



Annual Report 2004

"To cultivate kindness
is a valuable part of
the business of life."
Samuel Johnson



DAWOOD
HERCULES
CHEMICALS
LIMITED



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COMPANY INFORMATION

Board of Directors

Hussain Dawood
Chairman & Chief Executive

Abdul Aziz Moon

Abdul Ghafoor Gohar

A. Samad Dawood
Khawaja Amanullah

Shahzada Dawood

S. M. Asghar

Board Audit Committee

Shahzada Dawood
Chairman

Khawaja Amanullah
Member

Abdul Aziz Moon
Member

Company Secretary

S. M. Asghar

Auditors

Taseer Hadi Khalid & Co.
Chartered Accountants

Legal Advisors

Hassan & Hassan
Advocates

Tax Consultants

S. M. Masood & Co
Chartered Accountants

Registered Office

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

Plant

Chichoki Mallian, Sheikhupura.

"Knowing the steps to create
living growth: that is art."

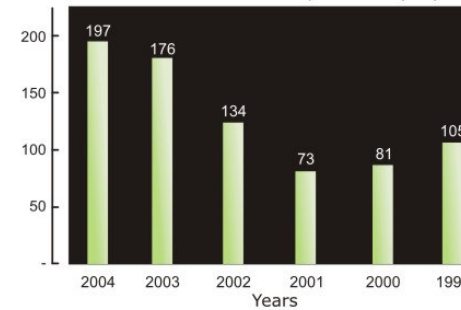
Deng Ming-Dao

OPERATING HIGHLIGHTS Six Years at a Glance

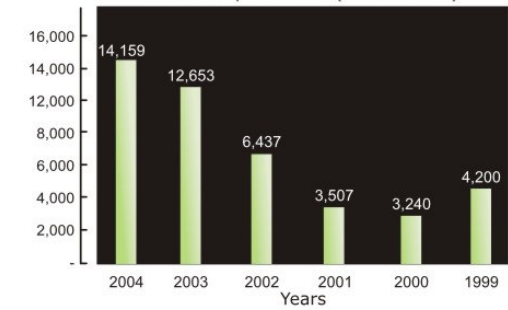
"Our business in life is not get ahead of other people,
but to get ahead of ourselves."
Maltbie Davenport Babcock

PARTICULARS	UNIT	2004	2003	2002	2001	2000	1999
A) INCOME STATEMENT							
1 Sales Value	Rs. in Million	2,699	2,983	2,810	2,851	2,886	2,215
2 Gross Profit	Rs. in Million	818	1,060	1,010	745	970	623
3 Operating Profit	Rs. in Million	653	888	886	605	842	504
4 Profit Before Taxation	Rs. in Million	1,331	1,686	1,131	823	1,057	819
5 Profit After Taxation	Rs. in Million	1,114	1,379	793	595	764	622
B) DIVIDEND							
1 Cash Dividend	%	105	100	95	100	100	100
2 Stock Dividend	%	Nil	Nil	50	20	Nil	Nil
C) BALANCE SHEET							
1 Total Assets Employed	Rs. in Million	14,142	9,403	5,089	4,380	4,197	4,083
2 Current Assets	Rs. in Million	9,757	6,180	2,267	2,111	1,902	1,716
3 Current Liabilities	Rs. in Million	4,379	2,994	520	758	698	963
4 Paid Up Capital	Rs. in Million	721	721	480	480	400	400
5 Shareholders' Equity with FVR	Rs. in Million	9,682	6,365	4,490	3,535	3,420	3,056
6 No. of Ordinary Shares	Million	72.06	72.06	48.04	48.04	40.00	40.00
D) RATIO ANALYSIS							
1 Gross Profit	%	30%	36%	36%	26%	34%	28%
2 Earnings Per Share	Rs.	15.47	19.13	11.01	12.39	19.10	15.55
3 Dividend Yield	%	5.34	5.69	7.09	13.70	12.35	9.52
4 Return on Equity	%	11.51	21.66	17.66	16.83	22.34	20.35
5 Break-up Value of Share with FVR	Rs.	134.37	88.34	93.47	73.59	85.50	76.40
6 Market Value per Share	Rs.	197	176	134	73	81	105
7 Market Capitalization	Rs. in Million	14,159	12,653	6,437	3,507	3,240	4,200
E) PRODUCTION							
1 Designed Production	Thousand mt	445.50	445.50	445.50	445.50	445.50	445.50
2 Actual Production	Thousand mt	351.12	430.60	414.62	381.95	436.90	419.39
3 Capacity Utilisation	%	79%	97%	93%	86%	98%	94%
F) OTHERS							
1 Employees	Nos.	481	498	525	533	554	584
2 Capital Expenditure	Rs. in Million	328	190	11	42	12	12
3 Contribution to the National Exchequer	Rs. in Million	724	857	767	615	633	665

Year End Market Value per Share (Rs.)



Market Capitalization (Rs. in Million)



NOTICE OF ANNUAL GENERAL MEETING

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Notice is hereby given that the Thirty-seventh Annual General Meeting of Dawood Hercules Chemicals Limited will, Insha Allah, be held at the Company's Registered Office at 35-A, Shahrahe Abdul Hameed Bin Baadees, Lahore at 1100 hours on Friday, 29 April 2005, for the purpose of transacting the following ORDINARY BUSINESS after recitation from the Holy Quran:

1. To confirm the Minutes of the Extraordinary General Meeting held on 07 February 2005.
2. To receive, consider and adopt the Audited Accounts of the Company for the year ended 31 December 2004 and the Directors and Auditors' Reports thereon.
3. To consider and, if thought fit, approve payment of final cash dividend at the rate of Rs. 4.50 per share (45%) for the year ended 31 December 2004.
4. To appoint Auditors and to fix their remuneration.
5. To elect seven directors as fixed by the Board of Directors under Section 178(1) of the Companies Ordinance, 1984 for a period of three years. The names of the retiring Directors are as follows:

Mr. Hussain Dawood	Mr. Shahzada Dawood
Mr. Khawaja Amanullah	Mr. Abdul Ghafoor Gohar
Mr. Syed Muhammad Asghar	Mr. Abdul Aziz Moon
Mr. A. Samad Dawood	

Lahore: 21 March 2005

By order of the Board
S. M. Asghar
Company Secretary

Notes:

1. The share transfer books of the Company will remain closed from 20 April 2005 to 29 April 2005, both days inclusive.
2. A member of the Company who is entitled to attend and vote may appoint another member as his/her proxy to attend the meeting instead of him/her. A Corporation being a member may appoint any person, whether or not a member of the Company, as its proxy. A proxy so appointed shall have such rights as respects speaking and voting at the meeting as are available to a member. 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 and 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. Notice of intention to contest the election to the office of Director should, in accordance with Section 178(3) of the Companies Ordinance, 1984, be received at the Registered Office of the Company not later than fourteen days before the date of the Meeting.
5. Shareholders are requested to immediately notify the change of address, if any.

DIRECTORS' REPORT

The Board of Directors of Dawood Hercules Chemicals Limited (DHCL) is pleased to present the thirty-seventh annual report and the audited financial statements of the Company for the year ended 31 December 2004.

Financial Results

During the year under review the Plant could not operate at its maximum capacity on account of curtailment of gas supplies and also because of shut downs for construction of new prill tower together with some other technical problems. Nevertheless, the Company made a net of tax profit of Rs.1,114 million resulting in a per share earning of Rs. 15.47. The judicious investment of the available funds significantly improved the overall profits in spite of unfavourable manufacturing operations.

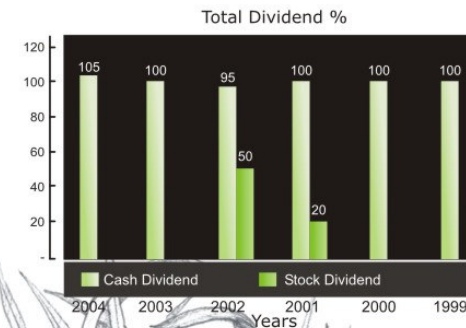
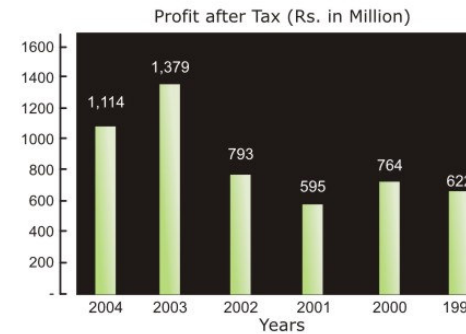
The key financial results are as under:

	2004	2003
	Rupees in Million	
Sales	2,699	2,983
Gross profit	818	1,060
Operating profit	653	888
Financial & other charges	(123)	(95)
Other income	801	893
Profit before taxation	1,331	1,686
Provision for taxation	(217)	(307)
Profit after taxation	1,114	1,379

Dividend

For the year 2004, the Board of Directors has recommended a final cash dividend of Rs. 4.50 per share (45 %) for approval by the shareholders in the next Annual General

Meeting. This is in addition to the already distributed two interim dividends aggregating Rs. 6.00 per share (60%), making a total distribution of Rs. 10.50 per share (105%) for the year.



"When tillage begins, other arts follow.
The farmers, therefore, are the founders
of human civilization."

