

ANNUAL REPORT  
2 0 0 6



I N S P I R A T I O N



DAWOOD  
HERCULES  
CHEMICALS  
LIMITED

# INSPIRATION?

Poets call it theme, artists call it motif and scientists call it the pre-existing blue prints.

Every one gets inspired by the nature; and so do we. It starts with the urea, the synthesis of which broke the barrier between the nature and the human creation.

Abreast with the same obsession, our environment is embellished with the influence of our source of inspiration ..... the Mother Nature.



## HIGHLIGHTS

### KEY FIGURES

Production	446.70 Thousand Tons	▲ 4%	Gross Profit Rs.	1,312 Million	▲ 4%
Capacity Utilization	100 percent	▲ 4%	Operating Profit Rs.	1,075 Million	▲ 2%
Sales Rs.	3,882 Million	▲ 18%	Urea Sales	437.73 Thousand Tons	▲ 8%

### KEY EVENTS



Highest production ever.



Winner of KSE Top 25 Companies Award for 2005.



Best safety record ever.  
4.92 million safe man hours as on 31<sup>st</sup> December 2006.



Award for the 3<sup>rd</sup> Best Presented Annual Report for 2005.



Turnaround after 29 months of continuous working; a record in Pakistan.



LTU award for significant contribution to the National Exchequer.



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Dawood Hercules;  
a name that portrays quality to the farmer,  
profit to the investor, growth to the employee  
and support to the community.



## STAKEHOLDER REPORT

Dear Stakeholder,

There is a growing recognition that business and society are inextricably linked: the wellbeing of one depends on the wellbeing of the other. Companies have an impact on society and the environment through their operations, products or services and through their interaction with key stakeholders such as employees, customers, local communities, suppliers and others. Our business is about managing this impact well so that all parties can benefit.

Considering the nature of our business, almost everyone could be considered as Dawood Hercules's stakeholder. Our growth has even enabled us to touch the lives with whom we don't interact directly. Stakeholder engagement is at the heart of sustainable development. Dawood Hercules strives to understand its stakeholders value and how to sustain it, so that we can work together for the right outcomes. Stakeholder engagement is what invigorates us to tackle new challenges in ways that will meet the needs of society.



During 2006, we have encapsulated number of key issues that touch upon the expectations of the outside world as our role to the society as one of the leading Company. We have attempted to address the economic, social and environmental dimensions of sustainability.

We benefit tremendously from the communities in which we are located. They provide us skilled employees, loyal customers, our neighbours, suppliers, infrastructure and the social license to conduct our business. To balance what we gain from communities, we try to give something back in addition to jobs and economic opportunities. The array of the community

development endeavours undertaken by us— embracing everything from health and education to environment and more — touches a multitude of Pakistanis across the land. For us more important than simply donating money is building partnerships that generate enduring, positive impacts for people and communities.

In this report we give an account of the activities and development of, and the results achieved by Dawood Hercules in 2006. We hope that you will enjoy reading the report. We would welcome any comments on, or questions to this annual report.





## 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

### Chief Financial Officer

Gulzar Saleem  
E-mail: gulzar@dawoodgroup.com

### Company Secretary

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

### Registered Office

35-A, Shahrāh-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 Ahmad Din

E-mail: ahmaddin@dawoodgroup.com

### Bankers

Bank Al-Habib Limited  
Faysal Bank Limited  
Habib Bank Limited  
Habib Metropolitan Bank Limited  
MCB Bank Limited  
Allied Bank Limited  
United Bank Limited

### Tax Consultants

Hassan Naeem & Company  
Chartered Accountants

37-D, Main Gulberg, Lahore, Pakistan  
Tel: +92 (42) 5870760, 5870761-  
Fax: +92 (42) 5870759

### 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

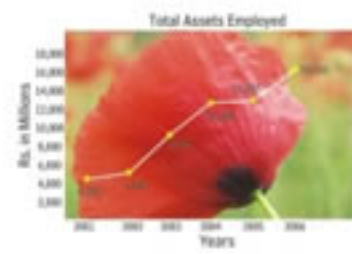
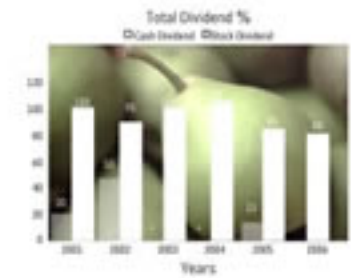
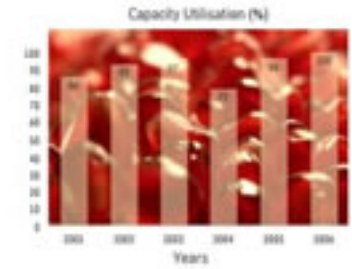
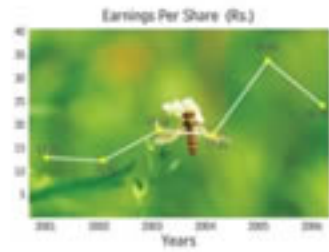
Hassan & Hassan  
Advocates

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

Sr.#	PARTICULARS	UNIT	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
<b>INCOME STATEMENT</b>												
1	Sales Value	Rs. in Million	3,882	3,291	2,699	2,983	2,810	2,851	2,886	2,215	2,767	2,391
2	Gross Profit	Rs. in Million	1,312	1,260	818	1,060	1,010	745	970	623	1,242	1,039
3	Operating Profit	Rs. in Million	1,075	1,057	653	888	886	605	842	504	1,147	949
4	Profit Before Taxation	Rs. in Million	2,590	3,568	1,726	1,686	1,131	823	1,057	819	1,329	1,057
5	Profit After Taxation	Rs. in Million	2,054	2,868	1,240	1,379	793	595	764	622	928	746
<b>DIVIDEND</b>												
6	Cash Dividend	%	80	85	105	100	95	100	100	100	80	125
7	Stock Dividend	%	Nil?	15	Nil	Nil	50	20	Nil	Nil	20	100
<b>BALANCE SHEET</b>												
8	Total Assets Employed	Rs. in Million	16,163	12,787	12,300	9,403	5,089	4,380	4,197	4,083	3,841	3,228
9	Current Assets	Rs. in Million	8,510	6,364	9,757	6,180	2,267	2,111	1,902	1,716	3,247	2,459
10	Current Liabilities	Rs. in Million	6,672	3,345	4,379	2,994	520	758	698	963	935	927
11	Paid Up Capital	Rs. in Million	829	721	721	721	480	480	400	400	400	334
12	Shareholders' Equity with FVR	Rs. in Million	9,273	9,355	7,834	6,365	4,490	3,535	3,420	3,056	2,834	2,210
13	No. of Ordinary Shares	Million	82.87	72.06	72.06	72.06	48.04	48.04	40.00	40.00	40.00	33.00
<b>RATIO ANALYSIS</b>												
14	Gross Profit	%	34	38	30	36	36	26	34	28	45	43
15	Earnings Per Share	Rs.	24.79	34.61	17.21	19.13	11.01	12.39	19.10	15.55	23.19	22.60
16	Inventory Turnover	Time	12.80	17.46	21.90	17.08	14.18	12.96	8.25	9.38	17.32	10.03
17	Age of Inventory	Days	28.52	20.91	16.67	21.38	25.74	28.16	44.25	38.92	21.07	36.40
18	Debtors Turnover	Time	1,221.98	499.03	364.09	475.90	384.43	342.46	302.98	209.98	57.60	47.32
19	Average Collection Period	Days	0.30	0.73	1.00	0.77	0.95	1.07	1.20	1.74	6.34	7.71
20	Total Assets Turnover	%	24.02	25.73	21.94	31.73	55.22	65.08	68.76	54.26	72.04	74.08
21	Fixed Assets Turnover	%	305.19	712.09	526.37	983.23	842.59	713.38	689.60	453.06	476.43	350.70
22	Break-up Value of Share with FVR	Rs.	111.90	129.83	108.72	88.34	93.47	73.59	85.50	76.40	70.86	66.98
23	Dividend Yield	%	2.71	3.32	5.34	5.69	7.09	13.70	12.35	9.52	8.99	7.35
24	Dividend Payout Ratio	%	32.27	24.56	61.01	52.26	86.32	80.74	52.36	64.31	34.49	55.30
25	Return on Equity	%	22.15	30.66	15.83	21.66	17.66	16.83	22.34	20.35	32.73	33.75
26	Debt Equity Ratio	%	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
27	Current Ratio	Time	1.28	1.90	2.23	2.06	4.36	2.78	2.72	1.78	3.47	2.65
28	Interest Cover Ratio	Time	3.69	10.76	14.21	49.27	1,233.31	-	-	-	-	-
29	Market Value per Share	Rs.	295.00	256.00	196.50	175.60	134.00	73.00	81.00	105.00	89.00	170.00
30	Market Capitalization	Rs. in Million	24,446	18,447	14,159	12,653	6,437	3,507	3,240	4,200	3,560	5,610
31	Price Earning Ratio	Time	11.90	7.40	11.42	9.18	12.18	5.89	4.24	6.75	3.84	7.52
<b>PRODUCTION</b>												
32	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
33	Actual Production	Thousand mt	446.70	428.78	351.12	430.60	414.62	381.95	436.90	419.39	423.52	365.73
34	Capacity Utilization	%	100	96	79	97	93	86	98	94	95	82
35	Sales	Thousand mt	437.73	405.67	361.20	436.83	415.31	396.82	7456.63	366.39	436.10	382.79
<b>OTHERS</b>												
36	Employees	Nos.	485	472	481	498	525	533	554	584	566	548
37	Capital Expenditure	Rs. in Million	740.65	235.84	328.15	189.81	11.00	42.00	12.00	12.00	14.00?	8.00
38	Contribution to the National Exchequer	Rs. in Million	773	665	724	857	767	615	633	665	616	610

# GRAPHICAL PRESENTATION







There is a way that nature speaks, that land speaks. Most of the time we are simply not patient enough, quiet enough, to pay attention to the story.

Linda Hogan



## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Thirty-ninth 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 27, 2007, to transact the following ordinary business after recitation from the Holy Quran:

1. To confirm the Minutes of the Extraordinary General Meeting held on Monday, May 22, 2006.
2. To receive, consider and adopt the Audited Accounts of the Company for the year ended December 31, 2006 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 45% (Rs.4.50 per share) for the year ended December 31, 2006 as recommended by the Board of Directors. This is in addition to the two interim cash dividends totalling 35% (Rs.3.50 per share) already paid during the year.
4. To appoint Auditors and to fix their remuneration. The retiring Auditors M/s. KPMG Taseer Hadi & Company, being eligible, offer themselves for re-appointment.

Lahore  
January 16, 2007

By order of the Board  
Aftab Ahmed Qaiser  
Company Secretary

**Notes:**

**1. Closure of Share Transfer Books**

The share transfer books of the Company will remain closed from February 13, 2007 to February 27, 2007 (both days inclusive). Transfers received in order at the Company's Registered Office by the close of business on Monday, February 12, 2007 will be treated in time for the purpose of payment of final cash dividend, if approved by the Shareholders.

**2. Participation in the Annual General Meeting**

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

**3. Proxy**

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

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

**4. Change of Address**

Shareholders are requested to immediately notify the change of address, if any.



## CHAIRMAN'S REVIEW

Year 2006, has been another promising year for your Company. The year recorded best results in production and safety of operations. This was largely due to the hard work and devotion of employees. The success bears testimony to excellent planning and direction of the management.

Above all, the year 2006 witnessed significant activity by the Company in meeting its social obligations. A school known as TCF – Dawood Hercules Campus was set up which was a pressing need of the vicinity in which the plant is located. In addition Blood Camps were arranged by your Company and its employees'.



Contribution towards this noble cause was commendable. Free Eye Camps were also organized at the plant site which emerged as a great success and provided much needed relief to the needy and underprivileged community in the close proximities of the plant.

Your Company also puts great emphasis on environment protection. During the year it started the project of plantation of 50,000 trees on an area of more than 50 acres. This plantation will help in maintaining the environment balance of the surrounding areas of the plant by absorbing more than 200,000 lbs of Carbon- dioxide from the atmosphere every year and in the restoration of natural habitat. Hopefully, the Company will enlarge upon its social activities in the years to come.

During the year under review the Company successfully implemented BMR of the plant by replacing some of the critical equipment to ensure reliability of operations. Latest Distributed Control System has also been installed replacing conventional system. Coupled with the BMR the Company also undertook its major plant maintenance activities, which were carried out after a record 29 months of operations without shutdown.

The financial performance of your Company was also remarkable for the year 2006. The sales in terms of quantity and value registered an appreciable growth over the previous years. Resultantly the figures of net profit and operating profit have shown improvement over the previous years. It is hoped that the current performance

will be sustained and the results for the ensuing years will show further improvement.

The Company continued the training and development of its employees. It believes that through well trained and motivated employees the Company will grow from strength to strength.








Because of the government's focus on the economic development, general climate for investment in the country is very favorable. We are evaluating the feasibilities of various projects for further investment for enhancement of production and/or diversification, energy conservation and long term reliability of the plant is also under consideration.

Fertilizer business in the country is expected to become more competitive. Your Company is fully conscious of the challenges and plans to excel by leading in the product quality and customer service. Measures are also in hand to encounter inflationary effects by enhancing operational effectiveness and economizing where possible.

