



Annual Report 2005

DAWOOD HERCULES: A PRELUDE

Dear Shareholder/s,

We are proud to present the Dawood Hercules Chemicals Limited (DHCL) 2005 Annual Report, which will provide you, the shareholder, with an account of the Company's financial, social and corporate status.

Dawood Hercules has always been an organization which has had a holistic view to its procedures and processes. We believe in not only working to increase the profitability of the Company but also to develop an organization that gives emphasis to the betterment of those who earn their livelihood as well as those who are associated in any way with DHCL. Our aim has always been to foster integrity, contentment and the desire to improve our minds and nurture our souls to be better people.

The sense of worth of our people is mirrored in our results and in the accomplishments that the Company has made during the past years. There has been improvement in the financial results, in operations, in the capacity utilization as well as the production of urea. It is a sense of great achievement for us to have the tallest civil structure in Pakistan standing high within our environs. Our offices in Lahore, Karachi and Islamabad have also been newly refurbished, which has resulted in a more cheerful, modern and cohesive working environment. This new wave of enthusiasm runs in everyone and we want you to be a part of the DH euphoria. Hence, it is with this fervour and elation that we offer you a review of Dawood Hercules in the year 2005.

C O N T E N T S

Company Information

Operating Highlights

Notice of Annual General Meeting

Chairman's Review

Directors' Report

Vision and Mission

Business Ethics & Core Values

Statement of Compliance with the
Code of Corporate Governance

Review Report to the Members

Auditors' Report to the Members

Profit and Loss Account

Balance Sheet

Cash Flow Statement

Statement of Changes in Equity

Notes to the Financial Statements

Pattern of Shareholding

COMPANY INFORMATION

Board of Directors

Hussain Dawood
Chairman

Shahzada Dawood
Chief Executive

Khawaja Amanullah

S. M. Asghar

A. Samad Dawood

Abdul Ghafoor Gohar

Haroon Mahenti

Board Audit Committee

S.M. Asghar
Chairman

A. Samad Dawood
Member

Haroon Mahenti
Member

Company Secretary

Aftab Ahmed Qaiser
E-mail: qaiser@dawoodgroup.com

Registered Office

35-A, Shahrah-e-Abdul Hameed
Bin Baadees (Empress Road),
Lahore, Pakistan
Tel: +92 (42) 6301601-07
Fax: +92 (42) 6364316, 6360343
E-mail: info.dh@dawoodgroup.com
Website: www.dawoodhercules.com

Plant

28-Km Lahore Sheikhpura Road,
Chichoki Mallian,
Sheikhpura, Pakistan
Tel: +92 (42) 7352762-7
Fax: +92 (42) 7313380

General Manager Plant

Muhammad Aslam
E-mail: maslam@dawoodgroup.com

Bankers

ABN Amro Bank Limited
American Express Bank
Bank Al-Habib Limited
Faysal Bank Limited
Habib Bank A. G. Zurich
Habib Bank Limited
Metropolitan Bank Limited

Tax Consultants

S. M. Masood & Co.
Chartered Accountants

46-B-II, Main Gulberg,
Lahore, Pakistan
Tel: +92 (42) 5712554, 5712557-58,
Fax: +92 (42) 5712556
Website: www.smmasood.com

Auditors

KPMG Taseer Hadi & Co.
Chartered Accountants

201-Office Block,
Siddiq Trade Centre,
72-Main Boulevard,
Gulberg-II,
Lahore, Pakistan
Tel: +92 (42) 5781751-6
Fax: +92 (42) 5781757
Website: www.kpmg.com.pk

Legal Advisors

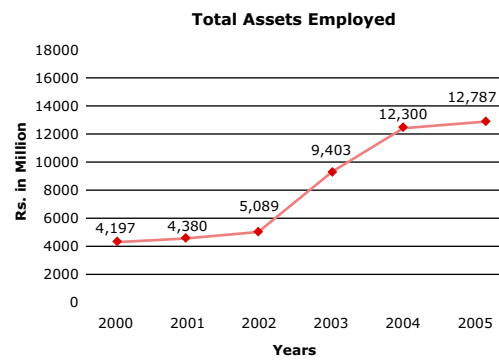
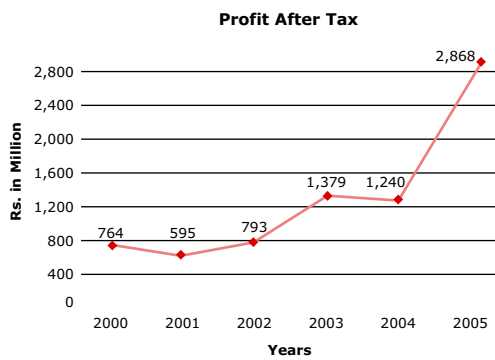
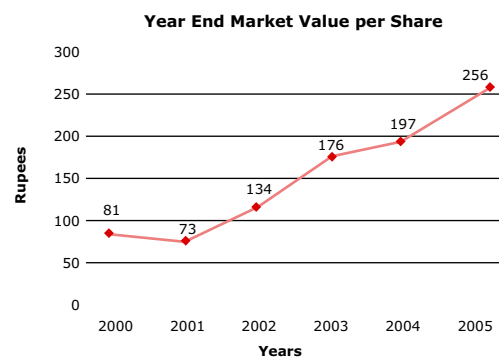
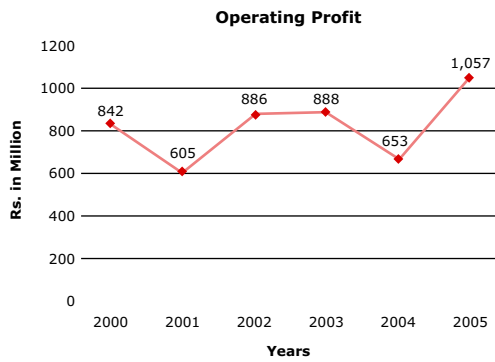
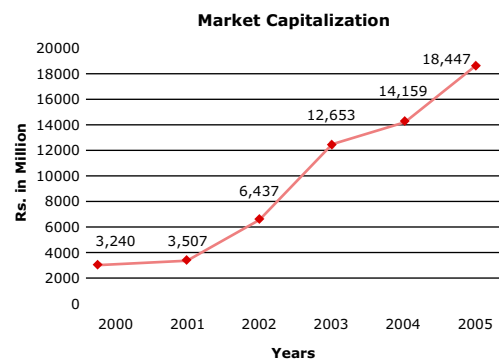
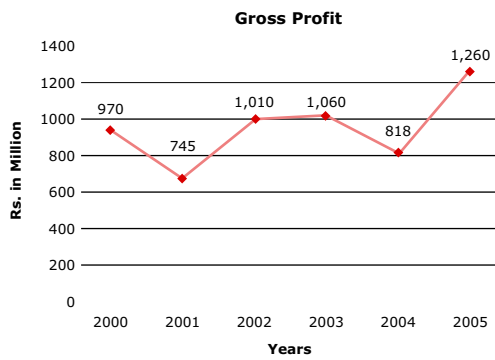
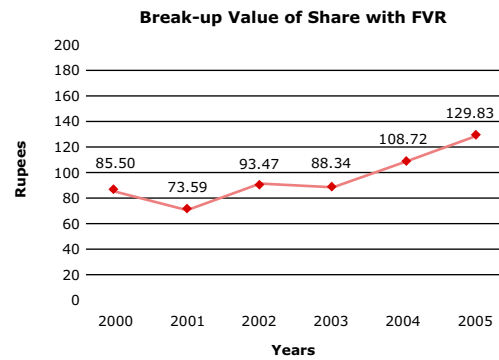
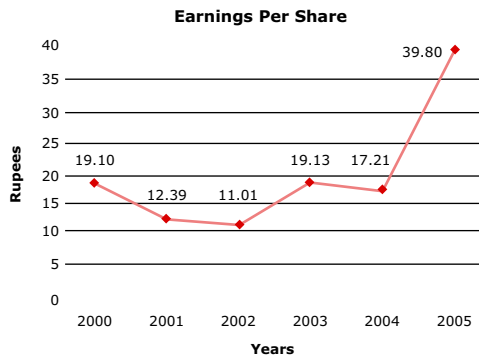
Hassan & Hassan
Advocates

PAAF Building,
7D Kashmir Egerton Road,
Lahore, Pakistan
Tel: +92 (42) 6360800-03
Fax: +92 (42) 6360811-12
Website: www.hnh.com.pk

