

ANNUAL REPORT 2003

DAWOOD HERCULES CHEMICALS LIMITED

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COMPANY INFORMATION

BOARD OF DIRECTORS

Hussain Dawood
Chairman & Chief Executive
Khawaja Amanullah
Shahzada Dawood
Abdul Aziz Moon
Abdul Ghafoor Gohar
S. M. Asghar
A. Samad Dawood

COMPANY SECRETARY

S. M. Asghar

BOARD AUDIT COMMITTEE

Shahzada Dawood
Chairman
Khawaja Amanullah
Member
Abdul Aziz Moon
Member

AUDITORS

Taseer Hadi Khalid & Co.
Chartered Accountants

LEGAL ADVISORS

Hassan & Hassan
Advocates

TAX CONSULTANTS

S. M. Masood & Co
Chartered Accountants

REGISTERED OFFICE

35-A, Shahahe Abdul Hameed Bin Baadees,
Lahore.

PLANT

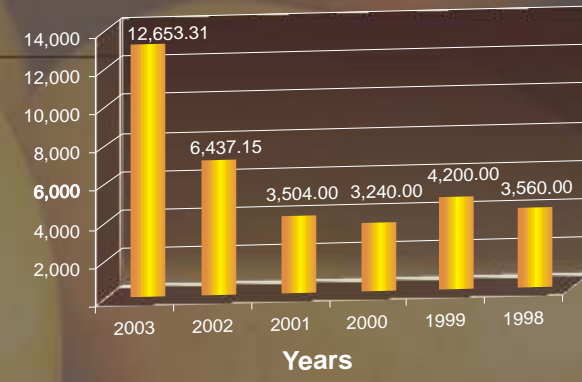
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OPERATING HIGHLIGHTS

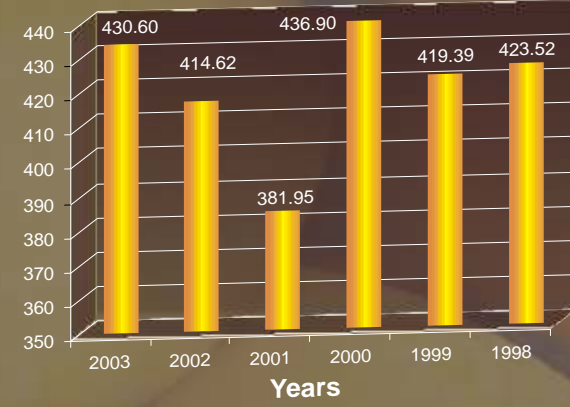
Six Years at a Glance

PARTICULARS	UNIT	2003	2002	2001	2000	1999	1998
A) INCOME STATEMENT							
1 Sales Value	Rs. in Million	2,983	2,810	2,851	2,886	2,215	2,767
2 Gross Profit	Rs. in Million	1,060	1,010	745	970	623	1,242
3 Operating Profit	Rs. in Million	853	886	605	842	504	1,147
4 Profit Before Taxation	Rs. in Million	1,686	1,131	823	1,057	819	1,329
5 Profit After Taxation	Rs. in Million	1,379	793	595	764	622	928
B) DIVIDEND							
1 Cash Dividend	%	100	95	100	100	100	80
2 Stock Dividend	%	Nil	50	20	0	0	20
C) BALANCE SHEET							
1 Total Assets Employed	Rs. in Million	9,098	5,089	4,380	4,197	4,083	3,841
2 Current Assets	Rs. in Million	5,875	2,267	2,111	1,902	1,716	3,247
3 Current Liabilities	Rs. in Million	2,546	520	758	698	963	935
4 Paid Up Capital	Rs. in Million	721	480	480	400	400	400
5 Shareholders' Equity with FVR	Rs. in Million	6,510	4,490	3,535	3,420	3,056	2,834
6 No. of Ordinary Shares	Million	72.06	48.04	48.00	40.00	40.00	40.00
D) RATIO ANALYSIS							
1 Gross Profit	%	36%	36%	26%	34%	28%	45%
2 Earnings Per Share	Rs.	19.13	11.01	12.40	19.10	15.55	23.20
3 Dividend Yield	%	5	7	14	12	10	9
4 Return on Equity	%	21	18	17	22	20	33
5 Break-up Value of Share with FVR	Rs.	90	93	74	86	76	71
6 Market Value of Share	Rs.	175.60	134.00	73.00	81.00	105.00	89
7 Market Capitalization	Rs. in Million	12,653.31	6,437.15	3,504.00	3,240.00	4,200.00	3,560.00
E) PRODUCTION							
1 Designed Production	Thousand mt	445.50	445.50	445.50	445.50	445.50	445.50
2 Actual Production	Thousand mt	430.60	414.62	381.95	436.90	419.39	423.52
3 Capacity Utilization	%	97%	93%	86%	98%	94%	95%
F) OTHERS							
1 Employees	Nos.	498	525	533	554	584	566
2 Capital Expenditure	Rs. in Million	189	11	42	12	12	14
3 Contribution to the National Exchequer	Rs. in Million	857.02	767.12	615.42	632.60	664.57	616.33

Market Capitalization (Rs. in Million)



PRODUCTION (Thousand MT)





NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Thirty-sixth Annual General Meeting (AGM) of DAWOOD HERCULES CHEMICALS LIMITED will, Insha Allah, be held at the Company's Registered Office at 35-A, Shahrah-e-Abdul Hameed Bin Baadees, Lahore at 1100 hours on Friday, 30 April 2004, for the purpose of transacting the following ORDINARY BUSINESS after recitation from the Holy Quran:

1. To confirm the Minutes of the Thirty-fifth Annual General Meeting held on 30 April 2003.
2. To receive, consider and adopt the audited accounts of the Company for the year ended 31 December 2003.
3. To consider and, if thought fit, approve payment of final cash dividend at the rate of Rs 2.00 per share (20%) for the year ended 31 December 2003.
4. To appoint Auditors and to fix their remuneration.

By Order of the Board

LAHORE
March 09, 2004

S. M. ASGHAR
(Company Secretary)

NOTES:

1. The share transfer books of the Company will remain closed from 23 April 2004 to 30 April 2004 (both days inclusive). Transfer documents received in order at the Registered Office of the Company upto 1730 hours on 22 April 2004 will be in time for entitlement to the final dividend and the right to attend the AGM.
2. A Member of the Company who is entitled to attend and vote may appoint another Member as agent, duly authorized under a power of attorney or by proxy, to attend the meeting and to speak/vote instead of him/her. A Corporation being a Member may, however, appoint any person, whether or not a Member of the Company, as its agent. Proxy Form of a Shareholder through Central Depository Company (CDC) must be accompanied with attested copies of NIC or Passport of such Shareholder and his/her proxy. Proxies 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.

3. Beneficial Owners of the Company through CDC or their proxies are requested to bring original NIC or Passport to facilitate identification at the AGM. Representatives of corporate members should bring the usual documents required for such purpose.
4. Shareholders are requested to immediately notify the change of address, if any.





DIRECTORS REPORT

The Board of Directors is pleased to present the thirty-sixth annual report and the audited accounts of the Company for the year ended 31st December 2003.

1. Financial Results

Alhamdulillah, there is an appreciable improvement in the profitability of the Company. This was largely due to enhanced efficiency and better sales in addition to significant increase in other income.

The financial results are as under:

	2003	2002
	Rupees in Million	
Sales	2,983	2,810
Gross profit	1,060	1,010
Operating expenses	(172)	(123)
Operating profit	888	887
Financial Charges	(35)	(1)
Other income	893	310
Other Charges	(60)	(65)
Profit before taxation	1,686	1,131
Provision for taxation	(307)	(338)
Profit after taxation	1,379	793
Un-appropriate profit b/f	1,981	1,884
Profit available for appropriation	<u>3,360</u>	<u>2,677</u>

2. Dividend

The Board of Directors recommended a final cash dividend of Rs. 2.00 per share, representing a total payout of Rs. 10.00 per share for the year on a cumulative basis.

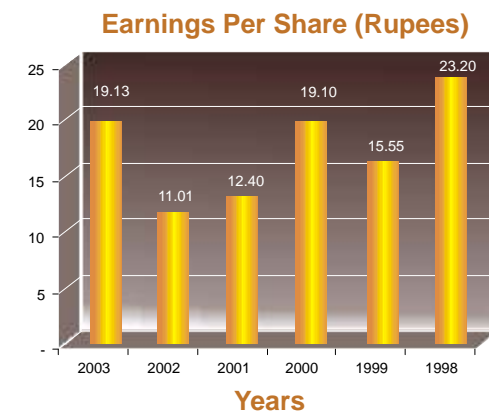
3. Appropriation

The Board recommends the following appropriations of the available profit.