I would like to extend my sincerest thanks to you, the shareholders, for your continued faith and interest in Dawood Hercules Chemicals Limited. I am particularly grateful to the Board for their guidance and counsel. I am also grateful to the Government of Pakistan for its continued assistance and support. I am confident that together we will continue to prosper.

HUSSAIN DAWOOD

Our ideas must be as broad as  
Nature if they are to interpret Nature.  
Sir Arthur Conan Doyle

	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER	
		4 Million Safe man hours										LTU AWARD	
<b>DIRECTORS' REPORT</b>			TCF-DH CAMPUS										
Fertilizer Review .....									BMR 2006			EYE CAMP	
Performance Review .....												THE PLANT DRIVE	
BMR 2006 .....													KSE AWARD
CSR .....													
Health, Safety & Environment .....													
Corporate Affairs .....													
Committees .....													
Quality Management System .....													
Human Resource Management .....													
Outlook 2007 .....													

# FERTILIZER MARKET REVIEW

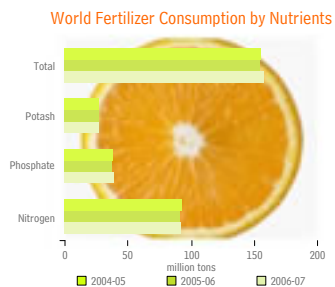
## Global Scenario

World urea demand was quite firm during 2006, fostering high production and export levels. The overall positive tone of the fertilizer market, although with strong regional disparities, which led to rising import demand and production at record levels.

The actual total production was slightly less than estimated last year. This was largely due to reduced plant efficiencies in some established producing countries due to technical problems and shortages of natural gas supplies, and delays in the commissioning of new plants.

World Fertilizer consumption in 2005-06 is estimated to have reached 154.1 million nutrient tons, a 0.5 percent decrease from the previous year.

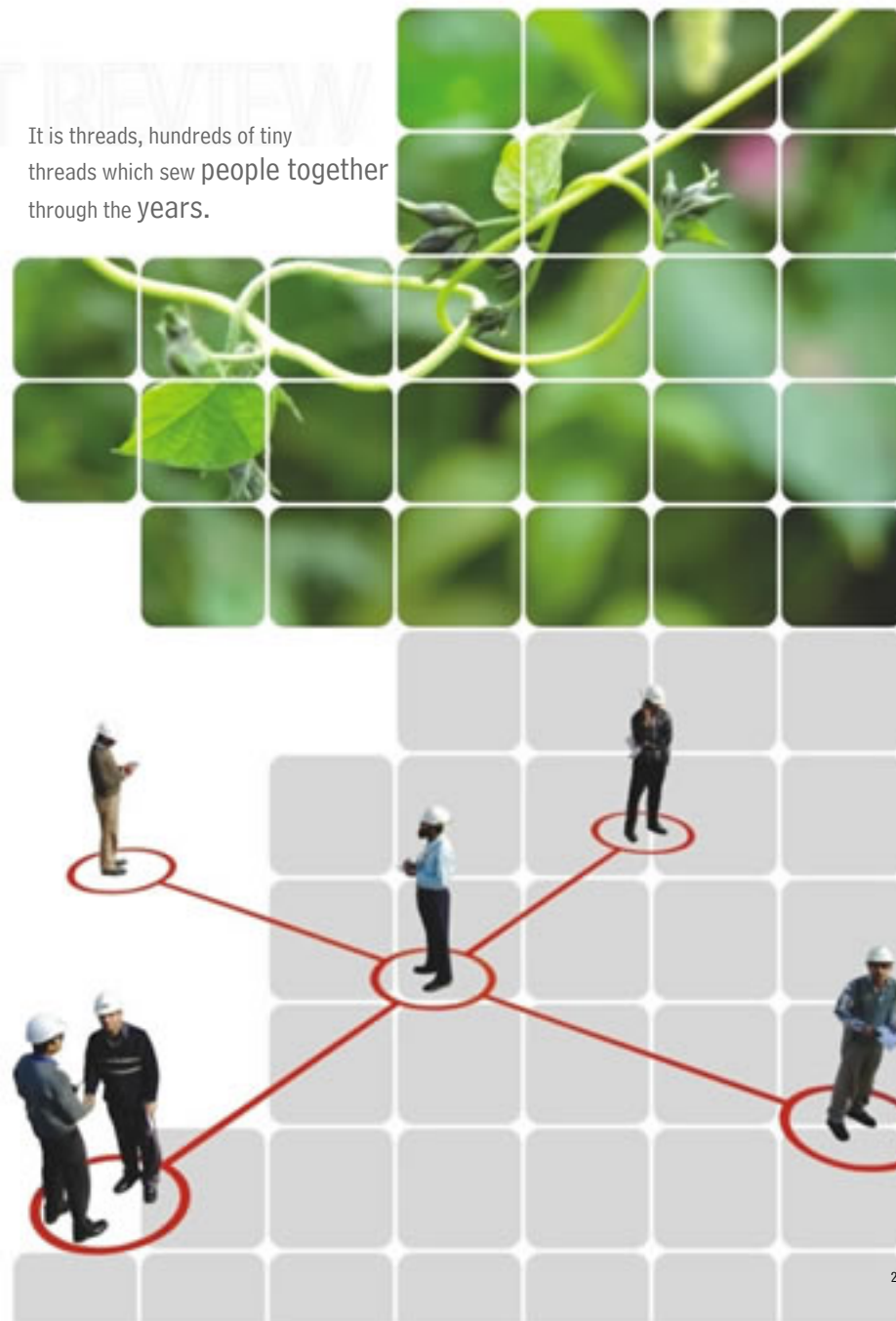
The IFA agriculture committee estimates that the world's fertiliser consumption in 2007 will further grow by 3.80% to 163.70 million nutrient tons.



World Fertilizer Consumption by Nutrients (Million tons)				
Year	Nitrogen	Phosphate	Potash	Total
2004-05	90.21	37.47	27.08	154.77
2005-06	90.86	36.78	26.44	154.07
Percent change over 2004-05	0.72	-1.84	-2.36	-0.45
2006-07 (forecast)	91.77	38.41	27.18	157.36
Percent change over 2005-06	1.00	4.43	2.80	2.14

Source: IFA

It is threads, hundreds of tiny threads which sew people together through the years.





He who **KNOWS** the activities of  
Nature **LIVES** according to Nature.

Global Urea Supply/Demand Balances  
2006-2008-2010

Mt Urea	2006	2008	2010
Urea Supply	134.4	147.2	164.1
Urea Demand	131.3	138.3	143.6
Global Balance	+3.1	+8.9	+20.5

Source: IFA

The Global Urea Capacity is projected to further increase in 2007 by 4.80 Million Tons to 152.20 million nutrient tons. The Global Urea market may remain tight in the first half of 2007 as the new capacity will emerge in the second half of 2007. However, IFA projects a growing urea surplus to 3.70 million nutrient tons during the second half of 2007.

Global Urea Supply/Demand Balances  
2006-2008-2010



#### Local Market Scenario

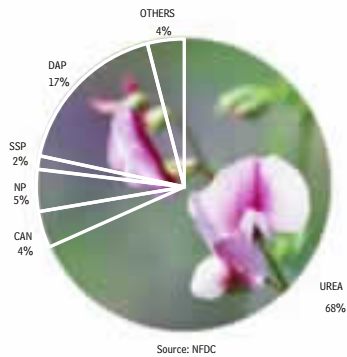
As an agro-based country, Pakistan is heavily dependant on the fertility of the soil and its ability to yield, which is why urea is an essential requirement for the Country's wellbeing. However, at present the urea demand continues to exceed the production capacity within Pakistan and it is expected that approximately 500 kilo tons of urea will have to be imported during the fiscal year 2006-2007, causing a foreign exchange loss of around US \$ 200 million (Rs. 11980 million) to the Country.

Fertilizer is one of the basic inputs of agriculture and its timely availability is very crucial for agricultural production. The fertilizer off-take is increasing at a brisk pace and will increase further in the medium term. The domestic production of fertilizer during the calendar year 2006 was 4,800 kilo tons which was more or less the same last year. On the other hand, the government imported 703 kilo tons of urea depicting an increase of 23% hence, the total availability of fertilizer was increased by 4 % in the current fiscal year. The off-take of fertilizer

was however remained same as last year.

Among product share, urea was 68.5 percent, followed by DAP (17.5 percent), SSP (1.5 percent), NP (4.7 percent), CAN (4.0 percent) and other product (3.8 percent).

National Fertilizer Product Share 2005-06

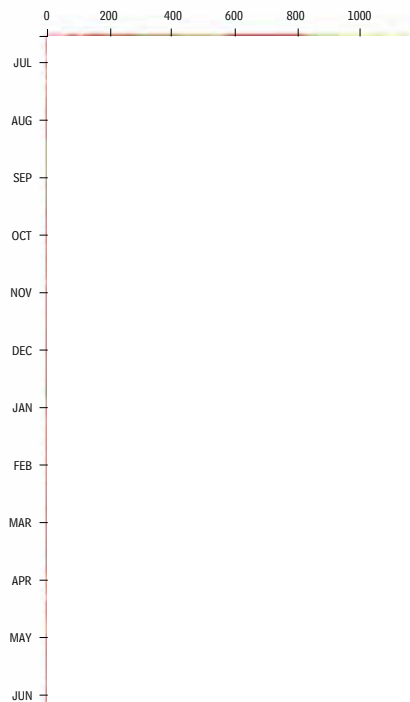


### Urea Supply and Demand Situation 2005-06

Total urea off take during 2005-06 was 5,405 thousand tons, which witnessed an increase of 5.6 percent over 2004-05. The closing balance at the end of 2005-06 was 240 thousand tons, which is a very healthy closing inventory for the year 2006-07.

The fertilizer Policy 2001 is under review by the Government aimed at introducing more incentives for the fertilizer industry to enhance domestic urea production. Additional investment to establish new fertilizer manufacturing units is a dire necessity to meet the ever growing demand. Timely decision of changes in the Fertilizer Policy would, therefore, play a pivotal role in meeting demand projections.

Urea Supply / Demand Situation 2005-06



What nature delivers to us is never stale.  
Because what nature creates has eternity in it.

Isaac Bashevis Singer





Persons of **genius**, and those who are most capable of art, are always most fond of nature: as such are chiefly sensible, that all art consists in the **imitation** and study of nature.

Alexander Pope

## PERFORMANCE REVIEW

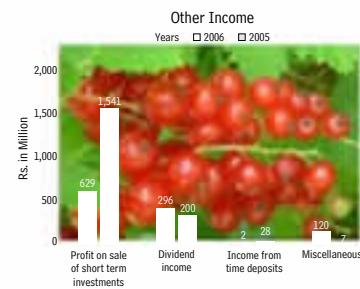
### Financial Results

Your Directors report another year of sound performance by the Company. At the close of the year the sales were recorded at Rs. 3,882 million as compared to Rs. 3,291 million during 2005 and operating profit of Rs. 1,075 million against Rs. 1,057 million of last year. The operating profit for the year is 28% of sales as compared to 32% of last year. The drop in operating profit percentage is due to increase in

depreciation charge on account of BMR equipment installed during the year, plant maintenance expenses and inflation factor.

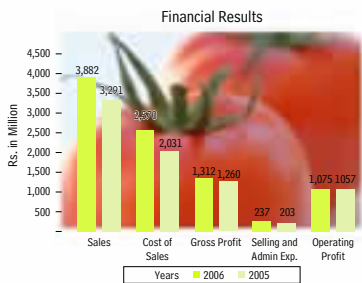
You will observe that other income has gone down by about Rs. 729 million. The major reason for this drop is smaller gain on sale of short term investments. Profit before taxation, including the share from associate, stood at Rs. 2,590 million (L.Y. Rs. 3,568 million). The year's profit after taxation has been reported at Rs. 2,054 million (L.Y. Rs. 2,868 million).

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	
	2006	2005
Sales	3,882	3,291
Cost of Sales	(2,570)	(2,031)
Gross Profit	1,312	1,260
Selling & Admin Expenses	(237)	(203)
Operating Profit	1,075	1,057
Financial & other charges	(626)	(315)
Other Income	1,047	1,777
Share of Profit from Associate	1,093	1,049
Income Tax		
DHCL	(212)	(333)
Associate	(323)	(367)
Net Profit After Tax	2,054	2,868





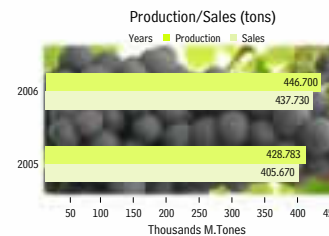
### Plant Performance

The Plant Operations were excellent during the year ended. The supply of gas was not disrupted during the year. The result being that despite the 34 days shutdown for annual maintenance and BMR (critical equipment replacement), the Company was able to make record urea production of

446,700 MT. for the year, being the highest in the Company's history, depicting a capacity utilization of 100%. This production in terms of percentage is 4% more than the production of the last year. The plant has also continuously operated for 29 months (a record for urea plant in Pakistan) for which our operational team certainly deserves appreciations.