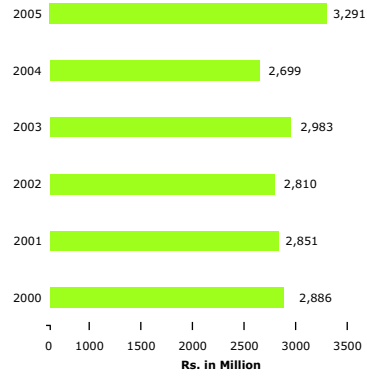
OPERATING HIGHLIGHTS

Ten Years at a Glance

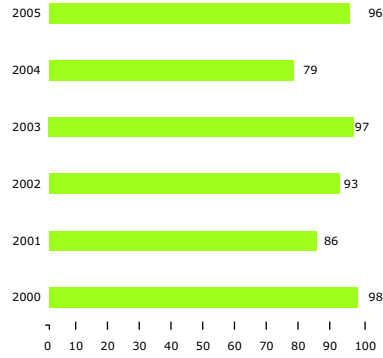
| Sr.No. | PARTICULARS | UNIT | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 | 1996 |
|-----------|--|----------------|--------|--------|--------|----------|--------|--------|--------|--------|--------|--------|
| A) | INCOME STATEMENT | | | | | | | | | | | |
| 1 | Sales Value | Rs. in Million | 3,291 | 2,699 | 2,983 | 2,810 | 2,851 | 2,886 | 2,215 | 2,767 | 2,391 | 1,726 |
| 2 | Gross Profit | Rs. in Million | 1,260 | 818 | 1,060 | 1,010 | 745 | 970 | 623 | 1,242 | 1,039 | 667 |
| 3 | Operating Profit | Rs. in Million | 1,057 | 653 | 888 | 886 | 605 | 842 | 504 | 1,147 | 949 | 583 |
| 4 | Profit Before Taxation | Rs. in Million | 3,568 | 1,726 | 1,686 | 1,131 | 823 | 1,057 | 819 | 1,329 | 1,057 | 693 |
| 5 | Profit After Taxation | Rs. in Million | 2,868 | 1,240 | 1,379 | 793 | 595 | 764 | 622 | 928 | 746 | 466 |
| B) | DIVIDEND | | | | | | | | | | | |
| 1 | Cash Dividend | % | 85 | 105 | 100 | 95 | 100 | 100 | 100 | 80 | 125 | 100 |
| 2 | Stock Dividend | % | 15 | Nil | Nil | 50 | 20 | Nil | Nil | 20 | 100 | Nil |
| C) | BALANCE SHEET | | | | | | | | | | | |
| 1 | Total Assets Employed | Rs. in Million | 12,787 | 12,300 | 9,403 | 5,089 | 4,380 | 4,197 | 4,083 | 3,841 | 3,228 | 2,493 |
| 2 | Current Assets | Rs. in Million | 6,364 | 9,757 | 6,180 | 2,267 | 2,111 | 1,902 | 1,716 | 3,247 | 2,459 | 1,729 |
| 3 | Current Liabilities | Rs. in Million | 3,345 | 4,379 | 2,994 | 520 | 758 | 698 | 963 | 935 | 927 | 568 |
| 4 | Paid Up Capital | Rs. in Million | 721 | 721 | 721 | 480 | 480 | 400 | 400 | 400 | 334 | 167 |
| 5 | Shareholders' Equity with FVR | Rs. in Million | 9,355 | 7,834 | 6,365 | 4,490 | 3,535 | 3,420 | 3,056 | 2,834 | 2,210 | 1,840 |
| 6 | No. of Ordinary Shares | Million | 72.06 | 72.06 | 72.06 | 48.04 | 48.04 | 40.00 | 40.00 | 40.00 | 33.00 | 16.68 |
| D) | RATIO ANALYSIS | | | | | | | | | | | |
| 1 | Gross Profit | % | 38 | 30 | 36 | 36 | 26 | 34 | 28 | 45 | 43 | 39 |
| 2 | Earnings Per Share | Rs. | 39.80 | 17.21 | 19.13 | 11.01 | 12.39 | 19.10 | 15.55 | 23.19 | 22.60 | 27.93 |
| 3 | Inventory Turnover | Time | 17.46 | 21.90 | 17.08 | 14.18 | 12.96 | 8.25 | 9.38 | 17.32 | 10.03 | 10.03 |
| 4 | Age of Inventory | Days | 20.91 | 16.67 | 21.38 | 25.74 | 28.16 | 44.25 | 38.92 | 21.07 | 36.40 | 36.38 |
| 5 | Debtors Turnover | Time | 499.03 | 364.09 | 475.90 | 384.43 | 342.46 | 302.98 | 209.98 | 57.60 | 47.32 | 152.89 |
| 6 | Average Collection Period | Days | 0.73 | 1.00 | 0.77 | 0.95 | 1.07 | 1.20 | 1.74 | 6.34 | 7.71 | 2.39 |
| 7 | Total Assets Turnover | % | 25.73 | 21.94 | 31.73 | 55.22 | 65.08 | 68.76 | 54.26 | 72.04 | 74.08 | 69.22 |
| 8 | Fixed Assets Turnover | % | 712.09 | 526.37 | 983.23 | 842.59 | 713.38 | 689.60 | 453.06 | 476.43 | 350.70 | 236.52 |
| 9 | Break-up Value of Share with FVR | Rs. | 129.83 | 108.72 | 88.34 | 93.47 | 73.59 | 85.50 | 76.40 | 70.86 | 66.98 | 110.29 |
| 10 | Dividend Yield | % | 3.32 | 5.34 | 5.69 | 7.09 | 13.70 | 12.35 | 9.52 | 8.99 | 7.35 | 7.69 |
| 11 | Dividend Payout Ratio | % | 21.36 | 61.01 | 52.26 | 86.32 | 80.74 | 52.36 | 64.31 | 34.49 | 55.30 | 35.81 |
| 12 | Return on Equity | % | 30.66 | 15.83 | 21.66 | 17.66 | 16.83 | 22.34 | 20.35 | 32.73 | 33.75 | 25.32 |
| 13 | Debt Equity Ratio | % | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil |
| 14 | Current Ratio | Time | 1.90 | 2.23 | 2.06 | 4.36 | 2.78 | 2.72 | 1.78 | 3.47 | 2.65 | 3.04 |
| 15 | Interest Cover Ratio | Time | 10.76 | 14.21 | 49.27 | 1,233.31 | Nil | Nil | Nil | Nil | Nil | Nil |
| 16 | Market Value per Share | Rs. | 256.00 | 196.50 | 175.60 | 134.00 | 73.00 | 81.00 | 105.00 | 89.00 | 170.00 | 130.00 |
| 17 | Market Capitalization | Rs. in Million | 18,447 | 14,159 | 12,653 | 6,437 | 3,507 | 3,240 | 4,200 | 3,560 | 5,610 | 2,168 |
| 18 | Price Earning Ratio | Time | 6.43 | 11.42 | 9.18 | 12.18 | 5.89 | 4.24 | 6.75 | 3.84 | 7.52 | 4.66 |
| E) | QUANTITATIVE DATA | | | | | | | | | | | |
| 1 | Designed Production (for 12 months) | Thousand mt | 445.50 | 445.50 | 445.50 | 445.50 | 445.50 | 445.50 | 445.50 | 445.50 | 445.50 | 445.50 |
| 2 | Actual Production | Thousand mt | 428.78 | 351.12 | 430.60 | 414.62 | 381.95 | 436.90 | 419.39 | 423.52 | 365.73 | 383.72 |
| 3 | Capacity Utilization | % | 96 | 79 | 97 | 93 | 86 | 98 | 94 | 95 | 82 | 86 |
| 4 | Sales | Thousand mt | 405.67 | 361.20 | 436.83 | 415.31 | 396.82 | 456.63 | 366.39 | 436.10 | 382.79 | 349.81 |
| F) | OTHERS | | | | | | | | | | | |
| 1 | Employees | Nos. | 472 | 481 | 498 | 525 | 533 | 554 | 584 | 566 | 548 | 542 |
| 2 | Capital Expenditure | Rs. in Million | 235.84 | 328.15 | 189.81 | 11.00 | 42.00 | 12.00 | 12.00 | 14.00 | 8.00 | 96.00 |
| 3 | Contribution to the National Exchequer | Rs. in Million | 665 | 724 | 857 | 767 | 615 | 633 | 665 | 616 | 610 | 615 |



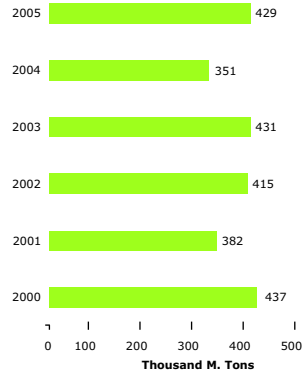
Sales



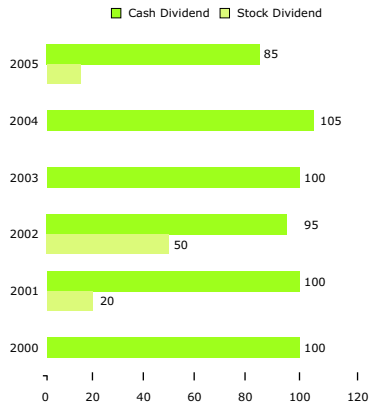
Capacity Utilization %



Production



Total Dividend %



Notice is hereby given that the Thirty-eighth Annual General Meeting 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 (Empress Road), Lahore at 1100 hours on Tuesday, February 28, 2006, for the purpose of transacting the following business after recitation from the Holy Quran:

1. To confirm the Minutes of the Extraordinary General Meeting held on Wednesday, October 12, 2005.
2. To receive, consider and adopt the Audited Accounts of the Company for the year ended December 31, 2005 together with the Auditors' and Directors Reports thereon.
3. To consider and, if thought fit, approve payment of final cash dividend at the rate of 25% (Rs.2.50 per share) for the year ended December 31, 2005 as recommended by the Board of Directors. This is in addition to three interim cash dividends totaling 60% (Rs.6.00 per share) already paid during the year.
4. To approve the issue of Bonus shares in the ratio of 3 shares for every 20 ordinary shares held by the shareholder as recommended by the Directors. To give effect to the above, the Directors have recommended to consider, and if thought fit pass with or without modification the following resolution as an ordinary resolution.

"RESOLVED that a sum of Rs.108,086,400/- (Rupees one hundred eight million eighty-six thousand and four hundred) be capitalized out of the general reserve of the Company and applied towards the issue of 10,808,640 ordinary shares of Rs.10/- each as fully paid bonus shares to be allotted to the shareholders in proportion of 3 shares for every 20 existing ordinary shares held by the members of the Company who are registered on the books of the Company on February 25, 2006 and that such new shares shall rank pari passu in all respect with the existing ordinary shares of the Company. These Bonus Shares, however, will not be eligible for the final cash dividend of 25% for the year ended December 31, 2005.

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

For the purpose of giving effect to the foregoing, Mr. Hussain Dawood, Chairman of the Company be and is hereby authorised to take all necessary actions under the law and to settle any questions or difficulties that may arise in the distribution of the said Bonus Shares or in the disposal of fractions and payment of proceeds thereof."

5. To appoint Auditors and to fix their remuneration. The retiring Auditors M/s. KPMG Taseer Hadi & Company, being eligible, offer themselves for re-appointment.

Karachi: January 30, 2006

By order of the Board
Aftab Ahmed Qaiser
Company Secretary

Notes:

1. The share transfer books of the Company will remain closed from February 25, 2006 to March 3, 2006, 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. Shareholders are requested to immediately notify the change of address, if any.

CHAIRMAN'S REVIEW

I am pleased to report that 2005 has been another eventful year in which Dawood Hercules has yielded strong results for all its stakeholders.

Urea Market: the current scenario

As an agro-based country, Pakistan is heavily dependant on the fertility of the soil and its ability to yield, which is why urea is an essential requirement for the Country's well-being. However, at present the urea demand continues to exceed the production capacity within Pakistan and it is expected that approximately 500,000 tons of urea will have to be imported during the year 2006, causing a foreign exchange loss of around US \$ 200 million (Rs.11980 million) to the Country. It is, therefore, crucial that the domestic production of fertilizer be maximized to curb the shortfall. The Management of your Company is therefore, making continuous efforts to improve the reliability of Plant operations. We have planned to undertake a two-phase BMR exercise, in which the first stage will consist of increasing the production capacity of our Plant to 1,500 MT per day and then boost it further in the second stage.

Plant Performance

At the end of the year, it is time to reflect, take stock of our position and look forward as to where we are, and where we are heading. The year 2005 began on a positive note, as there was no foreseeable shut down of the primary raw material (Natural Gas), as had previously been the case in the past. The fact that the Plant did not experience turn around during the year and that forced shut downs were to a bare minimum was also very heartening. The curtailment of gas due to a disruption of supply in Baluchistan did compel a shutdown in the month of January 2005 for 9.94 days, but it was still comparatively lower to the 21.16 days of the preceding year. With such a smooth course during the year, the Plant in terms of Urea production, reached 428,783 MT at the end of 2005, as

compared to 351,123 MT of 2004. Thus, by the Grace of Allah, plant capacity utilization soared to 96% against 79% achieved during 2004.

Financial Performance

Encouraging signs were also visible in the sales revenue for the year which recorded a sum of Rs.3,290.54 million with a net operating profit of Rs.1,057.42 million. The Company also earned an additional income of Rs.2,825.11 million from other sources including share of profit from associate Engro Chemical Pakistan Limited (ECPL). The pre-tax profit for the current year rose to Rs.3,567.96 million. The earning per share of the Company stood at Rs.39.80, as compared to Rs.17.21 of last year. The breakup value of the Company's share comes to Rs.129.83, depicting an increase in the value of the balance sheet of Rs.487 million. The market capitalization increased to Rs.18,446.75 million at the close of the year, which is 30.28% higher than last year.

As per your Board's policy to share the earnings of the Company with the shareholders in a fair, timely and responsible manner; three interim dividends totaling to 60% have already been announced during the course of the year. The Board has now recommended a final cash dividend of Rs.2.50 per share (25%) and 15% bonus shares bringing the overall cash dividend for the year 2005 to 85% and stock dividend to 15%.

Long Term Initiatives and Dawood Hercules' Growing Presence

We have consistently endeavoured to effectively manage the Company's financial resources through investments in different portfolios. On February 07, 2005 your Board sought your approval to increase the Company's strategic shareholding in ECPL from 19.43% to 38.13% by investing Rs.3,607 million.

To further your Company's stance in the market place, your Board decided to participate in the privatization of Pak Arab Fertilizer (Pvt) Limited. The Company appointed Financial Advisors, conducted a thorough Financial, Legal and Human Resources Due Diligence of Pak Arab Fertilizer (Pvt) Limited, and negotiated a confirmed line funding for the transaction. On May 14, 2005, the Bid Day, your Company offered Rs.167.00 per share, which was the second highest bid.

In the Directors' Elections of the Sui Northern Gas Pipelines Limited (SNGPL) held on June 21, 2005, three of our Company's directors were elected to its Board. On October 12, 2005, in an Extraordinary General Meeting, you authorized your Board to purchase an additional 62 million shares of SNGPL.

On September 07, 2005 Privatization Commission invited the filing of

Expressions Of Interest (EOI) from those desirous of participating in the forthcoming privatization of Pak American Fertilizer (Pvt) Limited located in District Mianwali. Consistent with the desire to enhance the Company's market presence, your Board filed the Company's EOI.

Investments in Plant & Machineries

We began with the construction of a new Prill Tower in 2004, closely followed by the Company signing an agreement with M/S Borsig of Germany for the purchase of a Waste Heat Exchanger, designed in accordance with the latest technology. The said equipment has been shipped by the supplier and is expected to be commissioned in July 2006. Plans are in hand for the installation of a new state of the art Distributed Control System, and the replacement of the existing Reformer tubes. These BMR activities would require plant shut down of around 30 days in 2006. However, the resulting increase in plant efficiency due to the BMR should recoup the loss in production. Your Management is still in the process of examining what other improvements and changes can be made to further enhance the Plant's efficiency. We are hopeful that the combined effects of continuous availability in gas, the BMR and the training of our personnel will result in an organization

that will be a source of pride to all those associated with the Company.

