1,363)
Actuarial loss on present value of defined benefit obligation	2,723	(1,333)
Present value of defined benefit obligation as at 31 December	51,590	44,397

16.3.2 Balance Sheet liability as on 31 December

	2010	2009
Present value of defined benefit obligations as on 31 December	51,590	44,397

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

	2010 Rs '000	2009 Rs '000

16.3.3 Charge to profit and loss account

	2010 Rs '000	2009 Rs '000
Current service cost	4,921	2,138
Interest cost	5,328	5,864
Actuarial loss / (gains) charge	2,723	(1,333)
	12,972	6,669

16.3.4 Assumptions used for valuation are as under:

	2010 % per annum	2009 % per annum
Discount rate	13	12
Expected rate of eligible salary increase in future years	12	11

17 Short term financing - secured

	Note	2010 Rs '000	2009 Rs '000
Running finance	17.1	45,725	122,324
Murabaha finance	17.2	-	400,000
Murabaha finance	17.2	-	674,279
		45,725	1,196,603

17.1 This represents utilized portion of short term running finance facilities available from Habib Bank Limited and Habib Metropolitan Bank Limited under mark-up arrangements. This facility aggregates Rs. 1,148 million (2009: Rs. 398 million) and expires on various dates latest by 30 April 2011, carries mark-up at the rate of one month KIBOR plus 150 bps (2009: one month KIBOR plus 150 bps) and 3 months KIBOR plus 75 bps (2009: Nil) respectively. These facilities are secured by pledge of shares held as investments. The market value of these investments as at 31 December 2010 was Rs. 1,658 million (2009: Rs. 595 million).

17.2 These finances have been repaid during the year.

18 Trade and other payables

	Note	2010 Rs '000	2009 Rs '000
Trade creditors			
Related parties	18.1	177,657	228,400
Others		18,722	37,664
		196,379	266,064
Advances from customers		20,486	10,402
Unclaimed dividends		20,130	17,777
Accrued expenses		253,743	117,935
Sales tax payable		1,215	908
Deposits	18.2	25,609	11,423
Workers' profits participation fund	18.3	95,309	112,963
Workers' welfare fund		70,251	96,994
Others		11,595	13,763
		694,717	648,229

Notes to the Consolidated Financial Statements
For the year ended 31 December 2010

18.1 This includes amount payable to M/s SNGPL against purchase of Natural Gas amounting to Rs. 177.61 million (2009: Rs. 228.111 million) and amount payable to M/s Avanceon Limited against purchase of plant spare parts amounting Rs. 044 million (2009 : Nil). The maximum aggregate amount due to related parties at the end of any month during the year was Rs. 248.037 million (2009: Rs. 240.538 million).

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

	Note	2010 Rs '000	2009 Rs '000
18.3 Workers' profits participation fund			
Balance at the beginning of the year		112,963	91,479
Add: Allocation for the year	9	94,856	112,702
Interest on funds used in the Holding Company's business	11	453	261
		208,272	204,442
Less: Amount paid to the fund		112,963	91,479
		95,309	112,963

19 Contingent liabilities and commitments

19.1 Contingent liabilities

	2010 Rs '000	2009 Rs '000
The Holding Company is contingently liable for: Counter guarantees given to the bank	2,171	2,171
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 Holding Company regarding the eligibility of certain machinery and equipment for duty free import under BMR program (contingent liability of capital nature)	2,960	2,960
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)	1,651	1,651
Pending law suits	120	120

19.2 Commitments

	2010 Rs '000	2009 Rs '000
Commitments in respect of contracts for capital expenditure	57,500	253,604
Commitments in respect of store purchases	54,355	158,916