Daniel Webster

Appropriations

The Board has made the following appropriations during the year 2004:

	Million Rs.
a) Unappropriated Profit	
Brought forward	2,639
Profit after Taxation for the year	1,114
Total Profit available for appropriation	3,753
Appropriations:	
1st Interim cash dividend @ Rs.2.50 per share (2003: Rs.4.00)	(180)
2nd Interim cash dividend @ Rs. 3.50 per share (2003: Rs. 2.00)	(252)
Carried forward	3,321
b) Capital Reserve (for the new prill tower)	
Brought forward	200
Transferred to General Reserve (on completion of new prill tower)	(200)
Carried forward	0

Earnings Per Share

Earnings per share for the year 2004 was Rs. 15.47 as compared to Rs. 19.13 for the corresponding period.

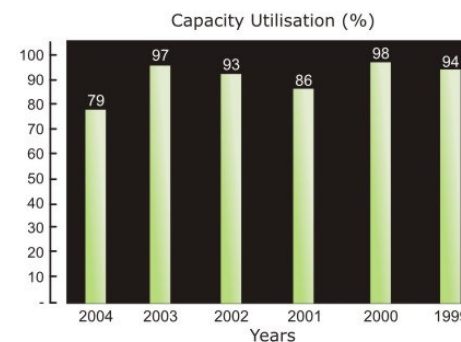
Production & Capacity Utilization

Urea production during the year 2004 was 351,123 MT as compared to 430,601 MT during the previous year. The plant capacity utilization attained during the year under



review was 79% against 97% achieved during 2003. As already stated, the capacity utilization of the plant was adversely affected by curtailment of supply of gas. Besides, the annual turnaround was extended on account of commissioning of the new prill tower.

The repeated breakdown of the Waste Heat Exchanger resulted in eight unplanned shutdowns of the plant during 2004. The damaged tubes of the exchanger have since been replaced with new ones and the plant is now operating smoothly.

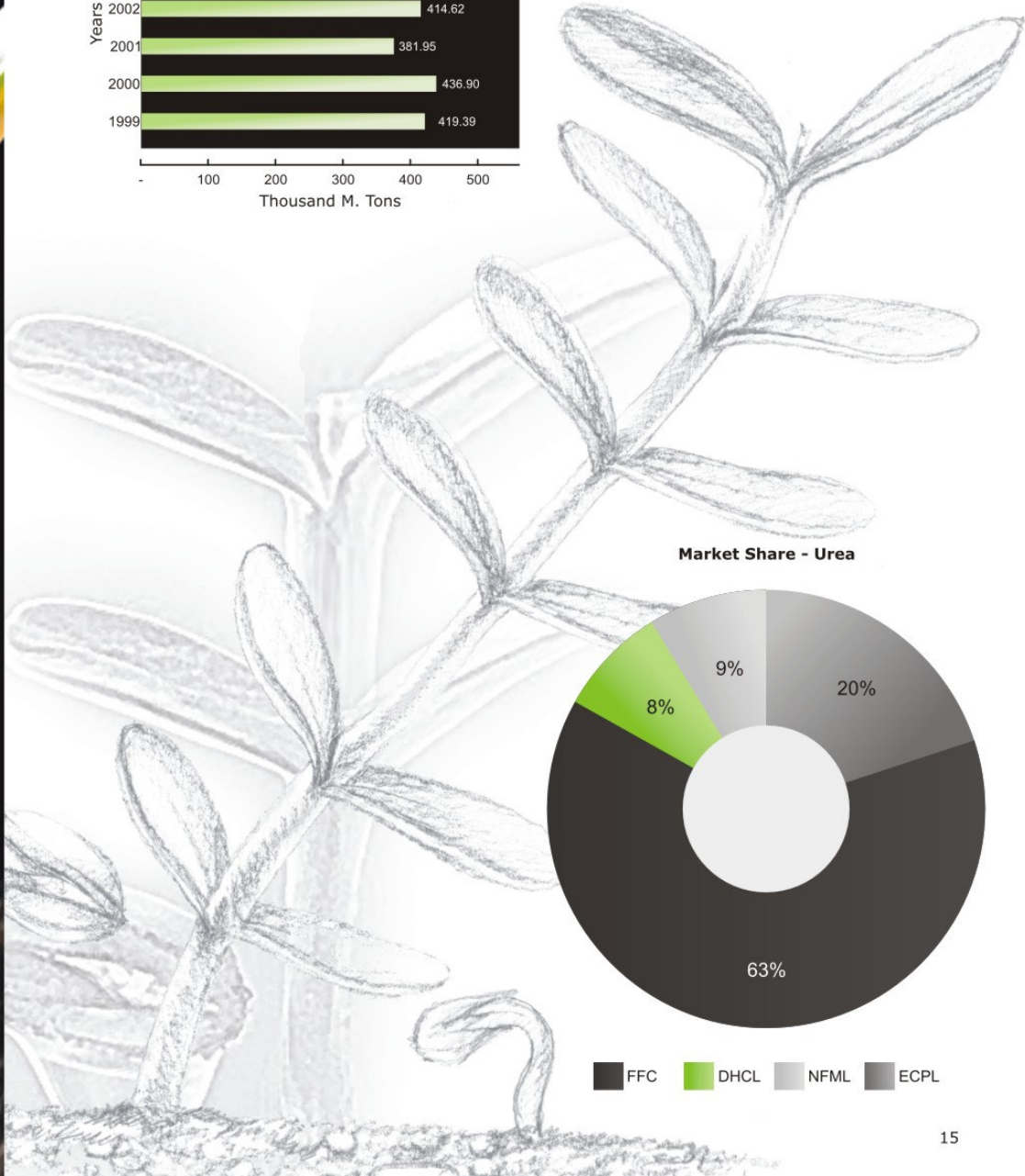
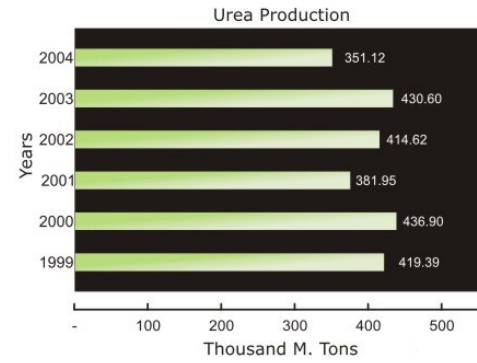
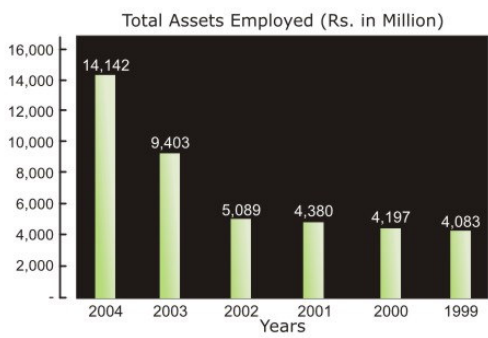
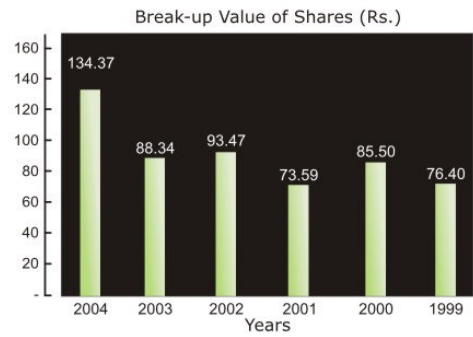
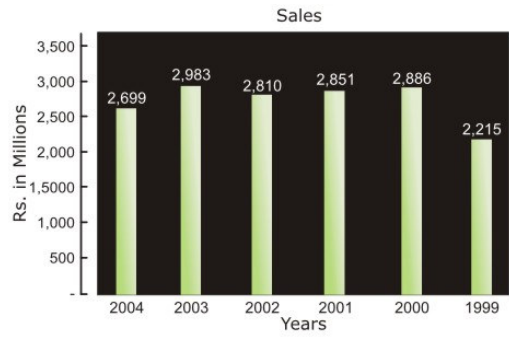


Sales

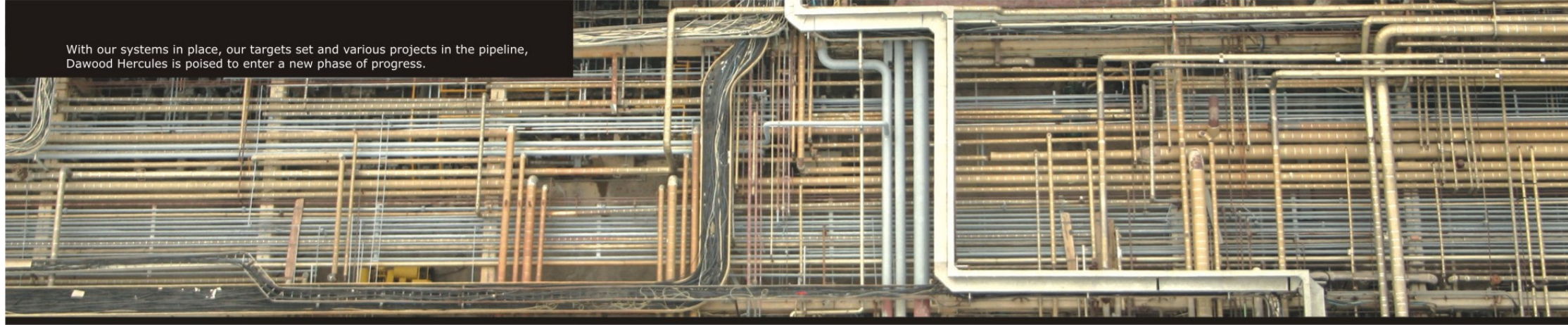
The year 2004 witnessed a growth of 5% in the consumption of urea. In spite of the increase in prices and inadequate availability of water, the total off take during the year was 4,716,000 MT as against 4,483,000 MT in the previous year. In order to meet the shortfall in the domestic production, the Government imported 240,000 tons of urea for the Rabi crop. It is estimated that for the year 2005, at least half a million tons of urea will have to be imported to meet the expected demand. It is vital that the Government should frame fresh incentives to attract investment in the setting up of new urea production capacities in the country. Unless this is done forthwith, our foreign exchange resources will be seriously affected by the increasing need for import of urea in the coming years. Further, considering that the international prices of urea are almost three times the domestic prices, large scale imports entailing necessary subsidies will impose a heavy burden on the national exchequer.