Human Resource

In order to build and consistently develop the skills and capabilities of the Employees for both the current and future growth of the organization, the Company has been conducting various training programmes. These programmes include the adoption and application of modern management techniques, financial management and IT refresher courses for employees of the managerial levels.

Philanthropy

On the national scale, the year under review witnessed the unprecedented catastrophe of the 8th October Earthquake which cast a shadow on every sphere of Pakistani life. The zealous response of all employees in contributing a portion of their salaries to the Cause and their selfless participation in the Relief Efforts mounted by your Company

was incredible. Fortunately, tents which were in critical short supply in the Country, were procured and transported along with blankets and medicines worth Rs.32.17 million to the earthquake affected areas. The Company is pleased to disclose that it has planned to establish a School in the district of Sheikhpura in collaboration with The Citizen's Foundation (TCF). Letters of Understanding have been signed in this regard, and all other relevant activities and logistics are being worked out. It is hoped that the project implementation would have been initiated by the time this report reaches you.

We are looking enthusiastically to the challenges and opportunities that 2006 may hold. I am confident that with our vision for the future, our strategy and organizational skills together with our fundamental approach to our business, we will hopefully continue to create and deliver exceptional value and take your Company from strength to strength for the benefit of all the stakeholders.

HUSSAIN DAWOOD
CHAIRMAN

DIRECTOR'S REPORT

*The Directors of Dawood Hercules
Chemicals Limited (DHCL) are pleased
to present their thirty-eighth annual
report, the audited financial
statements, and auditors report
thereon for the year ended
31 December 2005*

Market Review

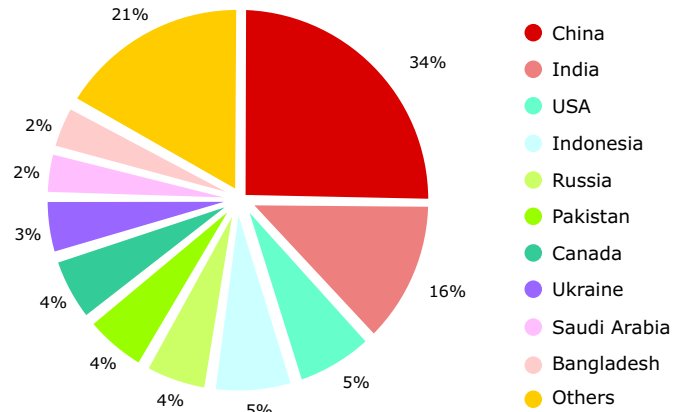
Global Fertilizer Review

During 2005, global economy recorded a stirring growth of 4.3% (IMF). The year was generally characterized by relatively favorable conditions at the global level with better availability of water which facilitated in the improved agricultural yield. These factors strongly boosted the global fertilizer consumption in 2004-05 by an estimated 5.0%.

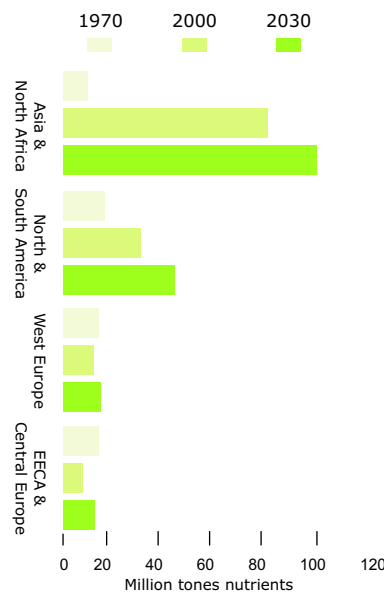
The world production of urea during 2005 was estimated at 125 million MT, out of which, about 30 million MT was exported. The major producers and consumers of urea are South Asian and South East Asian Countries, while the chief exporters are Middle East, East Europe and Central Asia.

Forecast for 2006 point to a growth of a similar magnitude. Although a slight drop in consumption is projected for Latin America and Africa, but for other regions like Eastern Europe, Central Asia, South Asia, South-east Asia (Including Pakistan) an increase in consumption from 2 to 4% is anticipated.

This outlook is supported by strong expansion of emerging Asian economies and sustained private consumption in the USA. Rising oil prices might affect consumer confidence and impact the 2006 projections.



Top 10 Urea Producing Countries in the World

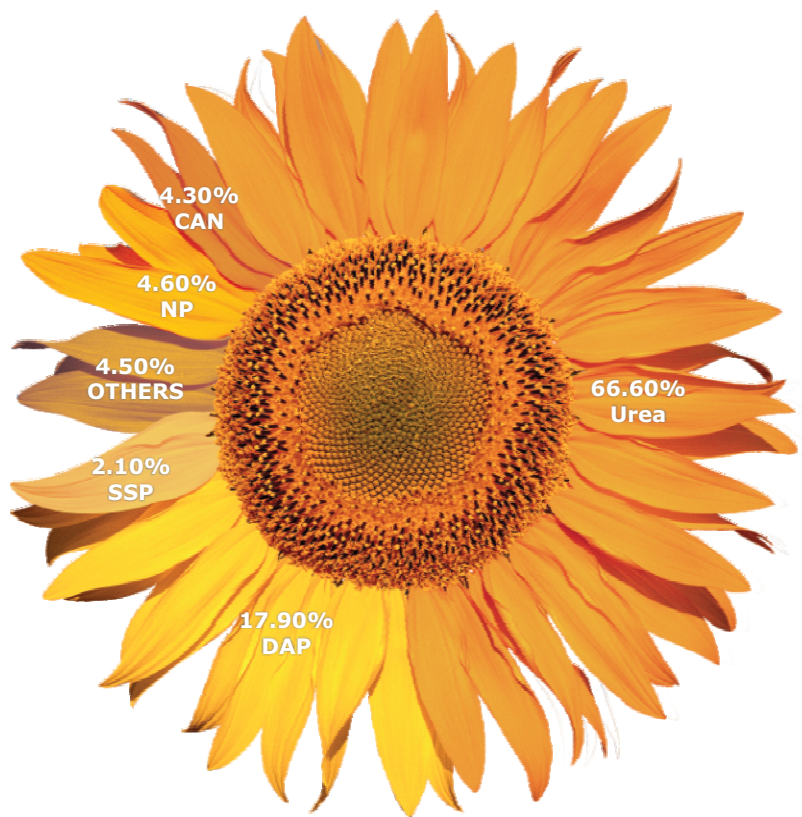


Fertilizer consumption The past 30 years and the next 30 years

Local Scenario

Fertilizer products offtake / consumption during the year 2004-05 was 7.69 million MT (0.84 million MT more than that of 2003-04), showing an increase of 12.2%. Of this domestic products were 6.08 million MT, representing an increase of 6.2%. Offtake of imported products was about 1.60 million MT, which was 0.48 million MT more than that of 2003-04, an increase of 42.9%. Among products share of urea was 66.6%, followed by DAP (17.9%), SSP (2.1%), NP (4.6%), CAN (4.3%) and other products (4.5%).

The International Fertilizer Industry Association (IFA) has forecasted for Pakistan a stable demand of urea with a growth of 3%. Pakistan currently has a demand and supply gap of around 0.50 million MT in Urea. The current domestic price is 30-40% less than the international price and the government is also subsidizing the Urea import therefore the consumption is relatively independent from international prices. It is expected that in the presence of above factors, availability of farm credit, good monsoons the Company is all set to sell its full production in the coming years.



National Fertilizer Product Share 2004-05

The performance of the urea plants remained excellent during the year. In product terms total domestic production during 2004-05, was about 5.99 million MT, which was 0.34 million MT more than previous year, showing an increase of 5.6%.

Performance Review

It is brought to the shareholders consideration that during the year under review the company acquired an additional 28.60 million shares of Engro Chemical Pakistan Limited (ECPL) thus increasing its shareholding in the ECPL from 19.43% to 38.13%.

This necessitated the application of International Accounting Standard (IAS-28), which requires that the equity method of accounting be used to value the investments where there is significant influence but not the control over the policies of investee. A voting interest of at least 20% is a threshold for applying the equity method.

In applying the equity method, investments are recorded at cost, and subsequently increased or decreased by the proportional share of net earning or losses of the investee. The application of IAS-28 has resulted in significant effect on the financial statements for the year 2005. To comply with the said IAS, the Company's financials are re-stated for the year 2004.

Financial Results

It is a pleasure for us to inform you that the year under review marks improved performance by your Company all round. The sales of the

Company have risen to Rs,3,291 million as compared to Rs.2,699 million for the last year (an increase of 22%). The gross profit works out to be Rs.1,260 million resulting in 54% increase over the last year's figure of Rs.818 million. The Company's gross profit percentage stood at 38% as against 30% last year. This has been made possible mainly by the increased utilization of plant capacity i.e. 96% as compared to 79% of last year.

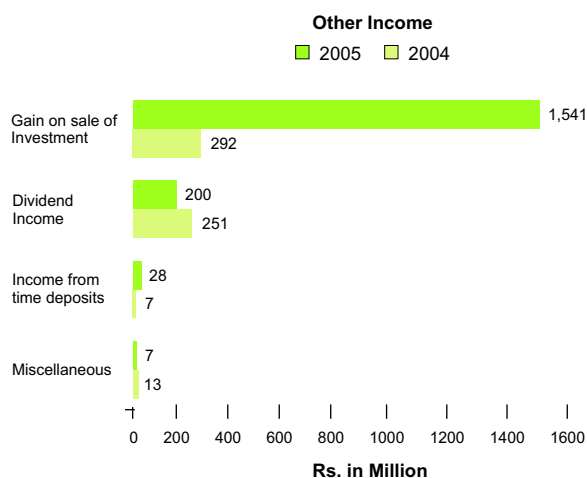
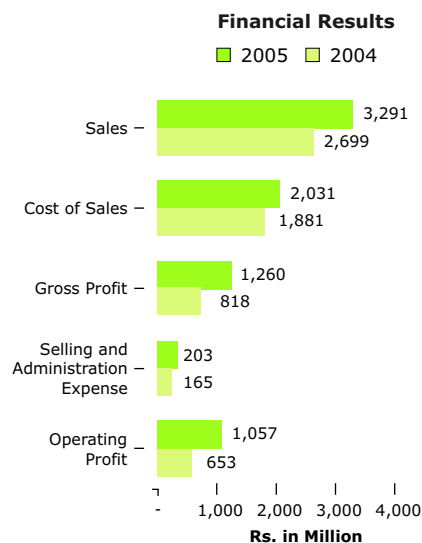
Income from associate and other sources

The Company earned a record income of Rs.2,825 million from the other sources including share of profit from associate ECPL as compared to Rs.1,196 million of last year (an increase of 137%). This together with the operating profit has increased the profit before tax for the current year to Rs.3,568 million and profit after tax to Rs.2,868 million as compared to last year figures of Rs.1,726 million and Rs.1,240 million respectively (after taking into effect the share of taxation from associate). The earning per share (EPS) of the Company stood at Rs.39.80 (last year Rs.17.21) showing a growth of 131%.

The summary of the operating results of the Company for the year under

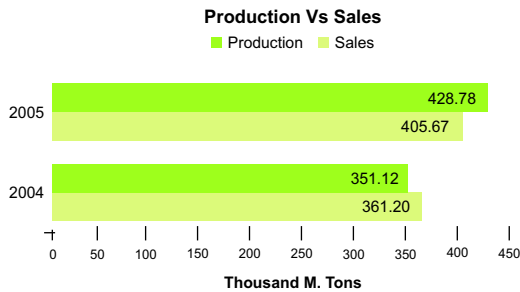
review along-with the comparatives for the last year are as under:

| | Rupees in Million | |
|--------------------------------|-------------------|-------------|
| | 2005 | 2004 |
| Sales | 3,291 | 2,699 |
| Cost of Sales | (2,031) | (1,881) |
| Gross Profit | 1,260 | 818 |
| Selling & Admin Exp. | (203) | (165) |
| Operating profit | 1,057 | 653 |
| Financial & other charges | (315) | (123) |
| Other Income | 1,777 | 564 |
| Share of Profit from Associate | 1,049 | 632 |
| Income Tax | | |
| - DHCL | (333) | (224) |
| - Associate | (367) | (262) |
| Net Profit After Tax | 2,868 | 1,240 |



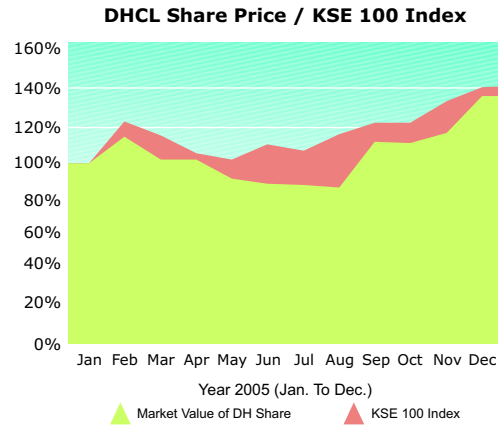
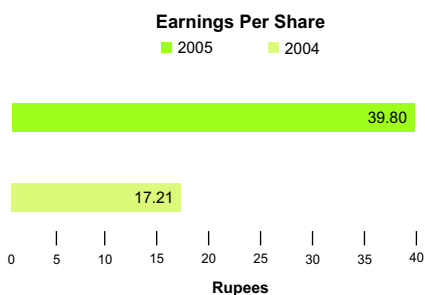
Sales

In terms of metric tons the Company made a sale of 405,670 MT. The corresponding figure for 2004 was 361,200 MT. In terms of percentage it shows 12% increase over the last year's corresponding figure.