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

20 Property, plant and equipment

Particulars	Reconciliation of net carrying value					Reconciliation of gross carrying value			
	Net book value as at 1 Jan 2010	Additions	Disposals (at NBV)	Depreciation charge	Net book value as at 31 Dec 2010	Cost as at 31 Dec 2010	Accumulated depreciation as at 31 Dec 2010	Net book value as at 31 Dec 2010	Depreciation rate (% per annum)
	Rupees in thousands					Rupees in thousands			
Freehold land	250,657	-	-	-	250,657	250,657	-	250,657	-
Buildings on freehold land	33,194	-	-	3,678	29,516	114,636	85,120	29,516	5.0
Railway siding	23	-	-	-	23	2,314	2,291	23	5.0
Plant and machinery	861,367	705,028	-	135,134	1,431,261	3,472,084	2,040,823	1,431,261	7.5
Catalysts	57,206	-	-	26,254	30,952	216,213	185,261	30,952	10 - 50
Furniture, fittings and equipment	22,771	9,524	63	3,972	28,260	75,155	46,895	28,260	10 - 12.5
Data processing equipment	12,095	9,090	38	6,797	14,350	118,143	103,793	14,350	33.3
Motor vehicles	103,275	37,370	22,283	31,673	86,689	171,028	84,339	86,689	20.0
2010	1,340,588	761,012	22,384	207,508	1,871,708	4,420,230	2,548,522	1,871,708	

Particulars	Reconciliation of net carrying value					Reconciliation of gross carrying value			
	Net book value as at 1 Jan 2009	Additions	Disposals (at NBV)	Depreciation charge	Net book value as at 31 Dec 2009	Cost as at 31 Dec 2009	Accumulated depreciation as at 31 Dec 2009	Net book value as at 31 Dec 2009	Depreciation rate (% per annum)
	Rupees in thousands					Rupees in thousands			
Freehold land	250,657	-	-	-	250,657	250,657	-	250,657	-
Buildings on freehold land	37,074	-	-	3,880	33,194	114,636	81,442	33,194	5.0
Railway siding	23	-	-	-	23	2,314	2,291	23	5.0
Plant and machinery	885,695	61,153	-	85,481	861,367	2,767,056	1,905,689	861,367	7.5
Catalysts	87,453	-	-	30,247	57,206	216,213	159,007	57,206	10 - 50
Furniture, fittings and equipment	9,060	15,575	-	1,864	22,771	65,706	42,935	22,771	10 - 12.5
Data processing equipment	5,771	11,673	-	5,349	12,095	109,507	97,412	12,095	33.3
Motor vehicle	53,048	77,918	4,728	22,963	103,275	183,798	80,523	103,275	20.0
2009	1,328,781	166,319	4,728	149,784	1,340,588	3,709,887	2,369,299	1,340,588	

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

	2010 Rs '000	2009 Rs '000
Cost of sales - (Note 6)	182,535	131,273
Distribution expenses - (Note 7)	4,035	2,779
Administrative expenses - (Note 8)	20,938	15,732
	207,508	149,784

- Property, plant and equipment that are fully depreciated amounts to Rs. 1,076,187,708 (2009: Rs. 819,521,689)

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 in thousands				
Motor Vehicles	Employees					
Prado Jeep	Mr. Shahzada Dawood	10,759	3,048	7,711	8,473	As per Company Policy
Honda Civic VTI Oriel PT	Mr. Nabiel Sawaiz	1,914	64	1,850	1,877	As per Company Policy
Honda Civic VTI Oriel PT	Mr. Farrukh S. Bashir	1,911	191	1,720	1,768	As per Company Policy
Honda Civic	Khawaja Amanullah	1,892	410	1,482	1,584	As per Company Policy
Toyota Corolla GLI	Khawaja Ahmed Arsalan	1,383	184	1,199	1,245	As per Company Policy
Honda Civic	Mr. Akhlaq Mazhar	1,790	597	1,193	1,342	As per Company Policy
Toyota Corolla GLI	Mr. S.M.Amin Saleem	1,393	209	1,184	1,304	As per Company Policy
Toyota Corolla GLI	Ch. Abdul Mughani	1,383	207	1,176	1,228	As per Company Policy
Toyota Corolla GLI	Mr. Imran Bashir	1,383	231	1,152	1,285	As per Company Policy
Suzuki Cultus	Mr. Khalid Pervaiz Qureshi	855	199	656	705	As per Company Policy
Toyota Corolla XLI	Ch. Abdul Mughani	933	327	606	688	As per Company Policy
Honda Civic VTI Oriel PT	Mr. Abdul Ghafoor Gohar	1,501	900	601	825	As per Company Policy
Toyota Corolla GLI	Mr. Shahid Riaz	1,000	617	383	568	As per Company Policy
Suzuki Cultus	Mr. Ashraf Hussain	613	429	184	363	As per Company Policy
Suzuki Alto	Mr. Muhammad Arshad	510	348	162	269	As per Company Policy
Toyota Corolla GLI	Mr. Arshad Mahmood	1,005	871	134	407	As per Company Policy
Toyota Corolla GLI	Mr. Nabiel Sawaiz	1,005	871	134	407	As per Company Policy
Suzuki Cultus	Mr. Iftikhar Ahmad	613	480	133	333	As per Company Policy
Suzuki Cultus	Mr.Tayyab Ahmad	606	475	131	333	As per Company Policy
Hyundai Santro	Mr. Abdul Razzaq	661	540	121	430	As per Company Policy
Toyota Corolla XLI	Mr. Farrukh S. Bashir	906	785	121	317	As per Company Policy
Toyota Corolla GLI	Mr. Abdul Sattar	1,005	904	101	455	As per Company Policy
Aggregate of other items of property, plant and equipment with individual book values not exceeding Rupees 50,000		15,648	15,398	250	8,570	As per Company Policy
		50,669	28,285	22,384	34,776	