### Sales Review

The Company sold 437,730 MT. of urea in 2006, as compared to 405,670 MT. sold in 2005. Quantity sold this year is 8% more than the last year, while the nationwide off-take of urea has fallen by 1%. In rupee terms the Company's sales



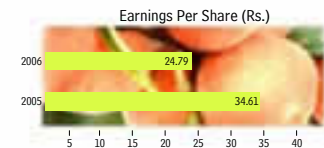
stood at Rs. 3,882/- million for the year 2006 as compared to Rs. 3,291/- million of 2005, depicting an improvement of 18% over the last year.

### Earnings Per Share

The Earnings Per Share (EPS) of the Company stood at Rs. 24.79 as compared to Rs. 34.61 of the last year. The break-up of earnings per share for the year ended is

that the Company earned Rs. 6.70 per share from operations, Rs. 8.80 per share from other income and Rs. 9.29 per share is the portion from the earnings of the associates.

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 2006.

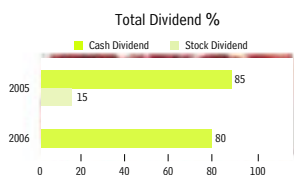


## Market Capitalization

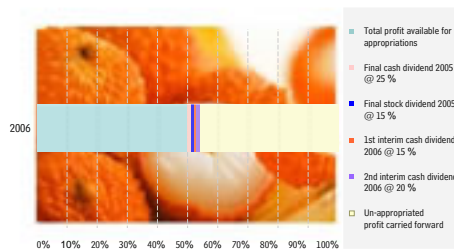
The market capitalization of your Company has continued to grow. The peak during the year was Rs. 37,721 million, and on 31<sup>st</sup> December 2006, it was Rs. 24,446 million. At the close of the year, break-up value of your Company share stood at Rs. 112 with a market value of Rs. 295. This shows a growth of Rs. 39 per share in the market value over the last year. The year end price earning ratio of 12 shows investors' confidence in the share of your Company.

## Appropriations

Your Board's policy is to share the earnings of the Company with the shareholders in a fair, timely and responsible manner. Two interim dividends totaling Rs.3.50 per share (35%) have already been announced and distributed during the course of the year. In addition to the above, the Board has recommended a final cash dividend of Rs.4.50 per share (45%) for approval by the shareholders in the Annual General Meeting.



Rupees in Million	
Un-appropriated profit brought forward 01-01-06	6,028.43
Profit after tax for the year	2,054.21
Total profit available for appropriation	<u>8,082.63</u>
<b>Less Appropriation:</b>	
Final cash dividend 2005 @ 25 %	180.14
Final stock dividend 2005 @ 15 %	108.09
1st interim cash dividend 2006 @ 15 %	124.30
2nd interim cash dividend 2006 @ 20 %	165.73
-	-
Total appropriations	578.26
Un-appropriated profit carried forward	<u>7,504.37</u>



## Awards and Recognitions:

The Excellence Awards were also a milestone for the year 2006.

Your Company is the proud winner of the Karachi Stock Exchange "Top 25 Companies Award" for 2005.

The Joint Committee of the Institute of Chartered Accountants of Pakistan, and Institute of Cost and Management Accountants of Pakistan conferred awards for "Best Presented Annual Reports", for the year 2005, your annual report was ranked third in the chemical and fertilizer category.

Your Company was also amongst the few selected Companies who were conferred "Excellence Award" by the Large Tax Payers Unit (LTU) – Lahore in recognition of their responsible tax culture and for sizeable contributions towards the National Exchequer.

## Contribution to the National Exchequer

Your Company is one of the leaders in contribution to national exchequer. Your Company's contribution to the National

Exchequer amounted to Rs. 772.71 million as compared to Rs. 664.63 million last year. This includes Rs. 273.08 (L.Y. Rs. 203.55 million) as Income Tax, Rs. 453.35 (L.Y. Rs. 421.96 million) as Sales Tax, Rs. 46.27 (L.Y. Rs. 39.12 million) as Custom and Excise. Furthermore the Company's contribution to national exchequer as withholding tax agent under different provisions of Income Tax Ordinance 2001, amounted to Rs. 95 million (L.Y. Rs. 104 million)

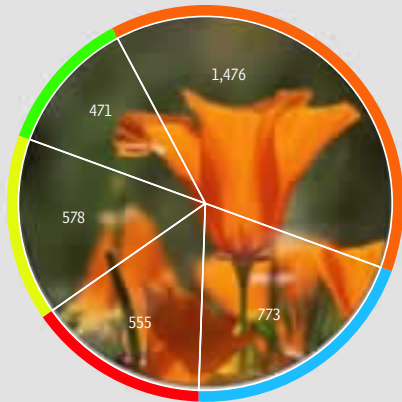
### Contribution to National Economy

Your Company's contribution to the National Economy by way of value addition was Rs. 3,853 million (L.Y. Rs. 4,202 million). The beneficiaries being, the government, Rs. 773 million (L.Y. Rs. 664.63 million), employees Rs. 471 million (L.Y. Rs. 411 million), shareholders Rs. 578 million (L.Y. Rs. 757 million), provider of capital Rs. 555 million (L.Y. Rs. 258.06 million). The amount of Rs. 1,476 million (L.Y. Rs. 2,111) was retained in the business.

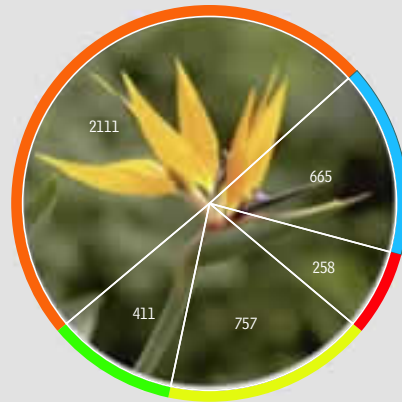


One touch of nature makes the whole world kin.  
*William Shakespeare*

Value addition and distribution during 2006



Value addition and distribution during 2005



■ Government Taxes 
 ■ Provider of Capital 
 ■ Shareholder as dividend 
 ■ Employees as remuneration 
 ■ Retained with the business

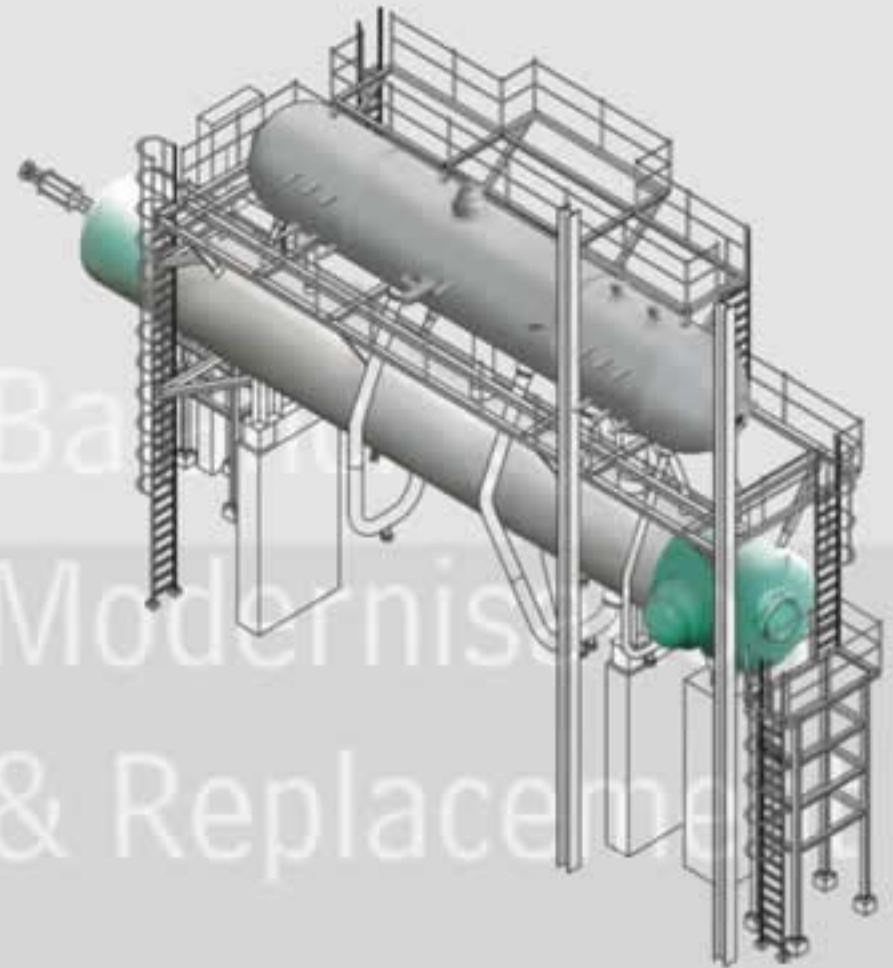




Every industry needs a timely BMR (Balancing, Modernisation and Replacement) to balance and conserve energy, acquire modern technology and replace outdated equipment in order to enhance the capacity, reliability, efficiency and on stream factors. Dawood Hercules plant, like any fertilizer plant, is a very complex setup working round the clock. Reliability is the key to efficiency, cost effectiveness and consistency. The BMR 2006 was designed to take measures of these key factors in order to ensure

improved performance in short and long prospect.

BMR 2006 is the second BMR that Plant has undergone since erection in 1971. Our first BMR was in 1989-91 which was primarily planned to increase the production capacity from 345,000 tons to 445,500 tons of urea per annum. It also covered energy conservation activities and essential equipment replacement.



Balancing  
Modernisation  
& Replacement

We bring tomorrow alive today. We broaden horizons and shape possibilities. We metamorphose pupils into professionals.



## THE OBJECTIVE

The 2006 BMR was intended to facilitate in following areas:

### To Lay a Foundation For The Future Capacity Enhancement

This BMR actually is a two phase project. First phase has been concluded while the next phase will be completed in 2008. All the equipment replaced or installed during BMR 2006 were acquired with the capacity to exploit larger production loads. Studies are still underway to recognize the optimum production level that can be achieved. The completion of the project will not only enhance the production capacity but will also improve the energy consumption further.

### Installation Of The Latest Distributed Control System (DCS)

State of the art control and monitoring system, DCS (Distributed Control System),

was installed and is in the commissioning process. The new system will render better controllability, monitoring and communication. DCS also includes advanced traceability functions which can determine the actual cause of any destabilization or malfunctioning with much greater accuracy. It also prognosticates to be more cost effective for continual up-gradations and maintenance. Selected engineers and technicians were sent to Singapore for training on DCS.

### Critical Equipment Replacement:

In the past few years, Dawood Hercules had to endure unwanted tripping in the production process due to the susceptibility of the Waste Heat Exchanger and the Primary Reformer. The equipment has acted as a bottle-neck and at time forced us to operate at lower loads in order to ensure smooth process.

The replacement of these equipments has been so successful that despite a 34 days

BMR shutdown, we have managed to surpass our production target for the first time in the history of the Company as we were able to operate at higher production loads consistently.

### Energy Conservation

Energy conservation is one of our strategic drivers and is a continuous improvement process. Since the equipment installed has been manufactured using the latest technology and have rendered our system more energy efficient.

## THE CHALLENGES

### The Planning

Initial duration of the total turnaround was planned to be 34 days, but due to the shortage of the specialist technicians, it became a challenge to meet the deadline with the resources available. Painstaking planning was done which accorded us to conclude the project in just 33.78 days.

### Safety Measures

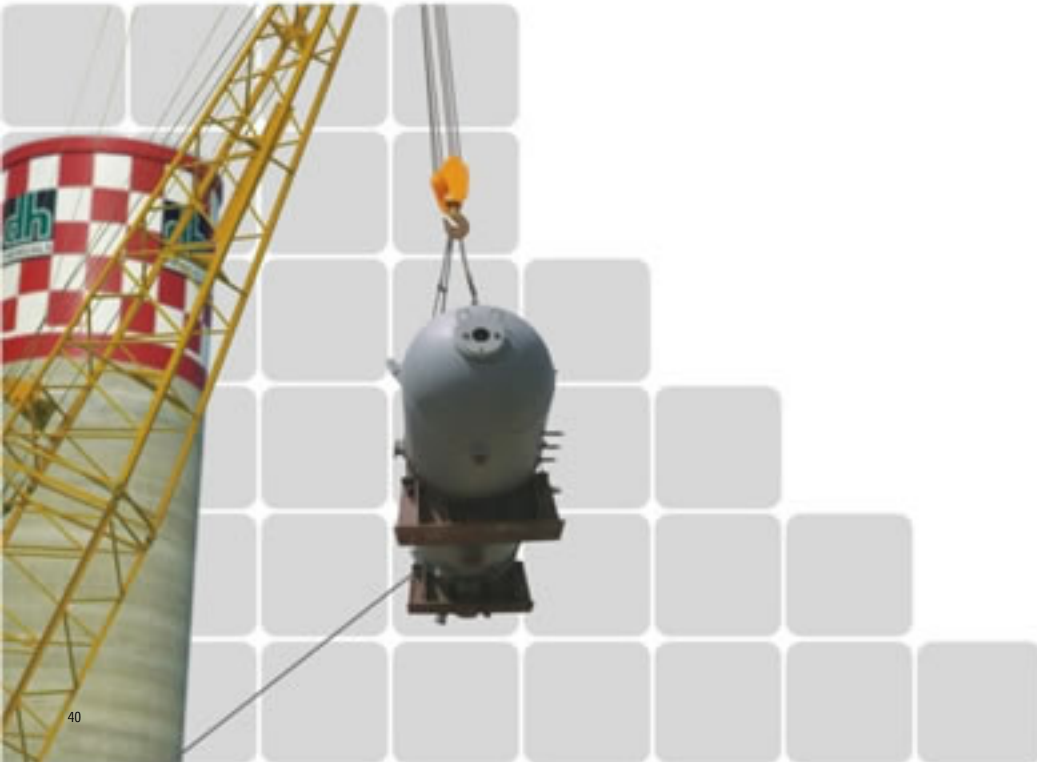
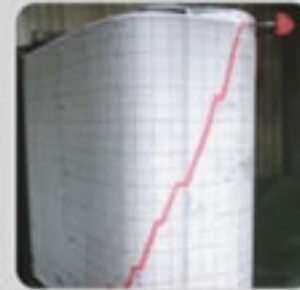
More than 1000 skilled technicians and Labour workers were hired for various jobs during the BMR. External hiring poses great



concerns over safety matters due to lack of their safety awareness and experience. Therefore, keeping in view the important and long duration jobs, a rigorous safety plan was designed and implemented. The results were very successful and zero LTI (Lost Time Injury) was recorded. Some of the measurements executed are as follows:

- Safety Awareness sessions were conducted at all sections of the plant where importance of Safe work / Acts / Conditions were emphasized.
- BMR temporary safety crew was trained that provided a day/night safety coverage.