	2003	2002
	Rupees in Million	
Total Profit available for appropriation	3,360	2,677
Appropriations:		
1st Interim cash dividend @ Rs. 4.00 per share (2002: Rs. 5.50)	(289)	(264)
2nd Interim cash dividend @ Rs. 2.00 per share (2002: Rs. 4.00)	(144)	(192)
3rd Interim cash dividend @ Rs. 2.00 per share	(144)	-
Proposed Final Dividend @ Rs. 2.00 per share	(144)	-
Transfer to reserve for Bonus Shares	-	(240)
Un-appropriated profit carried forward	2,639	1,981

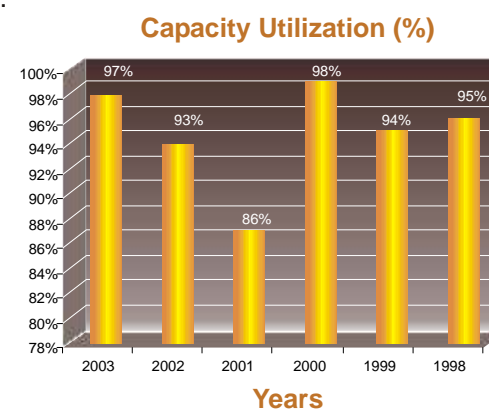
4. Earnings Per Share

Earnings per share for the year is Rs. 19.13 as compared to Rs. 11.01 last year.



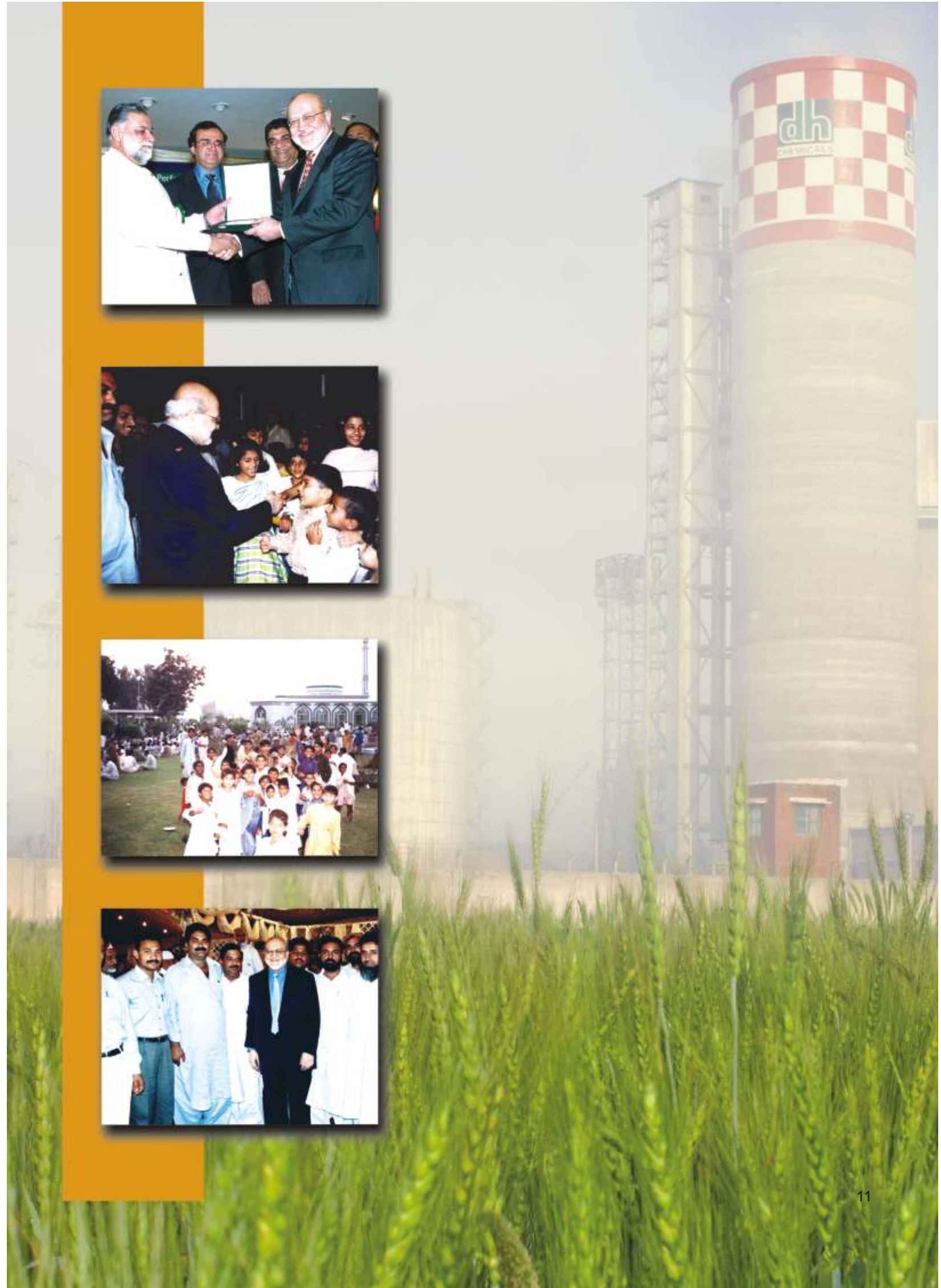
5. Production and Capacity Utilization

During the year under review the Company produced 430,601 mt. of urea as against 414,620 mt last year. There was relatively improved supply of gas resulting in 97% capacity utilization as against 93% last year.



6. Marketing

In spite of imposition of sales tax and intense price competition among the various brands of urea, the market share of Bubber Sher Urea has marginally increased and the sales volume is slightly higher than last year. This was achieved due to improved availability of irrigation water and some improvement in the overall economic environment.



7. Statutory Payment

Details of outstanding statutory dues are included in note No.15 of the Accounts.

8. Board Meetings

The Board of Directors held four meetings during the year for the approval of quarterly, half-yearly and annual reports alongwith other matters of significant importance.

Attendance by each Director (or his alternate) was as under:

Names of Directors	No. of Meetings Attended
Hussain Dawood	4
Shahzada Dawood	3
A. Samad Dawood	2
Khawaja Amanullah	3
A. Aziz Moon	4
A. G. Gohar	4
S. M. Asghar	4

9. Provident and Gratuity Funds

The funded retirement benefits of the employees of the Company are audited at regular intervals and are adequately covered by appropriate investments.

10. Construction of New Prill Tower

The existing prill tower has outlived its useful life. Accordingly the board approved the construction of a new prill tower which is in operation at the time of writing of this report.

11. Dawood Hercules Chemicals Limited Website

Website of the Company has been established in pursuance of the Security and Exchange Commission circular No.13 dated 26th May 2003.

12. Corporate and Financial Reporting

- The financial statements together with the notes thereto have been drawn up by the management in conformity with the Companies Ordinance, 1984. These statements present fairly the Company's state of affairs, the results of its operations, cash flow and changes in equity.
- Proper books of accounts have been maintained by the Company.
- Appropriate accounting policies have been consistently applied in preparation of the financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Accounting Standards, as applicable in Pakistan have been followed in preparation of financial statements and any departure there-from has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the Company's ability to continue as a going concern.

**The Tallest
Civil Structure
in Pakistan**



- There has been no material departure from the best practices of Code of Corporate Governance, as detailed in the listing regulations.
- The annual audited financial statements are circulated within four months of the close of the financial year.
- The operating highlights for the last six years are annexed.

13. Safety

The Company gives utmost importance to the safety of operations and the rules / regulations in this respect are observed strictly.

14. Trading in Company's shares

Directors, CEO, CFO, Company Secretary and their spouses and minor children have made no transaction of Company's shares during the year.

15. Pattern of Shareholdings

Pattern of Shareholdings of the Company as at 31 December 2003, is attached to this report.

16. Auditors

M/s. Taseer Hadi Khalid & Company, Chartered Accountants, 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 36th Annual General Meeting.

17. Compliance with the Code of Corporate Governance

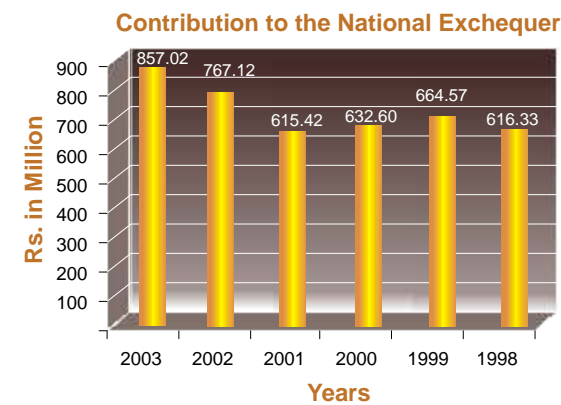
The requirements of the Code of Corporate Governance set out by the Karachi, Lahore and Islamabad Stock Exchanges in their Listing Rules, relevant for the year ended December 31, 2003 are annexed with the report.