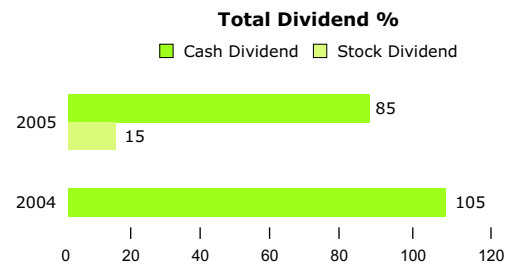
Earnings Per Share

Earnings per share for the year 2005 stood at Rs.39.80 as compared to Rs.17.21 of last year. This should be a source of great satisfaction for the shareholders regarding the strength of Company's scrip. Your Company's share was the leader in the Fertilizer sector of the capital market during the year 2005. A movement of Company Scrip with the KSE 100 Index for the year is depicted in the Graph given below.



Appropriations

For the year 2005, the Board of Directors has recommended a final cash dividend of Rs.2.50 per share (25%) and 15% bonus shares for approval by the shareholders in the Annual General Meeting. This is in addition to the already distributed three interim dividends aggregating Rs.6.00 per share (60%), making a total cash distribution of Rs.8.50 per share (85%) and 15% bonus shares for the year under review.



For the purpose of distribution of dividend, the Board has proposed the following appropriations of net profit for the year 2005.

The layout of this 2-unit primary school has been finalized and MOU has already been signed with NGO.

Business conduct

Dawood Hercules endeavours to conduct its business honestly, in good faith and to comply with all particular regulations, codes, guidelines which apply to our specific business. We develop mutually beneficial commercial relationships with all the companies and organizations with whom we do business.

Social Values

We encourage our employees to engage in activities that benefits the community. In the recent earthquake calamity, like the whole nation, the employees of the Dawood Hercules also responded spontaneously and generously. Employees volunteered overwhelmingly for many weeks for the packaging and loading of tents, blankets, medicines and other commodities.

Health, Safety & Environment

We at Dawood Hercules are committed to conduct our businesses in a manner that delivers best health, safety and environmental performance. This is consistent with our commitment to corporate citizenship, social responsibility and sustainability.

Our Principles

Meet or exceed all applicable environmental, health and safety requirements.

Communicate environmental, health and safety policies and programs to our employees and stakeholders.

Design, manage and operate our facilities to maximize safety, promote energy efficiency and protect the environment.

Ensure that all employees are aware of their role and responsibility to fulfil and sustain our environmental, health and safety management systems and policies.

Health

The Company strictly follows its health policy for recruitment and thereafter. Employment of underage in all categories is banned. The employees are subject to regular medical check-up, especially those who work in hazardous areas.

Safety

DHCL never compromises on the safety of its personnel and plant. Our safety record has been consistently improving over the years through implantation of various safety programs. This year DHCL has surpassed all its previous performances and has set new standards in its own regard. In December 2005 the Company crossed the milestone of **4 million safe hours** without any lost time injury.

Safety lectures and drills for all levels of employees were conducted at regular intervals which included training, refresher courses on use of various safety and fire-fighting equipment.

Besides high speed secure communication network (VPN) between the Corporate Office and Plant site, a comprehensive IP based network has been set up with surveillance cameras at different locations of prime importance and sensitivity.

Everyone at DHCL continues to work hard to consolidate and further improve the performance.

Environment

Environmental protection is of paramount concern to the Company. During the year, the Company has taken 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.

In August 2005 ahead of the Independence Day, management and staff participated in the Olive Plantation activity, an Environment Betterment Program. Olive doesn't only symbolize peace, but also imparts many positive effects on the environment.

Safety

DHCL never compromises on the safety of its personnel and plant. Our safety record has been consistently improving over the years through implantation of various safety programs. This year DHCL has surpassed all its previous performances and has set new standards in its own regard. In December 2005 the Company crossed the milestone of **4 million safe hours** without any lost time injury.

Safety lectures and drills for all levels of employees were conducted at regular intervals which included training, refresher courses on use of various safety and fire-fighting equipment.

Besides high speed secure communication network (VPN) between the Corporate Office and Plant site, a comprehensive IP based network has been set up with surveillance cameras at different locations of prime importance and sensitivity.

Everyone at DHCL continues to work hard to consolidate and further improve the performance.

Environment

Environmental protection is of paramount concern to the Company. During the year, the Company has taken 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.

In August 2005 ahead of the Independence Day, management and staff participated in the Olive Plantation activity, an Environment Betterment Program. Olive doesn't only symbolize peace, but also imparts many positive effects on the environment.

Corporate Affairs

Board Meetings

Six meetings of the Board of Directors were held during the year 2005

Attendance by each Director was as under:

| Name of Directors | Meetings Held | Meetings Attended |
|---------------------|---------------|-------------------|
| Hussain Dawood | 6 | 6 |
| Shahzada Dawood | 6 | 5 |
| Khawaja Amanullah | 6 | 6 |
| S. M. Asghar | 6 | 6 |
| A. Samad Dawood | 6 | 5 |
| Abdul Ghafoor Gohar | 6 | 6 |
| Haroon Mahenti* | 4 | 2 |
| A. Aziz Moon** | 2 | 2 |

* Five meetings of BOD were held after election as Director.

** Two meetings were held during the tenure.

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 therefrom 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.

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 2005, along with the necessary information is attached to this report.

Provident and Gratuity Funds

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

investments. The value of the investments of the two provident funds as per the last audited accounts aggregated to Rs.398.49 million. Fair value of the assets of the funded defined benefit gratuity plan was Rs.79.17 million as at 31 December 2005, according to the actuarial valuation.

Auditors

M/s KPMG Taseer Hadi & Co, 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 38th Annual General Meeting as auditors of the Company for the year ending 31 December 2006.

Committees

Under the Corporate Governance framework, the Board has established an organizational structure which is designed to allow for effective and efficient decision-making across the organization. The Board has delegated authority to the committees described below on specific matters, which are set out in their terms of reference.

Audit Committee

In accordance with the Code of Corporate Governance, the Board has set up an audit committee comprising three members, including the Chairman. The committee meets at least once every quarter to review the accounts and major judgmental areas prior to their presentation to the Board.

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.

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.

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.

Procurement Committee

The Procurement Committee is setup 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

Our Quality Management System is built upon a process framework that requires key decision points and accountabilities for success at every critical phase in a product's life cycle. These decision points are based on clearly articulated requirements, well defined metrics, and rigorous quality reviews.

The Company's policy towards professionalism, quality consciousness and customer satisfaction has given it privilege of being the first fertilizer manufacturing organization to obtain ISO 9002:1994. It has also got 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. During the year under review, a total of ten Management Review Meetings have been conducted.

Core Quality Policy

At the heart of our Quality Management System is our Continuous Improvement Process, a mechanism to achieve continuous improvement in all our operations. This process permeates every aspect of our Quality Management System as we strive to fulfil all of the Quality Principles under our Quality Policy.

Continuous Improvement is the basis of our vision. Our quality objectives are met by building value-added improvement activities into each and every work effort by adding quality-related tasks to our normal day-to-day activities. Resources are provided to achieve our quality goals, and we routinely assess our program and its implementation across the organization.

Human Resource Practices

Training and Development

Various training and skill development programs were conducted throughout the year at all management levels. These included Managerial and financial courses for our technical management. Awareness and integration of modern business tools like ERP (Enterprise Resource Planning) and IT refresher courses.

These Management Skills Programs are designed to equip our workforce with the latest management concepts and techniques and to diversify their skills; in order to prepare them for the future challenges of the organization.

In addition to catering for the development needs of our own employees, we also provide professional training opportunities to young engineers, technicians and administration personnel.

Dawood Hercules's Technical training program is completely institutionalized and has been proactive since 1975. In 2005, the twenty- second batch was inducted into the Graduate Engineers Training Program. 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 position in the Company.

To date 410 engineers and 773 process operators have been inducted into various training programmes. This is primarily a contribution towards the country's development as the number of technical people trained at the centre exceeds the Company's own requirements.

Besides in-house training programs, members of senior management are also sent abroad from time to time to participate in various conferences and seminars of international repute.

Staff Relations

The relationship between the management and employees continues to be exemplary. The Directors are pleased to record their appreciation for the hard work and devotion to duty by all cadres of employees.

To foster congenial environment various recreational activities were arranged throughout the year which includes staff get-togethers and trips to northern areas

Employees' Welfare:

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 plant-site. The

residents enjoy various benefits such as transportation services to schools and colleges, and provision of all utilities free of cost. Free medical assistance, encompassing laboratory tests, hospitalization, treatment and medication to all its employees, their spouses and children is also being provided.

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.

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 2006. The said import would result in a substantial foreign exchange burden for the country. It is, therefore, essential that the domestic production of fertilizer be maximized. We are pleased to state that your Company is fully prepared to capitalize on favourable conditions as stated earlier. A few points from different dimensions are stated as following:

Technical & Technological Front

The management of your Company has undertaken and completed many development projects. In the continuation of this, more projects are in the pipeline for the year 2006.

Owing to the vulnerability of previous Waste Heat Exchanger, new exchanger was purchased from M/s Borsig, designed by using state of the art technology. The waste heat exchanger was shipped in December 2005 and reached Pakistan in January 2006. The said equipment is expected to be in operation at the end of the 2nd quarter of 2006.

Plans are in hand for installation of new state of the art Distributed

Control System (DCS) that will render more precision and better analysis in our operations as well as replacement of some of the most critical equipment. Studies are also underway to enhance the plant's efficiency and to increase the production capacity in phases with first reaching 1,500 MT per day and then to 1,700 MT per day.

The ground work to replace the existing Reformer Tubes has been completed and the said replacement is expected to take place during 2006.

Completion of these projects will improve energy efficiency and reliability of the Plant to render enhanced capacity utilization and thus will contribute to the national cause.

Projected Performance

Improvement in availability of gas and constant efforts of the management to enhance efficiency of the plant are expected to maintain the level of production at more than 95% in the coming year.

Indicators in capital market are also expected to remain favourable during the coming year thus providing us with the grounds to expect a sizable income from Company's investments.

The Company is also conducting various Management Skills Programs 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.

Our present is good and we can
rightly expect our future to be even
better.

On behalf of the Board

HUSSAIN DAWOOD
CHAIRMAN

VISION & 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.

BUSINESS ETHICS AND CORE VALUES

Professionalism
through leadership
and integrity.

Innovation,
teamwork and
partnership.

Long term
profitability
and growth

Commitment to
quality and
continuous
improvement.

STATEMENT OF COMPLIANCE IN CODE OF CORPORATE GOVERNANCE

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

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

1. The Board comprises of seven Directors including the Chief Executive Officer. The Company encourages representation of independent non-executive Directors. At present, the majority of the Directors on the Board are non-executive.
2. The Directors have confirmed that none of them is serving as a Director in more than ten listed companies, including this Company.
3. All the Directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a 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 revised and updated as and when deemed appropriate.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO 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, along with 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 apprise them of their duties and responsibilities.
10. The Board has approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.

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 were 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 Board has setup 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 Program 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.
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 all other material principles contained in the Code have been complied with.