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

		Note	2010 Rs '000	2009 Rs '000
21	**Capital work in progress**			
	Plant and machinery		366,514	734,409
22	**Investments in associates**		22,771,696	21,543,286
	Engro Corporation Limited (formerly Engro Chemicals Pakistan Limited)			
	113,620,371 (2009: 81,157,408) ordinary shares of Rs. 10 each		21,543,286	19,205,628
	Add: Cost of Nil (2009: 32,462,963) right shares acquired during the year		-	1,623,148
	Share of post acquisition profits		1,955,580	1,331,306
			23,498,866	22,160,082
	Less: Dividend received during the year		(727,170)	(616,796)
	124,982,408 (2009: 113,620,371) ordinary shares of Rs. 10 each	22.2	22,771,696	21,543,286

Percentage of equity held - 38.13% (2009: 38.13%)

22.1 Market value of investments in associate Rs. 24,223 million (2009: Rs. 20,823 million).

22.2 During the year the Holding Company has received 11,362,037 (2009: Nil) bonus shares from Engro Corporation Limited

22.3 The financial year end of Engro Corporation Limited (ECL) is 31 December, however, due to non-availability of the financial statements of ECL 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.

22.4 **Summarized financial information of ECL is as follows:**

	Note	2010 Rs '000	2009 Rs '000
Total assets as at 30 September		158,605,768	124,193,084
Total liabilities as at 30 September		126,345,289	95,635,234
Revenue (12 months period from 01 October to 30 September)		71,160,915	53,410,778
Profit after taxation (12 months period from 01 October to 30 September)		5,128,045	3,491,037

		Note	2010	2009
23	**Long term loans and advances - unsecured considered good**			
	Executives	23.1 & 23.3	931	1,852
	Other employees	23.2	749	571
			1,680	2,423

Notes to the Consolidated Financial Statements
For the year ended 31 December 2010

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

	2010 Rs '000	2009 Rs '000
Balance as at 01 January	9,875	5,943
Disbursement during the year	6,163	11,549
Promotion of non-executive employees as executives	2,476	864
Loan recovered during the year	(10,865)	(8,481)
Balance as at 31 December	7,649	9,875
Less: Current portion shown under current assets	6,718	8,023
	931	1,852

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. 10.109 million (2009: Rs. 9.875 million)

24 Stores, spares and loose tools

	2010	2009
Stores	417,934	433,462
Spares	823,971	793,661
Loose tools	14,714	13,061
Stores and spares in transit	52,590	298,781
	1,309,209	1,538,965
Less: Provision for obsolete items	235,665	235,665
	1,073,544	1,303,300

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

25 Stock in trade

	2010	2009
Raw and packing materials	10,078	14,700
Material in process	7,657	10,367
Finished goods - own manufactured	198,382	58,218
	216,117	83,285

26 Loans, advances, deposits, prepayments and other receivables

	2010	2009
These receivables are all unsecured and considered good:		
Advances to suppliers for goods and services	26,220	40,118
Advances and loans:		
Executives	6,718	8,023
Employees	9,510	20,677
Prepayments	3,143	2,956
Deposits	2,109	2,109
Insurance claim receivable	16,347	-
Others	19,141	18,839
	83,188	92,722