- Shutdown activities extensive surveillance schedule was prepared and followed.
- Safety equipments were provided to all technicians and labourers of turnaround 2006 as per company policy.
- All the VSMS (Vendor Service Men) / Contractor staff were given a Plant safety briefing at the site.
- Round the clock safety assistance and guidance system was introduced and availability assured.



### The Start-Up

The plant was shut down after 29 months of continuous operation, which is a record in Pakistan. Usually shutdowns after longer periods mean more simultaneous jobs, more sophistication in planning and more troubleshooting during start-up. But on the contrary our start-up operation was smooth as silk with the maximum Plant load ever.





To further Company's presence in the field of philanthropy, a Corporate Social Responsibility (CSR) Committee was constituted at the beginning of the year 2006. The CSR Committee met from time to time to determine and identify the areas where the company can contribute in a positive way for the development of society and better Pakistan. Finally the CSR Committee defined the following areas for CSR activities:

- Health
- Education
- Environment

After identifying the areas for sphere of activities, the committee undertook the following projects and activities during the year 2006:

**Health: Blood Donation Drive**

In collaboration with the Pakistan Red Crescent Society (PRCS), the Company organized blood donation camps in its head



Free eye camp at Dawood Hercules Plant in Sheikhpura

office and plant site. The objective of the camp was to raise awareness and blood donations in support of children suffering from Thalesemia. The DHCL employees, their relatives and friends volunteered for the noble cause and donated more than 200 bags of blood. Their humble donation was thankfully acknowledged by the parents of children suffering from Thalesemia, who otherwise could not afford the blood transfusion.

where majority of the inhabitants are either incognizant of their medical condition or deprived of an affordable treatment within their vicinity. In order to extend a helping hand your Company started organising weekly eye camps from November, 2006. These eye camps have bestowed a much needed sigh of relief to the local dwellers.

In a short span of four weeks 472 patients were checked, out of these 74 patients were selected for cataract surgery. The patients selected for surgery were operated and lenses were inserted free of charge. In addition they were provided with free medicine, food and transportation.

**Eye Camps: A Treat for the Eyes**

The DH Plant is located in a rural area





### Dawood Hercules System Design for CSR Activities







Ground Breaking Ceremony of TCF - Dawood Hercules School

Your Company is committed to improve the quality of lives in surrounding communities of its plant and plan to continue this activity in future as well.

**EDUCATION: School at village Noorpur Virkan**

The Company joined hands with The Citizen Foundation (TCF) a well renowned not for profit organization to establish a school in village Noorpur Virkan, district Sheikhpura across the road where the plant is located. TCF has vast experience in the field of education and at present running more than 100 schools.

The Company has purchased two acres of land at a cost of Rs. 10 million. Initially

sixteen classrooms and allied facilities will be built at an approximate cost of Rs. 16 million. In the beginning, education for boys and girls up to primary level will be provided which later will be extended to matric level. It is hoped that construction will be completed by the end of March 2007, and the classes' will Inshallah commence thereafter. The company is very much obliged and thankful to the administration of TCF who have taken the responsibility of managing the school. We hope that this school will be a landmark project in the area.

Various CSR activities are in the pipeline for the year 2007. The CSR team of Dawood Hercules visited the northern areas of Pakistan to observe the situation of the

people affected by the October 2005 earthquake. On their recommendation the Company has decided to rebuild F.G. Neelam Valley School in Muzaffarabad, which had been completely destroyed.

**ENVIRONMENT: Tree Plantation**

Last year the Company purchased around 100 acres of land adjacent to its plant. The Sheikhpura district has seen rapid industrialization over the years and its green pastures have turned into factories and ponds of industrial waste. Being aware of the deteriorating condition of environment and increased level of pollution your Company decided to plant 50,000 indigenous trees at an area of

around 50 acres of the land purchased.

The plantation drive kicked off in September 2006. The Company employees and their families on the first day voluntarily planted 2900 indigenous species of trees such as Marva, Desi Aam, Jamun, Rosewood, Sheeshum, Flame of the forest, Ashoka, Date Palm, etc. The plantation is going on and it is hoped that the same will be completed by March 2007. The forest will come to age in three to five years. It will contribute aesthetically to the landscape, and will help combat air pollution created by factories emissions in the area. The forest will also help reduce the carbon-dioxide emitted by the factories, thus improving the health of the inhabitants through reducing the risk of respiratory diseases.

Dawood Hercules plantation activity in a full drive.





On December 31, 2006 DH safety record was 4.92 million safe man-hours without any lost time injury which is demonstrated by 1769 days of safe working.

Safety awareness sessions for all corporate office were arranged and conducted. Corporate Office emergency exits plan reviewed and approved. An Emergency Response Team (ERT) has also been contrived which constitutes 28 members from all departments and floor of the office.

Comprehensive emergency handling training sessions were conducted for ERT, which includes; fire drills, emergency evacuation, reporting safety violation etc. A safety audit program was also drafted and implemented at Corporate Office.

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 continue to remain well within the limits permitted by the National Environmental Quality Standards.

The project of planting locally known 50,000 trees is underway on the additional land which will be completed by March 2007; the trees will mature in three years. This plantation will create a very positive impact on the environment surrounding the plant.

## HEALTH, SAFETY AND ENVIRONMENT

### 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 PERFORMANCE

Approaching 5 million safe man hours

The Company 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, yet again, your Company has recognized its best ever safety performance by taking our last year's safety achievements further.

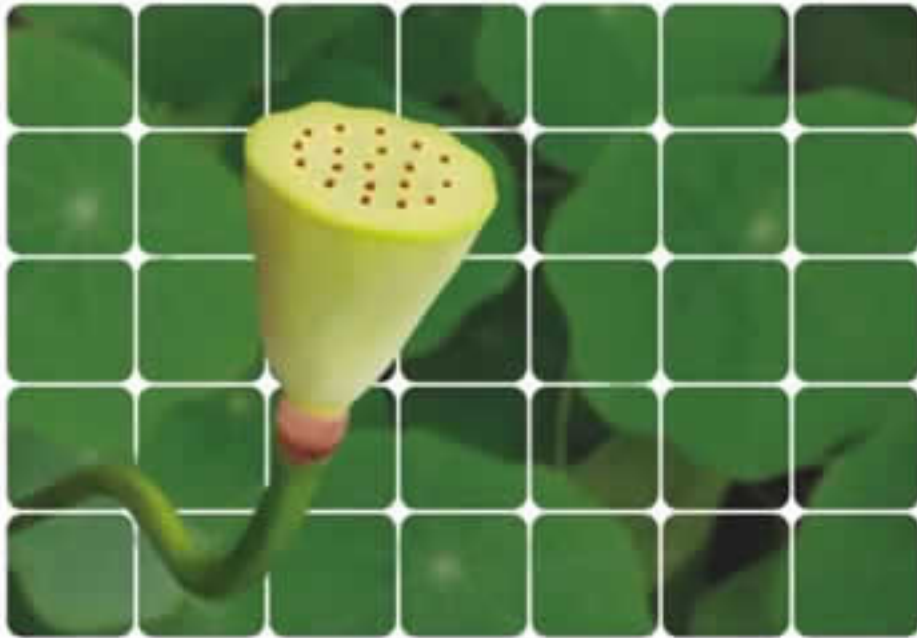




“SAFE OPERATIONS  
ARE SMOOTH  
OPERATIONS.”

We all live in the protection of certain  
escort which we call our principles.





## CORPORATE AFFAIRS

### Board Meetings

Four meetings of the Board of Directors were held during the year 2006. Attendance by each Director was as under:

Name of Directors	Meetings Attended
Hussain Dawood	4
Shahzada Dawood	4
Khawaja Amanullah	2
S. M. Asghar	4
A. Samad Dawood	4
Abdul Ghafoor Gohar	4
Haroon Mahenti	2

### 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.

If you have a design problem,  
nature's probably solved it already.

Janine Benyus





International Accounting and Reporting Standards, as applicable in Pakistan have been followed in preparation of financial statements and any departure there from has been adequately disclosed.

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

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

There has been no material departure from the best practices of Code of Corporate

Governance, as detailed in the listing regulations.

#### 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<sup>st</sup> December 2006, 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. 526.97 million. Fair value of the assets of the funded defined benefit gratuity plan was Rs. 118.98 million as at 31<sup>st</sup> December 2006, according to the actuarial valuation.

#### Auditors

M/s KPMG Taseer Hadi & Company,

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 39<sup>th</sup> Annual General Meeting, as auditors of the Company for the year ending 31<sup>st</sup> December 2007.

#### Risk Management

The Company endeavours to mitigate currency risks from time to time by hedging currencies with its banks. The Company has actively managed its excess cash reserves by investment in Blue Chips and other instruments in order to enable it to obtain an enhanced return.





## COMMITTEES

The Internal Management of your Company is very dynamic. The committees setup by the Board maintain a system of internal controls and procedures designed to ensure reliable financial record keeping, transparent financial reporting disclosure, and protection of physical property. To discharge the fiduciary responsibilities, the Board of your Company follows corporate governance guidelines issued by Securities and Exchange Commission of Pakistan.

### AUDIT COMMITTEE

In accordance with the Code of Corporate Governance, the Board has set up an Audit Committee comprising three Directors. Majority of the members are non-executive Directors. The committee meets at least once every quarter to review the accounts and major judgmental areas prior to their presentation to the Board.

The terms of reference of the Audit Committee are those as specified in the

Code of Corporate Governance. In addition the Audit Committee is free to ask for any information and explanation in order to satisfy it self regarding the financial statements and internal controls.

### 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.

The terms of reference of the Management Committee are to periodically review the performance with regard to the operational matters and take / recommend necessary actions for improvement therein. To review and recommend the biz plan & budget and policy changes if any.

### 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.





The terms of reference of the Capex Committee is to forward its recommendations to the Board of Directors concerning major Capex Projects after reviewing all material aspects of the proposals. Monitor implementation progress and review of post implementation performance.

#### 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 for their best performance. The Committee from time to time also advises the Management in adopting measures which will generate motivation and enthusiasm.

The terms of reference of the Human Resource Committee are to supervise the overall HR function and issue necessary guidelines. There sphere also includes the review and recommend the organization structural changes and HR policies, recruitment, promotion and increment criteria and CBA Agreement.

The terms of reference of the Procurement Committee are to review and approve local and off-shore purchases, to negotiate all long-term and / or high value purchases, and to review the procurement budget proposal and give its recommendations for revision / approval thereof.

#### PROCUREMENT COMMITTEE

The Procurement Committee is constituted 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.





### 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.

## 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.

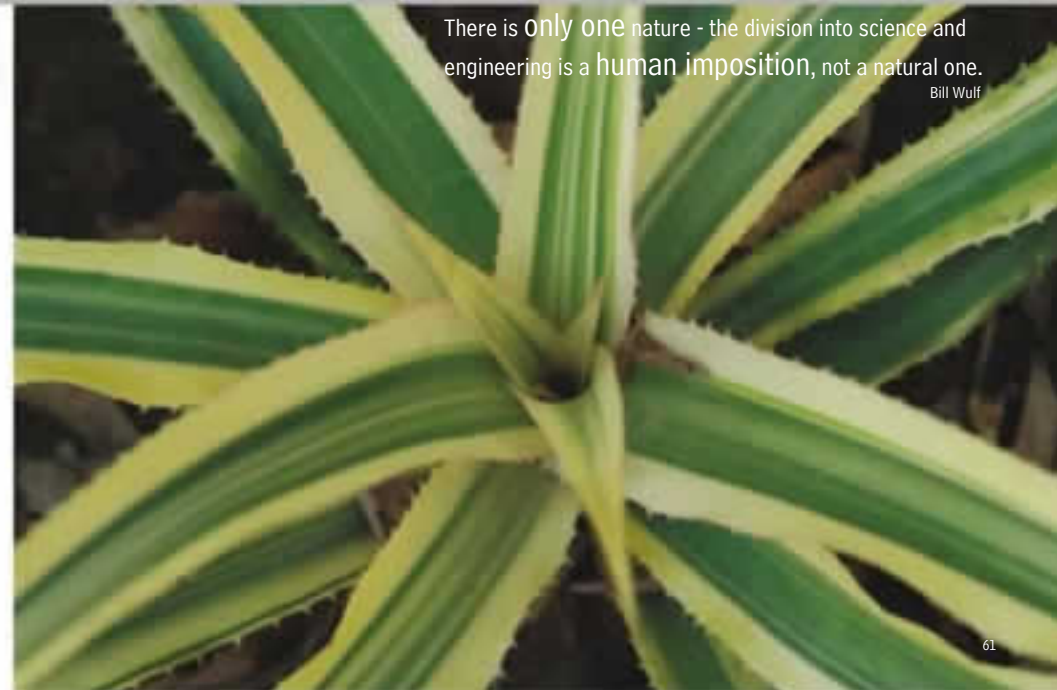
The Company's policy towards professionalism, quality consciousness and customer satisfaction has given it privilege of being the first fertilizer manufacturing organization to obtain ISO 9002:1994. It

has also got the ISO 9001:2000 quality management system certification.