"This very moment is a seed from which the flowers of tomorrow's happiness grow"

Margaret Lindsey

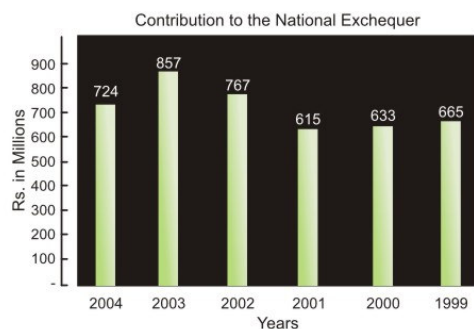


With our systems in place, our targets set and various projects in the pipeline, Dawood Hercules is poised to enter a new phase of progress.



Contribution to the National Exchequer

During the year, your Company's contribution to the National Exchequer amounted to Rs. 724 Million as compared to Rs. 857 Million last year.



Statutory Payments

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

Board Meetings

Five meetings of the Board of Directors were held during the year 2004.

Attendance by each Director was as under:

Names of Directors	Meetings attended
Hussain Dawood	5
A. Aziz Moon	5
A. G. Gohar	3
A. Samad Dawood	5
Khawaja Amanullah	5
Shahzada Dawood	5
S. M. Asghar	5

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 judgement.

- 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.
- 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.

Transmission of Quarterly Accounts through the Company's Website

The Company is maintaining its website www.dawoodhercules.com. After obtaining the permission of the shareholders in the EGM held on 07 February 2005 to transmit the quarterly accounts through its website, the Company has obtained the necessary consent of the stock exchanges and the approval from the SECP in this regard. Starting with 1st Quarter 2005, the quarterly accounts of the Company will be transmitted through its website instead of sending the same to the shareholders by post.





The goal is to strive towards efficiency and optimum performance, through coordination, commitment and better communication.

The Company, however, shall supply the copies of the quarterly accounts to the shareholders, on demand, at their registered addresses, free of cost.

Compliance with the Code of Corporate Governance

The Company's Statement of Compliance with the Code of Corporate Governance is annexed with the report.

Pattern of Shareholding

Pattern of Shareholding of the Company as at 31 December 2004, along with the necessary information relating to trading in the Company's shares, is attached to this report .

Auditors

M/s Taseer Hadi Khalid & Co, retiring auditors of the Company, offer themselves for re-appointment with

change of audit partner in-charge. The Board Audit Committee and the Board of Directors recommend their re-appointment by the shareholders at the 37th Annual General Meeting as auditors of the Company for the year ending 31 December 2005. Necessary consent of the Securities and Exchange Commission of Pakistan has been obtained for their re-appointment with rotation of partner in-charge of the audit engagement.

Provident and Gratuity Funds

The funded retirement benefits of the employees of the Company are audited at regular intervals and are adequately covered by appropriate investments. The value of the investments of the two provident funds as per the last audited accounts aggregated Rs. 393,143,137. Fair value of the assets of the funded defined benefit gratuity

plan was Rs. 74,907,260 as at 31 December 2004, according to the actuarial valuation.

Assets Management

The Company endeavours to mitigate currency risks from time to time by hedging currencies with its banks. The Company has actively managed its excess cash reserves by investment in 'A' grade equity and other instruments in order to enable it to obtain an enhanced return. For the year 2004, the Company earned handsome capital gains on the purchase and sale of shares quoted on the stock market.

Capital Investment

The Company has completed the construction of the new Prill Tower at a cost of about Rs. 300 millions. It continues to invest in plant and machinery to make the operations reliable and efficient and in October 2004 has placed order for purchasing a waste heat exchanger from M/s Borsig, Germany, at a cost of Rs. 315 million which is scheduled to be installed in turnaround 2006.

Committees

In addition to the mandatory Board Audit Committee, following additional committees have been constituted for efficient and smooth functioning of the Organization.

• **Management Committee**

The objectives of the Management Committee are to review operational issues, opportunities and threats and

take timely decisions to improve overall performance and operating efficiency. The Committee plays an important role in improving the coordination among different functions of the Organization.

• **Human Resource Committee**

The primary objective of the Human Resource Committee is to assist in the promotion of an environment which is conducive to the employees giving their best. The Committee will also, from time to time, advise the Management in adopting measures which will generate motivation and enthusiasm.

• **Strategic Capex Committee**

The purpose of the Strategic Capex Committee is to review all major capital expenditure proposals and recommend appropriate cases to the Board of Directors for approval. The Committee also monitors the implementation of the approved projects to ensure economical and timely execution thereof.

• **Procurement Committee**

The main objective of the Procurement Committee is to facilitate the procurement related functions of the Company with a view to ensure timely supply of the required materials at competitive prices without blocking the funds in surplus inventories.

Quality Management System

The Company's policy toward professionalism, quality consciousness and customer satisfaction has given DHCL the privilege of being the first fertilizer manufacturing organization to obtain ISO 9002:1994. It has also obtained the ISO 9001:2000 quality management system certification.

In order to meet the ISO-9001:2000 requirements for review of quality management system, Management Review Meetings are conducted on a regular basis as per schedule. During the year under review, a total of ten Management Review Meetings have been conducted.

Improved and Better Prills

DHCL in the beginning of the year 2004 completed the construction of a new Prill Tower in collaboration with M/s Wuhuan of China in the record time of one year. It is the tallest industrial civil structure in Pakistan, reaching a height of 348 feet. After its commissioning on 27 March 2004, urea quality has further improved especially in terms of prill size, giving "Bubber Sher" urea the required competitive edge and better customer appeal.



Improved and uniform prills for a more cost effective yield.



Environment

Environmental protection is of paramount concern to the Company. During the year, the Company has taken following steps to ensure that the surrounding atmosphere and the effluent water continues to remain well within the limits permitted by the National Environmental Quality Standards.

A new scrubber was designed, fabricated and installed to scrub ammonia contaminated gaseous effluents from hot well. This equipment has helped a great deal in recovering ammonia contents from gaseous effluents.

Two large evaporation ponds were commissioned in the first quarter of 2004 to handle contaminated liquid effluents from the ammonia and urea plants. The effluents are led into these ponds and are allowed to evaporate. With the help of these ponds the contamination in the waste water being discharged has been controlled.

A new chromate settling pond with proper Low Density Polyethylene (LDPE) lining has been commissioned in November 2004 which allows the separation of the chromate sludge from the water, thereby rendering the chromate treatable for safe disposal. Besides the construction of these

Care for the environment is crucial for our future generations so that they may grow up in a greener world.



Small Eucalyptus plants sprout after using the waste stream from the Plant.

Management Training Seminars have been conducted for enhancing the potential of our people and enabling them to bring out the best in themselves and nurture the same in others.



ponds, 5000 Eucalyptus trees were planted at the offsite area. These trees are being irrigated with the waste stream comprising of remnants of plant effluents. The Eucalyptus plantation has enabled the consumption of septic effluents and ammonia plant process condensate streams, thereby ensuring a safer, chemical free milieu.

Safety

DHCL has always met its personnel and plant safety with the highest concern. Our safety record has been consistently improving over the years through various safety programmes. This year DHCL has surpassed all its previous performances and has set new standards in its own regard. In November 2004 the Company crossed the milestone of 1000 safe days without any lost time injury. Safety lectures and drills at all levels of employees were conducted which included training, refresher courses on use of various safety equipment and firefighting facilities. Everyone at DHCL continues to work hard to consolidate and improve the performance further.

Training Centre

The training activities at DHCL were started in 1975 to cater to its own requirements of skilled technical manpower. Ever since, the

Company is continuing with its technical education programmes. A full-fledged institutionalized training centre, which imparts technical education and on-the-job training to fresh engineers, process operators and technicians in various disciplines, is functioning at the Company's plantsite. This is primarily a contribution towards the country's development as the number of technical people trained at the centre is far in excess of the Company's own requirements. About one hundred trainees are receiving training in different disciplines at a time. To date 376 engineers, 260 process operators and 516 technicians have been inducted into various training programmes. On successful completion of term, the trainees are awarded certificates which are highly valued in the industry. The top performers in various training courses are generally offered a regular job by the Company. A number of technical personnel trained at the Centre are serving various industries within the country as well as in the Middle East.

Staff Relations

The relationship between the management and employees continues to be exemplary. 14th biennial settlement between the Management and the DHCL Employees Union was signed in November 2004.

This time again the agreement was marked with the exemplary Union Management relationship whereby every thing was settled across the table. No strike notice was given by the CBA and the charter of demands was presented as a list of suggestion. The Directors are pleased to record their appreciation for the hardwork and devotion to duty by all cadres of employees.