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

26.1 Chief Executive and directors have not taken any loan/advance from the Holding Company (2009: Nil).

		Note	2010 Rs '000	2009 Rs '000
27	**Short term investments**			
	Available for sale	27.1	1,879,401	2,505,426
	Financial assets at fair value through profit or loss	27.2	560,530	893,888
			2,439,931	3,399,314

27.1 Available for sale

Related parties - Quoted

Sui Northern Gas Pipelines Limited

	2010 Rs '000	2009 Rs '000
100,442,350 (2009: 100,442,350) ordinary shares of Rs. 10 each - at cost	6,282,067	6,282,067
Cost of 30,460,195 (2009: Nil) shares disposed off during the year	(1,905,103)	-
Cost of 69,982,155 shares of Rs. 10 each - at cost	4,376,964	6,282,067
Percentage of equity held: 12.75% (2009: 18.29%)		
Less: Cumulative Impairment loss	2,641,407	3,791,096
	1,735,557	2,490,971
Fair value adjustment	135,765	-
	1,871,322	2,490,971

Others - Quoted

Southern Electric Power Company Limited

	2010 Rs '000	2009 Rs '000
3,622,900 (2009: 6,270,000) ordinary shares of Rs.10 each - at cost	68,431	118,431
Cost of Nil (2009: 2,647,100) shares disposed off during the year	-	(50,000)
Cost of 3,622,900 shares of Rs. 10 each	68,431	68,431
Percentage of equity held: 2.65% (2009: 2.65%)		
Less: Cumulative Impairment loss	60,352	57,961
	8,079	10,470
Fair value adjustment	-	3,985
	8,079	14,455
	1,879,401	2,505,426

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

	Note	2010 Rs '000	2009 Rs '000
27.2 Financial assets at fair value through profit or loss			
ABL Income Fund			
2,917,015.8612 (2009: 29,611,770.2888) units of Rs. 10 each		27,870	288,458
Adjustment arising from measurement to fair value		1,328	7,935
		29,198	296,393
Meezan Cash Fund-Growth Units			
4,199,685.3632 (2009: 5,655,874.2274) units of Rs. 50 each		208,979	293,808
Adjustment arising from measurement to fair value		1,174	3,013
		210,153	296,821
UBL Liquidity Plus Fund-Class C			
800,447.0736 (2009: 2,929,825.0073) units of Rs.100 each		80,000	296,800
Adjustment arising from measurement to fair value		202	3,874
		80,202	300,674
ABL Cash Fund			
24,075,792.1313 (2009: Nil) units of Rs. 10 each		240,000	-
Adjustment arising from measurement to fair value		977	-
		240,977	-
		560,530	893,888
28 Cash and bank balances			
With banks:			
On current accounts		3,605	163,371
On saving accounts			
-local		1,245,327	113,808
-foreign		686	686
	28.1	1,246,013	114,494
Cash in hand		645	280
		1,250,263	278,145

28.1 These carry mark up at the rate ranging from 5% to 10.5% per annum (2009: 5% to 11%).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

29 Cash flow from operating activities

	Note	2010 Rs '000	2009 Rs '000
Profit / (loss) before taxation		4,191,192	(213,477)
Adjustment for non cash expenses and other items:			
Depreciation		207,508	149,784
Finance cost		909,596	984,747
Profit on sale of property, plant and equipment		(12,392)	(3,170)
Profit on sale of short term investments available for sale		(183,462)	(27,467)
Unrealized gain on investment at fair value through profit or loss		(3,681)	(14,822)
Impairment loss on available for sale investments		2,391	3,791,096
Share of profit from associate		(1,955,580)	(1,331,306)
Dividend income		(139,964)	-
Provision for staff retirement and other service benefits		31,901	20,638
Profit on time deposits		(63,218)	(63,670)
		(1,206,901)	3,505,830
Cash flow from operations before working capital changes		2,984,291	3,292,353
Working capital changes:			
Decrease/(Increase) in current assets:			
Stocks, stores and spares		96,924	(271,250)
Trade debtors		7,897	(1,207)
Loans, advances, prepayments and other receivables		9,534	(20,472)
Increase in current liabilities:			
Trade and other payables		44,135	108,428
		158,490	(184,501)
Cash generated from operations		3,142,781	3,107,852