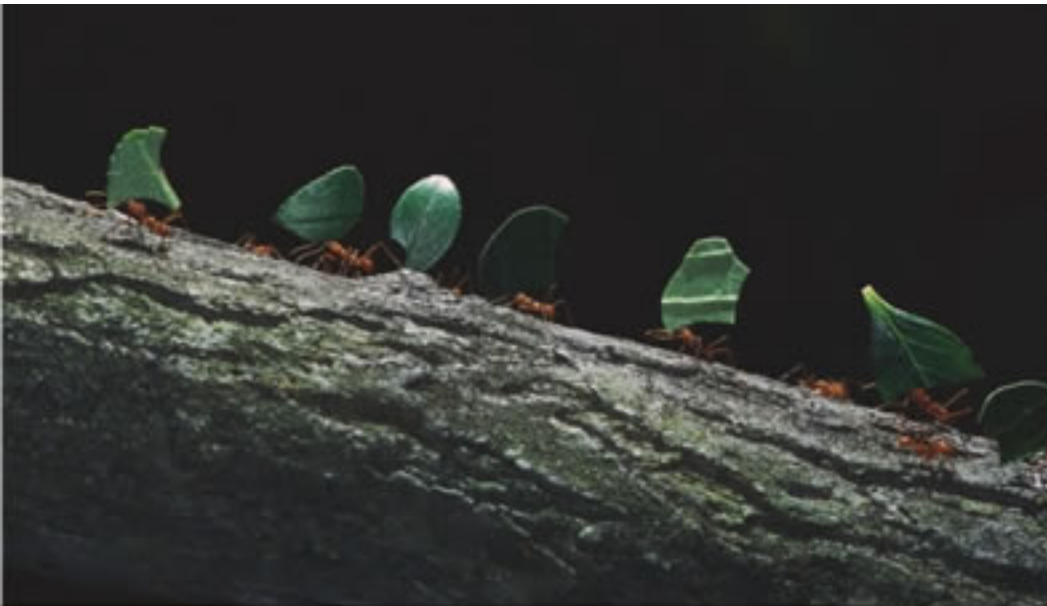
In order to meet the ISO-9001:2000 requirements for review of quality management system, Management Review Meetings are conducted on a regular basis. During the year under review, a total of ten Management Review Meetings have been conducted.

There is **only one** nature - the division into science and engineering is a **human imposition**, not a natural one.

Bill Wulf







Genius learns from nature, its own nature. Talent learns from art.

Oscar Wilde

## HUMAN RESOURCE MANAGEMENT

The Human Resource development and motivating its employees is one of the main objectives of the Company. Company's human resource processes and practices enable employees to reach their highest potential, and at the same time motivate them to achieve the performance levels and results required of a high performing organization.

Keeping its past practice, the Company conducted at all levels various training and skill development programs through out the year. These include the safety, financial and technical courses. In addition senior levels employees including Directors were also sent abroad with the purpose to equip themselves with modern knowledge and trends of the businesses.

In addition to catering for the development needs of our employees, Company trains young engineers, technicians and administrative personnel, which is completely institutionalized and has been proactive since 1975. The twenty-third batch which was inducted into the Graduate Engineers Training Program in June 2006 successfully completed its training during the year. On completion 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 429 engineers and 810 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.

### Improved HR systems

During the year, Dawood Hercules has implemented an improved version of its evaluation framework to make its systems more accurate and efficient. The new framework involves more employee participation and their continuous feedback. The effort is to enhance the value contributions from every member of the team. An IT integrated system will integrate measuring, building and improving the motivation levels of employees.

### A Vibrant Work Environment

We realize that our future, in today's competitive world, will be traced by the innovation, skill and ability of our people. For

us innovation is a team work which sprouts through better communication, collaboration and congenial work environment. In the same respect, we renovated our corporate head office during 2006. Lively hues, open workstations and multifunction teaming areas were built to add up to diversity and preserve our culture. A small gymnasium has also been provided after work hour's fitness exercise of employees.

The main theme of the new work environment at Dawood Hercules is interactivity. The office has been redesigned to cultivate more effective working relationship among the employees at all levels incorporating the modern thinking on innovative workplace practices: collaborative working, maximizing human performance, and employee mobility. The use of the furniture, space, and electronic technology is specifically incorporated to

stimulate collaboration, creativity and work efficiency. The new work environment supports teaming and collaboration through interaction linked by the movement of people, ideas, and information.

#### Employee 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. We realize that employees are our most valuable assets; therefore we ensure that every one of our employees enjoys the most accommodating work policies that we can offer.

In October 2006, a two year agreement was signed with the CBA. The affairs were discussed in very open and peaceful meetings

which led to the consensus contentedly accepted to both parties. The Company continues to enjoy this amiable relationship, and has never experienced any labour management dispute in its entire history.

#### Employees Welfare

The Company holds its annual sports festival to exhibit 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 its inception the Company has also assisted hundreds of employees to perform Hajj and Umrah through an annual Hajj draw ceremony. In 2006, 16 persons were selected to perform this sacred pilgrimage.



We have found that where science has progressed the **farthest**, the mind has but regained from nature that which the **mind** put into nature.

Sir Arthur Stanley Eddington



## OUTLOOK 2007

Dawood Hercules Chemicals Limited achieved its design capacity production of 445,500 metric tons of urea in 2006 for the first time since the 1<sup>st</sup> plant BMR in early 1990's. The main reason of not being able to attain this level has been shortage of gas supply. The Company has already experienced a 15 days plant shut down due to stoppage of gas supply during January 2007. In spite of this, however, we are hopeful of attaining the design capacity production during the year 2007.

Urea demand continues to be in excess of the production capacity in the country which will again necessitate the import of Urea during 2007. Accordingly, the Company is hopeful of selling its entire production for the year 2007. However, the local market is likely to become more competitive after the proposed new plants in the country come into production.

We are looking at these challenges as opportunities and are making necessary preparations to not only face them but to keep progressing and build your Company from strength to strength for the benefit of all the stakeholders. Studies are already underway to improve the energy efficiency of the Plant. Feasibility of further investment in capacity enhancement and/or diversification is also being looked into.





The safety record observed a landmark performance in 2006. The record is still active and improving every day. The management is determined to heighten our safety standards further during 2007.

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.

#### ACKNOWLEDGEMENT

The Company is fully appreciative of the dedication and commitment of its employees in all cadres and would like to thank them for their contribution in the progress made by the Company.

On behalf of the Board of Directors

HUSSAIN DAWOOD  
CHAIRMAN

## VISION AND MISSION

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

To offer consistent dividends to the shareholders.

To chalk out a plan to improve production techniques and quality standards.

To provide career grooming opportunities to the talented professionals.

To become a good corporate citizen.

To develop long-term relationship with the employees.

To create high performing organizational environment in which bright ideas are generated and nurtured.

To inculcate honest and ethical behaviour.

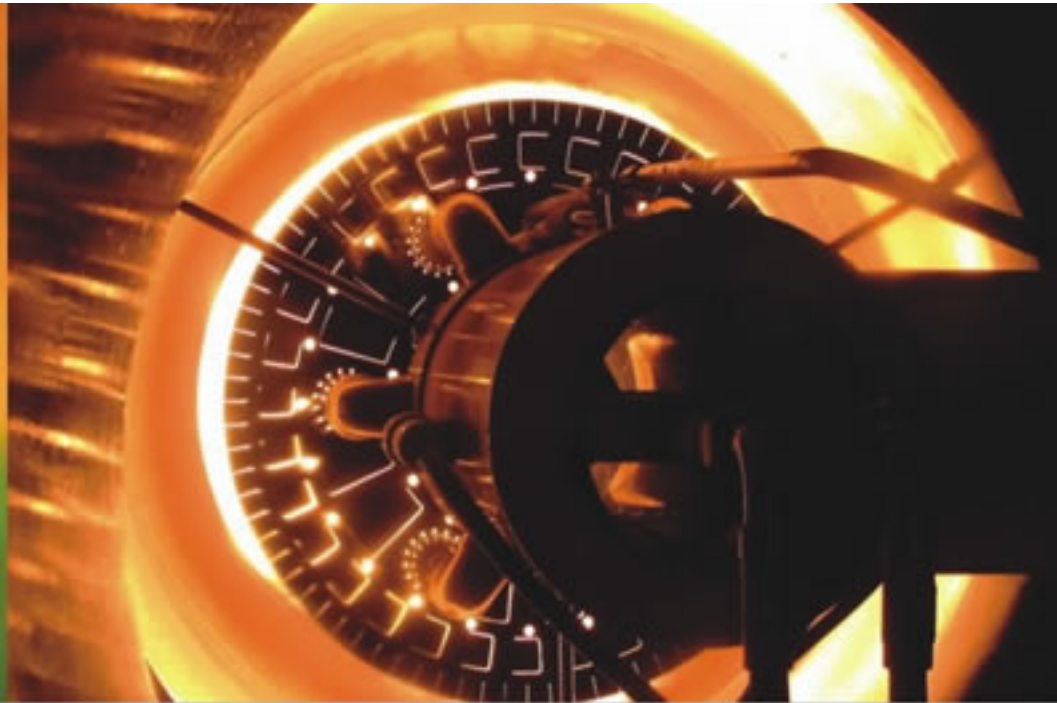
To create safe, healthy environment and friendly atmosphere for the employees.

To improve quality of life for the employees.



Look deep into nature, and then you will understand everything better.

Albert Einstein



## 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.

Nature teaches more than she preaches. There are no sermons in stones.  
It is easier to get a spark out of a stone than a moral.

John Burroughs



## FINANCIAL STATEMENTS

- Statement of Compliance with the Code of Corporate Governance
- Review Report to the Members on Statement of Compliance with the Best Practices of Code of Corporate Governance
- Auditors' Report to the Members



## Statement of Compliance with the Code of Corporate Governance

The 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 casual vacancy occurred in the Board during the year.
5. The Company has prepared a "Statement of Ethics and Business Practices", which has been signed by all the Directors and employees of the Company.
6. The Board has developed a vision/mission statement, which is annexed with the report. Significant policies of the Company are 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 approves appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.
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.

Lahore:  
January 16, 2007

Shahzada Dawood  
Chief Executive



## Review Report to the Members on Statement of Compliance With the 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 16, 2007

KPMG Taseer Hadi & Co.  
Chartered Accountants

## Auditors' Report to the Members

We have audited the annexed balance sheet of Dawood Hercules Chemicals Limited ("the Company") as at 31 December 2006 and the related profit and loss account, cash flow statement and statement of changes in equity, together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

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

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

- a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;
- b) in our opinion:
  - i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;
  - ii) the expenditure incurred during the year was for the purpose of the Company's business; and
  - iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;
- c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 31 December 2006 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 16, 2007

KPMG Taseer Hadi & Co.  
Chartered Accountants

# PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2006

	Note	2006 Rupees	2005 Rupees
Sales - net	3	3,881,749,695	3,290,547,342
Cost of goods sold	4	2,570,246,167	2,030,603,390
<b>Gross profit</b>		1,311,503,528	1,259,943,952
Selling and administrative expenses	5	236,129,083	202,522,869
<b>Operating profit</b>		1,075,374,445	1,057,421,083
Finance costs	6	555,469,279	258,059,216
Other income	7	1,047,260,406	1,775,777,364
		491,791,127	1,517,718,148
<b>Profit for the year</b>		1,567,165,572	2,575,139,231
Other operating expenses	8	70,508,258	56,501,043
Profit before taxation and share from Associate		1,496,657,314	2,518,638,188
Share of profit from Associate		1,092,926,538	1,049,326,198
<b>Profit before taxation</b>		2,589,583,852	3,567,964,386
Provision for taxation	9	212,200,000	332,600,000
Share of taxation from Associate		323,177,058	367,419,431
		535,377,058	700,019,431
<b>Profit after taxation</b>		2,054,206,794	2,867,944,955
<b>Earnings per share - basic and diluted</b>	26	24.79	34.61

The annexed notes 1 to 31 form an integral part of these financial statements.