Employees' Welfare: Benefitting the community

To facilitate non-resident employees and to ensure smooth operations at the

Plant, a housing colony for the essential personnel is provided by the Company at the plantsite. The residents enjoy various benefits such as a transportation services to schools and colleges, and the provision of all utilities free of cost. Also, free medical assistance, which encompasses laboratory tests, hospitalization, treatment and medication to all its employees, their spouses and children.

A fair price shop is running on a 'no profit no loss' basis for providing essential commodities not only to the DHCL employees but to the neighbouring areas around the Plant as well.



"A person who loves his or her work is like a plant in the right spot; there growth is maximized and the yield is greatest."

Jeff Cox



[the] environment is the mental feeding ground out of which the food that goes into our minds is extracted.

Napoleon Hill





Canteen and cafeteria facilities provided at the plantsite offer a place as a meeting point for all personnel.

During spring season every year, the Company holds its annual sports festival which exhibits the Management's awareness of the importance of healthy activities. The activities include numerous team and individual events such as cricket, athletics, badminton, volleyball, cycle race and stage events such as qirat and naat competitions, debates, quiz shows, etc. The whole event is organized by the employees themselves.

Since 1988, Dawood Hercules has assisted hundreds of employees to perform Hajj and Umrah. The annual Hajj draw ceremony was held through which 16 persons were selected to perform this sacred pilgrimage. Furthermore, Islamic lectures are also held at Dawood Hercules plant site and in the corporate office for all those interested.

Privatisation of Pakarab Fertilizers (Pvt) Limited

Your Company is one of the prospective bidders of Pakarab

Fertilizers (Pvt) Limited which is being privatised. A pre-bid meeting was held in February 2005 by the Privatization Commission to expedite the process. The bidding is expected to be held within the second quarter of 2005.

Post Balance Sheet Event

Subsequent to obtaining the shareholders' permission in the EGM held on 07 February 2005 to further acquire 6,103,852 shares of Engro Chemical Pakistan Limited (ECPL) from its associated organizations and 22,500,000 shares of ECPL through Public Offer, the Company has purchased 6,103,852 shares from its associated organizations and 16,100,000 shares through Public Offer which expired on 10 March 2005.

Future Prospects

Urea demand continues to be in excess of the production capacity in the country and it is expected that about 500,000 tons of urea will have to be imported during the year 2005. It is, therefore, essential that the domestic production of fertilizer be maximized to save the valuable foreign exchange for the country. The management of your Company is making constant efforts to

improve the reliability of plant operations. It started with the construction of the new Prill Tower which was commissioned in early 2004. In October 2004 the Company signed an agreement with M/s Borsig of Germany for purchase of Waste Heat Exchanger, designed in accordance with the latest technology. Plans are in hand for installation of new state of the art Distributed Control System (DCS) and replacement of the existing Reformer tubes. Furthermore, studies are also being made to enhance the plant's efficiency.

Improvement in availability of gas and constant efforts of the management to enhance efficiency of the plant are expected to increase production during the coming year.

The Company is also conducting various Management Skills Programmes at all management levels

to equip its technical management with the latest concepts, techniques and skills to prepare them for the future needs of the organization.

On behalf of the Board of Directors

HUSSAIN DAWOOD
CHAIRMAN AND CHIEF EXECUTIVE



VISION AND MISSION

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



Our growing
thought,
Makes growing
revelation.

*The Spanish Gypsy
George Eliot*

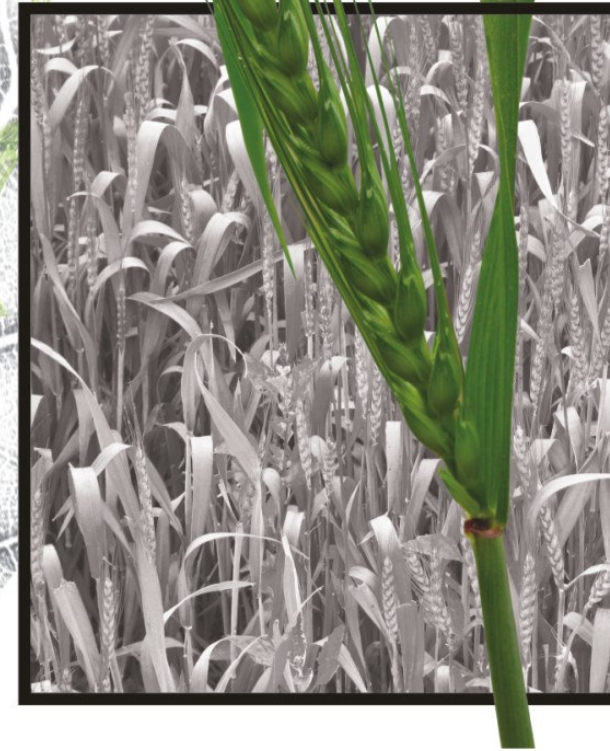
BUSINESS ETHICS AND CORE VALUES

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
- ☼ REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE
- ☼ AUDITORS' REPORT TO THE MEMBERS



STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

The Company is in the process of implementing the requirements 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 NBFIs or, being a member of a Stock Exchange, has been declared as a defaulter by that Stock Exchange.
4. No causal vacancy occurred in the Board during the year.
5. The Company has prepared a "Statement of Ethics and Business Practices", which has been signed by all the directors and employees of the Company.
6. The Board 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 every quarter. Written notices of the Board meetings, alongwith agenda and working papers, were normally circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.
9. The Board arranged an orientation course for its directors to further apprise them of their duties and responsibilities.
10. Officers holding the positions of CFO and Company Secretary were appointed before the Code of Corporate Governance became applicable.
11. The directors' report for the year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
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 all 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 as required by the Code. The terms of reference of the Committee have been formed and advised to the Committee for compliance.
17. An effective internal audit function was set up by the Board in the last quarter of the year.
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 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 Institute of Chartered Accountants of Pakistan.

REVIEW REPORT TO THE MEMBERS ON STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

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 efforts are being made by the Company to become fully compliant with all material principles contained in the Code of Corporate Governance.

Lahore:
21 March 2005

Hussain Dawood
Chairman & Chief Executive

STATEMENT OF COMPLIANCE WITH THE BEST PRACTICES ON TRANSFER PRICING

The Company has complied with the Best Practices on Transfer Pricing as contained in the Listing Regulation No. 38 of the Karachi Stock Exchange (Guarantee) Limited.

Lahore:
21 March 2005

Hussain Dawood
Chairman & Chief Executive

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 21, 2005

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 2004 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, except for the changes as stated in notes 2.4 (b), 2.7 and 2.17 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, 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 2004 and of the profit, its cash flows and changes in equity for the year then ended; and
- d) in our opinion Zakat deductible at source under the Zakat and Ushr Ordinance, 1980, was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2004

It is a matter of pride for us to work with accuracy, transparency and in the best interests of our shareholders.



	Note	2004 Rupees	2003 Rupees
Sales - Net	3	2,699,135,306	2,983,374,808
Cost of goods sold	4	1,881,389,746	1,923,297,071
Gross profit		817,745,560	1,060,077,737
Selling and administrative expenses	5	164,999,669	171,729,553
Operating profit		652,745,891	888,348,184
Financial charges	6	82,776,050	34,920,815
Other income	7	801,396,894	892,429,605
		718,620,844	857,508,790
Profit for the year		1,371,366,735	1,745,856,974
Other charges	8	39,888,420	60,056,494
Profit before taxation		1,331,478,315	1,685,800,480
Provision for taxation	9	217,000,000	307,000,000
Profit after taxation		1,114,478,315	1,378,800,480
Earnings per share-basic and diluted	29	15.47	19.13

The annexed notes 1 to 36 form an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2004

	Note	2004 Rupees	2003 Rupees
LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorised capital			
100,000,000 ordinary shares of Rs. 10 each		1,000,000,000	1,000,000,000
Issued, subscribed and paid up capital	10	720,576,000	720,576,000
Capital reserve for plant BMR	11	-	200,000,000
Revenue reserves		4,020,911,579	3,138,778,864
Fair value reserve on investments		4,941,011,942	2,306,135,392
		9,682,499,521	6,365,490,256
NON CURRENT LIABILITIES			
Deferred taxation	12	37,600,000	1,600,000
Retirement and other service benefits	13	42,508,791	41,177,939
		80,108,791	42,777,939
CURRENT LIABILITIES			
Short term financing - secured	14	3,620,585,228	1,797,183,538
Trade and other payables	15	577,645,691	748,438,646
Provision for taxation		181,000,000	304,700,000
Proposed dividend		-	144,115,200
		4,379,230,919	2,994,437,384
Contingencies and commitments	16		
		14,141,839,231	9,402,705,579

The annexed notes 1 to 36 form an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2004

	Note	2004 Rupees	2003 Rupees
ASSETS			
FIXED CAPITAL EXPENDITURE			
Property, plant and equipment	17	512,784,732	303,425,092
Capital work in progress	18	17,662,690	160,133,674
		530,447,422	463,558,766
LONG TERM INVESTMENT	19	3,842,774,536	2,758,000,595
LONG TERM LOANS AND ADVANCES	20	11,679,210	954,885
CURRENT ASSETS			
Stores, spares and loose tools	21	564,908,581	650,455,635
Stocks	22	68,179,489	103,639,755
Trade debtors	23	9,337,536	5,489,077
Loans, advances, deposits, prepayments and other receivables	24	583,066,928	606,076,936
Short term investments	25	7,458,890,850	3,428,734,001
Cash and bank balances	26	1,072,554,679	1,385,795,929
		9,756,938,063	6,180,191,333
		14,141,839,231	9,402,705,579