18. Tax Demand U/S 12(9A)

The Income Tax Appellate Tribunal, Lahore has upheld Company's appeal and vacated the order of the IAC Income Tax whereby a demand of Rs.223 million had been raised by taxing Reserves of the Company U/S 12(9A) of the Income Tax Ordinance, 1979. As explained in the Annual Report 2002, the tax demand was treated as a contingent liability only and no provision had been made against the demand as the management of your Company was confident that the Company had fulfilled the dividend payout requirement to claim exemption from the applicability of Section 12 (9A).

19. Contribution to National Exchequer

During the year, your Company's contribution to the National Exchequer amounted to Rs. 857.02 Million as compared to Rs 767.12 Million last year.



20. Pending Law Suits

The civil suit filed by Engro Chemicals against the Company was disposed off by the High Court of Sindh on 2nd April 2003.

21. Future Prospects

Due to curtailment of gas supply which is usual in the month of January and construction of prill tower, the plant has remained shut for 48 days in the beginning of 2004.

Considering the loss of production in the 1st quarter of current year and expected increase in the gas price from 1st July 2004 particularly when any increase in the price of urea is likely to adversely effect sales, the prospects of profitability in the current year do not appear to be as good as they were in the previous year.

It may also be mentioned that other income during the year 2004 is not likely to be as good as the previous year.

22. Miscellaneous

Your Company has been pre-qualified by the Privatization Commission to participate in the privatization of Pakarab Fertilizer Limited (Multan), the bidding of which is expected to be held during the year 2004.

23. Staff Relations

The Company continues to benefit from the efforts and dedication of its employees. The Directors are pleased to record their appreciation for the hard work and devotion to duty by all cadres of employees.

On behalf of the Board

LAHORE
March 09, 2004

HUSSAIN DAWOOD
(Chairman & Chief Executive)



VISION / MISSION STATEMENT

- 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.
- 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 ideas are generated and nurtured.
- To inculcate honest and ethical behavior.
- To create safe, healthy environment and friendly atmosphere for the employees.
- To improve quality of life for the employees.

STATEMENT OF ETHICS AND BUSINESS PRACTICES



- Professionalism through Leadership and Integrity.
- Innovation, Teamwork and Partnership.
- Commitment to Quality and Continuous Improvement.
- Long term profitability and growth.

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

The Company is in the process of implementing the requirement of the Code of Corporate Governance issued by the Securities and Exchange Commission of Pakistan and adopted by the Stock Exchanges. Steps are being taken by the management of the Company for its implementation.

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

1. The election of the Board of Directors was held before the Code of Corporate Governance became applicable.
2. None of the members of the Board are directors in more than ten listed companies.
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 DFI or an NBF1 or, being a member of a stock exchange, has been declared as a defaulter by that Stock Exchange.
4. No casual vacancy occurred in the Board during the year.
5. The Company has prepared a "Statement of Ethics and Business Practices", which has been signed by all the Directors and employees of the Company.
6. The Board has developed a vision/mission statement, which is annexed with the report. Significant policies of the Company are in the process of revision and approval.
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 and other Executive Directors, have been taken by the Board.
8. The meetings of the Board were presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings, alongwith agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. During the year, the Board arranged an orientation course for its Directors to further apprise them of their duties and responsibilities.
10. Officers having positions of CFO and Company Secretary were appointed before the Code of Corporate Governance became applicable.
11. 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.

12. The financial statements of the Company were duly endorsed by the CEO and CFO before approval of the Board.
13. 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.
14. The Company has complied with the Corporate and financial reporting requirements of the Code.
15. The Board has formed an Audit Committee. It comprises of three members majority of whom are non-executive Directors.
16. The meetings of the Audit Committee are held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the Committee have been formed and advised to the Committee for compliance.
17. The Company is in the process of setting up an effective internal audit function.
18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the Quality Control Review Programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses are in compliance with international Federation of Accountants (IFAC) guidelines on code of ethics and adopted by Institute of Chartered Accountants of Pakistan.
19. 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.
20. We confirm that the efforts are being made by the Company to become fully compliant with all material principles contained in the Code of Corporate Governance.

LAHORE
March 09, 2004

HUSSAIN DAWOOD
(Chairman & Chief Executive)





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 the respective Stock Exchanges, where the Company is listed.

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 system 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.

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.

LAHORE
March 09, 2004

TASEER HADI KHALID & CO.
(Chartered Accountants)

AUDITORS' REPORT TO THE MEMBERS



We have audited the annexed balance sheet of Dawood Hercules Chemicals Limited ("the Company") as at 31 December 2003 and the related profit and loss account, cash flow statement and statement of changes in equity, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- b) in our opinion:
 - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied,
 - 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;

AUDITORS' REPORT TO THE MEMBERS



We have audited the annexed balance sheet of Dawood Hercules Chemicals Limited ("the Company") as at 31 December 2003 and the related profit and loss account, cash flow statement and statement of changes in equity, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

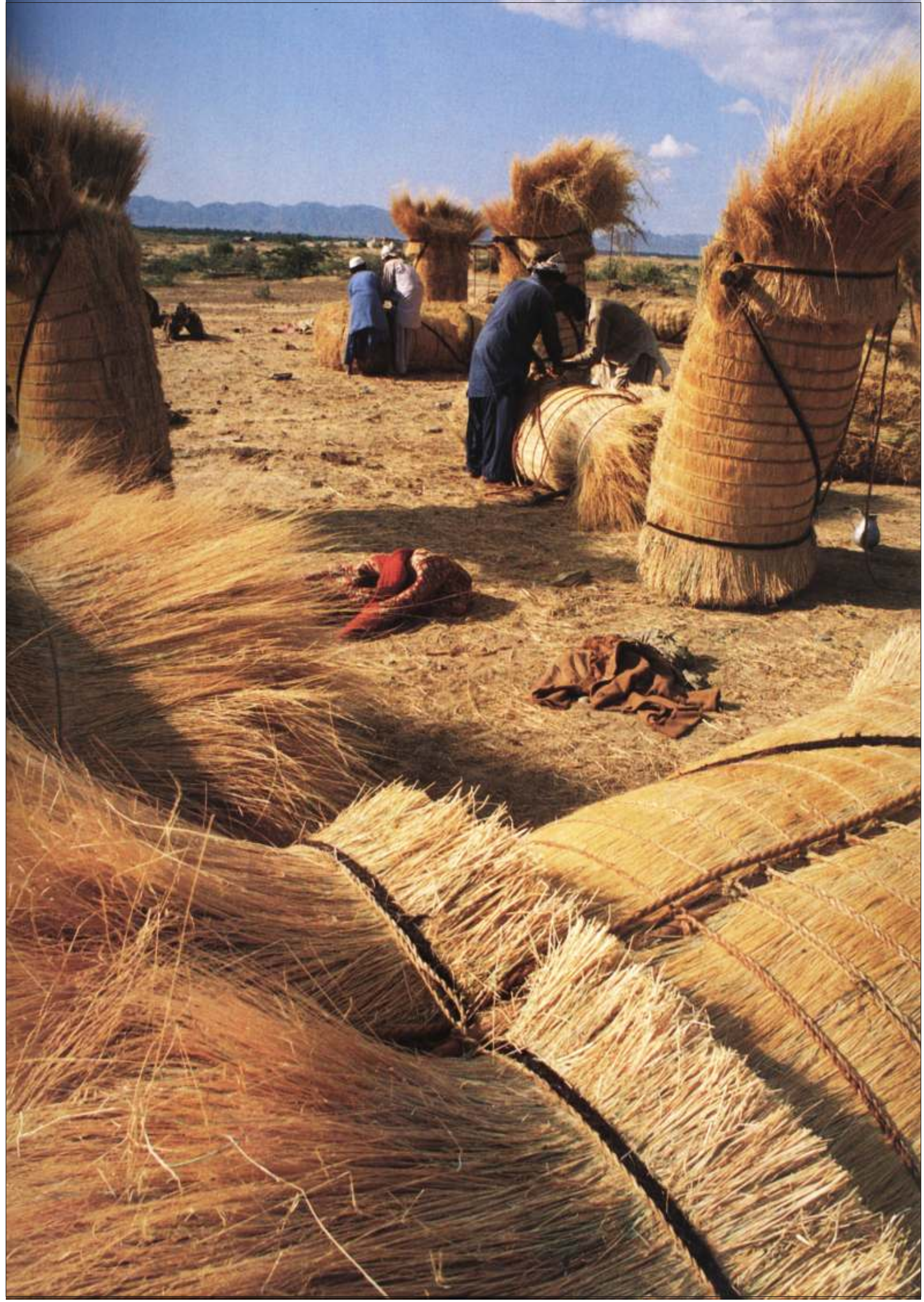
We conducted our audit in accordance with auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis,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

- a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- b) in our opinion:
 - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied,
 - 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, 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 2003 and of the profit, cash flows and changes in equity for the year then ended; and
- d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980, was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

LAHORE
March 09, 2004

TASEER HADI KHALID & CO.
(Chartered Accountants)



**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2003**

	Note	2003 Rupees	2002 Rupees
Sales	3	2,983,374,808	2,809,921,239
Cost of Goods Sold	4	1,923,297,071	1,799,980,351
Gross Profit		<u>1,060,077,737</u>	<u>1,009,940,888</u>
Selling and Administrative Expenses	5	171,729,553	122,998,028
Operating Profit		<u>888,348,184</u>	<u>886,942,860</u>
Financial Charges	6	34,920,815	918,028
Other Income	7	892,429,605	309,854,058
Profit For The Year		<u>1,745,856,974</u>	<u>1,195,878,890</u>
Other Charges	8	60,056,494	64,580,067
Profit before Taxation		<u>1,685,800,480</u>	<u>1,131,298,823</u>
Provision for Taxation	9	307,000,000	338,000,000
Profit after Taxation		<u>1,378,800,480</u>	<u>793,298,823</u>
Earnings Per Share	29	<u>19.13</u>	<u>11.01</u>

The attached notes 1 to 36 form an integral part of these accounts.