Lahore  
January 16, 2007

Shahzada Dawood  
Chief Executive

A.G. Gohar  
Director

## BALANCE SHEET AS AT 31 DECEMBER 2006

	Note	2006 Rupees	2005 Rupees
<b>LIABILITIES</b>			
<b>SHARE CAPITAL AND RESERVES</b>			
<b>Authorized capital</b>			
100,000,000 ordinary shares of Rs. 10 each		1,000,000,000	1,000,000,000
Issued, subscribed and paid up capital	10	828,662,400	720,576,000
Revenue reserves		8,204,369,794	6,728,425,240
Fair value reserve on short term investments		240,111,684	1,906,238,414
		9,273,143,878	9,355,239,654
<b>NON CURRENT LIABILITIES</b>			
Deferred taxation	11	172,200,000	46,800,000
Staff retirement and other service benefits	12	45,693,082	40,299,079
		217,893,082	87,099,079
<b>CURRENT LIABILITIES</b>			
Short term financing - secured	13	5,924,514,565	2,334,900,269
Trade and other payables	14	490,446,012	631,691,242
Markup payable on secured loans		169,893,509	48,239,280
Provision for taxation		86,800,000	330,000,000
Contingencies and commitments	15	6,671,654,086	3,344,830,791
		16,162,691,046	12,787,169,524

The annexed notes 1 to 31 form an integral part of these financial statements.

## BALANCE SHEET AS AT 31 DECEMBER 2006

	Note	2006 Rupees	2005 Rupees
<b>ASSETS</b>			
<b>FIXED CAPITAL EXPENDITURE</b>			
Property, plant and equipment	16	1,271,931,809	462,099,854
Capital work in progress	17	75,442,444	228,199,667
		1,347,374,253	690,299,521
<b>INVESTMENT IN ASSOCIATE</b>	18	6,292,386,865	5,732,602,699
<b>LONG TERM LOANS AND ADVANCES</b>	19	12,799,615	643,810
<b>CURRENT ASSETS</b>			
Stores, spares and loose tools	20	759,952,372	646,509,899
Stock in trade	21	237,295,434	164,432,448
Trade debts		2,502,849	3,850,344
Loans, advances, deposits, prepayments and other receivables	22	298,706,918	402,983,667
Short term investments	23	7,155,378,175	4,746,928,000
Cash and bank balances	24	56,294,565	398,919,136
		8,510,130,313	6,363,623,494
		16,162,691,046	12,787,169,524

# CASH FLOW STATEMENT

For the year ended 31 December 2006

Note	2006 Rupees	2005 Rupees
<b>Cash flow from operating activities</b>		
<b>Profit before taxation</b>	2,589,583,852	3,567,964,386
Adjustment for non cash expenses and other items:		
Depreciation charged to profit and loss account	81,426,153	75,423,348
Finance costs	555,469,279	258,059,216
Profit on sale of fixed assets	(1,062,740)	(1,274,133)
Profit on sale of short term investments	(629,031,905)	(1,540,954,624)
Share of profit of associate	(1,092,926,538)	(1,049,326,198)
Liabilities no longer payable written back	(98,979,288)	-
Dividend income	(296,380,500)	(199,915,500)
Provision for staff retirement and other service benefits	20,273,909	9,755,509
Profit on time deposits	(1,733,302)	(28,113,550)
	(1,462,944,932)	(2,476,345,932)
<b>Profit before working capital changes</b>	1,126,638,920	1,091,618,454
<b>Working capital changes</b>		
(Increase)/decrease in current assets:		
Stocks, stores and spares	(186,305,459)	(177,854,277)
Trade debts	1,347,495	5,487,192
Loans, advances, deposits, prepayments and other receivables	47,363,496	(63,373,182)
Increase / (Decrease) in current liabilities:		
Trade and other payables	(40,405,885)	173,241,774
	(178,000,253)	(62,498,493)
<b>Cash generated from operations</b>	948,638,567	1,029,119,961
Finance costs paid	(433,815,050)	(237,610,319)
Taxes paid	(273,086,747)	(189,027,308)
Staff retirement and other service benefits paid	(14,879,906)	(11,965,221)
Decrease/(Increase) in long term loans and advances	(12,155,805)	11,035,400
<b>Net cash inflow from operating activities</b>	214,701,059	601,552,513
<b>Cash flow from investing activities</b>		
Fixed capital expenditure	(740,653,533)	(235,837,614)
Proceeds from sale of fixed assets	3,215,388	1,836,300
Profit on time deposits	1,733,302	28,113,550
Proceeds from disposal of investments	2,005,000,000	9,197,118,663
Investment in associated company	(466,589,440)	(3,607,376,182)
Short term investments	(5,450,545,000)	(5,534,383,284)
Dividends received	972,935,254	1,009,036,110
<b>Net cash (outflow)/inflow from investing activities</b>	(3,674,904,029)	858,507,543
<b>Cash flow from financing activities</b>		
Short term financing	3,589,614,296	(1,285,684,959)
Dividends paid	(472,035,897)	(848,010,640)
<b>Net cash inflow/(outflow) from financing activities</b>	3,117,578,399	(2,133,695,599)
<b>Net (decrease) in cash and cash equivalents</b>	(342,624,571)	(673,635,543)
<b>Cash and cash equivalents at the beginning of the year</b>	398,919,136	1,072,554,679
<b>Cash and cash equivalents at the end of the year</b>	56,294,565	398,919,136

The annexed notes 1 to 31 form an integral part of these financial statements.

Lahore  
January 16, 2007

Shahzada Dawood  
Chief Executive

A.G. Gohar  
Director

# STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2006

Share Capital	Revenue Reserves			Fair Value Reserve	Total	
	General Reserve	Unappropriated Profit	Total			
<b>Rupees</b>						
<b>Balance as at 31 December 2004</b>	720,576,000	700,000,000	3,917,085,085	4,617,085,085	2,496,420,510	7,834,081,595
Adjustment arising from measurement to fair value of investment	-	-	-	-	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)
Net expense recognised directly in equity	-	-	-	-	(590,182,096)	(590,182,096)
Net Profit for the year	-	-	2,867,944,955	2,867,944,955	-	2,867,944,955
Total recognised income and expenses for the period	-	-	2,867,944,955	2,867,944,955	(590,182,096)	2,277,762,859
Final dividend @ 45% for the year ended 2004	-	-	(324,259,200)	(324,259,200)	-	(324,259,200)
1st interim dividend @ 25% for the year ended 2005	-	-	(180,144,000)	(180,144,000)	-	(180,144,000)
2nd interim dividend @ 15% for the year ended 2005	-	-	(108,086,400)	(108,086,400)	-	(108,086,400)
3rd Interim dividend @ 20 % for the year ended 2005	-	-	(144,115,200)	(144,115,200)	-	(144,115,200)
	-	-	(756,604,800)	(756,604,800)	-	(756,604,800)
<b>Balance as at 31 December 2005</b>	720,576,000	700,000,000	6,028,425,240	6,728,425,240	1,906,238,414	9,355,239,654
Adjustment arising from measurement to fair value of investments	-	-	-	-	(1,097,555,730)	(1,097,555,730)
Fair value reserve transferred to profit and loss account on disposal of investments	-	-	-	-	(568,571,000)	(568,571,000)
Net expense recognised directly in equity	-	-	-	-	(1,666,126,730)	(1,666,126,730)
Net profit for the year	-	-	2,054,206,794	2,054,206,794	-	2,054,206,794
Total recognised income and expenses for the period	-	-	2,054,206,794	2,054,206,794	(1,666,126,730)	388,080,064
Final dividend @ 25% for the year ended 2005	-	-	(180,144,000)	(180,144,000)	-	(180,144,000)
Final bonus @ 15% for the year ended 2005	108,086,400	-	(108,086,400)	(108,086,400)	-	-
1st interim cash dividend @ 15% for the year ended 2006	-	-	(124,299,360)	(124,299,360)	-	(124,299,360)
2nd interim dividend @ 20% for the year ended 2006	-	-	(165,732,480)	(165,732,480)	-	(165,732,480)
	108,086,400	-	(578,262,240)	(578,262,240)	-	(470,175,840)
<b>Balance as at 31 December 2006</b>	828,662,400	700,000,000	7,504,369,794	8,204,369,794	240,111,684	9,273,143,878

The annexed notes 1 to 31 form an integral part of these financial statements.

Lahore  
January 16, 2007

Shahzada Dawood  
Chief Executive

A.G. Gohar  
Director

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

## 1. LEGAL STATUS AND NATURE OF BUSINESS

Dawood Hercules Chemicals Limited ("the Company") is a public limited company. It was incorporated in Pakistan in 1968 under the Companies Act 1913 (now 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 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.

### 2.2 Basis of Measurement

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 has been accounted for using the equity method, recognition of certain staff retirement benefits at present value and recognition of certain financial assets and liabilities at fair value.

### 2.3 Use of estimates and judgments

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

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

- Useful life of depreciable assets
- Staff retirement benefits
- Taxation
- Provisions and contingencies

### 2.4 Revenue recognition

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

Sales of products and services are recorded when the risks and rewards are transferred i.e. on delivery of goods/products to customers or performance of services.

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

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

## 2.5

### Staff retirement benefits

#### Gratuity

The Company operates approved funded gratuity schemes for its management and non-management staff.

The Company had maintained a defined contributory Gratuity Fund for its non-management staff up to 31 December 2005. During the year the Company has changed benefit plan for non management staff from defined contribution to defined benefit. Past service cost resulting from above change has been recognised immediately based on actuarial valuation.

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 recognises actuarial gains/losses over the expected future service of current members, based on the "minimum 10% corridor" approach recommended under IAS-19 "Employee Benefits". Valuation for the current year was carried out as at 31 December 2006 to determine the liability at the balance sheet date. Related details are given in note 12 to the financial statements.

#### Compensated absences

Liability for accumulated encashable leaves is arrived at on the basis of actuarial valuation. The actuary, for ascertaining the present value of liabilities under the scheme, has adopted the projected unit credit method.

The Company recognises actuarial gains/losses immediately. Valuation for the current year was carried out as at 31 December 2006 to determine the liability at the balance sheet date.

#### Other benefits

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.

## 2.6

### Fixed capital expenditure

#### Property, plant and equipment

These are stated at cost less accumulated depreciation and impairment loss, if any, except for land, which is 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.

Residual value and useful life of assets are reviewed at each financial year end.

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. Major renewals and improvements are capitalized when it is probable that respective future economic benefits will flow to the Company and the cost of the item can be measured reliably, and the assets so replaced, if any, are retired.

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

Gains and losses on disposals of property, plant and equipment, if any, are included in income.

#### Capital work-in-progress

Capital work-in-progress is stated at cost less identified impairment loss, if any.

### 2.7 Stocks, stores and spares

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

#### Stocks

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

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

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

### 2.8 Foreign currencies

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

All exchange differences are charged to profit and loss account.

### 2.9 Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax expense is recognized in profit and loss account except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

#### 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. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

#### Deferred

The Company accounts for deferred taxation using the balance sheet liability method, on all temporary 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 assets and liabilities are calculated at the rates that are expected to apply to the period when the asset is realized or the liability is settled based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

### 2.10 Investments

#### Investment in associate

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

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

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

Investments in associates other than those described above are classified as "available for sale".

#### Available for sale investments

Investments intended to be held for an unidentified period of time, which may be sold in response to need for liquidity or changes to interest rates, exchange rates or equity prices are classified as available for sale.

These are initially measured at cost, being fair value of the consideration given. Subsequent to initial recognition these are recognized at fair value 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.

### 2.11 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.

Significant financial assets include investments except for those accounted for under equity method, loans and advances and cash and bank balances. Significant financial liabilities include short term borrowing, trade and other payables and mark-up payable on borrowing.

**2.12 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 realise the asset and settle the liability simultaneously.

**2.13 Trade debts**

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

**2.14 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.

**2.15 Trade and other payables**

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

**2.16 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.

**2.17 Borrowing costs**

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

**2.18 Impairment**

The Company assesses at each balance sheet date whether there is any indication that assets, excluding inventory, deferred tax asset and investments accounted for under equity method, may be impaired. If such indication exists, the carrying value of such assets are 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.

**2.19 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.

**2.20 Dividend**

Dividend to the shareholders is recognized as a liability in the period in which it is approved.

**2.21 Standards, interpretations and amendments to published approved accounting standards that are yet not effective**

During the year International Accounting Standard Board has revised IAS-1, "Presentation of Financial Statements". The amendments impose additional requirements for Capital disclosures effective for financial period beginning on or after 01 January 2007.

Adoption of the above amendments would impact to the extent of disclosures only, presented in the future financial statements of the Company.