CASH FLOW STATEMENT

For the year ended 31 December 2004

Note	2004 Rupees	2003 Rupees
Cash flow from operating activities		
Profit before taxation	1,331,478,315	1,685,800,480
Adjustment for non cash expenses and other items:		
Depreciation	116,979,228	89,326,686
Provision for gratuity	7,639,124	10,782,244
Financial charges	82,776,050	34,920,815
Income on time deposits	(6,615,912)	(15,042,125)
Exchange loss	-	548
Profit on sale of property, plant and equipment	(545,003)	(1,222,022)
Profit on sale of short term investments	(292,484,138)	(423,755,130)
Dividends income	(489,242,422)	(450,069,763)
Provision for other benefit plans	7,017,646	(6,891,605)
	<u>(574,475,427)</u>	<u>(761,950,352)</u>
Profit before working capital changes	757,002,888	923,850,128
Working capital changes		
(Increase)/decrease in current assets:		
Stocks, stores and spares	121,007,320	(98,058,225)
Trade debtors	(3,848,459)	1,559,654
Loans, advances, deposits, prepayments and other receivables	(10,159,253)	(1,386,350)
(Decrease) / increase in current liabilities:		
Trade and other payables	(210,630,390)	194,715,803
	<u>(103,630,782)</u>	<u>96,830,882</u>
Cash generated from operations	653,372,106	1,020,681,010
Financial charges paid	(75,135,987)	(14,710,495)
Taxes paid	(198,246,988)	(378,600,683)
Retirement and other service benefits paid	(13,325,918)	(41,654,200)
(Increase) in long term loans and advances	(10,724,325)	(156,510)
Net cash inflow from operating activities	355,938,888	585,559,122
Cash flow from investing activities		
Capital expenditure	(184,854,999)	(218,876,427)
Proceeds from sale of property, plant and equipment	1,532,118	1,253,716
Income on time deposits	6,615,912	20,463,073
Proceeds from disposal of investments	810,297,557	4,274,149,824
Short term investment in shares	(2,997,867,660)	(6,332,810,794)
Dividend received	415,958,672	271,869,763
Net cash outflow from investing activities	(1,948,318,400)	(1,983,950,845)
Cash flow from financing activities		
Short term financing	1,823,401,690	1,797,183,538
Dividends paid	(544,263,428)	(563,327,895)
Net cash inflow from financing activities	1,279,138,262	1,233,855,643
Net (decrease) in cash and cash equivalents	(313,241,250)	(164,536,080)
Cash and cash equivalents at the beginning of the year	1,385,795,929	1,550,332,557
Effect of exchange rate changes	-	(548)
Cash and cash equivalents at the end of the year	1,072,554,679	1,385,795,929

The annexed notes 1 to 36 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2004

	Share Capital	Capital Reserve	Bonus Shares Reserve	Revenue Reserves			Fair Value Reserve	Total
				General Reserve	Unappropriated Profit	Total		
(Rupees)								
Balance as at 1 January 2003	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	-	-	-	-	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	200,000,000	-	500,000,000	3,359,354,864	3,859,354,864	2,306,135,392	7,086,066,256
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
Net profit for the year	-	-	-	-	1,114,478,315	1,114,478,315	-	1,114,478,315
Transfer of capital reserve	-	(200,000,000)	-	200,000,000	-	200,000,000	-	-
Fair value reserve transferred to profit and loss account on disposal of investments	-	-	-	-	-	-	(97,637,704)	(97,637,704)
Adjustment arising from measurement to fair value of investment	-	-	-	-	-	-	2,732,514,254	2,732,514,254
	720,576,000	-	-	700,000,000	3,753,257,179	4,453,257,179	4,941,011,942	10,114,845,121
1st interim dividend @ 25%	-	-	-	-	(180,144,000)	(180,144,000)	-	(180,144,000)
2nd interim dividend @ 35%	-	-	-	-	(252,201,600)	(252,201,600)	-	(252,201,600)
	-	-	-	-	(432,345,600)	(432,345,600)	-	(432,345,600)
Balance as at 31 December 2004	720,576,000	-	-	700,000,000	3,320,911,579	4,020,911,579	4,941,011,942	9,682,499,521

The annexed notes 1 to 36 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

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. The registered office of the Company is situated at 35 A, Shahrah-e-Abdul Hameed Bin Baadees, Lahore.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting convention

These financial statements have been prepared under the historical cost convention, except for "available for sale" investments, which have been recognized at fair value and recognition of certain staff retirement benefits at present value.

2.2 Statement of compliance

These financial statements have been prepared in accordance with the 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.

During the year, the SECP substituted the Fourth Schedule to the Companies Ordinance, 1984 which is effective from financial year ending on or after 05 July 2004. This has resulted in the change in accounting policy pertaining to the recognition of dividends proposed subsequent to year end (note 2.17) and capitalization of exchange differences (note 2.7).

2.3 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.

2.4 Staff retirement benefits

a) Gratuity

The Company operates an approved funded gratuity scheme for its management staff. Actuarial valuations are carried out on regular intervals to determine and adjust the liability on the balance sheet date. The Actuary, for ascertaining the fair value of assets and liabilities, has adopted the projected unit credit method. The Company recognizes actuarial gains / losses over the expected future service of current members. Related details are given in note 13.1(a) to the financial statements.

b) Employees encashable leaves

Liability for accumulated encashable leaves is arrived at on the basis of Actuarial valuation. Valuation for the current year was carried out as at 31 December 2004 to determine the liability at the balance sheet date. Related dates are given under note 13.1(b). Previously, liability for encashable leaves was accounted for on the basis of amount payable at the balance sheet date in respect of unavailed leaves under the employees service rules.

The change in accounting policy has no material impact on the opening retained earnings.

c) Other benefits

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.

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.

2.5 Fixed capital expenditure

These are stated at cost less accumulated depreciation except for Land, Capital Work in Progress and stores held for capital expenditure, which are stated at cost. 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:

	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.

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 property, plant and equipment is included in income currently.

The initial catalyst costs in Ammonia plant are capitalized with plant and machinery whereas, subsequent replacement of such catalysts are separately included in property, plant and equipment.

2.6 Stocks, stores and spares

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

Stocks	
Raw materials	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 as surplus to the Company's requirements are written down to their estimated net realisable value.
Stores and spares in transit	at cost, comprising invoice value plus other charges incurred thereon.

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

2.7 Foreign currencies

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

During the current year, the Company in pursuance of substituted Fourth Schedule to the Companies Ordinance, 1984 has changed its accounting policy with respect to capitalization of exchange differences. Previously exchange differences on loans utilized for the acquisition of property, plant and equipment were capitalized and all other exchange differences were charged to income. The Company now charges all exchange differences to profit and loss account.

The change in accounting policy as referred to above has no effect on the financial statements reported for the current year.

2.8 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 balance sheet liability method, on all 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.

2.9 Investments

Investment in Associated Company and short term 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 value are recognized in equity until investment is 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.

2.10 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 item.

2.11 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.

2.12 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.

2.13 Trade and other payables

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.

2.14 Provisions

Provisions are recorded when the Company has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of obligation.

2.15 Borrowing costs

Borrowing costs are recognized as an expense, as and when incurred.

2.16 Related party transactions

The Company enters into transactions with related parties on an arms length basis. Prices for transactions with related parties are determined using admissible valuation methods.

2.17 Dividend

Dividend is recognized as a liability in the period in which it is declared. Upto previous year, dividends proposed after the balance sheet date but before authorisation of issuance of the financial statements were recorded as a liability. The change has been required by the revision in the Fourth Schedule to the Companies Ordinance, 1984. The change in policy has been accounted for prospectively in accordance with allowed alternative treatment of International Accounting Standard 8: "Net profit or loss for the period, fundamental errors and changes in accounting policy". Proforma information is given in note 31 to the financial statements.

3. SALES-NET

Own manufactured

Less: Sales tax

4. COST OF GOODS SOLD

Opening stock of work in process and finished goods

Cost of goods produced

Raw materials:

Opening stock

Purchases

Closing stock

Raw material consumption

Fuel and power

Salaries, wages, benefits and staff welfare

Stores and spares consumed

Depreciation

Repairs and maintenance

Travel and conveyance

Catalysts and chemicals

Insurance

Communication, stationery and office supplies

Rent, rates and taxes

Other expenses

Closing stock of work in process and finished goods

Cost of goods sold

4.1 Salaries, wages, benefits and staff welfare include Rs. 5,511,437 (2003: Rs. 7,573,257) in respect of contribution to staff gratuity fund and Rs. 9,837,190 (2003: Rs. 9,864,993) in respect of provident funds.

5. SELLING AND ADMINISTRATIVE EXPENSES

Salaries, wages, benefits and staff welfare

Communication, stationery and office supplies

Rent, rates and taxes

Travel and conveyance

Repairs and maintenance

Depreciation

Legal and professional charges

Sales promotion, advertising, market development

Insurance

Donations

Other expenses

5.1 Salaries, wages, benefits and staff welfare include Rs. 2,127,687 (2003: Rs. 3,208,987) in respect of contribution to staff gratuity fund and Rs. 3,790,302 (2003: Rs. 3,661,005) in respect of provident funds.