LAHORE
March 09, 2004

HUSSAIN DAWOOD
(Chairman & Chief Executive)

KHAWAJA AMANULLAH
(Director)

BALANCE SHEET AS AT 31 DECEMBER 2003

	Note	2003 Rupees	2002 Rupees
LIABILITIES			
Authorised Capital			
100,000,000 ordinary shares of Rs.10 each		<u>1,000,000,000</u>	<u>1,000,000,000</u>
Issued, subscribed and paid up capital	10	720,576,000	480,384,000
Capital reserve for plant BMR		200,000,000	200,000,000
Reserve for bonus shares		-	240,192,000
Revenue reserves		3,138,778,864	2,480,554,384
Fair value reserve on investments		2,306,135,392	1,088,826,650
		6,365,490,256	4,489,957,034
Deferred Liabilities			
Deferred taxation	11	1,600,000	(700,000)
Retirement and other service benefits	12	41,177,939	78,941,500
		42,777,939	78,241,500
Current Liabilities			
Short term financing - Secured	13	1,797,183,538	-
Creditors, accrued and other liabilities	14	748,438,646	520,379,618
Proposed dividend		144,115,200	-
		2,689,737,384	520,379,618
Contingencies and Commitments			
	15	<u>9,098,005,579</u>	<u>5,088,578,152</u>

The attached notes 1 to 36 form an integral part of these accounts.

LAHORE
March 09, 2004

BALANCE SHEET AS AT 31 DECEMBER 2003

	Note	2003 Rupees	2002 Rupees
ASSETS			
Fixed Assets			
At cost less accumulated depreciation	16	249,349,259	296,651,457
Capital work in progress	17	160,133,674	555,008
		<u>409,482,933</u>	<u>297,206,465</u>
Long Term Investments	18	2,758,000,595	2,487,009,754
Long Term Loans and Advances	19	954,885	798,375
Deferred Costs	20	54,075,833	36,834,254
Current Assets			
Stores, spares and loose tools	21	650,455,635	534,400,630
Stocks	22	103,639,755	121,636,535
Trade debtors	23	5,489,077	7,048,731
Loans, advances, prepayments and other receivables	24	301,376,936	53,310,851
Short term investments	25	3,428,734,001	-
Cash and bank balances	26	1,385,795,929	1,550,332,557
		<u>5,875,491,333</u>	<u>2,266,729,304</u>
		<u><u>9,098,005,579</u></u>	<u><u>5,088,578,152</u></u>

HUSSAIN DAWOOD
(Chairman & Chief Executive)

KHAWAJA AMANULLAH
(Director)

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2003

	Note	2003 Rupees	2002 Rupees
CASH FLOW FROM OPERATING ACTIVITIES			
Profit before taxation for the year		1,685,800,480	1,131,298,823
Adjustment of items not involving movement of cash:			
Depreciation charged to profit & loss account		77,084,897	81,953,689
Amortization of deferred costs		12,241,789	12,854,846
Provision for gratuity		10,782,244	16,933,805
Financial charges		34,920,815	918,028
Interest from deposits / bonds		(15,042,125)	(77,233,794)
Exchange loss		548	11,348,584
Profit on sale of fixed assets		(1,222,022)	(249,090)
Profit on sale of short term investments		(423,755,130)	-
Dividend income		(450,069,763)	(202,635,232)
Provision for other benefit plans		(6,891,605)	(733,573)
		<u>(761,950,352)</u>	<u>(156,842,737)</u>
Profit before working capital changes		923,850,128	974,456,086
(Increase)/decrease in current assets:			
Stocks, stores and spares		(98,058,225)	(25,372,816)
Trade debtors		1,559,654	521,145
Loans, advances, prepayments and other receivables		(1,386,350)	3,539,034
Increase in current liabilities:			
Creditors and accrued expenses		194,715,803	18,560,468
		<u>96,830,882</u>	<u>(2,752,169)</u>
Cash generated from operations		<u>1,020,681,010</u>	<u>971,703,917</u>
Financial charges paid		(14,710,495)	(918,028)
Taxes paid		(378,600,683)	(275,702,411)
Gratuity paid		(41,654,200)	(9,914,629)
Deferred cost		(29,483,368)	(18,470,071)
(Increase) in long term loans & advances		(156,510)	(133,290)
Net cash inflow from operating activities		<u>556,075,754</u>	<u>666,565,488</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Fixed capital expenditure		(189,393,059)	(11,072,631)
Sale proceeds of fixed assets		1,253,716	543,497
Profit on time deposits		20,463,073	75,544,865
Sale proceeds from disposal of investments		4,274,149,824	-
Short term investment in shares		(6,332,810,794)	-
Dividend income from shares		271,869,763	202,635,232
Net cash (outflow)/inflow from investing activities		<u>(1,954,467,477)</u>	<u>267,650,963</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Short term financing		1,797,183,538	-
Dividends paid		(563,327,895)	(712,508,858)
Net cash inflow/(outflow) from financing activities		<u>1,233,855,643</u>	<u>(712,508,858)</u>
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		<u>(164,536,080)</u>	<u>221,707,593</u>
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		1,550,332,557	1,339,973,548
EFFECT OF EXCHANGE RATE CHANGES		(548)	(11,348,584)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	26	<u>1,385,795,929</u>	<u>1,550,332,557</u>

The attached notes 1 to 36 form an integral part of these accounts.

LAHORE
March 09, 2004

HUSSAIN DAWOOD
(Chairman & Chief Executive)

KHAWAJA AMANULLAH
(Director)

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2003

	Share Capital	Capital Reserve	Bonus shares Reserve	Revenue Reserves		Total Revenue Reserve	Fair value Reserve	Total
				General Reserve	Unappropriated Profit			
Balance as at 1 January 2002	480,384,000	200,000,000	-	500,000,000	1,883,812,361	2,383,812,361	-	3,064,196,361
Net profit for the year 2002	-	-	-	-	793,298,823	793,298,823	-	793,298,823
Adjustment arising from measurement to fair value of investment	-	-	-	-	-	-	1,088,826,650	1,088,826,650
	480,384,000	200,000,000	-	500,000,000	2,677,111,184	3,177,111,184	1,088,826,650	4,946,321,834
Appropriations								
1st interim dividend @ 55%	-	-	-	-	(264,211,200)	(264,211,200)	-	(264,211,200)
2nd interim dividend @ 40%	-	-	-	-	(192,153,600)	(192,153,600)	-	(192,153,600)
Transfer to reserve for bonus shares	-	-	240,192,000	-	(240,192,000)	(240,192,000)	-	-
	-	-	240,192,000	-	(696,556,800)	(696,556,800)	-	(456,364,800)
Balance as at 31 December 2002	480,384,000	200,000,000	240,192,000	500,000,000	1,980,554,384	2,480,554,384	1,088,826,650	4,489,957,034
Bonus shares issued	240,192,000	-	(240,192,000)	-	-	-	-	-
Net profit for the year ended 31 December 2003	-	-	-	-	1,378,800,480	1,378,800,480	-	1,378,800,480
Adjustment arising from measurement to fair value of investment	-	-	-	-	-	-	1,217,308,742	1,217,308,742
	720,576,000	-	-	500,000,000	3,359,354,864	3,859,354,864	2,306,135,392	7,086,066,256
Appropriations								
1st interim dividend @ 40%	-	-	-	-	(288,230,400)	(288,230,400)	-	(288,230,400)
2nd interim dividend @ 20%	-	-	-	-	(144,115,200)	(144,115,200)	-	(144,115,200)
3rd interim dividend @ 20%	-	-	-	-	(144,115,200)	(144,115,200)	-	(144,115,200)
Proposed final dividend @ 20%	-	-	-	-	(144,115,200)	(144,115,200)	-	(144,115,200)
	-	-	-	-	(720,576,000)	(720,576,000)	-	(720,576,000)
Balance as at 31 December 2003	720,576,000	200,000,000	-	500,000,000	2,638,778,864	3,138,778,864	2,306,135,392	6,365,490,256

The attached notes 1 to 36 form an integral part of these accounts.