**3. SALES-NET**

	Note	2006 Rupees	2005 Rupees
Sales		4,333,920,696	3,712,152,932
Less: sales tax		452,171,001	421,605,590
		<u>3,881,749,695</u>	<u>3,290,547,342</u>

**4. COST OF GOODS SOLD**

	Note	2006 Rupees	2005 Rupees
Raw and packing materials consumed	4.1	1,095,028,600	942,322,497
Fuel and power		777,794,244	640,877,897
Catalysts and chemicals		32,780,083	18,572,291
Salaries, wages, benefits and staff welfare	4.2	352,273,291	305,746,616
Stores and spares consumed		158,674,708	95,799,073
Repairs and maintenance		99,166,907	19,717,718
Travel and conveyance		40,238,492	32,701,536
Rent, rates and taxes		2,359,257	2,331,807
Insurance		17,824,247	16,777,298
Depreciation	16.2	64,496,091	61,655,204
Communication, stationery and office supplies		3,889,767	3,949,867
Other expenses		2,753,074	2,374,218
		<u>2,647,278,761</u>	<u>2,142,826,022</u>

Add: Opening stock of work-in-process		12,182,512	12,508,716
Less: Closing stock of work-in-process		12,033,657	12,182,512
		148,855	326,204

Cost of goods manufactured		<u>2,647,427,616</u>	<u>2,143,152,226</u>
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Add: Opening stock of finished goods		142,465,497	29,916,661
Less: Closing stock of finished goods		219,646,946	142,465,497
		(77,181,449)	(112,548,836)
Cost of goods sold		<u>2,570,246,167</u>	<u>2,030,603,390</u>

**4.1 Raw and packing materials consumed**

Opening stock		9,784,439	25,754,112
Purchases		<u>1,090,858,992</u>	<u>926,352,824</u>
		1,100,643,431	952,106,936
Less: Closing stock		5,614,831	9,784,439
		<u>1,095,028,600</u>	<u>942,322,497</u>

4.2 Salaries, wages, benefits and staff welfare include Rs. 6.281 million (2005: Rs 5.490 million) in respect of contribution to staff gratuity funds and Rs. 11.161 million (2005: Rs 10.078 million) in respect of provident funds.

**5. SELLING AND ADMINISTRATIVE EXPENSES**

	Note	2006 Rupees	2005 Rupees
Salaries, wages, benefits and staff welfare	5.1	118,413,092	104,859,043
Communication, stationery and office supplies		29,913,561	19,634,010
Rent, rates and taxes		19,818,513	16,333,489
Travel and conveyance		21,401,824	17,111,689
Repairs and maintenance		14,937,467	12,561,069
Depreciation	16.2	16,930,062	13,768,144
Legal and professional charges		3,770,074	7,235,822
Sales promotion, advertising and market development		4,507,605	4,789,092
Insurance		688,780	693,189
Donations	5.2	31,500	702,700
Other expenses		5,716,605?	4,834,622
		<u>236,129,083</u>	<u>202,522,869</u>

- 5.1 Salaries, wages, benefits and staff welfare include Rs. 2.686 million (2005: Rs 2.488 million) in respect of contribution to staff gratuity funds and Rs. 5.314 million (2005: Rs 4.499 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	2006 Rupees	2005 Rupees
<b>6. FINANCE COSTS</b>			
Mark-up on short term financing		555,424,779	258,006,161
Interest on workers' profits participation fund	14.2	44,500	53,055
		<u>555,469,279</u>	<u>258,059,216</u>
<b>7. OTHER INCOME</b>			
Income from financial assets			
Profit on sale of short term investments		629,031,905	1,540,954,624
Dividend income		-	24,135,000
Income from time deposits		1,733,302	28,113,550
		<u>630,765,207</u>	<u>1,593,203,174</u>
Income from related parties			
Dividend income from			
Sui Northern Gas Pipelines Limited		296,380,500	175,780,500
Income from non-financial assets			
Sale of scrap		16,037,957	2,333,867
Profit on sale of property, plant and equipment		1,062,740	1,274,133
Liabilities no longer payable written back		98,979,288	-
Miscellaneous		4,034,714	3,185,690
		<u>120,114,699</u>	<u>6,793,690</u>
		<u>1,047,260,406</u>	<u>1,775,777,364</u>
<b>8. OTHER OPERATING EXPENSES</b>			
Workers' profits participation fund	14.2	25,968,258	39,940,043
Workers' welfare fund	14	44,000,000	16,000,000
Auditors' remuneration			
Audit fee		425,000	425,000
Half year review and other certifications		80,000	105,000
Out of pocket expenses		35,000	31,000
		<u>70,508,258</u>	<u>56,501,043</u>
<b>9. PROVISION FOR TAXATION</b>			
Current			
For the year		104,000,000	314,000,000
Prior period		(17,200,000)	16,000,000
Deferred		125,400,000	2,600,000
		<u>212,200,000</u>	<u>332,600,000</u>

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

		2006 %	2005 %
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 purposes		0.05	0.09
Tax effect of amount that relate to prior periods		(0.66)	0.45
Less: Tax effect of amounts exempt from tax		(9.64)	(15.12)
Tax effect of amount taxed at lower rate		(3.43)	(1.65)
Tax effect of associate		(0.66)	0.85
Average effective rate charged on income		<u>20.66</u>	<u>19.62</u>
10 Issued, subscribed and paid up capital			
	2006 Number of shares	2005 Number of shares	
	13,900,000	13,900,000	Ordinary shares of Rs 10 each fully paid in cash
	68,966,240	58,157,600	Ordinary shares of Rs 10 each issued as fully paid bonus shares
	<u>82,866,240</u>	<u>72,057,600</u>	
			2006 Rupees
			2005 Rupees
			139,000,000
			689,662,400
			<u>828,662,400</u>
			139,000,000
			581,576,000
			<u>720,576,000</u>
10.1 Reconciliation of Issued, subscribed and paid up capital		2006 (Number of shares)	2005 (Number of shares)
Outstanding as at 01 January		72,057,600	72,057,600
Fully paid bonus shares issued during the year		10,808,640	-
		<u>82,866,240</u>	<u>72,057,600</u>
10.2 Shares held by related parties		2006 (Number of shares)	2005 (Number of shares)
<b>Dawood Lawrencepur Limited</b>		13,418,027	11,667,850
Percentage of equity held 16.19% (2005: 16.19%)			
<b>Dawood Corporation (Private) Limited</b>		3,593,786	3,125,032
Percentage of equity held 4.34% (2005: 4.34%)			
<b>The Dawood Foundation</b>		3,273,415	2,846,448
Percentage of equity held 3.95% (2005: 3.95%)			
<b>Central Insurance Company Limited</b>		2,486,581	2,162,245
Percentage of equity held 3.00% (2005: 3.00%)			
<b>Patek (Private) Limited</b>		26,737	23,250
Percentage of equity held 0.032% (2005: 0.032%)			
<b>Sach International (Private) Limited</b>		1,205	1,048
Percentage of equity held 0.001% (2005: 0.001%)			
		<u>22,799,751</u>	<u>19,825,873</u>



**11. DEFERRED TAXATION**

Note	2006 Rupees	2005 Rupees
Deferred liability arising due to accelerated depreciation allowance	170,700,000	51,900,000
Deferred liability arising due to unrealized profits of associate	17,500,000	9,800,000
Deferred debits arising in respect of provision for gratuity and other timing differences	(16,000,000)	(14,900,000)
	<u>172,200,000</u>	<u>46,800,000</u>

**12. STAFF RETIREMENT AND OTHER SERVICE BENEFITS**

Defined benefit plan funded for management staff	12.1	215,607	11,951
Defined benefit plan funded for non-management staff	12.2	656,003	-
Compensated absences	12.4	44,821,472	40,287,128
		<u>45,693,082</u>	<u>40,299,079</u>

**12.1 Defined benefit plan funded for management staff**

Amounts recognized in the balance sheet are as follows:

Present value of defined benefit obligation	12.1.1	86,624,636	83,827,648
Fair value of plan assets	12.1.2	(76,475,907)	(79,168,843)
Unrecognized actuarial losses		(9,933,122)	(4,646,854)
Liability as at 31 December		<u>215,607</u>	<u>11,951</u>

Net liability as at 01 January		11,951	236,490
Charge to profit and loss account	12.1.3	6,062,697	5,634,273
Contribution by the company		(5,859,041)	(5,858,812)
Liability as at 31 December		<u>215,607</u>	<u>11,951</u>

**12.1.1 Movement in liability for defined benefit obligation**

Present value of defined benefit obligation as at 01 January	83,827,648	78,908,628
Current service cost	5,643,405	5,297,940
Interest cost	7,544,488	6,312,690
Benefits paid during the year	(13,529,960)	(5,801,181)
Actuarial (gain)/loss on present value of defined benefit obligation	3,139,055	(890,429)
Present value of defined benefit obligation as at 31 December	<u>86,624,636</u>	<u>83,827,648</u>

**12.1.2 Movement in fair value of plan assets**

Fair value of plan assets as at 01 January	79,168,843	74,907,260
Expected return on plan assets	7,125,196	5,992,581
Contribution paid during the period	5,859,041	5,858,812
Benefits paid during the period	(13,529,960)	(5,817,405)?
Actuarial gain/(loss) on plan assets	(2,147,213)	(1,772,405)
Fair value of plan assets as at 31 December	<u>76,475,907</u>	<u>79,168,843</u>

Plan assets consist of the following:

Term finance certificates of listed company	4,500,000	4,500,000
Funds placed under mark up arrangements with banks	71,975,907	74,668,843
	<u>76,475,907</u>	<u>79,168,843</u>

**12.1.3 Charge to profit and loss account**

	2006 Rupees	2005 Rupees
Current service cost	5,643,405	5,314,164
Interest cost	7,544,488	6,312,690
Expected return on plan assets	(7,125,196)	(5,992,581)
	<u>6,062,697</u>	<u>5,634,273</u>

**12.1.4** Actual return on plan assets of funded gratuity scheme was Rs. 4.978 million (2005: Rs. 4.220 million).**12.1.5 Historical Information**

	2006 Rupees	2005 Rupees	2004 Rupees	2003 Rupees	2002 Rupees
Present value of defined benefit obligation	86,624,636	83,827,648	78,908,628	74,514,461	66,233,629
Fair value of plan assets	(76,475,907)	(79,168,843)	(74,907,260)	(68,550,166)	(63,672,494)
Deficit in the plan	<u>10,148,729</u>	<u>4,658,805</u>	<u>4,001,368</u>	<u>5,964,295</u>	<u>2,561,135</u>
Experience adjustment arising on plan liabilities	3,139,055	(890,429)	(1,038,023)	619,179	429,435
Experience adjustment arising on plan assets	(2,147,213)	(1,772,405)	(1,830,016)	(370,979)	(1,243,516)

**12.1.6** The Company expects to pay Rs. 7.325 million in contributions to defined benefit plan in 2007.**12.2** Defined benefit plan funded for non-management staff

The Company had maintained a defined contributory Gratuity Fund for its non-management staff up to 31 December 2005. During the year the Company has changed benefit plan for non-management staff from defined contribution to defined benefit.

Amounts recognized in respect of defined contributory gratuity fund in balance sheet were as follows:	Note	2006 Rupees	2005 Rupees
Opening balance under defined contributory scheme		-	211,232
Expenses recognized		-	2,344,520
Payments made		-	(2,555,752)
Closing balance		<u>-</u>	<u>-</u>
Amounts recognized in respect of defined benefit plan during the year in balance sheet are as follows:			
Present value of defined benefit obligation	12.2.1	43,163,618	-
Fair value of plan assets	12.2.2	(42,507,615)	-
Unrecognized actuarial losses		-	-
Liability as at 31 December		<u>656,003</u>	<u>-</u>
Net liability as at 01 January		-	-
Charge to profit and loss account	12.2.3	2,904,736	-
Contribution by the Company		(2,248,733)	-
Liability as at 31 December		<u>656,003</u>	<u>-</u>

	2006 Rupees	2005 Rupees
<b>12.2.1 Movement in liability for defined benefit obligation</b>		
Present value of defined benefit obligation as at 01 January	-	-
Current service cost	-	-
Interest cost	-	-
Cost of defined contribution plan for the year	2,248,733	-
Liability transferred from defined contribution plan	44,045,860	-
Increase in present value of defined benefit obligation due to change in benefits from Defined Contribution to Defined Benefit	656,003	-
Benefits paid during the year	(3,786,978)	-
Present value of defined benefit obligation as at 31 December	43,163,618	-
<b>12.2.2 Movement in fair value of plan assets</b>		
Fair value of plan assets at 01 January	-	-
Expected return on plan assets	-	-
Assets transferred from defined contribution to defined benefit plan	44,045,860	-
Contribution paid during the period	2,248,733	-
Benefits paid during the period	(3,786,978)	-
Fair value of plan assets at 31 December	42,507,615	-
Plan assets consist of the following:		
Funds placed under mark up arrangements with banks	37,500,000	-
Cash at bank	5,007,615	-
	42,507,615	-
<b>12.2.3 Charge to profit and loss account</b>		
Current service cost	-	-
Interest cost	-	-
Cost of defined contribution plan for the year	2,248,733	-
Charge due to change in benefit type from defined benefit to defined contribution	656,003	-
Expected return on plan assets	-	-
	2,904,736	-
<b>12.2.4</b>	The Company expects to pay Rs. 2.359 million in contributions to defined benefit plan in 2007.	
<b>12.3</b>	Assumptions used for valuation of the defined benefit schemes for management and non-management staff are as under:	
	2006 % per annum	2005 % per annum
Discount rate	9	9
Expected rate of return on plan assets	9	8
Expected rate of increase in salary	8	8
Average expected remaining working life time of management and non-management employees is 9 years and 10 years respectively.		
<b>12.4 Compensated absences</b>	2006 Rupees	2005 Rupees
Opening balance	40,287,128	42,061,069
Expenses recognized	11,306,476	1,776,716
Payments made	(6,772,132)	(3,550,657)
Closing balance	44,821,472	40,287,128

**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. 9,300 million (2005: Rs 5,200 million) and expire on various dates latest by 31 May 2007, carrying mark-up rates of one to three months KIBOR plus 75-125 (2005: 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 2006 was Rs. 8,957 million (2005: Rs. 4,053 million).