Karachi:
January 30, 2006

Shahzada Dawood
Chief Executive

REVIEW REPORT TO THE MEMBER ON THE 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:
January 30, 2006

KPMG Taseer Hadi & Co.
Chartered Accountants

AUDITOR'S REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Dawood Hercules Chemicals Limited ("the Company") as at December 31, 2005 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 changes referred to in note 2.2 and 2.9 to the accounts 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 December 31, 2005 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.

Lahore:
January 30, 2006

KPMG Taseer Hadi & Co.
Chartered Accountants

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2005

| | Note | 2005 Rupees | Restated 2004 Rupees |
|---|------|----------------------|----------------------------|
| Sales - Net | 3 | 3,290,547,342 | 2,699,135,306 |
| Cost of goods sold | 4 | 2,030,603,390 | 1,881,389,746 |
| Gross profit | | 1,259,943,952 | 817,745,560 |
| Selling and administrative expenses | 5 | 202,522,869 | 164,999,669 |
| Operating profit | | 1,057,421,083 | 652,745,891 |
| Finance costs | 6 | 258,059,216 | 82,776,050 |
| Other income | 7 | 1,775,777,364 | 563,638,222 |
| | | 1,517,718,148 | 480,862,172 |
| Profit for the year | | 2,575,139,231 | 1,133,608,063 |
| Other operating expenses | 8 | 56,501,043 | 39,888,420 |
| Profit, before taxation and share from associate | | 2,518,638,188 | 1,093,719,643 |
| Share of profit from associate | | 1,049,326,198 | 632,272,437 |
| Profit before taxation | | 3,567,964,386 | 1,725,992,080 |
| Provision for taxation | 9 | 332,600,000 | 223,600,000 |
| Share of taxation from associate | | 367,419,431 | 262,257,155 |
| | | 700,019,431 | 485,857,155 |
| Profit after taxation | | 2,867,944,955 | 1,240,134,925 |
| Earnings per share-basic and diluted | 27 | 39.80 | 17.21 |

Appropriations have been reflected in statement of changes in equity.

The annexed notes 1 to 33 form an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2005

| | Note | 2005 Rupees | Restated 2004 Rupees |
|--|------|-----------------------|----------------------------|
| LIABILITIES | | | |
| SHARE CAPITAL AND RESERVES | | | |
| Authorized 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 |
| Revenue reserves | | 6,728,425,240 | 4,617,085,085 |
| Fair value reserve on short term investments | | 1,906,238,414 | 2,496,420,510 |
| | | 9,355,239,654 | 7,834,081,595 |
| NON CURRENT LIABILITIES | | | |
| Deferred taxation | 11 | 46,800,000 | 44,200,000 |
| Staff retirement and other service benefits | 12 | 40,299,079 | 42,508,791 |
| | | 87,099,079 | 86,708,791 |
| CURRENT LIABILITIES | | | |
| Short term financing - secured | 13 | 2,334,900,269 | 3,620,585,228 |
| Trade and other payables | 14 | 631,691,242 | 549,855,308 |
| Markup payable on secured loans | | 48,239,280 | 27,790,383 |
| Provision for taxation | | 330,000,000 | 181,000,000 |
| | | 3,344,830,791 | 4,379,230,919 |
| Contingencies and commitments | 15 | | |
| | | <u>12,787,169,524</u> | <u>12,300,021,305</u> |

The annexed notes 1 to 33 form an integral part of these financial statements.

BALANCE SHEET AS AT 31 DECEMBER 2005

| | Note | 2005 Rupees | Restated 2004 Rupees |
|--|------|-----------------------|----------------------------|
| ASSETS | | | |
| FIXED CAPITAL EXPENDITURE | | | |
| Property, plant and equipment | 16 | 462,099,854 | 512,784,732 |
| Capital work in progress | 17 | 228,199,667 | 17,662,690 |
| | | 690,299,521 | 530,447,422 |
| INVESTMENT IN ASSOCIATE | 18 | 5,732,602,699 | 2,000,956,610 |
| LONG TERM LOANS AND ADVANCES | 19 | 643,810 | 11,679,210 |
| CURRENT ASSETS | | | |
| Stores, spares and loose tools | 20 | 646,509,899 | 564,908,581 |
| Stock in trade | 21 | 164,432,448 | 68,179,489 |
| Trade debts | 22 | 3,850,344 | 9,337,536 |
| Loans, advances, deposits, prepayments and other receivables | 23 | 402,983,667 | 583,066,928 |
| Short term investments | 24 | 4,746,928,000 | 7,458,890,850 |
| Cash and bank balances | 25 | 398,919,136 | 1,072,554,679 |
| | | 6,363,623,494 | 9,756,938,063 |
| | | 12,787,169,524 | 12,300,021,305 |

CASH FLOW STATEMENT

For the year ended 31 December 2005

| | Note | 2005 Rupees | Restated 2004 Rupees |
|---|------|-----------------|----------------------------|
| Cash flow from operating activities | | | |
| Profit before taxation | | 3,567,964,386 | 1,725,992,080 |
| Adjustment for non cash expenses and other items: | | | |
| Depreciation charged to profit and loss account | | 75,423,348 | 116,979,228 |
| Finance costs | | 258,059,216 | 82,776,050 |
| Profit on sale of fixed assets | | (1,274,133) | (545,003) |
| Profit on sale of short term investments | | (1,540,954,624) | (292,484,138) |
| Share of profit of associate | | (1,049,326,198) | (632,272,437) |
| Dividend income | | (199,915,500) | (251,483,750) |
| Provision for staff retirement and other service benefits | | 9,755,509 | 14,656,770 |
| Profit on time deposits | | (28,113,550) | (6,615,912) |
| | | (2,476,345,932) | (968,989,192) |
| Profit before working capital changes | | 1,091,618,454 | 757,002,888 |
| Working capital changes | | | |
| (Increase)/decrease in current assets: | | | |
| Stocks, stores and spares | | (177,854,277) | 121,007,320 |
| Trade debts | | 5,487,192 | (3,848,459) |
| Loans, advances, deposits, prepayments and other receivables | | (63,373,182) | (10,159,253) |
| Increase / (Decrease) in current liabilities: | | | |
| Trade and other payables | | 173,241,774 | (210,630,390) |
| | | (62,498,493) | (103,630,782) |
| Cash generated from operations | | 1,029,119,961 | 653,372,106 |
| Finance costs paid | | (237,610,319) | (75,135,987) |
| Taxes paid | | (189,027,308) | (198,246,988) |
| Staff retirement and other service benefits paid | | (11,965,221) | (13,325,918) |
| Decrease/(Increase) in long term loans and advances | | 11,035,400 | (10,724,325) |
| Net cash inflow from operating activities | | 601,552,513 | 355,938,888 |
| Cash flow from investing activities | | | |
| Fixed capital expenditure | | (235,837,614) | (184,854,999) |
| Proceeds from sale of fixed assets | | 1,836,300 | 1,532,118 |
| Profit on time deposits | | 28,113,550 | 6,615,912 |
| Proceeds from disposal of investments | | 9,197,118,663 | 810,297,557 |
| Investment in associated company | | (3,607,376,182) | - |
| Short term investments | | (5,534,383,284) | (2,997,867,660) |
| Dividends received | | 1,009,036,110 | 415,958,672 |
| Net cash inflow/(outflow) from investing activities | | 858,507,543 | (1,948,318,400) |
| Cash flow from financing activities | | | |
| Short term financing | | (1,285,684,959) | 1,823,401,690 |
| Dividends paid | | (848,010,640) | (544,263,428) |
| Net cash (outflow)/inflow from financing activities | | (2,133,695,599) | 1,279,138,262 |
| Net (decrease) in cash and cash equivalents | | (673,635,543) | (313,241,250) |
| Cash and cash equivalents at the beginning of the year | | 1,072,554,679 | 1,385,795,929 |
| Cash and cash equivalents at the end of the year | 25 | 398,919,136 | 1,072,554,679 |

The annexed notes 1 to 33 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2005

| | Share Capital | Capital Reserve | Revenue Reserves | | | Fair Value Reserve | Total |
|--|---------------|-----------------|------------------|-----------------------|---------------|--------------------|-----------------|
| | | | General Reserve | Unappropriated Profit | Total | | |
| | Rupees | | | | | | |
| Balance as at 31 December 2003 as reported | 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 |
| Elimination of fair value reserves related to associate as a result of change in accounting policy | - | - | - | 470,516,896 | 470,516,896 | (1,359,817,491) | (889,300,595) |
| Balance as at 31 December 2003 as restated | 720,576,000 | 200,000,000 | 500,000,000 | 3,109,295,760 | 3,609,295,760 | 946,317,901 | 5,476,189,661 |
| Net Profit for the year | - | - | - | 1,240,134,925 | 1,240,134,925 | - | 1,240,134,925 |
| Transfer from capital reserve | - | (200,000,000) | 200,000,000 | - | 200,000,000 | - | - |
| Adjustment arising from measurement to fair value of investment | - | - | - | - | - | 1,647,740,313 | 1,647,740,313 |
| Fair value reserve transferred to profit and loss account on disposal of investments | - | - | - | - | - | (97,637,704) | (97,637,704) |
| | 720,576,000 | - | 700,000,000 | 4,349,430,685 | 5,049,430,685 | 2,496,420,510 | 8,266,427,195 |
| 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 as restated | 720,576,000 | - | 700,000,000 | 3,917,085,085 | 4,617,085,085 | 2,496,420,510 | 7,834,081,595 |
| Net profit for the year | - | - | - | 2,867,944,955 | 2,867,944,955 | - | 2,867,944,955 |
| Adjustment arising from measurement to fair value of investments | - | - | - | - | - | 573,694,529 | 573,694,529 |
| Fair value reserve transferred to profit and loss account on disposal of investments | - | - | - | - | - | (1,163,876,625) | (1,163,876,625) |
| | 720,576,000 | - | 700,000,000 | 6,785,030,040 | 7,485,030,040 | 1,906,238,414 | 10,111,844,454 |
| Final dividend for the year ended 31 Dec 2004 @ 45% | - | - | - | (324,259,200) | (324,259,200) | - | (324,259,200) |
| 1st interim dividend @ 25% | - | - | - | (180,144,000) | (180,144,000) | - | (180,144,000) |
| 2nd interim dividend @ 15% | - | - | - | (108,086,400) | (108,086,400) | - | (108,086,400) |
| 3rd interim dividend @ 20% | - | - | - | (144,115,200) | (144,115,200) | - | (144,115,200) |
| | - | - | - | (756,604,800) | (756,604,800) | - | (756,604,800) |
| Balance as at 31 December 2005 | 720,576,000 | - | 700,000,000 | 6,028,425,240 | 6,728,425,240 | 1,906,238,414 | 9,355,239,654 |

The annexed notes 1 to 33 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

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 and sale 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 those "available for sale investments", which have been recognized at fair value, investment in an associate which is accounted for using the equity method, 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 (SECP) differ with the requirements of these standards, the requirements of Companies Ordinance, 1984 or the requirements of the said directives take precedence.

Change in accounting policy

To remain compliant with the provisions of IAS-28, "Investment in Associates", which has been revised effective 01 January 2005, the Company has changed its policy for accounting for investment in associated companies (Note 2.9), which are now accounted for using the equity method, previously investments in associated companies were classified as "available for sale". This change in accounting policy has been applied retrospectively and comparative information has been restated in accordance with the treatment prescribed by IAS-8 "Accounting Policies, Changes in Accounting Estimates and Errors".

Had there been no change in the accounting policy, the profit for the year and unappropriated profit would have been lower by Rs. 124.270 million (2004: Rs. 132.257 million) and the fair value reserves would have been higher by Rs. 4,585.771 million (2004:Rs. 2,444.591 million).

2.3 Revenue recognition

Sales of products and services are recorded when the risks and rewards are transferred i.e. on despatch 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

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 12.1 to the financial statements.

Compensated absences

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 2005 to determine the liability at the balance sheet date.

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 Workers' 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 administered 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 replacements 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 realizable value.

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

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

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

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 Rupee at the rates of exchange prevailing at the balance sheet date.

All exchange differences are charged to profit and loss account.