Note

	2004 Rupees	2003 Rupees
3. SALES-NET		
Own manufactured	3,087,269,533	3,432,573,491
Less: Sales tax	(388,134,227)	(449,198,683)
	<u>2,699,135,306</u>	<u>2,983,374,808</u>
4. COST OF GOODS SOLD		
Opening stock of work in process and finished goods	80,492,439	105,865,139
Cost of goods produced		
Raw materials:		
Opening stock	23,147,316	15,771,396
Purchases	717,740,809	801,172,252
	<u>740,888,125</u>	<u>816,943,648</u>
Closing stock	25,754,112	23,147,316
Raw material consumption	715,134,013	793,796,332
Fuel and power	519,024,501	517,712,333
Salaries, wages, benefits and staff welfare	275,352,105	298,306,474
Stores and spares consumed	126,248,700	105,438,683
Depreciation	105,786,726	82,875,390
Repairs and maintenance	23,872,261	22,598,870
Travel and conveyance	28,285,792	25,490,514
Catalysts and chemicals	19,809,744	25,040,456
Insurance	13,793,131	13,496,810
Communication, stationery and office supplies	4,853,751	3,175,022
Rent, rates and taxes	2,161,415	3,803,590
Other expenses	9,000,545	6,189,897
	<u>1,843,322,684</u>	<u>1,897,924,371</u>
	<u>1,923,815,123</u>	<u>2,003,789,510</u>
Closing stock of work in process and finished goods	42,425,377	80,492,439
Cost of goods sold	<u>1,881,389,746</u>	<u>1,923,297,071</u>
5. SELLING AND ADMINISTRATIVE EXPENSES		
Salaries, wages, benefits and staff welfare	83,423,244	78,322,245
Communication, stationery and office supplies	17,682,567	13,007,454
Rent, rates and taxes	15,640,318	14,048,403
Travel and conveyance	12,554,068	9,855,233
Repairs and maintenance	12,281,528	9,571,370
Depreciation	11,192,502	6,451,296
Legal and professional charges	5,152,622	32,615,279
Sales promotion, advertising, market development	4,219,299	5,909,452
Insurance	650,196	451,666
Donations	93,500	184,500
Other expenses	2,109,825	1,312,655
	<u>164,999,669</u>	<u>171,729,553</u>

	2004 Rupees	2003 Rupees
6. FINANCIAL CHARGES		
Mark up on short term financing	82,716,050	33,463,566
Interest on workers profits participation fund	60,000	1,082,000
Interest on workers' gratuity fund	-	375,249
	<u>82,776,050</u>	<u>34,920,815</u>
7. OTHER INCOME		
Income from financial assets		
Profit on sale of short term investments	292,484,138	423,755,130
Dividend income	251,483,750	221,767,400
Income from time deposits	6,615,912	15,042,125
Foreign exchange conversion (loss)	-	(548)
	<u>550,583,800</u>	<u>660,564,107</u>
Income from associated companies		
Dividend income from Engro Chemical Pakistan Limited	237,758,672	228,302,363
Insurance claim from Central Insurance Company Limited	366,883	-
	<u>238,125,555</u>	<u>228,302,363</u>
Income from non-financial assets		
Sale of scrap	9,995,740	159,240
Miscellaneous	2,513,679	2,181,873
Profit on sale of property, plant and equipment	178,120	1,222,022
	<u>12,687,539</u>	<u>3,563,135</u>
	<u>801,396,894</u>	<u>892,429,605</u>
8. OTHER CHARGES		
Workers' profits participation fund	28,477,970	42,651,099
Workers' welfare fund	11,000,000	17,000,000
Auditors' remuneration		
Audit fee	300,000	300,000
Half year review and other certifications	84,950	79,895
Out of pocket expenses	25,500	25,500
	<u>39,888,420</u>	<u>60,056,494</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.		
9. PROVISION FOR TAXATION		
Current - for the year	181,000,000	304,700,000
Deferred- for the year	36,000,000	1,650,000
- for prior years	-	650,000
	<u>217,000,000</u>	<u>307,000,000</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 purpose	-	1
Less: Tax effect of amounts exempt from tax	(8)	(9)
Tax effect of amount taxed at lower rate	(11)	(9)
Average effective rate charged on income	<u>16</u>	<u>18</u>

	2004 Rupees	2003 Rupees		
10. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL				
13,900,000 Ordinary shares of Rs. 10 each fully paid in cash	139,000,000	139,000,000		
58,157,600 Ordinary shares of Rs.10 each issued as fully paid bonus shares	581,576,000	581,576,000		
<u>72,057,600</u> Paid up capital	<u>720,576,000</u>	<u>720,576,000</u>		
10.1 Number of shares held by various associated companies are 19,825,873 (2003: 19,825,873).				
11. CAPITAL RESERVE FOR BMR				
This reserve was created for construction of the prill tower. It has now been released after completion of the prill tower.				
12. DEFERRED TAXATION				
Deferred liability arising due to accelerated depreciation allowance	54,600,000	21,100,000		
Deferred debits arising in respect of provision for gratuity and other timing differences	(17,000,000)	(19,500,000)		
	<u>37,600,000</u>	<u>1,600,000</u>		
13. RETIREMENT AND OTHER SERVICE BENEFITS				
13.1 Movements in net liability recognized				
a) Gratuity				
	Funded Defined Benefit Plan	Defined Contribution Plan		
Opening balance	2,991,410	-	2,991,410	33,863,366
Expense recognized	5,347,768	2,291,356	7,639,124	10,782,244
Payments made	(8,102,688)	(2,080,124)	(10,182,812)	(41,654,200)
Closing balance	<u>236,490</u>	<u>211,232</u>	<u>447,722</u>	<u>2,991,410</u>
Latest Actuarial valuation to determine the liability as at 31 December 2004 was carried out in January 2005.				
Assumptions used for valuation of the scheme are as under:				
	Per annum	Per annum		
Discount rate	8%	8%		
Expected rate of return on plan assets	8%	9%		
Expected rate of increase in salary	7%	7%		
b) Encashable leaves				
Opening balance		38,186,529		
Expense recognized		7,017,646		
Payments made		(3,143,106)		
Closing balance		<u>42,061,069</u>		<u>38,186,529</u>
		<u>42,508,791</u>		<u>41,177,939</u>
Latest Actuarial valuation to determine the liability as at 31 December 2004 was carried out in January 2005.				
Assumptions used for valuation of the scheme are as under:				
	Per annum			
Discount rate	8%			
Expected rate of increase in salary	7%			

13.2 Net Liability

	2004 Rupees	2003 Rupees
Present value of defined obligation	78,908,628	74,514,461
Less: Fair value of plan assets	(74,907,260)	(68,550,166)
Un-recognised actuarial gains/(losses)	(3,764,878)	(2,972,885)
	236,490	2,991,410

13.3 Amounts charged to profit and loss account

Current service cost	4,870,624	5,103,489
Interest cost	5,961,157	5,961,027
Expected return on plan assets	(5,484,013)	(5,730,524)
Increase due to change in frozen gratuity	-	3,265,085
	5,347,768	8,599,077

13.4 Actual return on plan assets of funded gratuity scheme was Rs. 3,653,997 (2003: Rs. 5,359,545)

14. SHORT TERM FINANCING - SECURED

These represent utilized portion of short-term finance facilities available from various banks under mark-up arrangements. These facilities aggregate Rs. 4,989 million (2003: Rs.3,144 million) and expire on various dates latest by 31 December 2005, carrying mark-up ranging between 2% to 6% per annum. The facilities availed are secured by pledge of shares held as investments. Carrying amount of these shares as at 31 December 2004 was Rs. 5,183 million (2003: Rs.3,159 million)

15 TRADE AND OTHER PAYABLES

Trade creditors		219,261,210	222,769,753
Amount due to associated undertakings	15.1	-	176,168,330
Unclaimed dividends		107,733,865	75,536,493
Accrued expenses		89,180,185	96,676,353
Sales tax payable		50,775,376	56,994,588
Deposits	15.2	2,575,182	1,994,310
Workers' profits participation fund	15.3	28,537,970	42,651,099
Interest accrued on short term financing		27,790,383	20,210,320
Workers' welfare fund		11,000,000	17,000,000
Accrued capital expenditure		2,950,558	2,950,558
Others		37,840,962	35,486,842
		577,645,691	748,438,646

15.1 Amounts due to associated undertakings include Rs. Nil (2003: Rs. 176,168,330) received as advance against sale of urea. The maximum balance at the end of any month during the year was Rs. 365,605,443 (2003: Rs. 176,168,330).

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

15.3 Workers' profits participation fund

Balance at the beginning of the year		42,651,099	22,709,445
Add: allocation for the year		28,477,970	42,651,099
interest on funds used in the Company's business		60,000	1,082,000
		71,189,069	66,442,544
Less: amount paid to the fund		(42,651,099)	(23,791,445)
		28,537,970	42,651,099

16. CONTINGENT LIABILITIES AND COMMITMENTS**16.1 Contingent liabilities**

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 a 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.

The Company is also contingently liable for:
Counter guarantees given to the bank

Indemnity bonds/guarantees given to the 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)

Indemnity bonds given to the Customs authorities equivalent to duties chargeable on import of machinery which shall be released on production of installation certificate, from the competent authority (contingent liability of capital nature)

Guarantees issued in favour of Electric Inspector, Punjab Government in respect of duty on self electric generation.