LAHORE
March 09, 2004

HUSSAIN DAWOOD
(Chairman & Chief Executive)

KHAWAJA AMANULLAH
(Director)

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003

1. LEGAL STATUS AND NATURE OF BUSINESS

Dawood Hercules Chemicals Limited is a public limited company. It was incorporated in Pakistan in 1968 under the Companies Act 1913 (now Companies Ordinance 1984) and is listed on Karachi and Lahore Stock Exchanges. The principal activity of the Company is production of urea fertilizer.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Accounting convention

These accounts have been prepared under the historical cost convention, modified by capitalization of exchange differences referred to in note 2(e) & 2(h), except for available for sale investments, which have been recognized at fair value and recognition of certain staff retirement benefits at present value.

b) Statement of Compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and the requirements of Companies Ordinance, 1984. Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever, the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of Companies Ordinance, 1984 or the requirements of the said directives take precedence.

c) Revenue recognition

Sales of products and services are recorded on dispatch of goods / products to customers or performance of services.

Interest income is recognized on a time proportion basis.

Dividend income is recognized when the right to receive payment is established.

d) Staff retirement benefits

The Company operates an approved funded gratuity scheme for its management staff. Actuarial valuations were carried out in January 2004 to determine and adjust the liability on the balance sheet date. The Actuary for ascertaining the fair value of assets and liabilities has adopted projected unit credit method.

Assumptions used for valuation for the scheme are as under:

	Per annum
- Discount rate	8%
- Expected rate of mark up on investment	9%
- Expected rate of increase in salary	7%

The Company recognizes actuarial gains / losses over the expected future service of current members.

The Company maintains a defined contributory gratuity fund for its non-management staff.

The Company also operates approved contributory provident funds for all employees.

The Company also accounts for the encashable leave benefits of its employees under the Employees Service Rules.

e) Fixed assets

Fixed assets are stated at cost less accumulated depreciation except for Land and Capital

Work in Progress, which are stated at cost. Cost in relation to plant and machinery also includes exchange differences on foreign currency loans obtained to finance the acquisition. The Company provides depreciation under the straight-line method so as to write off the historical cost of an asset over its estimated useful life at the following rates:

	Rate as percentage of cost
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

Depreciation is provided at the above rates subject to 1% retention of the original cost.

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 preceding the month of disposal.

Maintenance and normal repairs are charged to income as and when incurred. Profit / loss on disposal of fixed assets is included in income currently.

f) Deferred costs

Initial catalyst costs in ammonia plant are capitalized whereas subsequent replacement of such catalysts are deferred and amortized proportionately over the period estimated to be benefited, not exceeding five years.

g) Stocks, stores and spares

Stocks are valued at the lower of cost and net realizable values. Cost is determined as follows:

Stocks	
Raw materials	at moving average cost
Materials in process	at average cost
Finished goods	at the lower of cost and net realizable value.

Stores, spares and loose tools at moving average cost. Items which are identified as slow moving and as surplus to the Company's requirements are written down to their estimated net realizable value.

Stores and spares in transit at cost i.e. comprising invoice value plus other charges incurred thereon.

h) Foreign currencies

Transactions in foreign currencies are recorded using the rates applicable on the date of transaction while assets and liabilities in foreign currencies are converted into rupees at the rates of exchange prevailing at the balance sheet date.

Exchange differences on loans utilized for the acquisition of plant and machinery are capitalized.

All other exchange gains and losses on conversion are included in income currently.

i) Taxation

Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits available, if any.

Deferred

The Company accounts for deferred taxation, using the liability method, on all material timing differences. 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 is calculated at the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date.

j) Investments

Investments are classified as "Available for Sale". These are initially recognized at cost and subsequently carried at fair value at the balance sheet date. Fair value is determined on the basis of year-end bid prices obtained from stock exchange quotations. 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. Cost of purchase includes transaction cost.

Changes in carrying values are recognized in equity until investments are sold or determined to be impaired at which time the cumulative gain or loss previously recognized in equity is included in profit and loss account for the year.

k) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. The particular measurement methods adopted are disclosed in the individual policy statements associated with each items.

Financial assets are de-recognized when the Company loses control of contractual rights that comprise the financial asset. Whereas financial liabilities are de-recognized when the obligation specified in the contract is discharged, cancelled, or expires.

l) Trade debts

Trade debts are carried at original invoice amount less an estimate made for doubtful debts based on a review of all outstanding amounts at the year end. Bad debts are written off when identified.

m) 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 on hand and term deposits.

n) Creditors, accrued and other liabilities

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in future for goods and services.

o) Provisions

Provisions are recorded when the Company has a present obligation as a result of past event which it is probable will result in an outflow of economic benefits and a reliable estimate can be made of the amount of the obligation.

p) Borrowing costs

Markup/interest is charged to income, as and when incurred.

q) 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.

	Note	2003 Rupees	2002 Rupees
3. SALES			
Own manufactured		3,432,573,491	3,227,259,069
Less: Sales tax		(449,198,683)	(417,551,073)
		<u>2,983,374,808</u>	<u>2,809,707,996</u>
Purchased product		-	245,229
Less: Sales tax		-	(31,986)
		<u>-</u>	<u>213,243</u>
		<u><u>2,983,374,808</u></u>	<u><u>2,809,921,239</u></u>
4. COST OF GOODS SOLD			
Opening stock of work in process & finished goods		105,865,139	122,783,941
Cost of goods produced			
Raw materials:			
Opening stock		15,771,396	9,154,778
Purchases		801,172,252	715,430,136
		<u>816,943,648</u>	<u>724,584,914</u>
Closing stock		23,147,316	15,771,396
		<u>793,796,332</u>	<u>708,813,518</u>
Raw material consumption		793,796,332	708,813,518
Fuel and power		517,712,333	512,484,147
Catalysts and chemicals		37,282,245	40,005,643
Salaries, wages, benefits and staff welfare	4.1	298,306,474	268,910,241
Stores and spares consumed		105,438,683	110,668,788
Repairs and maintenance		22,598,870	20,601,968
Travel and conveyance		25,490,514	24,348,280
Rent, rates and taxes		3,803,590	1,938,538
Insurance		13,496,810	12,891,143
Depreciation	16	70,633,601	77,297,611
Communication, stationery & office supplies		3,175,022	3,009,556
Other expenses		6,189,897	1,768,440
		<u>1,897,924,371</u>	<u>1,782,737,873</u>
		<u>2,003,789,510</u>	<u>1,905,521,814</u>
Closing stock of work in process and finished goods		80,492,439	105,865,139
Cost of goods sold - own manufactured		<u>1,923,297,071</u>	<u>1,799,656,675</u>
- purchased product		-	323,676
		<u><u>1,923,297,071</u></u>	<u><u>1,799,980,351</u></u>

4.1 Salaries, wages, benefits & staff welfare

Salaries, wages, benefits & staff welfare include Rs.7,573,257 (2002: Rs. 13,865,991) in respect of staff gratuity fund.

	Note	2003 Rupees	2002 Rupees
5. SELLING AND ADMINISTRATIVE EXPENSES			
Salaries, wages, benefits and staff welfare	5.1	78,322,245	71,256,309
Rent, rates and taxes		14,048,403	8,414,171
Insurance		451,666	351,775
Travel and conveyance		9,855,233	11,405,852
Sales promotion, advertising, market development		5,909,452	5,401,928
Legal and professional charges		32,615,279	4,481,240
Donations	31	184,500	83,500
Depreciation	16	6,451,296	4,656,078
Repairs & maintenance		9,571,370	5,479,379
Communication, stationery and office supplies		13,007,454	9,915,199
Other expenses		1,312,655	1,552,597
		<u>171,729,553</u>	<u>122,998,028</u>
5.1 Salaries, wages, benefits and staff welfare include Rs.3,208,987 (2002: Rs. 3,067,814) in respect of staff gratuity fund.			
6. FINANCIAL CHARGES			
Mark up on short term financing		33,463,566	918,028
Interest on worker's profit participation fund		1,082,000	-
Interest on worker's gratuity fund		375,249	-
		<u>34,920,815</u>	<u>918,028</u>
7. OTHER INCOME			
Dividend income		450,069,763	202,635,232
Income from deposits / bonds		15,042,125	77,233,794
Foreign exchange conversion loss		(548)	(11,348,584)
Profit on sale of short term investments		423,755,130	-
Sale of scrap		159,240	5,574,201
Profit on sale of fixed assets		1,222,022	249,090
Miscellaneous		2,181,873	35,510,325
		<u>892,429,605</u>	<u>309,854,058</u>
8. OTHER CHARGES			
Workers' profits participation fund		42,651,099	44,286,567
Workers' welfare fund		17,000,000	20,000,000
Auditors' remuneration:			
Audit fee		300,000	200,000
Interim review and other charges		79,895	68,000
Out of pocket expenses		25,500	25,500
		<u>60,056,494</u>	<u>64,580,067</u>

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.