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 Investment

Investment in associates

To remain compliant with the provisions of IAS-28 "Investment in Associates", which has been revised effective 01 January 2005, the Company has changed its accounting policy for investment in associates. Associated companies where the Company holds 20% or more of the voting power of the investee companies and where significant influence can be established are now accounted for using the equity method. Investments in associates other than those described above are classified as "available for sale". Previously investments in associates were also classified as "available for sale".

In case of investments accounted for under the equity method, the method is applied from the date when significant influence is established until the date when that significant influence ceases.

Available for sale investments

These are initially measured at fair value and fair value is reassessed at each reporting date. Fair value is determined on the basis of period 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 instruments. The Company derecognizes the financial assets and liabilities when it ceases to be a party to such contractual provisions of the instruments. The particular measurement methods adopted are disclosed in the individual policy statements associated with each item.

2.11 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the balance sheet if the Company has legally enforceable rights to set off the recognized amounts and the Company intends to settle on the net basis or realize the asset and settle the liability simultaneously.

2.12 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.

2.13 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.

2.14 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.

2.15 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.

2.16 Borrowing costs

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

2.17 Impairment

The Company assesses at each balance sheet date whether there is any indication that assets excluding inventory may be impaired. If such indication exists, the carrying value of such assets is reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying amount exceeds recoverable amount, assets are written down to recoverable amount and the difference is charged to profit and loss for the year.

2.18 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.

2.19 Dividend

Dividend is recognized as a liability in the period in which it is declared.

| | Note | 2005 Rupees | 2004 Rupees |
|---|------|----------------------|----------------------|
| 3. SALES-NET | | | |
| Sales | | 3,712,152,932 | 3,087,269,533 |
| Less: sales tax | | 421,605,590 | 388,134,227 |
| | | 3,290,547,342 | 2,699,135,306 |
| 4. COST OF GOODS SOLD | | | |
| Raw and packing materials consumed | 4.1 | 942,322,497 | 715,134,013 |
| Fuel and power | | 640,877,897 | 519,024,501 |
| Catalysts and chemicals | | 18,572,291 | 19,809,744 |
| Salaries, wages, benefits and staff welfare | 4.2 | 305,746,616 | 275,352,105 |
| Stores and spares consumed | | 95,799,073 | 126,248,700 |
| Repairs and maintenance | | 19,717,718 | 23,872,261 |
| Travel and conveyance | | 32,701,536 | 28,285,792 |
| Rent, rates and taxes | | 2,331,807 | 2,161,415 |
| Insurance | | 16,777,298 | 13,793,131 |
| Depreciation | 16.2 | 61,655,204 | 105,786,726 |
| Communication, stationery and office supplies | | 3,949,867 | 4,853,751 |
| Other expenses | | 2,374,218 | 9,000,545 |
| | | 2,142,826,022 | 1,843,322,684 |
| Add: Opening stock of work-in-process | | 12,508,716 | 11,291,316 |
| Less: Closing stock of work-in-process | | 12,182,512 | 12,508,716 |
| | | 326,204 | (1,217,400) |
| Cost of goods manufactured | | 2,143,152,226 | 1,842,105,284 |
| Add: Opening stock of finished goods | | 29,916,661 | 69,201,123 |
| Less: Closing stock of finished goods | | 142,465,497 | 29,916,661 |
| | | (112,548,836) | 39,284,462 |
| | | 2,030,603,390 | 1,881,389,746 |
| 4.1 Raw and packing materials consumed | | | |
| Opening stock | | 25,754,112 | 23,147,316 |
| Purchases | | 926,352,824 | 717,740,809 |
| | | 952,106,936 | 740,888,125 |
| Less: Closing stock | | 9,784,439 | 25,754,112 |
| | | 942,322,497 | 715,134,013 |
| 4.2 Salaries, wages, benefits and staff welfare include Rs. 5.490 million (2004: Rs 5.511 million) in respect of contribution to gratuity funds and Rs. 10.078 million (2004: Rs 9.837 million) in respect of provident funds. | | | |
| 5. SELLING AND ADMINISTRATIVE EXPENSES | Note | 2005 Rupees | 2004 Rupees |
| Salaries, wages, benefits and staff welfare | 5.1 | 104,859,043 | 83,423,244 |
| Communication, stationery and office supplies | | 19,634,010 | 17,682,567 |
| Rent, rates and taxes | | 16,333,489 | 15,640,318 |
| Travel and conveyance | | 17,111,689 | 12,554,068 |
| Repairs and maintenance | | 12,561,069 | 12,281,528 |
| Depreciation | 16.2 | 13,768,144 | 11,192,502 |
| Legal and professional charges | | 7,235,822 | 5,152,622 |
| Sales promotion, advertising and market development | | 4,789,092 | 4,219,299 |
| Insurance | | 693,189 | 650,196 |
| Donations | 5.2 | 702,700 | 93,500 |
| Other expenses | | 4,834,622 | 2,109,825 |
| | | 202,522,869 | 164,999,669 |

5.1 Salaries, wages, benefits and staff welfare include Rs. 2.488 million (2004: Rs 2.128 million) in respect of contribution to gratuity funds and Rs. 4.499 million (2004: Rs 3.790 million) in respect of provident funds.

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

| | Note | 2005 Rupees | 2004 Rupees |
|---|------|----------------------|--------------------|
| 6. FINANCE COSTS | | | |
| Mark-up on short term financing | | 258,006,161 | 82,716,050 |
| Interest on workers' profits participation fund | 14.3 | 53,055 | 60,000 |
| | | 258,059,216 | 82,776,050 |
| 7. OTHER INCOME | | | |
| Income from financial assets | | | |
| Profit on sale of short term investments | | 1,540,954,624 | 292,484,138 |
| Dividend income | | 24,135,000 | - |
| Income from time deposits | | 28,113,550 | 6,615,912 |
| | | 1,593,203,174 | 299,100,050 |
| Income from associated companies | | | |
| Dividend income from | | | |
| Sui Northern Gas Pipelines Limited | | 175,780,500 | 251,483,750 |
| Insurance claim from | | | |
| Central Insurance Company Limited | | - | 366,883 |
| | | 175,780,500 | 251,850,633 |
| Income from non-financial assets | | | |
| Sale of scrap | | 2,333,867 | 9,995,740 |
| Profit on sale of property, plant and equipment | | 1,274,133 | 178,120 |
| Miscellaneous | | 3,185,690 | 2,513,679 |
| | | 6,793,690 | 12,687,539 |
| | | 1,775,777,364 | 563,638,222 |
| 8. OTHER OPERATING EXPENSES | | | |
| Workers' profits participation fund | 14.3 | 39,940,043 | 28,477,970 |
| Workers' welfare fund | 14 | 16,000,000 | 11,000,000 |
| Auditors' remuneration | | | |
| Audit fee | | 425,000 | 300,000 |
| Half year review and other certifications | | 105,000 | 84,950 |
| Out of pocket expenses | | 31,000 | 25,500 |
| | | 56,501,043 | 39,888,420 |

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.

| | 2005 Rupees | 2004 Rupees |
|----------------------------------|--------------------|--------------------|
| 9. PROVISION FOR TAXATION | | |
| Current | | |
| For the year | 314,000,000 | 181,000,000 |
| Prior period | 16,000,000 | - |
| Deferred | 2,600,000 | 42,600,000 |
| | 332,600,000 | 223,600,000 |

| | 2005 % | 2004 % |
|--|--------------|--------------|
| 9.1 Reconciliation of tax charge for the year | | |
| Applicable tax rate | 35.00 | 35.00 |
| Add: Tax effect of amounts that are not deductible for tax | 0.09 | 0.11 |
| Tax effect of amounts that relate to prior periods | 0.45 | - |
| Less: Tax effect of amounts exempt from tax | (15.12) | (5.93) |
| Tax effect of amounts taxed at lower rate | (1.65) | (4.47) |
| Tax effect of associate | 0.85 | 3.44 |
| Average effective rate charged on income | 19.62 | 28.15 |

10. ISSUED, SUBSCRIBED AND PAID UP CAPITAL

| 2005 Number of shares | 2004 Number of shares | | 2005 Rupees | 2004 Rupees |
|--------------------------|--------------------------|---|--------------------|--------------------|
| 13,900,000 | 13,900,000 | Ordinary shares of Rs. 10 each fully paid in cash | 139,000,000 | 139,000,000 |
| 58,157,600 | 58,157,600 | Ordinary shares of Rs 10 each issued as fully paid bonus shares | 581,576,000 | 581,576,000 |
| 72,057,600 | 72,057,600 | Paid-up Capital | 720,576,000 | 720,576,000 |

10.1 Shares held by related parties

Dawood Lawrencepur Limited

Percentage of equity held 16.19% (2004: 16.19%)

11,667,850

11,667,850

Dawood Corporation (Private) Limited

Percentage of equity held 4.34% (2004: 4.34%)

3,125,032

3,125,032

The Dawood Foundation

Percentage of equity held 3.95% (2004: 3.95%)

2,846,448

2,846,448

Central Insurance Company Limited

Percentage of equity held 3.00% (2004: 3.00%)

2,162,245

2,162,245

Patek (Private) Limited

Percentage of equity held 0.032% (2004: 0.032%)

23,250

23,250

Sach International (Private) Limited

Percentage of equity held 0.001% (2004: 0.001%)

1,048

1,048

19,825,873

19,825,873

11. DEFERRED TAXATION

| | 2005 Rupees | 2004 Rupees |
|---|-------------------|-------------------|
| Deferred liability arising due to accelerated depreciation allowance | 51,900,000 | 54,600,000 |
| Deferred liability arising due to unrealized profits of associate | 9,800,000 | 6,600,000 |
| Deferred debits arising in respect of provision for gratuity and other timing differences | (14,900,000) | (17,000,000) |
| | 46,800,000 | 44,200,000 |

| | | Note | 2005 Rupees | 2004 Rupees |
|-------------|---|------|---------------------|---------------------|
| 12. | STAFF RETIREMENT AND OTHER SERVICE BENEFITS | | | |
| | Defined benefit plan funded for management staff | 12.1 | 11,951 | 236,490 |
| | Defined contributory gratuity funded for non-management staff | 12.4 | - | 211,232 |
| | Compensated absences | 12.5 | 40,287,128 | 42,061,069 |
| | | | 40,299,079 | 42,508,791 |
| 12.1 | Defined benefit plan funded for management staff | | | |
| | Amounts recognized in the balance sheet are as follows: | | | |
| | Present value of defined benefit obligation | | 83,827,648 | 78,908,628 |
| | Fair value of plan assets | | (79,168,843) | (74,907,260) |
| | Unrecognized actuarial losses | | (4,646,854) | (3,764,878) |
| | Liability as at 31 December | | 11,951 | 236,490 |
| | Net liability as at 01 January | | 236,490 | 2,991,410 |
| | Charge to profit and loss account | 12.2 | 5,634,273 | 5,347,768 |
| | Contribution by the company | | (5,858,812) | (8,102,688) |
| | Liability as at 31 December | | 11,951 | 236,490 |
| 12.2 | Charge to profit and loss account | | | |
| | Current service cost | | 5,314,164 | 4,870,624 |
| | Interest cost | | 6,312,690 | 5,961,157 |
| | Expected return on plan assets | | (5,992,581) | (5,484,013) |
| | | | 5,634,273 | 5,347,768 |
| | Assumptions used for valuation of the schemes are as under: | | | |
| | | | 2005 % per annum | 2004 % per annum |
| | Discount rate | | 9 | 8 |
| | Expected rate of return on plan assets | | 8 | 8 |
| | Expected rate of increase in salary | | 8 | 7 |
| | Latest actuarial valuation to determine the liability was carried out as at 31 December 2005. | | | |
| 12.3 | Actual return on plan assets of funded gratuity scheme was Rs. 4.220 million (2004: Rs. 3.654 million). | | | |
| 12.4 | Defined contributory gratuity funded for non-management staff | | 2005 Rupees | 2004 Rupees |
| | Opening balance | | 211,232 | - |
| | Expenses recognized | | 2,344,520 | 2,291,356 |
| | Payments made | | (2,555,752) | (2,080,124) |
| | Closing balance | | - | 211,232 |

| | 2005 Rupees | 2004 Rupees |
|----------------------------------|----------------|----------------|
| 12.5 Compensated absences | | |
| Opening balance | 42,061,069 | 38,186,529 |
| Expenses recognized | 1,776,716 | 7,017,646 |
| Payments made | (3,550,657) | (3,143,106) |
| Closing balance | 40,287,128 | 42,061,069 |

13. 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. 5,200 million (2004: Rs 4,989 million) and expire on various dates latest by 31 December 2006, carrying mark-up rates of one month KIBOR plus 35-100 bps per annum. The facilities are secured by pledge of shares held as investments and first hypothecation charge of Rs 427 million on finished goods, stores and spares. The market value of these investments as at 31 December 2005 was Rs. 4,053 million (2004: Rs. 5,183 million).

| | Note | 2005 Rupees | 2004 Rupees |
|-------------------------------------|------|----------------|----------------|
| 14. TRADE AND OTHER PAYABLES | | | |
| Trade creditors | | 259,626,624 | 219,261,210 |
| Amount due to related parties | 14.1 | 135,867,690 | - |
| Unclaimed dividends | | 16,328,025 | 107,733,865 |
| Accrued expenses | | 90,566,017 | 89,180,185 |
| Sales tax payable | | 17,099,950 | 50,775,376 |
| Deposits | 14.2 | 16,046,438 | 2,575,182 |
| Workers' profits participation fund | 14.3 | 40,053,098 | 28,537,970 |
| Workers' welfare fund | | 16,000,000 | 11,000,000 |
| Accrued capital expenditure | | 2,950,558 | 2,950,558 |
| Others | | 37,152,842 | 37,840,962 |
| | | 631,691,242 | 549,855,308 |

14.1 Amounts due to related parties include Rs. 135.629 million (2004: Rs.Nil) received as advance against sale of urea from Dawood Corporation Limited and Rs. 0.238 million (2004: Rs. Nil) payable to Inbox Business Technologies against purchase of computers and related accessories.