Pending Law Suits

	2004 Rupees	2003 Rupees
	5,379,379	5,379,379
	2,171,467	2,171,467
	76,384,637	46,708,480
	1,650,770	1,650,770
	12,358,858	5,267,261
	120,000	120,000
	157,535,781	48,401,460
	14,227,439	-

16.2 Commitments

Commitments in respect of contracts for capital expenditure.

Commitments in respect of store purchases.

17. PROPERTY, PLANT AND EQUIPMENT-AT COST LESS ACCUMULATED DEPRECIATION

	C O S T				D E P R E C I A T I O N				Net Book Value At 31 December 2004
	At 01 January 2004	Additions	Disposals	At 31 December 2004	At 01 January 2004	For the year	On Disposals	At 31 December 2004	
	(Rupees)				(Rupees)				(Rupees)
Freehold land	27,369,940	-	-	27,369,940	-	-	-	-	27,369,940
Buildings on freehold land	105,003,968	-	-	105,003,968	59,556,206	3,533,961	-	63,090,167	41,913,801
Railway siding	2,314,451	-	-	2,314,451	2,291,307	-	-	2,291,307	23,144
Plant & machinery	1,650,780,623	306,386,133	-	1,957,166,756	1,522,282,838	81,472,240	-	1,603,755,078	353,411,678
Catalysts	85,313,822	1,058,909	-	86,372,731	31,237,989	14,916,731	-	46,154,720	40,218,011
Furniture, fittings and equipment	39,280,113	2,631,423	79,739	41,831,797	32,928,997	1,733,937	57,962	34,604,972	7,226,825
Data processing equipment	60,718,514	8,876,485	736,442	68,858,557	48,504,993	6,142,031	697,366	53,948,658	14,908,899
Motor vehicles	56,924,295	8,373,033	2,915,261	62,382,067	27,478,304	9,180,328	1,988,999	34,669,633	27,712,434
	2,027,705,726	327,325,983	3,731,442	2,351,300,267	1,724,280,634	116,079,228	2,744,327	1,838,515,535	512,784,732
2004									
	1,971,577,375	59,297,761	3,169,410	2,027,705,726	1,638,091,664	89,326,686	3,137,716	1,724,280,634	303,425,092

Depreciation charge for the year has been allocated as follows:

	2004 Rupees	2003 Rupees
Cost of goods sold - (Note 4)	105,786,726	82,875,390
Selling and administrative expenses - (Note 5)	11,192,502	6,451,296
	116,979,228	89,326,686

The Company effective from current year, has reclassified the cost of catalysts from deferred cost to property, plant and equipment in order to comply with the revised Fourth Schedule to the Companies Ordinance, 1984.

Additions during the year in plant and machinery include capitalization of stores amounting to Rs. 87,975,707.

	2004 Rupees	2003 Rupees
18. CAPITAL WORK IN PROGRESS		
Plant and machinery	823,471	160,133,674
Stores for capital expenditure	16,839,219	-
	<u>17,662,690</u>	<u>160,133,674</u>
19. LONG TERM INVESTMENT		
Investment in Associated Company-Available for sale		
Engro Chemical Pakistan Limited (ECPL)		
29,719,834 (2003: 29,719,834) ordinary shares of Rs.10 each-at cost	1,868,700,000	1,868,700,000
Percentage of equity held - 19.43 % (2003: 19.43%)		
Adjustment arising from measurement to fair value	1,974,074,536	889,300,595
	<u>3,842,774,536</u>	<u>2,758,000,595</u>

Subsequent to the balance sheet date, the Company has acquired further 22,203,852 ordinary shares of ECPL increasing its total holding to 51,923,686 shares. The percentage of equity held after further purchase of shares is 33.9%.

	Note	2004 Rupees	2003 Rupees
20. LONG TERM LOANS AND ADVANCES			
(Unsecured - considered good)			
Executives	20.1	133,200	54,980
Other employees	20.2	11,546,010	899,905
		<u>11,679,210</u>	<u>954,885</u>

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

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

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

20.4 Reconciliation of carrying amounts of loans to executives

Opening balance	804,820	715,455
Disbursement during the year	1,053,360	1,134,180
Promotion of non-executive employees as executives	231,590	-
Loan recovered during the year	(1,229,115)	(1,044,815)
Closing balance	860,655	804,820
Less current portion shown under current assets	(727,455)	(749,840)
	<u>133,200</u>	<u>54,980</u>

20.5 The maximum amount of advances to executives outstanding at the end of any month during the year was Rs. 1,143,990 (2003: Rs. 795,860).

21. STORES, SPARES AND LOOSE TOOLS

Stores	219,161,979	202,405,991
Spares	530,689,228	562,998,760
Loose tools	11,183,889	10,393,858
Stores and spares in transit	39,538,485	110,322,026
	<u>800,573,581</u>	<u>886,120,635</u>
Provision for obsolete items	(235,665,000)	(235,665,000)
	<u>564,908,581</u>	<u>650,455,635</u>

	2004 Rupees	2003 Rupees
22. STOCKS		
Material in process	12,508,716	11,291,316
Finished goods - own manufactured	29,916,661	69,201,123
	<u>42,425,377</u>	<u>80,492,439</u>
Raw materials	25,754,112	23,147,316
	<u>68,179,489</u>	<u>103,639,755</u>

23. TRADE DEBTORS

These debts which are unsecured and considered good include Rs. Nil (2003: Rs. Nil) due from associated undertakings. Maximum balance due from associated undertakings was Rs. Nil (2003: Rs. 202,047,020) at the end of any month during the year.

24. LOANS, ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	Note	2004 Rupees	2003 Rupees
These receivables are all unsecured and considered good:			
Advances to suppliers for goods and services		12,266,191	12,398,875
Advances and loans:			
Executives		727,455	749,840
Employees		18,093,057	15,290,968
Dividend receivable		251,687,570	178,403,820
Advance income tax		206,194,403	380,100,909
Income tax refund receivable		67,453,494	-
Short term prepayments		8,320,791	2,354,454
Deposits		2,669,641	914,751
Claims receivable from Government	24.1	1,292,892	1,292,892
Miscellaneous receivables		14,361,434	14,570,427
		<u>583,066,928</u>	<u>606,076,936</u>

Chief Executive and directors have not taken any loan / advance from the Company (2003 : Rs. Nil).

Advances and loans to executives and employees include Rs. 16,509,550 (2003: Rs. 15,261,236) being current portion of the loans described under Note 20 and the balance represents interest free advances.

Miscellaneous receivables include Rs. Nil (2003: Rs. 6,824,207) due from associated undertakings. Maximum balance at the end of any month during the year was Rs. 9,550,812 (2003: Rs. 12,888,732).

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 the following listed companies:

Sui Northern Gas Pipelines Limited

100,593,500 (2003: 81,000,000) ordinary shares of Rs.10 each - at cost

Percentage of equity held : 20.15 % (2003: 16.23%)

Adjustment arising from measurement to fair value

Faysal Bank Limited

Nil (2003: 6,500) ordinary shares of Rs.10 each - at cost

Percentage of equity held: Nil (2003 : below 10%)

Adjustment arising from measurement to fair value

Southern Electric Power Company Limited

5,700,000 (2003: 5,500,000) ordinary shares of Rs.10 each - at cost

Percentage of equity held: below10% (2003: below 10%)

Adjustment arising from measurement to fair value

Pakistan PTA Limited

120,000,000 (2003: Nil) ordinary shares of Rs.10 each - at cost

Percentage of equity held: below 10% (2003: Nil)

Adjustment arising from measurement to fair value

	2004 Rupees	2003 Rupees
3,580,763,050		2,365,750,800
2,364,312,800		971,449,200
5,945,075,850		3,337,200,000
-		231,022
-		2,980
-		234,002
118,431,290		116,434,278
(44,616,290)		(25,134,279)
73,815,000		91,299,999
1,263,276,000		-
176,724,000		-
1,440,000,000		-
7,458,890,850		3,428,734,001
401,365,247		834,661,286
670,893,305		550,571,629
1,072,258,552		1,385,232,915
296,127		563,014
1,072,554,679		1,385,795,929

26. CASH AND BANK BALANCES

With banks

- on current accounts

- on saving accounts

Cash in hand

27. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	2004			2003		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
Managerial remuneration	13,914,084	3,247,104	19,352,185	15,210,084	2,534,318	15,667,191
Retirement benefits	2,419,200	56,764	1,897,961	2,419,200	25,494	1,926,930
Rent and utilities	6,232,800	806,585	5,657,026	6,232,800	973,774	4,954,255
Leave fair assistance	301,894	66,329	-	400,320	-	-
Medical	-	143,820	788,628	8,160	96,352	674,464
	22,867,978	4,320,602	27,695,800	24,270,564	3,629,938	23,222,840
Number of persons (including those who worked part of the year)	1	3	17	1	3	14

Chief Executive, 2 directors (2003: 2) and 16 executives of the Company (2003: 13) are provided with free use of cars owned and maintained by the Company.

Meeting fees amounting to Rs. 33,000 (2003: Rs. 24,000) were paid to 7 directors including Chief Executive (2003: 7).