30 Remuneration of Chief Executive, Directors and Executives

	2010			2009		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
	Rupees in thousands			Rupees in thousands		
Managerial remuneration	8,470	31,955	173,283	7,190	39,604	132,227
Retirement benefits including ex-gratia	30,585	24,617	19,731	1,170	3,281	25,780
Rent and utilities	3,760	18,525	56,677	3,762	14,438	46,741
Leave fare assistance	-	298	-	-	596	-
Medical	24	1,417	6,646	-	2,216	7,007
	42,839	76,812	256,337	12,122	60,135	211,755
Number of employees (Including those who worked part of the year)	2	6	98	1	6	89

Chief Executive, 6 directors (2009: 6) and some of the executives of the Group (2009: 89) are provided with cars owned and maintained by the Group.

During the year, Mr. Shahzada Dawood resigned as Chief Executive of the Holding Company w.e.f 30 June 2010 and Mr. Isar Ahmad joined as Chief Executive w.e.f. 1 July 2010.

Meeting fees amounting to Rs. 2,602,000 (2009: 22,000) were paid to 5 directors (2009: 10 directors including Chief Executive).

Notes to the Consolidated Financial Statements
For the year ended 31 December 2010

	Note	2010	2009

31 Earnings/(Loss) per share

Basic and diluted

		2010	2009
Profit/(loss) after taxation	Rs '000	3,247,983	(1,138,277)
Weighted average number of ordinary shares	No. of shares	120,321,779	120,321,779
Earnings/(loss) per share- basic	Rupees	26.99	(9.46)

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

32 Financial Instruments

The Group has exposures to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

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

32.1 Credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties fail completely to perform as contracted and arises principally from trade receivables and investment in debt securities. Out of the total financial assets of Rs. 3,717.47 million (2009: Rs. 3,743.82 million), the financial assets which are subject to credit risk amounted to Rs. 3,717.47 million (2009: Rs.3,734.82 million).

To manage exposure to credit risk in respect of trade receivables, management performs credit reviews taking into account the customer's financial position, past experience and other factors. Furthermore, the Holding company deals its customers receipt against sale on advance basis. The management has set a maximum credit period of one month in respect of its fertilizer sales to reduce the credit risk.

All investing transactions are settled / paid for upon delivery as per the advice of investment committee. The Group's policy is to enter into financial instrument contract by following internal guidelines such as approving counterparties and approving credits.

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 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:

Notes to the Consolidated Financial Statements
For the year ended 31 December 2010

	2010 Rs '000	2009 Rs '000
Available for sale financial assets	1,879,401	2,505,426
Financial assets at fair value through profit or loss	560,530	893,888
Loans, advances, deposits and other receivables	25,793	47,612
Trade debts	2,131	10,028
Bank balances	1,249,618	277,865
	3,717,473	3,734,819

The Group believes that it is not exposed to major concentration of credit risk.

Available for sale investment comprise of ordinary shares of Sui Northern Gas Pipelines Limited and Southern Electric Power Company Limited listed on Stock Exchanges. Financial assets at fair value through profit or loss comprise of investments in Open End Mutual Funds .

The trade debts as at the balance sheet date are classified as follows:

	2010 Rs '000	2009 Rs '000
Domestic	2,131	10,028

The maximum exposure to credit risk before any credit enhancements for trade receivables at the reporting date by type of customer was:

	2010 Rs '000	2009 Rs '000
Trade receivables	2,131	10,028

The aging of trade receivables at the reporting date is:

Past due 1-30 days	215	9,350
Past due 30-150 days	17	37
Past due 150 days	1,899	641
	2,131	10,028

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.