	2003 Rupees	2002 Rupees		
9. PROVISION FOR TAXATION				
Current - for the year	304,700,000	353,500,000		
Deferred - for the year	1,650,000	(15,500,000)		
- for prior years	650,000	-		
	<u>307,000,000</u>	<u>338,000,000</u>		
9.1 Reconciliation of tax charge for the year				
	%	%		
Applicable tax rate	35	35		
Add: Tax effect of amounts that are not deductible for tax purposes	1	-		
Less: Tax effect of amounts exempt from tax	(9)	-		
Tax effect of rebates and tax credit	(9)	(5)		
Average effective rate charged on income	<u>18</u>	<u>30</u>		
10. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL				
13,900,000 ordinary shares of Rs. 10 each fully paid in cash (2002:13,900,000)	139,000,000	139,000,000		
58,157,600 ordinary shares of Rs.10 each issued as fully paid bonus shares (2002: 34,138,400)	<u>581,576,000</u>	<u>341,384,000</u>		
<u>72,057,600</u> Paid up capital	<u>720,576,000</u>	<u>480,384,000</u>		
11. DEFERRED TAXATION				
Deferred liability arising due to accelerated depreciation allowance	21,100,000	38,600,000		
Deferred debits arising in respect of provision for gratuity and other timing differences	<u>(19,500,000)</u>	<u>(39,300,000)</u>		
	<u>1,600,000</u>	<u>(700,000)</u>		
12. RETIREMENT BENEFITS	<u>41,177,939</u>	<u>78,941,500</u>		
12.1 Movements in net liability recognized				
	Funded Defined Benefit Plan	Defined Contribution Plan		
Opening balance	578,408	33,284,958	33,863,366	26,844,190
Expense recognized	8,599,077	2,183,167	10,782,244	16,933,805
Payments made	<u>(6,186,075)</u>	<u>(35,468,125)</u>	<u>(41,654,200)</u>	<u>(9,914,629)</u>
	<u>2,991,410</u>	-	2,991,410	33,863,366
Other benefit plans			<u>38,186,529</u>	<u>45,078,134</u>
Balance as on 31 December			<u>41,177,939</u>	<u>78,941,500</u>

Other benefit plans represent liability towards employees' encashable leave benefits.

	Note	2003 Rupees	2002 Rupees
12.2 Net liability			
Present value of defined obligation		74,514,461	66,233,629
Less: Fair value of plan assets		(68,550,166)	(63,672,494)
Un-recognized actuarial losses		(2,972,885)	(1,982,727)
		<u>2,991,410</u>	<u>578,408</u>
12.3 Amounts charged to profit and loss account			
Current service cost		5,103,489	5,090,512
Interest cost		5,961,027	7,063,692
Expected return on plan assets		(5,730,524)	(6,654,478)
Increase due to change in 'frozen gratuity		3,265,085	-
		<u>8,599,077</u>	<u>5,499,726</u>
13. SHORT TERM FINANCING - SECURED			
These represent utilized portion of short-term finance facilities available from various banks under mark-up arrangements. These facilities aggregated to Rs. 3,144 million (2002:Rs.NIL) and expire on various dates latest by 31 December 2004, carrying mark-up ranging between 2.6% to 4% per anum. The facilities availed are secured by pledge of shares held as investments.			
14. CREDITORS, ACCRUED AND OTHER LIABILITIES			
Trade creditors		222,769,753	241,825,035
Amount due to associated undertakings (Maximum 2003: 8,693,137) (Maximum 2002: 12,182,914)	14.1	176,168,330	348,989
Accrued expenses		96,676,353	84,741,776
Unclaimed dividends		75,536,493	62,403,588
Sales tax payable		56,994,588	46,305,460
Workers' profits participation fund	14.2	42,651,099	22,709,445
Others		35,486,842	36,841,670
Interest accrued on short term financing		20,210,320	-
Workers' welfare fund		17,000,000	20,000,000
Accrued capital expenditure		2,950,558	2,950,558
Deposits	14.3	1,994,310	2,253,097
		<u>748,438,646</u>	<u>520,379,618</u>
14.1 This amount represents advance received against sale of urea. (2002:Rs.NIL)			
14.2 Workers' profits participation fund			
Balance at the beginning of the year		22,709,445	65,497,984
Add: allocation for the year		42,651,099	44,286,567
Interest on funds used in the Company's business		1,082,000	-
		<u>66,442,544</u>	<u>109,784,551</u>
Less: amount paid to the fund		(23,791,445)	(51,809,982)
excess provision written back		-	(21,577,122)
excess interest written back		-	(13,688,002)
		<u>42,651,099</u>	<u>22,709,445</u>
14.3 The above deposits are interest free and repayable on demand or otherwise adjustable in accordance with the company's policy.			

15. CONTINGENT LIABILITIES AND COMMITMENTS

15.1 Contingent Liabilities

The Income Tax Appellate Tribunal, Lahore have upheld the Company's appeal and vacated the order of IAC Income Tax whereby a demand of Rs. 223 million had been raised by taxing the Reserves of the Company u/s 12(9A) of the Income Tax Ordinance 1979. The Company did not make any provision for this demand and the amount was shown as contingent liability in the Annual Accounts 2002.

The Enquiry Officer, War Risks Insurance has assessed the insured value of the Company's assets at amounts substantially higher than those valued by the Company. In addition, he has raised demand of Rs. 5,379,379 for interest and surcharge on the additional premium assessed by him. The Company has appealed before the Secretary, Ministry of Commerce against the Assessment Order and Notice of Demand that all proceedings related therewith may be withdrawn and declared null and void. The Company is confident that the Interest and Surcharge shall be waived off and, therefore, pending decision of the Appeal, no provision has been made for the said amount of Rs. 5,379,379.

The Company is also contingently liable for:

Counter guarantees given to the bank	Rs. 2,171,467 (2002: Rs. 2,171,467)
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Indemnity bonds/guarantees given to Customs authorities equivalent to duties chargeable on import of machinery payable if matter is decided by the CBR against the Company regarding the eligibility of certain machinery and equipment for duty free import under BMR programme (contingent liability of capital nature)	Rs. 46,708,480 (2002: Rs. 46,384,637)
---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------

Indemnity bonds given to Customs authorities equivalent to duties chargeable on import of machinery if matter is decided by the CBR against the Company regarding the eligibility of certain machinery and equipment for duty free import under BMR programme (contingent liability of capital nature)	Rs. 1,650,770 (2002: Rs. 1,650,770)
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Guarantees issued in favor of Electric Inspector Punjab Government in respect of duty on self electric generation.	Rs. 5,261,261 (2002: Rs. Nil)
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Pending law suits	Rs. 120,000 (2002: Rs. 120,000)
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The civil suit filed by Engro Chemicals Pakistan Limited against the Company was disposed off by the High Court of Sindh on 2 April 2003 in the light of the Compromise Agreement arrived at among the concerned parties.

Commitments

Commitments in respect of contracts for capital expenditure	Rs. 48,401,460 (2002: Rs. Nil)
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These represent commitments against construction of prill tower.

16. FIXED ASSETS - at cost less accumulated depreciation

	C O S T				D E P R E C I A T I O N				NET	
	At	Of	Of	At	At	For	On	At	NET	
	1 January 2003	Additions	Disposals	31 December 2003	1 January 2003	the Year	Disposals	31 December 2003	31 December 2003	
Freehold land	27,369,940	-	-	27,369,940	-	-	-	-	27,369,940	
Buildings on freehold land	105,003,968	-	-	105,003,968	55,661,452	3,894,754	-	59,556,206	45,447,762	
Railway siding	2,314,451	-	-	2,314,451	2,291,307	-	-	2,291,307	23,144	
Plant & machinery	1,650,638,733	141,890	-	1,650,780,623	1,459,961,253	62,321,585	-	1,522,282,838	128,497,785	
Furniture, fittings and equipment	37,959,627	1,320,486	-	39,280,113	31,304,617	1,624,380	-	32,928,997	6,351,116	
Data processing equipment	48,783,880	11,934,634	-	60,718,514	45,348,565	3,156,428	-	48,504,993	12,213,521	
Motor vehicles	43,676,322	16,417,383	3,169,410	56,924,295	24,528,270	6,087,750	3,137,716	27,478,304	29,445,991	
2003	Rupees	1,915,746,921	29,814,393	3,169,410	1,942,391,904	1,619,095,464	77,084,897	3,137,716	1,693,042,645	249,349,259
2002	Rupees	1,908,356,710	10,517,623	3,127,412	1,915,746,921	1,539,974,781	81,953,689	2,833,006	1,619,095,464	296,651,457

- Net exchange loss of Rs. 283,344 million on repayment of foreign currency loan from 1972 to the date of its full payment in 1983 was capitalised from time to time and depreciated over the remaining estimated useful life of the original plant and machinery.