14.2 The above deposits are interest free and repayable on demand or otherwise adjustable in accordance with the Company's policy. These deposits include Rs. 10 million (2004: Rs. Nil) received from Dawood Corporation Limited, a related party, as deposit money under the urea sales agreement.

| | Note | 2005 Rupees | 2004 Rupees |
|--|------|----------------|----------------|
| 14.3 Workers' profits participation fund | | | |
| Balance at the beginning of the year | | 28,537,970 | 42,651,099 |
| Add: Allocation for the year | 8 | 39,940,043 | 28,477,970 |
| Interest on funds used in the Company's business | 6 | 53,055 | 60,000 |
| Less: Amount paid to the fund | | 68,531,068 | 71,189,069 |
| | | 28,477,970 | 42,651,099 |
| | | 40,053,098 | 28,537,970 |

15. CONTINGENT LIABILITIES AND COMMITMENTS

15.1 Contingent liabilities

The Company is contingently liable for:

Counter guarantees given to the bank

2,171,467

2,171,467

Indemnity bonds/guarantees given to Customs authorities equivalent to duties chargeable on import of machinery payable if matter is decided by the CBR against the Company regarding the eligibility of certain machinery and equipment for duty free import under BMR programme (contingent liability of capital nature)

45,811,747

76,384,637

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

1,650,770

1,650,770

Guarantees issued in favor of Electric Inspector Punjab Government in respect of duty on self electric generation

-

12,358,858

Pending law suits

120,000

120,000

15.2 Commitments

Commitments in respect of contracts for capital expenditure

240,679,727

157,535,781

Commitments in respect of store purchases

38,593,537

14,227,439

16. PROPERTY, PLANT AND EQUIPMENT

| | COST | | | | DEPRECIATION | | | | Net Book Value as at 31 December 2005 |
|-----------------------------------|-----------------------|-------------|-----------|------------------------|-----------------------|--------------|-----------|------------------------|---------------------------------------|
| | As at 01 January 2005 | Additions | Disposals | As at 31 December 2005 | As at 01 January 2005 | For the year | Disposals | As at 31 December 2005 | |
| | Rupees | | | | | | | | |
| Freehold land | 27,369,940 | - | - | 27,369,940 | - | - | - | - | 27,369,940 |
| Buildings on freehold land | 105,003,968 | - | - | 105,003,968 | 63,090,167 | 3,496,375 | - | 66,586,542 | 38,417,426 |
| Railway siding | 2,314,451 | - | - | 2,314,451 | 2,291,307 | - | - | 2,291,307 | 23,144 |
| Plant and machinery | 1,957,166,756 | 2,902,820 | - | 1,960,069,576 | 1,603,755,078 | 37,203,699 | - | 1,640,958,777 | 319,110,799 |
| Catalysts | 86,372,731 | - | - | 86,372,731 | 46,154,720 | 14,875,388 | - | 61,030,108 | 25,342,623 |
| Furniture, fittings and equipment | 41,831,797 | 1,975,635 | - | 43,807,432 | 34,604,972 | 1,701,843 | - | 36,306,815 | 7,500,617 |
| Data processing equipment | 68,858,557 | 9,777,380 | - | 78,635,937 | 53,949,658 | 8,232,261 | - | 62,181,919 | 16,454,018 |
| Motor vehicles | 62,382,067 | 10,644,802 | 2,921,370 | 70,105,499 | 34,669,633 | 9,913,782 | 2,359,203 | 42,224,212 | 27,881,287 |
| 2005 | 2,351,300,267 | 25,300,637 | 2,921,370 | 2,373,679,534 | 1,838,515,535 | 75,423,348 | 2,359,203 | 1,911,579,680 | 462,099,854 |
| 2004 | 2,027,705,726 | 327,325,983 | 3,731,442 | 2,351,300,267 | 1,724,280,634 | 116,979,228 | 2,744,327 | 1,838,515,535 | 512,784,732 |

16.1 Cost of fully depreciated assets is (i.e. carried at 1% of cost) Rs. 1,672.211 million (2004: Rs. 941.279 million)

Additions to plant and machinery include capitalization of stores amounting to Rs. Nil (2004: Rs. 87.976 million).

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

| | Note | 2005 Rupees | 2004 Rupees |
|-------------------------------------|------|-------------------|--------------------|
| Cost of goods sold | 4 | 61,655,204 | 105,786,726 |
| Selling and administrative expenses | 5 | 13,768,144 | 11,192,502 |
| | | <u>75,423,348</u> | <u>116,979,228</u> |

16.3 Disposal of property, plant and equipment

| Type of property, plant and equipment | Sold to Employees | Original cost | Accumulated depreciation | Written down value | Sale proceeds | Mode of disposal |
|---|-------------------|------------------|--------------------------|--------------------|------------------|------------------------|
| | | Rupees | | | | |
| Motor vehicles | | | | | | |
| | Aleem A Dani | 86,048 | - | 86,048 | 94,653 | As per Company policy. |
| | H A Karimi | 302,140 | 211,498 | 90,642 | 105,248 | As per Company policy. |
| | Yamin Khalid | 302,140 | 211,498 | 90,642 | 105,248 | As per Company policy. |
| | Muhammad Jamil | 307,140 | 117,737 | 189,403 | 213,975 | As per Company policy. |
| Aggregate of other items of property, plant and equipment with individual book values not exceeding Rs 50,000 | | 1,923,902 | 1,818,470 | 105,432 | 1,317,176 | As per Company policy. |
| | | <u>2,921,370</u> | <u>2,359,203</u> | <u>562,167</u> | <u>1,836,300</u> | |

17. CAPITAL WORK IN PROGRESS

Plant and machinery
Stores held for capital expenditure

| 2005 Rupees | 2004 Rupees |
|--------------------|-------------------|
| 119,848,937 | 823,471 |
| 108,350,730 | 16,839,219 |
| <u>228,199,667</u> | <u>17,662,690</u> |

18. INVESTMENT IN ASSOCIATE

Engro Chemical Pakistan Limited (ECPL)

58,323,686 (2004: 29,719,834) ordinary shares of Rs 10 each
Cost of acquisition of 28,603,852 ordinary shares of Rs 10 each purchased during the year
Percentage of equity held - 38.13% (2004: 19.43%)
Share of post acquisition profits
Less: Dividend received during the period

| | |
|----------------------|----------------------|
| 2,000,956,610 | 1,868,700,000 |
| 3,607,376,182 | - |
| 681,906,767 | 370,015,282 |
| (557,636,860) | (237,758,672) |
| <u>5,732,602,699</u> | <u>2,000,956,610</u> |

18.1 Fair value of investment in associate Rs. 9,591 million (2004: Rs. 3,843 million).

18.2 The financial year end of ECPL is 31 December. However due to the non-availability of financial statements of ECPL for the year ended 31 December 2005 at the time of preparation of these accounts, financial results as of 30 September 2005 have been used for the purpose of application of equity method.

18.3 Summarized financial statements of ECPL are as follows:

| | Note | 2005 Rupees | 2004 Rupees |
|---|------------|----------------|----------------|
| Equity as at 30 September | | 7,110,519,000 | 6,218,741,000 |
| Total assets as at 30 September | | 14,788,967,000 | 13,558,500,000 |
| Revenue (12 months period from 01 October to 30 September) | | 16,128,823,000 | 13,067,656,000 |
| Profit after taxation (12 months period from 01 October to 30 September) | | 1,965,844,000 | 1,730,814,000 |
| 19. LONG TERM LOANS AND ADVANCES - UNSECURED CONSIDERED GOOD | | | |
| Executives | 19.1, 19.3 | 141,640 | 133,200 |
| Other employees | 19.2 | 502,170 | 11,546,010 |
| | | 643,810 | 11,679,210 |

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

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

19.3 Reconciliation of carrying amounts of loans to executives

| | 2005 Rupees | 2004 Rupees |
|--|----------------|----------------|
| Opening balance | 860,655 | 804,820 |
| Disbursement during the year | 1,901,790 | 1,053,360 |
| Promotion of non-executive employees as executives | 413,405 | 231,590 |
| Loan recovered during the year | (1,829,355) | (1,229,115) |
| Closing balance | 1,346,495 | 860,655 |
| Less: Current portion shown under current assets | (1,204,855) | (727,455) |
| | 141,640 | 133,200 |

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

20. STORES, SPARES AND LOOSE TOOLS

| | 2005 Rupees | 2004 Rupees |
|------------------------------------|----------------|----------------|
| Stores | 242,649,543 | 219,161,979 |
| Spares | 584,430,708 | 530,689,228 |
| Loose tools | 11,407,313 | 11,183,889 |
| Stores and spares in transit | 43,687,335 | 39,538,485 |
| | 882,174,899 | 800,573,581 |
| Less: Provision for obsolete items | 235,665,000 | 235,665,000 |
| | 646,509,899 | 564,908,581 |

21. STOCK IN TRADE

| | 2005 Rupees | 2004 Rupees |
|---------------------------|----------------|----------------|
| Material in process | 12,182,512 | 12,508,716 |
| Finished goods | 142,465,497 | 29,916,661 |
| | 154,648,009 | 42,425,377 |
| Raw and packing materials | 9,784,439 | 25,754,112 |
| | 164,432,448 | 68,179,489 |

22. TRADE DEBTS

These debts are unsecured and considered good. These include Rs Nil (2004: Rs Nil) due from related parties.