32.2 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group'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 Group has sufficient running finance facilities available from various commercial banks to meet its liquidity requirements. Further liquidity position of the Group is closely monitored through budgets, cash flow projections and comparison with actual results by the Board.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2010

The following are the contractual maturities of the financial liabilities, including estimated interest payments:

	Carrying amount	Contractual Cash flows	Six months or less	Six to tweleve months	One to two years	Two to five years
	Rupees in thousands					
2010						
Financial Liabilities						
Short term financing - secured	45,725	47,257	47,257	-	-	-
Long term finances	5,702,500	6,808,779	162,270	1,070,831	5,575,678	-
Trade and other payables	481,847	481,847	481,847	-	-	-
Accrued markup	232,983	232,983	232,983	-	-	-
	6,463,055	7,570,866	924,357	1,070,831	5,575,678	-
2009						
Financial Liabilities						
Short term financing - secured	1,196,603	1,226,100	1,226,100	-	-	-
Long term finances	6,302,500	8,255,609	182,015	1,033,363	804,053	6,236,178
Trade and other payables	415,539	415,539	415,539	-	-	-
Accrued markup	280,268	280,268	280,268	-	-	-
	8,194,910	10,177,516	2,103,922	1,033,363	804,053	6,236,178

32.3 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 Group's income or the value of its holdings of financial instruments.

32.3.1 Currency risk

The Group is exposed to currency risk on import of raw materials and stores and spares mainly denominated in US dollars and on foreign currency bank accounts. The Goup's exposure to foreign currency risk for US Dollars is as follows:

	2010 Rs '000	2009 Rs '000
Foreign currency bank account	686	686
Outstanding letters of credit	(54,355)	(158,916)
Net exposure	(53,669)	(158,230)

The following significant exchange rate has been applied:

Average rate Reporting date rate

	Average rate		Reporting date rate	
	2010 Rupees	2009 Rupees	2010 Rupees	2009 Rupees
USD to PKR	85.35	81.90	85.90	84.30

Sensitivity analysis

At reporting date, if the PKR had strengthened by 10% against the US Dollar with all other variables held constant, post-tax profit for the year would have been higher by the amount shown below:

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

	2010 Rs '000	2009 Rs '000
Effect on profit and loss		
USD	5,367	15,823
Effect on balance sheet		
USD	-	-

The weakening of the PKR against US Dollar would have had an equal but opposite impact on the post tax loss / profits.

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

32.3.2 Interest rate risk

At the reporting date the interest rate profile of the Group's significant interest bearing financial instruments was as follows:

	Effective rate		Carrying amount	
	2010 %	2009 %	2010 Rs '000	2009 Rs '000
Financial assets				
Financial liabilities				
Variable rate instruments				
Long term loan	13.64 to 14.10	13.64 to 15.19	5,702,500	6,302,500
Short term running finance	12.79 to 14.84	13.07 to 14.67	45,725	1,196,603

Fair value sensitivity analysis for fixed rate instruments

The group does not account for any fixed rate financial assets and liabilities at fair value through profit and 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 decreased / (increased) profit/(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 2009.

	Profit and loss 100 bps	
	Increase Rs '000	Decrease Rs '000
As at 31 Dec 2010		
Cash flow sensitivity-Variable rate financial liabilities	(57,482)	57,482
As at 31 Dec 2009		
Cash flow sensitivity-Variable rate financial liabilities	(70,329)	70,329

Notes to the Consolidated Financial Statements
For the year ended 31 December 2010

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

32.3.3 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). Other price risk arises from the Group's investment in ordinary shares of listed companies. To manage its price risk arising from aforesaid investments, the Group actively monitors the key factors that affect stock price movement.

A 10% increase/decrease in share prices at year end would have decreased/increased the surplus on re-measurement of investments in "available for sale" investments as follows:

	2010 Rs '000	2009 Rs '000
Effect on equity	187,132	1,446
Effect on profit and loss account	808	249,097

32.4 Fair value of financial instruments

The carrying values of other financial assets and financial liabilities reported in balance sheet approximate their fair values.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Valuation techniques using significant un-observable inputs.

Investment in ordinary shares of listed companies is valued using quoted prices in active market, hence, fair value of such investments fall within Level 1 in fair value hierarchy as mentioned above.

32.5 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 Group defines as operating income divided by total capital employed. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Group'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 Group 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 Dec 2010 and at 31 Dec 2009 were as follows:

Notes to the Consolidated Financial Statements
For the year ended 31 December 2010

	2010 Rs '000	2009 Rs '000
Total debt	5,748,225	7,499,103
Less: Cash and Cash equivalents	(1,250,263)	(278,145)
Net Debt	4,497,962	7,220,958
Total equity	22,671,805	19,882,713
Debt-to-equity ratio	20%	36%

The decrease in the debt-to-equity ratio in 2010 resulted primarily due to repayment of long term borrowings and less reliance on short term borrowings

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

33. Operating Segments

The financial information has been prepared on the basis of a single reportable segment.