- Depreciation charge for the year has been allocated as follows:

	2003 Rupees	2002 Rupees
Cost of goods sold - (Note 4)	70,633,601	77,297,611
Selling, Administrative & Financial Expenses - (Note 5)	6,451,296	4,656,078
	<u>77,084,897</u>	<u>81,953,689</u>

17. CAPITAL WORK IN PROGRESS

	2003 Rupees	2002 Rupees
Plant and machinery	<u>160,133,674</u>	<u>555,008</u>

18. LONG TERM INVESTMENTS - Available for Sale

Engro Chemical Pakistan Limited (ECPL) 29,719,834 (2002: 27,018,031) ordinary shares of Rs.10 each - at cost.		
Percentage of equity held - 19.43 % (2002: 19.43%)	1,868,700,000	1,868,700,000
Adjustment arising from measurement to fair value	<u>889,300,595</u>	<u>618,309,754</u>
	<u>2,758,000,595</u>	<u>2,487,009,754</u>

	2003 Rupees	2002 Rupees
19. LONG TERM LOANS AND ADVANCES (Unsecured - considered good)		
Executives	943,475	768,895
Other employees	11,410	29,480
	<u>954,885</u>	<u>798,375</u>

These amounts represent long term portion of loan advanced to the Company's employees which is recoverable after 31 December 2003 i.e. one year.

Loans to supervisors are provided interest free as temporary financial assistance and are repayable in 18 equal monthly instalments.

Loans to unionised employees are interest free and repayable within two years. These are advanced to workers under agreement with the Workers Union.

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

20. DEFERRED COSTS

Balance at 1 January	36,834,254	31,219,029
Addition of catalysts during the year	29,483,368	18,470,071
	<u>66,317,622</u>	<u>49,689,100</u>
Amortized during the year	(12,241,789)	(12,854,846)
Balance at 31 December	Rupees <u>54,075,833</u>	<u>36,834,254</u>

This amount represents unamortized portion of the catalysts used in the production process.

21. STORES, SPARES AND LOOSE TOOLS

Stores-(include in-transit Rs.22,064,405 (2002: Rs.8,199,763)	224,470,396	189,292,110
Spares-(include in-transit Rs. 88,257,621 (2002: Rs. 32,799,050)	651,256,381	571,816,643
Loose tools	10,393,858	8,956,877
	<u>886,120,635</u>	<u>770,065,630</u>
Provision for obsolete items	(235,665,000)	(235,665,000)
	<u>650,455,635</u>	<u>534,400,630</u>

22. STOCKS

Material in process	11,291,316	11,013,069
Finished goods - own manufactured	69,201,123	94,852,070
	<u>80,492,439</u>	<u>105,865,139</u>
Raw materials	23,147,316	15,771,396
	<u>103,639,755</u>	<u>121,636,535</u>

	2003 Rupees	2002 Rupees
23. TRADE DEBTORS		
These debts which are unsecured and considered good include Rs. Nil (2002: Rs. Nil) due from associated undertakings. Maximum balance due from associated undertakings was Rs. 202,047,020 (2002: Rs. 14,975,792) at the end of any month during the year.		
24. LOANS, ADVANCES, PREPAYMENTS AND OTHER RECEIVABLES		
These receivables are all unsecured and considered good:		
Advances to suppliers for goods and services	12,398,875	16,324,962
Advances and loans:		
Executives	6,298,990	5,302,080
Employees	9,741,818	798,955
Interest Receivable	-	5,420,948
Deposits	914,751	1,549,012
Claims receivable from Government	1,292,892	1,292,892
Short term prepayments	2,354,454	2,866,271
Income tax	75,400,909	1,500,226
Miscellaneous receivables	192,974,247	18,255,505
	<u>301,376,936</u>	<u>53,310,851</u>
No amounts are due from Directors and the Chief Executive.		
Advances and loans to executives and employees include Rs. 15,261,236 (2002 : Rs. 5,469,185) being current portion of the loans described under Note 16 and the balance represents interest free advances.		
Miscellaneous receivables include Rs. 6,824,207 (2002: Rs. 10,356,797) due from associated undertakings. Maximum balance at the end of any month during the year was Rs. 12,888,732 (2002: Rs. 13,756,796).		
24.1 Claims receivable from Government		
Export rebates	273,600	273,600
Development surcharge	1,019,292	1,019,292
	<u>1,292,892</u>	<u>1,292,892</u>
25. SHORT TERM INVESTMENTS AVAILABLE FOR SALE		
Comprises of fully paid ordinary shares of following listed companies:		
Sui Northern Gas Pipelines Limited-at cost 81,000,000 (2002: NIL) ordinary shares of Rs.10 each Percentage of equity held - 16.23 %	2,365,750,800	-
Adjustment arising from measurement to fair value	971,449,200	-
	<u>3,337,200,000</u>	-
Faysal Bank Limited- at cost 6,500 (2002: NIL) ordinary shares of Rs.10 each Percentage of equity held is below 10%	231,022	-
Adjustment arising from measurement to fair value	2,980	-
	<u>234,002</u>	-
Southern Electric Power Company Limited- at cost 5,500,000 (2002: NIL) ordinary shares of Rs.10 each Percentage of equity held is below 10%	116,434,278	-
Adjustment arising from measurement to fair value	(25,134,279)	-
	<u>91,299,999</u>	-
	<u>3,428,734,001</u>	<u>-</u>

	2003 Rupees	2002 Rupees
26. CASH AND BANK BALANCES		
With banks		
- on current accounts	834,661,286	2,201,461
- on saving accounts		
local currency	550,571,629	1,330,408,572
foreign currency US\$ Nil (2002: US\$ 2,085)	-	120,850
- on term deposits with banks		
In local currency	-	52,100,000
In foreign currency US\$ Nil (2002: US\$ 2,658,392)	-	154,106,974
	<u>1,385,232,915</u>	<u>1,538,937,857</u>
US dollar bonds	-	11,084,011
Cash in hand	563,014	310,689
	<u><u>1,385,795,929</u></u>	<u><u>1,550,332,557</u></u>

27. REMUNERATION OF DIRECTORS AND EXECUTIVES

	2003			2002		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
Managerial remuneration	15,210,084	2,534,318	111,470,104	13,050,084	3,086,076	88,912,354
Retirement benefits	2,419,200	25,494	12,058,150	2,419,200	95,819	10,838,271
Rent and utilities	6,232,800	973,774	30,624,548	6,232,800	989,209	27,227,879
Other benefits	408,480	96,352	10,715,417	534,759	84,678	9,759,828
Rupees	<u>24,270,564</u>	<u>3,629,938</u>	<u>164,868,219</u>	<u>22,236,843</u>	<u>4,255,782</u>	<u>136,738,332</u>
Number of persons:	1	3	205	1	2	198

Chief Executive, above directors and some senior executives are provided with free use of cars owned and maintained by the Company.

Meeting fees amounting to Rs. 24,000 (2002: Rs.18,000) were paid to 7 (2002: 7) directors including the Chief Executive.

28. DISPOSAL OF FIXED ASSETS

Type of Assets	Sold to	Original Cost	Accumulated Depreciation	Written Down Value	Sale Proceeds	Mode of Disposal
Motor vehicles	<u>Employees</u>					
	AFTAB AHMAD QAISER	651,680	645,163	6,517	71,685	As per Co. policy
	ASHIQ HUSSAIN	430,000	425,700	4,300	465,786	As per Co. policy
	SOHAIL AHMAD	395,000	391,050	3,950	305,000	As per Co. policy
	SOHAIM AHMAD	363,500	359,865	3,635	265,000	As per Co. policy
	MUHAMMAD ASLAM	245,128	242,677	2,451	26,970	As per Co. policy
	SAJID RASHID	348,718	345,230	3,488	38,365	As per Co. policy
	SHAFIQ AHMED	245,128	242,677	2,451	26,970	As per Co. policy
	NASIR I. TOOR	245,128	242,677	2,451	26,970	As per Co. policy
	M. JAMIL	245,128	242,677	2,451	26,970	As per Co. policy
Rupees		<u>3,169,410</u>	<u>3,137,716</u>	<u>31,694</u>	<u>1,253,716</u>	

	2003 Rupees	2002 Rupees
29. BASIC EARNINGS PER SHARE		
Profit after taxation available for distribution to ordinary shareholders	<u>1,378,800,480</u>	<u>793,298,823</u>
No. of ordinary shares	<u>72,057,600</u>	<u>72,057,600</u>
Basic earnings per share	<u>19.13</u>	<u>11.01</u>

30. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES**30.1**

	Interest/markup bearing			Non-interest/ mark up bearing	2003 Total	2002 Total
	Maturity upto one year	Maturity after one year	Sub total			
Financial Assets						
Long term investments	-	-	-	2,758,000,595	2,758,000,595	2,487,009,754
Short term investments	-	-	-	3,428,734,001	3,428,734,001	-
Loans and advances	-	-	-	16,995,693	16,995,693	6,899,410
Trade debts	-	-	-	5,489,077	5,489,077	7,048,731
Other receivables	-	-	-	195,181,890	195,181,890	26,518,357
Cash and bank balances	550,571,629	-	550,571,629	835,224,300	1,385,795,929	1,550,332,557
2003	Rupees 550,571,629	-	550,571,629	7,239,625,556	7,790,197,185	4,077,808,809
2002	Rupees 1,547,820,407	-	1,547,820,407	2,529,988,402	4,077,808,809	
Financial Liabilities						
Short term financing	1,797,183,538	-	1,797,183,538	-	1,797,183,538	-
Creditors, accrued and other liabilities	-	-	-	556,256,466	556,256,466	368,961,125
Unclaimed dividend	-	-	-	75,536,493	75,536,493	62,403,588
Proposed dividend	-	-	-	114,115,200	114,115,200	-
2003	Rupees 1,797,183,538	-	1,797,183,538	775,908,159	2,573,091,697	431,364,713
2002	Rupees -	-	-	431,364,713	431,364,713	

30.2 Credit Risk Management

Credit risk represents the accounting loss that would be recognized at the reporting date if counter-parties failed completely to perform as contracted. The credit risk attributed to trade receivables is minimal as the Company allows minimum credit.

30.3 Interest Rate Risk Management

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Company has borrowed funds at fixed and market based rates and as such the risk is minimized. The effective interest rate for financial assets and liabilities ranges between 1% to 4% per annum.

30.4 Liquidity Risk Management

Liquidity risk reflects an enterprise's inability in raising funds to meet commitments. The Company follows an effective cash flow management to ensure availability of funds and to take appropriate measures for new requirements.

30.5 Fair Value Of Financial Assets & Liabilities

The carrying amounts of the financial assets and financial liabilities approximate their fair values.

31. DONATIONS

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.

32. RELATED PARTY TRANSACTIONS

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:

	2003 Rupees	2002 Rupees
Description		
Dawood Corporation (Private) Limited		
Sale of urea	<u>3,338,831,670</u>	<u>3,141,888,159</u>
The Burewala Textiles Mills Limited		
Purchase of cotton bags	48,223,500	43,440,000
Purchase of cloth	<u>911,958</u>	<u>-</u>
Central Insurance Company Limited		
Insurance of fixed assets	<u>14,620,031</u>	<u>15,983,285</u>
Lawrencepur Woolen Textiles Mills Limited		
Purchase of cloth	<u>2,771,499</u>	<u>3,301,828</u>
Dawood Cotton Mills Limited		
Purchase of cloth	<u>1,752,655</u>	<u>-</u>
Sach International (Private) Limited		
Purchase of cloth	<u>1,735,545</u>	<u>-</u>

All transactions with related parties have been carried out on commercial terms and conditions under the comparable uncontrolled price method.

No buying or selling commission has been paid to any associated undertaking.

33. PRODUCTION CAPACITY

As against the annual production capacity of 445,500 tons (2002: 445,500 tons) of 'urea fertilizes the plant produced 430,601 tons (2002: 414,620 tons) which was 97% (2002: 93%) of designed capacity.

Short fall in the production capacity utilisation is mainly due to stoppage/curtailment of gas supply by the Gas Company during the year and certain technical difficulties faced in the Plant operations.

34. NUMBER OF EMPLOYEES

Number of employees at year end	<u>498</u>	<u>525</u>
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35. These accounts have been authorised for issue by the Board of Directors of the Company on _____ 2004.

36. FIGURES

Comparative figures have been re-arranged, wherever necessary to facilitate comparison. Significant reclassifications are as follows:

- Financial expenses which had been grouped with selling and administrative expenses in the previous periods have been separately disclosed in the profit and loss account.
- Dividend receivable which had been grouped with miscellaneous receivables in the previous periods has been separately disclosed.
- Fair value reserve which had been grouped with revenue reserves in the previous periods has been separately disclosed in the balance sheet.
- Stores and spares consumed which had been grouped with repair and maintenance has been separately disclosed.

The above figures have been re-arranged as the re-classification made is considered more appropriate for the purpose of disclosures.

Figures have been rounded off to the nearest rupee.

LAHORE
March 09, 2004

HUSSAIN DAWOOD
(Chairman & Chief Executive)

KHAWAJA AMANULLAH
(Director)

**PATTERN OF SHAREHOLDINGS
HELD BY THE SHAREHOLDERS AS AT 31 DECEMBER 2003**

Shareholding Range		Number of Shareholders	Total Shares Held
From	To		
1	100	292	13,465
101	500	1,329	346,111
501	1,000	268	169,180
1,001	5,000	271	524,121
5,001	10,000	39	267,185
10,001	15,000	14	161,268
15,001	20,000	7	118,323
20,001	25,000	4	89,862
25,001	30,000	4	107,308
30,001	35,000	1	30,240
40,001	45,000	1	40,176
50,001	55,000	2	102,240
70,001	75,000	1	73,612
75,001	80,000	1	77,760
85,001	90,000	1	89,400
95,001	100,000	1	97,908
110,001	115,000	1	111,024
120,001	125,000	1	122,215
135,001	140,000	1	140,000
180,001	185,000	1	182,389
210,001	215,000	1	213,624
290,001	295,000	1	290,304
355,001	360,000	2	715,729
735,001	740,000	3	2,218,069
895,001	900,000	1	899,424
1,765,001	1,770,000	1	1,767,397
2,160,001	2,165,000	1	2,162,245
2,845,001	2,850,000	1	2,846,448
3,125,001	3,130,000	1	3,125,032
4,485,001	4,490,000	1	4,485,451
4,650,001	4,655,000	1	4,653,849
5,425,001	5,430,000	2	10,851,840
5,745,001	5,750,000	2	11,491,200
6,475,001	6,480,000	1	6,480,000
7,010,001	7,015,000	1	7,014,001
9,975,001	9,980,000	1	9,979,200
		2,261	72,057,600

Categories of Shareholders	Number of Shareholders	Total Shares Held	Percentage
Individuals	2,193	10,642,051	14.76
Joint Stock Companies	35	43,770,056	60.73
Financial Institutions	15	10,528,775	14.64
Insurance Companies	5	4,165,645	5.78
Investment Companies	4	59,482	0.08
Educational/Charitable Institutions	5	2,881,871	4.00
Co-operative Societies	1	345	0.00
Modaraba	1	300	0.00
Administrator, Abandoned Properties, Govt of Pakistan	1	9,072	0.01
Securities & Exchange Commission of Pakistan	1	3	0.00
Total	2,261	72,057,600	100.00

PATTERN OF SHAREHOLDING AS AT 31 DECEMBER 2003
Disclosure Required under Code of Corporate Governance

	Shares held
(1) Associated Companies, Undertakings and Related Parties	
Dawood Corporation (Pvt.) Ltd.	3,125,032
Dawood Cotton Mills Ltd.	4,653,849
The Burewala Textile Mills Ltd.	7,014,001
Central Insurance Company Ltd.	2,162,245
Sach International (Pvt.) Ltd.	1,048
Patek (Pvt.) Ltd.	23,250
(2) NIT & ICP	
National Bank of Pakistan, Trustee Department	358,033
Investment Corporation of Pakistan	70,373
(3) Directors & CEO (including holding of their spouses & minor children)	
Mr. M. Hussain Dawood - Chairman & CEO	4,989,379
Mr. Shahzada Dawood	739,281
Mr. A. Samad Dawood	739,536
Mr. Abdul Aziz Moon	630
Khawaja Amanullah	3
Mr. Abdul Ghafoor Gohar	3
Syed Muhammad Asghar	1
(4) Executives	-
(5) Public Sector Companies and Corporations	-
(6) Banks, Development Finance Institutions, Non-Banking Financial Institutions, Insurance Companies, Modarabas & Mutual Funds	14,266,314
(7) Shareholders holding ten percent or more shares	
Faisal Finance S.A.	9,979,200

FORM OF PROXY

Please quote Folio No.

I / We _____
of _____

being a member of **Dawood Hercules Chemicals Limited**, as per:

Share Register Folio No. _____

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 Thirty-sixth Annual General Meeting of the
Company to be held on Friday, 30 April 2004 at the Company's Registered Office at 35-A, Shahrah e Abdul
Hameed Bin Baadees, Lahore, and at any adjournment thereof.

Signed this _____ day of _____ 2004

Affix
Revenue Stamps
of Five Rupees

Signature of Shareholder

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

IMPORTANT

This Proxy Form, duly completed, must be deposited at the Company's Registered Office, not less than forty eight hours before the meeting.