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

| | Note | 2005 Rupees | 2004 Rupees |
|--|------|--------------------|--------------------|
| These receivables are all unsecured and considered good: | | | |
| Advances to suppliers for goods and services | | 35,504,396 | 12,266,191 |
| Advances and loans: | | | |
| Executives | 23.2 | 1,204,855 | 727,455 |
| Employees | 23.2 | 16,418,446 | 18,093,057 |
| Dividend receivable | | 203,820 | 251,687,570 |
| Advance income tax | | 261,676,958 | 206,194,403 |
| Income tax refund receivable | | 19,998,247 | 67,453,494 |
| Short term prepayments | | 4,631,970 | 8,320,791 |
| Deposits | | 2,590,991 | 2,669,641 |
| Claims receivable from Government | 23.3 | 1,292,892 | 1,292,892 |
| Miscellaneous receivables | 23.4 | 59,461,092 | 14,361,434 |
| | | <u>402,983,667</u> | <u>583,066,928</u> |

23.1 Chief Executive and directors have not taken any loan/advance from the Company (2004: Rs Nil).

23.2 Advances and loans to executives and employees include Rs. 16.334 million (2004: Rs. 16.510 million) being current portion of the loans described under note 19 and the balance represents interest free advance.

| 23.3 Claims receivable from Government | 2005 Rupees | 2004 Rupees |
|---|------------------|------------------|
| Export rebates | 273,600 | 273,600 |
| Development surcharge | 1,019,292 | 1,019,292 |
| | <u>1,292,892</u> | <u>1,292,892</u> |

23.4 Miscellaneous receivables include Rs. Nil (2004: Rs Nil) due from related parties.

24. SHORT TERM INVESTMENTS - AVAILABLE FOR SALE

These comprise of fully paid ordinary shares of the following listed companies:

Related parties - Quoted

| | Note | 2005 Rupees | 2004 Rupees |
|--|------|----------------|----------------|
| Sui Northern Gas Pipelines Limited | | | |
| 68,793,500 (2004: 100,593,500) ordinary shares of Rs 10 each - at cost | | 2,722,258,296 | 3,580,763,050 |
| Percentage of equity held: 13.78% (2004: 20.15%) | | | |
| Adjustment arising from measurement to fair value | | 1,955,699,704 | 2,364,312,800 |
| | | 4,677,958,000 | 5,945,075,850 |
| Others - Quoted | | | |
| Southern Electric Power Company Limited | | | |
| 6,270,000 (2004: 5,700,000) ordinary shares of Rs. 10 each - at cost | | 118,431,290 | 118,431,290 |
| Percentage of equity held: 10% (2004: 10%) | | | |
| Adjustment arising from measurement to fair value | | (49,461,290) | (44,616,290) |
| | | 68,970,000 | 73,815,000 |
| Pakistan PTA Limited | | | |
| Nil (2004: 120,000,000) ordinary shares of Rs 10 each - at cost | | - | 1,263,276,000 |
| Percentage of equity held: Nil (2004: 10%) | | | |
| Adjustment arising from measurement to fair value | | - | 176,724,000 |
| | | - | 1,440,000,000 |
| | | 4,746,928,000 | 7,458,890,850 |
| 25. CASH AND BANK BALANCES | | | |
| With banks: | | | |
| On current accounts | | 1,226,461 | 401,365,247 |
| On saving accounts | 25.1 | 397,443,791 | 670,893,305 |
| | | 398,670,252 | 1,072,258,552 |
| Cash in hand | | 248,884 | 296,127 |
| | | 398,919,136 | 1,072,554,679 |

25.1 These carry mark up at the rate ranging from 0.5% to 2.5% per annum (2004: 0.5% to 1% per annum).

26. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

| | 2005 | | | 2004 | | |
|-------------------------|-----------------|------------|------------|-----------------|-----------|------------|
| | Chief Executive | Directors | Executives | Chief Executive | Directors | Executives |
| | Rupees | | | Rupees | | |
| Managerial remuneration | 7,296,964 | 17,940,359 | 31,015,760 | 13,914,084 | 3,247,104 | 19,352,185 |
| Retirement benefits | 1,216,460 | 1,871,311 | 3,329,833 | 2,419,200 | 56,764 | 1,897,961 |
| Rent and utilities | 3,041,223 | 5,636,501 | 9,151,074 | 6,232,800 | 806,585 | 5,657,026 |
| Leave fair assistance | - | 177,565 | - | 301,894 | 66,329 | - |
| Medical | 33,250 | 333,838 | 1,135,296 | - | 143,820 | 788,628 |
| | 11,587,897 | 25,959,574 | 44,631,963 | 22,867,978 | 4,320,602 | 27,695,800 |
| Number of employees | 1 | 4 | 26 | 1 | 3 | 17 |

(Including those who worked part of the year).

Chief Executive, 3 directors (2004: 2) and 26 executives of the Company (2004: 16) are provided with free use of cars owned and maintained by the Company.

Meeting fees amounting to Rs.37,000 (2004: 33,000) were paid to 7 directors including the Chief Executive (2004:7).

27 EARNINGS PER SHARE**Basic and diluted**

| | | 2005 | 2004 |
|--|--------|---------------|---------------|
| Profit after taxation available | Rupees | 2,867,944,955 | 1,240,134,925 |
| Weighted average number of ordinary shares | No. | 72,057,600 | 72,057,600 |
| Basic earnings per share | Rupees | 39.80 | 17.21 |

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

28. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

| | Interest/markup bearing | | | Non-Interest/markup bearing | | | 2005 Total | 2004 Total |
|--|-------------------------|-------------------------|----------------------|-----------------------------|-------------------------|-----------------------|-----------------------|-----------------------|
| | Maturity upto one year | Maturity after one year | Sub total | Maturity upto one year | Maturity after one year | Sub total | | |
| Rupees | | | | | | | | |
| Financial assets | | | | | | | | |
| Investment in associate | - | - | - | - | 5,732,602,699 | 5,732,602,699 | 5,732,602,699 | 2,000,956,610 |
| Short term investments | - | - | - | 4,746,928,000 | - | 4,746,928,000 | 4,746,928,000 | 7,458,890,850 |
| Loans and advances | - | - | - | 17,623,301 | 643,810 | 18,267,111 | 18,267,111 | 28,188,760 |
| Trade debts | - | - | - | 3,850,343 | - | 3,850,343 | 3,850,343 | 9,337,536 |
| Other receivables | - | - | - | 14,461,092 | - | 14,461,092 | 14,461,092 | 270,011,537 |
| Cash and bank balances | 397,443,791 | - | 397,443,791 | 1,475,345 | - | 1,475,345 | 398,919,136 | 1,072,554,679 |
| 2005 | 397,443,791 | - | 397,443,791 | 4,784,338,081 | 5,733,246,509 | 10,517,584,590 | 10,915,028,381 | 10,839,939,972 |
| 2004 | 670,893,305 | - | 670,893,305 | 8,156,410,847 | 3,854,453,746 | 12,010,864,593 | 12,681,757,898 | |
| Financial liabilities | | | | | | | | |
| Short term financing | 2,334,900,269 | - | 2,334,900,269 | - | - | - | 2,334,900,269 | 3,620,585,228 |
| Creditors, accrued and other liabilities | - | - | - | 416,862,466 | - | 416,862,466 | 416,862,466 | 459,541,962 |
| Markup payable on secured loans | - | - | - | 48,239,280 | - | 48,239,280 | 48,239,280 | 27,790,383 |
| 2005 | 2,334,900,269 | - | 2,334,900,269 | 465,101,746 | - | 465,101,746 | 2,800,002,015 | |
| 2004 | 3,620,585,228 | - | 3,620,585,228 | 487,332,345 | - | 487,332,345 | 4,107,917,573 | 4,107,917,573 |

28.1 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.

28.2 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 0.5% to 9.5% per annum.

28.3 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.

28.4 Fair value of financial assets and liabilities

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

29. 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, relation and nature of transactions with associated companies | 2005 Rupees | 2004 Rupees |
|--|------------------------|------------------------|
| Dawood Corporation (Private) Limited | | |
| Sale of urea | 3,586,870,600 | 2,981,443,018 |
| Dawood Lawrencepur Limited | | |
| Purchase of cloth | 8,663,952 | 12,051,545 |
| Sui Northern Gas Pipelines Limited | | |
| Sui Gas Bills | 925,083,505 | - |
| Dividend income | 175,780,500 | - |
| Engro Chemical Pakistan Limited | | |
| Dividend income | 557,636,860 | 237,758,077 |
| Inbox Business Technologies | | |
| Purchase of computers and related accessories | 4,468,150 | - |
| The Dawood Foundation | | |
| Payment of rent | 4,166,316 | 3,306,600 |
| Central Insurance Company Limited | | |
| Insurance premiums | 18,642,821 | 15,980,367 |
| Purchase of motor vehicles | - | 275,000 |
| Sach International (Private) Limited | | |
| Purchase of cloth | 608,051 | - |

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

30. PRODUCTION CAPACITY

As against the annual production capacity of 445,500 tons (2004: 445,500 tons) of urea fertilizer the plant produced 428,783 tons (2004: 351,123 tons) which was 96% (2004: 79%) of the designed capacity.

Shortfall in the production capacity utilization 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.

31. NUMBER OF EMPLOYEES

Number of employees as at 31 December

| 2005 | 2004 |
|-------------|-------------|
| 472 | 481 |

32. POST BALANCE SHEET EVENTS

The Board of Directors at their meeting held on 30 January 2006 have proposed a final cash dividend @ Rs. 2.50 per share amounting to Rs. 180.144 million and a stock dividend @ 15% i.e. 03 shares for every 20 shares held for the year ended 31 December 2005 for approval of the members at the Annual General Meeting to be held on 28 February 2006. These financial statements do not reflect the proposed final cash and stock dividend.

33. GENERAL

- 33.1** These financial statements have been authorized for issue by the Board of Directors of the Company on 30 January 2006.
- 33.2** Previous year figures have been rearranged and reclassified, wherever necessary, for the purpose of comparison. Major reclassifications have arisen because of revision of IAS-28 "Investment in Associates" as explained in note 2.2
- 33.3** Figures have been rounded off to the nearest rupee.

PATTERN OF SHAREHOLDING AS AT 31 DECEMBER 2005

Disclosure Requirement under the
Code of Corporate Governance

| | | |
|-----|---|------------|
| (a) | Details of holding on 31.12.2005: | |
| | (1) Associated Companies, Undertakings and Related Parties | |
| | Dawood Lawrencepur Limited | 11,667,850 |
| | Dawood Corporation (Pvt.) Limited | 3,125,032 |
| | Central Insurance Company Limited | 2,162,245 |
| | The Dawood Foundation | 2,846,448 |
| | Sach International (Pvt.) Limited | 1,048 |
| | Patek (Pvt.) Limited | 23,250 |
| | (2) NIT & ICP | |
| | National Bank of Pakistan, Trustee Department | 358,033 |
| | Investment Corporation of Pakistan | 575 |
| | (3) Directors & CEO (including holding of their spouses & minor children) | |
| | Mr. Hussain Dawood - Chairman | 4,989,350 |
| | Mr. Shahzada Dawood - CEO | 739,281 |
| | Mr. A. Samad Dawood | 739,536 |
| | Mr. Haroon Mahenti | 258 |
| | 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 | 14,643,093 |
| | (7) Shareholders holding ten percent or more shares | |
| | Faisal Finance S.A. | 9,979,200 |
| | Dawood Lawrencepur Limited | 11,667,850 |
| (b) | There was no trading/movement during the year 2005 in shares held by Directors/CFO/Company Secretary, their spouses & minor children. | |

PATTERN OF SHAREHOLDING AS AT 31 DECEMBER 2005

Category-Wise

| Categories of Shareholders | Number of Shareholders | Total Shares Held | Percentage |
|--|------------------------|-------------------|---------------|
| Individuals | 2,173 | 10,827,142 | 15.02 |
| Joint Stock Companies | 25 | 43,657,741 | 60.59 |
| Financial Institutions | 11 | 10,468,664 | 14.53 |
| Insurance Companies | 6 | 4,151,929 | 5.76 |
| Investment Companies | 2 | 4,462 | 0.01 |
| Educational/Charitable Institutions | 5 | 2,916,087 | 4.05 |
| Modaraba | 1 | 500 | 0.00 |
| Mutual Funds | 2 | 22,000 | 0.03 |
| Administrator, Abandoned Properties, Government of Pakistan | 1 | 9,072 | 0.01 |
| Securities & Exchange Commission of Pakistan | 1 | 3 | 0.00 |
| Total | 2,227 | 72,057,600 | 100.00 |

PATTERN OF SHAREHOLDING

As at 31 December 2005

| Shareholding Range | | Number of Shareholders | Total Shares Held |
|--------------------|------------|------------------------|-------------------|
| From | To | | |
| 1 | 100 | 335 | 16,088 |
| 101 | 500 | 1,256 | 327,239 |
| 501 | 1,000 | 266 | 173,082 |
| 1,001 | 5,000 | 276 | 568,915 |
| 5,001 | 10,000 | 34 | 240,810 |
| 10,001 | 15,000 | 16 | 195,378 |
| 15,001 | 20,000 | 7 | 125,577 |
| 20,001 | 25,000 | 2 | 45,540 |
| 25,001 | 30,000 | 3 | 81,388 |
| 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 | 91,524 |
| 95,001 | 100,000 | 1 | 97,908 |
| 100,001 | 105,000 | 1 | 102,620 |
| 105,001 | 110,000 | 1 | 108,499 |
| 135,001 | 140,000 | 1 | 140,000 |
| 140,001 | 145,000 | 1 | 141,100 |
| 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 | 2,957,881 |
| 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 |
| | | 2,227 | 72,057,600 |