28. 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						
Motor vehicles	Employee					
	Sajid Rasheed	796,510	119,477	677,033	744,755	As per Company policy
	Associated Undertaking					
	Central Insurance Company Limited	811,660	803,543	8,117	375,000	Insurance claim
Aggregate of other items of property, plant and equipment with individual book values not exceeding Rs. 50,000.						
		2,123,272	1,821,308	301,964	412,363	As per Company policy
		3,731,442	2,744,328	987,114	1,532,118	

29. EARNINGS PER SHARE**29.1 Basic earnings per share**

Profit after taxation available for distribution to ordinary shareholders

Weighted average number of ordinary shares

Basic earnings per share

	2004 Rupees	2003 Rupees
1,114,478,315		1,378,800,480
72,057,600		72,057,600
15.47		19.13

29.2 Diluted earnings per share

There is no dilution effect on the basic earnings per share of the Company as it has no such commitments.

30. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

	Interest/markup bearing			Non-Interest/markup bearing		2004 Total	2003 Total
	Maturity upto one year	Maturity after one year	Sub total	Maturity upto one year	Maturity after one year		
(Rupees)							(Rupees)

Financial assets

Long term investments	-	-	-	-	3,842,774,536	3,842,774,536	2,758,000,595
Short term investments	-	-	-	7,458,890,850	-	7,458,890,850	3,428,734,001
Loans and advances	-	-	-	16,509,550	11,679,210	28,188,760	15,466,281
Trade debts	-	-	-	9,337,536	-	9,337,536	5,489,077
Other receivables	-	-	-	270,011,537	-	270,011,537	195,181,890
Cash and bank balances	670,893,305	-	670,893,305	401,661,374	-	1,072,554,679	1,385,795,929
2004	670,893,305	-	670,893,305	8,156,410,847	3,854,453,746	12,681,757,898	7,788,667,773
2003	550,571,629	-	550,571,629	4,479,140,664	2,758,955,480	7,788,667,773	

Financial liabilities

Short term financing	3,620,585,228		3,620,585,228	-	-	3,620,585,228	1,797,183,538
Trade and other payables	-		-	487,332,345	-	487,332,345	631,792,959
2004	3,620,585,228	-	3,620,585,228	487,332,345	-	4,107,917,573	2,428,976,497
2003	1,797,183,538	-	1,797,183,538	631,792,959	-	2,428,976,497	

30.1 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.

30.2 Interest rate risk management

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the 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 the financial assets and liabilities ranges between 1% to 6% per annum.

30.3 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 the new requirements.

30.4 Fair value of financial assets and liabilities

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

31. RESTATED PROFORMA INFORMATION STATEMENT OF RETAINED EARNINGS

	Actual		Proforma restated	
	2004	2003	2004	2003
	(Rupees)			
Opening balance as at 1st January as previously reported	2,638,778,864	1,980,554,384	2,638,778,864	1,980,554,384
Change in accounting policy for proposed dividend	-	-	144,115,200	-
Restated opening balance as at 1st January	2,638,778,864	1,980,554,384	2,782,894,064	1,980,554,384
Transferred from profit and loss account	1,114,478,315	1,378,800,480	1,114,478,315	1,378,800,480
	3,753,257,179	3,359,354,864	3,897,372,379	3,359,354,864
Final proposed dividend 2003	-	-	(144,115,200)	-
1st interim dividend	(180,144,000)	(288,230,400)	(180,144,000)	(288,230,400)
2nd interim dividend	(252,201,600)	(144,115,200)	(252,201,600)	(144,115,200)
3rd interim dividend	-	(144,115,200)	-	(144,115,200)
Final proposed dividend 2003	-	(144,115,200)	-	-
Closing balance as at 31 December	3,320,911,579	2,638,778,864	3,320,911,579	2,782,894,064

32. DONATIONS

A donation of Rs. 50,000 was given to Shaukat Khanum Memorial Trust, Lahore. Mr. Hussain Dawood, Chairman and Chief Executive of the Company is a member of the Board of Governors of the said Trust.

33. 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:

Name and nature of transactions with associated companies	2004 Rupees	2003 Rupees
Dawood Corporation (Private) Limited		
Sale of urea	2,981,443,018	3,338,831,670
Dawood Lawrencepur Limited		
Purchase of cotton bags and cloth	12,051,545	53,659,612
The Dawood Foundation		
Payment of rent	3,306,600	4,959,900
Central Insurance Company Limited		
Insurance premiums	15,980,367	14,620,031
Purchase of motor vehicles	275,000	
Sach International (Private) Limited		
Purchase of cloth	-	1,735,545

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.

Comparative figures have been rearranged due to merger of Burewala Textile Mills Limited, Lawrencepur Woollen & Textile Mills Limited and Dilon Limited into Dawood Lawrencepur Limited (formerly Dawood Cotton Mills Limited).

34. PRODUCTION CAPACITY

As against the annual production capacity of 445,500 M. tons (2003: 445,500 M.tons) of urea fertilizer the plant produced 351,123 M.tons (2003: 430,601 M.tons) which was 79% (2003: 97%) of designed capacity.

Short fall in the production capacity utilization was due to stoppage/curtailment of gas supply by the Gas Company, prolonged annual turnaround for switching to the new prill tower and other technical reasons.

35. NUMBER OF EMPLOYEES

	2004	2003
Number of employees as at 31 December	481	498

36. GENERAL

36.1 These financial statements have been authorised for issue by the Board of Directors of the Company on 21 March 2005.

36.2 Previous year figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison. Major changes during the year were reclassifications resulting from the substituted Fourth schedule to the Companies Ordinance, 1984.

36.3 The Board of Directors at their meeting held on 21 March 2005 have proposed a final dividend for the year ended 31 December 2004 @ Rs. 4.50 per share, amounting to Rs. 324,259,200 for approval of the members at the annual General Meeting to be held on 29 April 2005. The financial statements do not reflect this proposed dividend, as explained in note 2.17.

36.4 Figures have been rounded off to the nearest rupee.

PATTERN OF SHAREHOLDING AS AT 31 DECEMBER 2004

**Disclosure Requirement under the
Code of Corporate Governance**

(a) Details of holding on 31.12.2004:	Shares held
(1) Associated Companies, Undertakings and Related Parties	
Dawood Lawrencepur Ltd.	11,667,850
Dawood Corporation (Pvt.) Ltd.	3,125,032
Central Insurance Company Ltd.	2,162,245
The Dawood Foundation	2,846,448
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	821
(3) Directors & CEO (including holding of their spouses & minor children)	
Mr. Hussain Dawood - Chairman & CEO	4,989,350
Mr. Shahzada Dawood	739,281
Mr. A. Samad Dawood	739,536
Mr. Abdul Aziz Moon	5,630
Khawaja Amanullah	3
Mr. Abdul Ghafoor Gohar	3
Syed Muhammad Asghar	1
(4) Executives	1,900
(5) Public Sector Companies and Corporations	-
(6) Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas & Mutual Funds	14,267,938
(7) Shareholders holding ten percent or more shares	
Faisal Finance S.A.	9,979,200
Dawood Lawrencepur Ltd.	11,667,850

- (b) Details of trading/movement during the year 2004 in shares held by directors/CFO/Company Secretary and their spouses & minor children.
- Mrs. Zohra Aziz wife of Mr. A. Aziz Moon purchased 5,000 shares.
- Mr. Hussain Dawood gifted 402,448 shares to his wife and 739,281 shares to his daughter, Ms. Sabrina Dawood.
- Mr. Hussain Dawood and Mrs. Hussain Dawood received 616,043 and 123,209 shares respectively through transmission from the estate of their late daughter, Ms. Saira Dawood.

PATTERN OF SHAREHOLDING AS AT 31 DECEMBER 2004

Category-Wise

Categories of Shareholders	Number of Shareholders	Total Shares Held	Percentage
Individuals	2,186	10,626,428	14.75
Joint Stock Companies	45	43,811,007	60.80
Financial Institutions	13	10,374,367	14.40
Insurance Companies	6	4,153,429	5.76
Investment Companies	4	102,082	0.14
Educational/Charitable Institutions	5	2,881,871	4.00
Co-operative Societies	1	345	0.00
Modaraba	2	98,996	0.14
Administrator, Abandoned Properties, Government of Pakistan	1	9,072	0.01
Securities & Exchange Commission of Pakistan	1	3	0.00
Total	2,264	72,057,600	100.00

PATTERN OF SHAREHOLDING

As at 31 December 2004

Shareholding Range		Number of Shareholders	Total Shares Held
From	To		
1	100	314	15,099
101	500	1,310	341,712
501	1,000	273	178,061
1,001	5,000	269	533,158
5,001	10,000	39	276,611
10,001	15,000	13	149,408
15,001	20,000	6	102,083
20,001	25,000	3	66,926
25,001	30,000	3	81,388
30,001	35,000	2	61,140
40,001	45,000	1	40,176
50,001	55,000	1	51,840
55,001	60,000	1	59,600
70,001	75,000	1	73,612
90,001	95,000	1	93,000
95,001	100,000	2	196,404
105,001	110,000	1	109,999
110,001	115,000	1	111,024
135,001	140,000	1	140,000
180,001	185,000	1	182,389
290,001	295,000	1	290,304
355,001	360,000	2	715,729
735,001	740,000	4	2,957,536
785,001	790,000	1	785,509
895,001	900,000	1	899,424
980,001	985,000	1	981,888
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
3,955,001	3,960,000	1	3,959,765
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
9,975,001	9,980,000	1	9,979,200
11,665,001	11,670,000	1	11,667,850
		2,264	72,057,600



DAWOOD HERCULES CHEMICALS LIMITED

PROXY FORM

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-seventh Annual General Meeting of the Company to
be held on Friday, 29 April 2005 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 _____ 2005

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.