33.1 Sales from fertilizer products represent 100% (2009: 100%) of total revenue of the Holding Company.

33.2 All sales are made by the Holding Company in Pakistan.

34. Related party transactions

The related parties comprise associated companies, related group companies, directors of the Group, companies where directors also hold directorship and key management employees. The Group 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:

	2010 Rs '000	2009 Rs '000
Associated company		
Sale of goods and services	14,400	5,745
Purchase of goods and services	2,348,821	2,575,550
Right issue	-	1,623,148
Dividend Income	867,134	616,796
Insurance claim receivable	16,347	-
Reimbursement of expenses from related party	4,757	2,770
Reimbursement of expenses to related party	4,582	1,404
Other related parties		
Gratuity funds	18,930	13,969
Provident funds	28,892	25,726

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

35. Production capacity

As against the annual production capacity of 445,500 tons (2009: 445,500 tons) of urea fertilizer, the plant produced 456,120 tons (2009: 513,315 tons) which was 102.38 % (2009: 115.22%) of designed capacity.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

36 Post balance sheet events

The Board of Directors at its meeting held on 17 February 2011 has proposed a final cash dividend @ Rs.1 per share amounting to Rs.120,321,780 and 300 % stock dividend for the year ended 31 December 2010 for approval of the members at the Annual General Meeting to be held on 6 April 2011. These financial statements do not reflect this proposed dividend.

37. General

37.1 These financial statements have been authorized for issue by the Board of Directors of the Group on 17 February 2011.

37.2 Corresponding figures have been re-classified and re-arranged, where necessary for better presentation as per reporting framework.

37.3 All financial information is presented in Pak Rupee and has been rounded to the nearest thousand.

Hussain Dawood
Chairman

Isar Ahmad
Chief Executive

Pattern of Shareholding

As at 31 December 2010
Disclosure Requirement under the Code of Corporate Governance

Details of holding on 31.12.2010

1	**Associated Companies, Undertakings and Related Parties**	
	Dawood Lawrencepur Limited	19,482,974
	Dawood Foundation	4,752,997
	Central Insurance Company Limited	3,574,940
	Patek (Pvt.) Limited	38,821
	Dawood Corporation (Pvt.) Limited	25,461
	Sach International (Pvt.) Limited	1,749
2	**NIT & ICP**	
	National Bank of Pakistan, Trustee Department	530,224
	National Investment Trust Limited	3,033
	Investment Corporation of Pakistan	232
3	**Directors & CEO (including holding of their spouses & minor children)**	
	Mr. Hussain Dawood - Chairman	9,568,379
	Mr. Shahzada Dawood	1,277,904
	Mr. A. Samad Dawood	1,277,904
	Mr. Isar Ahmad - CEO	2,500
	Syed Muhammad Asghar	1
4	**Executives**	298
5	**Public Sector Companies and Corporations**	-
6	**Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas & Mutual Funds**	28,000,390
7	**Shareholders holding ten percent or more shares**	
	Dawood Lawrencepur Limited	19,482,974
	Faisal Private Bank (Switzerland) SA	16,663,267

8 **Details of purchase/sale of shares by Directors/Company Secretary/Chief Financial Officer and their spouses/minor children during the year.**

Mr. Isar Ahmad purchased 2,500 shares on 26-11-2010 @ Rs. 174.88.
Mr. Shahzada Dawood purchased 43,455 shares on 06-12-2010 @ Rs. 169.00.
Mr. Abdul Samad Dawood purchased 43,029 shares on 06-12-2010 @ Rs. 169.00
Mrs. Kulsum Dawood W/o. Mr. Hussain Dawood purchased 43,454 shares on 06-12-2010 @ Rs. 169.00 and gifted 1,277,903 shares to her daughter.
Mr. Aftab Ahmed Qaiser purchased 10 shares on 23-11-2010 @ Rs. 169.99.

Pattern of Shareholding
As at 31 December 2010

Categories of Shareholders	Number of Shareholders	Total Shares Held	Percentage
Individuals	2,654	19,020,070	15.81
Joint Stock Companies	34	68,292,146	56.76
Financial Institutions	12	3,574,072	2.97
Insurance Companies	5	7,154,669	5.95
Investment Companies	5	16,671,520	13.85
Educational/Charitable Institutions	3	4,992,980	4.15
Modarabas	6	37,624	0.03
Mutual Funds	14	562,505	0.47
Leasing Companies	1	1,045	0.00
The Administrator, Abandoned Properties, Government of Pakistan	1	15,145	0.01
Securities & Exchange Commission of Pakistan	1	3	0.00
Total:	**2,736**	**120,321,779**	**100.00**

Pattern of Shareholding

As at 31 December 2010

Shareholding Range		Number of Shareholders	Total Shares Held
From	To		
1	100	495	21,597
101	500	1,397	508,430
501	1,000	300	239,329
1,001	5,000	376	857,044
5,001	10,000	63	453,858
10,001	15,000	24	289,420
15,001	20,000	14	236,218
20,001	25,000	7	161,824
25,001	30,000	11	287,099
30,001	35,000	4	131,513
35,001	40,000	4	155,232
40,001	45,000	3	130,055
45,001	50,000	4	195,832
50,001	55,000	2	104,839
55,001	60,000	1	60,000
75,001	80,000	3	239,304
85,001	90,000	1	89,672
100,001	105,000	1	102,839
120,001	125,000	1	122,984
125,001	130,000	1	128,900
140,001	145,000	1	144,397
200,001	205,000	2	402,988
235,001	240,000	1	237,000
375,001	380,000	1	376,648
435,001	440,000	1	439,500
530,001	535,000	1	530,224
1,275,001	1,280,000	4	5,111,615
1,660,001	1,665,000	1	1,661,727
1,775,001	1,780,000	1	1,779,231
2,950,001	2,955,000	1	2,951,197
3,570,001	3,580,000	1	3,574,940
4,750,001	4,755,000	1	4,752,997
9,060,001	9,065,000	2	18,120,398
9,565,001	9,570,000	1	9,568,379
9,590,001	9,595,000	2	19,188,004
10,820,001	10,825,000	1	10,820,304
16,660,001	16,665,000	1	16,663,267
19,480,001	19,485,000	1	19,482,974
	Total	2,736	120,321,779

DAWOOD HERCULES CHEMICALS LIMITED

FORM OF PROXY

I/We ____
of ______________ being a member of Dawood Hercules Chemicals Limited and holder of ______________ Ordinary Shares, as per:
Share Register Folio No. ______________ and/or
CDC Participant ID No. ______________ Sub A/c No. ______________
hereby appoint Mr./Ms. ____ of ______________________ another member of the Company* (or failing him Mr./Ms. ______________________ of ______________, another member of the Company*) as my/our proxy to attend, speak and vote for me/us and on my/our behalf, at the Forty Third Annual General Meeting of the Company to be held on Wednesday, 6th April 2011 at Hotel Avari, 87- Shahrah-e-Quaid-e-Azam, Lahore, and at any adjournment thereof.

Signed this ______________ day of ______________ 2011.

WITNESSES:

1. Signature: ______________
   Name: ______________
   Address: ______________
   ____
   CNIC No. or ______________
   Passport No. ______________

2. Signature: ______________
   Name: ______________
   Address: ______________
   ____
   CNIC No. or ______________
   Passport No. ______________

Signature on Revenue Stamps of Rupees Five

Signature should agree with the specimen signature with the Company.

* Proxy representing a corporation may or may not himself be a member of the Company.

IMPORTANT:

1. This Proxy Form, duly completed, must be deposited at the Company's Registered Office, not less than forty eight hours before the meeting.
2. CDC shareholders and their proxies are each requested to attach an attested photocopy of their Computerized National Identity Card (CNIC) or Passport with this proxy form before submission to the Company.
3. All proxies attending the AGM are requested to bring their original CNIC/Passport for identification.

AFFIX
CORRECT
POSTAGE

The Company Secretary
Dawood Hercules Chemicals Limited
35-A, Shahrah-e-Abdul Hameed Bin Baadees
(Empress Road), Lahore 54000.


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