**14. Trade and other payables**

	Note	2006 Rupees	2005 Rupees
Trade creditors			
Related parties		189,682,058	163,606,756
Others		28,692,284	96,258,158
		218,374,342	259,864,914
Advances from customer-related party		3,276,640	135,629,400
Unclaimed dividends		14,467,968	16,328,025
Accrued expenses		113,340,245	90,566,017
Sales tax payable		45,429,445	17,099,950
Deposits	14.1	16,583,313	16,046,438
Workers' profits participation fund	14.2	26,125,813	40,053,098
Workers' welfare fund		44,000,000	16,000,000
Accrued capital expenditure		-	2,950,558
Others		8,848,246	37,152,842
		490,446,012	631,691,242

**14.1** 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 (2005: Rs. 10 million) received from Dawood Corporation (Private) Limited, a related party, as deposit money under the urea sales agreement.

**14.2 Workers' profits participation fund**

	2006 Rupees	2005 Rupees
Balance at the beginning of the year	40,053,098	28,537,970
Add: Allocation for the year	25,968,258	39,940,043
Interest on funds used in the Company's business	44,500	53,055
	66,065,856	68,531,068
Less: Amount paid to the fund	39,940,043	28,477,970
	26,125,813	40,053,098

**15. Contingent liabilities and commitments****15.1 Contingent liabilities**

The Company is contingently liable for:

	2006 Rupees	2005 Rupees
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	45,811,747
Indemnity bonds given to Customs authorities equivalent to duties chargeable on import of machinery which shall be released on production of installation certificate from competent authority (contingent liability of capital nature)	1,650,770	1,650,770
Pending law suits	120,000	120,000
<b>15.2 Commitments</b>		
Commitments in respect of contracts for capital expenditure	-	240,679,727
Commitments in respect of store purchases	41,906,472	38,593,537

## 16. PROPERTY, PLANT AND EQUIPMENT

	COST			DEPRECIATION				Net book value as at 31 December 2006
	As at 01 January 2006	Additions	Disposals	As at 31 December 2006	As at 01 January 2006	For the year	As at 31 December 2006	
Freehold land	27,369,940	222,612,916	-	249,982,856	-	-	-	249,982,856
Buildings on freehold land	105,003,968	-	-	105,003,968	66,586,542	3,473,296	70,059,838	34,944,130
Railway siding	2,314,451	-	-	2,314,451	2,291,307	-	2,291,307	23,144
Plant and machinery	1,960,069,576	571,719,436	-	2,531,789,012	1,640,958,777	40,560,695	1,681,519,472	850,269,540
Catalysts	86,372,731	51,267,552	-	137,640,283	61,030,108	13,885,245	74,915,353	62,724,930
Furniture, fittings and equipment	43,807,432	2,690,657	-	46,498,089	36,306,815	1,783,256	38,090,071	8,408,018
Data processing equipment	78,635,937	15,242,265	129,000	93,749,202	62,181,919	11,106,603	10,749	73,277,773
Motor vehicles	70,105,499	29,877,930	7,144,541	92,838,888	42,224,212	10,617,058	5,110,144	47,731,126
2006	2,373,679,534	893,410,756	7,273,541	3,259,816,749	1,911,579,680	81,426,153	5,120,893	1,987,884,940
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

16.1 Cost of fully depreciated assets is (i.e. carried at 1% of cost) Rs. 1,717.317 million (2005: Rs. 1,672.211 million).

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

	Note	2006 Rupees	2005 Rupees
Cost of goods sold	4	64,496,091	61,655,204
Selling and administrative expenses	5	16,930,062	13,768,144
		<u>81,426,153</u>	<u>75,423,348</u>

### 16.3 Disposal of property, plant and equipment

Type of property, plant and equipment	Sold to	Original cost	Accumulated depreciation	Written down value	Sale proceeds	Mode of disposal
Rupees						
<b>Data processing equipment</b>						
26" LCD Television Make LG	Dawood Lawrencepur Ltd. (related party)	129,000	10,749	118,251	120,000	Negotiations
<b>Motor vehicles</b>						
Suzuki Mehran	Mr. S. Hassan Adnan	327,340	218,228	109,112	173,845	As per Company policy.
Honda City	Muhammad Aslam	738,270	627,529	110,741	301,460	As per Company policy.
Suzuki Mehran	Mr. Javed Hassan	330,558	159,770	170,788	202,513	As per Company policy.
Suzuki Mehran	Abdul Sattar	335,608	162,211	173,397	206,958	As per Company policy.
Suzuki Mehran	Central Insurance Company Ltd. (related party)	385,098	102,693	282,405	310,000	Insurance claim
Suzuki Cultus	Farrukh S. Bashir	565,663	254,548	311,115	388,893	As per Company policy.
Honda City	Ahmad Din	807,510	444,131	363,379	474,417	As per Company policy.
Honda Civic Vti	Maj Gen Retd. M. Mohsin	1,199,315	719,589	479,726	539,692	As per Company policy.
Aggregate of other items of property, plant and equipment with individual book values not exceeding Rs. 50,000		2,455,179	2,421,445	33,734	497,610	As per Company policy.
		<u>7,273,541</u>	<u>5,120,893</u>	<u>2,152,648</u>	<u>3,215,388</u>	

## 17. Capital work in progress

Plant and machinery  
Stores held for capital expenditure

Note

	2006 Rupees	2005 Rupees
Plant and machinery	75,442,444	119,848,937
Stores held for capital expenditure	-	108,350,730
	<u>75,442,444</u>	<u>228,199,667</u>

## 18. Investment in associate

Engro Chemical Pakistan Limited (ECPL)

58,323,686 (2005: 29,719,834) ordinary shares of Rs 10 each  
Cost of acquisition of 28,603,852 ordinary shares of Rs 10 each

Cost of 5,832,369 right shares acquired during the year

64,156,055 ordinary shares (2005: 58,323,686) of Rs 10 each  
Percentage of equity held - 38.13% (2005: 38.13%)

Share of post acquisition profits  
Less: Dividends received during the period

18.1 Fair value of investments in associate Rs. 10,842 million (2005: Rs. 9,591 million).

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

18.3 Summarized financial information of ECPL is as follows:

Total assets as at 30 September	17,142,531,000	14,788,967,000
Total liabilities as at 30 September	8,512,432,000	7,678,448,000
Revenue (12 months period from 01 October to 30 September)	18,814,025,000	16,128,823,000
Profit after taxation (12 months period from 01 October to 30 September)	<u>2,018,485,000</u>	<u>1,965,844,000</u>

19. Long term loans and advances - unsecured considered good

Executives	19.1, 19.3	588,080	141,640
Other employees	19.2	12,211,535	502,170
		<u>12,799,615</u>	<u>643,810</u>

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

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.

	Note	2006 Rupees	2005 Rupees
<b>19.3 Reconciliation of carrying amounts of loans to executives</b>			
Opening balance		1,346,495	860,655
Disbursement during the year		4,450,860	1,901,790
Promotion of non-executive employees as executives		670,225	413,405
Loan recovered during the year		(2,833,495)	(1,829,355)
Closing balance		3,634,085	1,346,495
Less: Current portion shown under current assets		3,046,005	1,204,855
		<u>588,080</u>	<u>141,640</u>
<b>19.4</b>	None of the loans are outstanding for periods exceeding three years.		
<b>19.5</b>	The maximum amount due from executives at any month end during the year was Rs. 3.634 million (2005: Rs. 2.087 million)		
<b>20. Stores, spares and loose tools</b>			
Stores		265,513,267	242,649,543
Spares		629,428,549	584,430,708
Loose tools		12,357,908	11,407,313
Stores and spares in transit		88,317,648	43,687,335
		995,617,372	882,174,899
Less: Provision for obsolete items		235,665,000	235,665,000
		<u>759,952,372</u>	<u>646,509,899</u>
<b>21. Stock in trade</b>			
Raw and packing materials?		5,614,831	9,784,439
Material in process		12,033,657	12,182,512
Finished goods		219,646,946	142,465,497
		<u>237,295,434</u>	<u>164,432,448</u>
<b>22. Loans, advances, deposits, prepayments and other receivables</b>			
These receivables are all unsecured and considered good:			
Advances to suppliers for goods and services	22.1	26,671,311	35,504,396
Advances and loans:			
Executives	22.3	3,046,005	1,204,855
Employees	22.3	22,239,367	16,418,446
Dividend receivable		-	203,820
Advance income tax		224,761,952	261,676,958
Income tax refund receivable		-	19,998,247
Short term prepayments		5,020,111	4,631,970
Deposits		2,683,991	2,590,991
Claims receivable from Government		-	1,292,892
Miscellaneous receivables		14,284,181	59,461,092?
		<u>298,706,918</u>	<u>402,983,667</u>
<b>22.1</b>	This includes due to associated undertaking Rs. 0.272 million (2005: Rs. Nil)		
<b>22.2</b>	Chief Executive and directors have not taken any loan/advance from the Company (2005: Rs. Nil).		
<b>22.3</b>	Advances and loans to executives and employees include Rs. 18.667 million (2005: Rs. 16.334 million) being current portion of the loans described under note 19 and the balance represents interest free advance.		

	Note	2006 Rupees	2005 Rupees
<b>23. Short term investments - available for sale</b>			
These comprise of fully paid ordinary shares of the following listed companies:			
Related parties - Quoted			
Sui Northern Gas Pipelines Limited			
108,672,850 (2005: 68,793,500) ordinary shares of Rs 10 each - at cost		6,796,835,201	2,722,258,296
Percentage of equity held: 19.20% (2005: 13.78%)			
Adjustment arising from measurement to fair value		321,236,474	1,955,699,704
		7,118,071,675	4,677,958,000
Others - Quoted			
Southern Electric Power Company Limited			
6,270,000 (2005: 6,270,000) ordinary shares of Rs 10 each - at cost		118,431,290	118,431,290
Percentage of equity held: below 10% (2005: below 10%)			
Adjustment arising from measurement to fair value		(81,124,790)	(49,461,290)
		37,306,500	68,970,000
		<u>7,155,378,175</u>	<u>4,746,928,000</u>
<b>24. Cash and bank balances</b>			
With banks:			
On current accounts		5,722,638	1,226,461
On saving accounts	24.1	50,217,181	397,443,791
		55,939,819	398,670,252
Cash in hand		354,746	248,884
		<u>56,294,565</u>	<u>398,919,136</u>
<b>24.1</b>	These carry mark up at the rate ranging from 4% to 5% per annum (2005: 0.5% to 2.5% per annum).		
<b>25. Remuneration of Chief Executive, Directors and Executives</b>			

	2006			2005		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
	Rupees					
Managerial remuneration	3,599,910	19,007,952	49,812,499	7,296,964	17,940,359	31,015,760
Retirement benefits	629,910	2,599,428	5,491,633	1,216,460	1,871,311	3,329,833
Rent and utilities	1,485,000	7,545,444	15,550,791	3,041,223	5,636,501	9,151,074
Leave fair assistance	-	422,360	-	-	177,565	-
Medical	-	346,944	1,426,532	33,250	333,838	1,135,296
	<u>5,714,820</u>	<u>29,922,128</u>	<u>72,281,455</u>	<u>11,587,897</u>	<u>25,959,574</u>	<u>44,631,963</u>
Number of employees	1	4	40	1	4	26

(Including those who worked part of the year).

Chief Executive, 4 directors (2005: 3) and 40 executives of the Company (2005: 26) are provided with free use of cars owned and maintained by the Company.

Meeting fees amounting to Rs.24,000 (2005: 37,000) were paid to 7 directors including Chief Executive (2005 : 7).

**26. Earnings per share****26.1 Basic and diluted**

		2006	2005
Profit after taxation	Rupees	2,054,206,794	2,867,944,955
Weighted average number of ordinary shares	Number of shares	82,866,240	82,866,240
Basic earnings per share (2005: Restated)	Rupees	24.79	34.61

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

**27. Financial instruments and related disclosures**

	Interest/markup bearing				Non-Interest/markup bearing				2006 Total Rupees	2005 Total Rupees
	Maturity upto one year	Maturity from one to five years	Maturity more than five years	Sub total	Maturity upto one year	Maturity from one to five years	Maturity more than five years	Sub total		
	Rupees									
<b>Financial assets</b>										
Short term investments	-	-	-	-	7,155,378,175	-	-	7,155,378,175	7,155,378,175	4,746,928,000
Loans and advances	-	-	-	-	18,667,445	12,799,615	-	31,467,060	31,467,060	18,267,111
Trade debts	-	-	-	-	2,502,849	-	-	2,502,849	2,502,849	3,850,343
Other receivables	-	-	-	-	-	-	-	-	-	14,461,092
Cash and bank balances	50,217,181	-	-	50,217,181	6,077,384	-	-	6,077,384	56,294,565	398,919,136
<b>2006</b>	<b>50,217,181</b>	<b>-</b>	<b>-</b>	<b>50,217,181</b>	<b>7,182,625,853</b>	<b>12,799,615</b>	<b>-</b>	<b>7,195,425,468</b>	<b>7,245,642,649</b>	<b>5,182,425,682</b>
<b>2005</b>	<b>397,443,791</b>	<b>-</b>	<b>-</b>	<b>397,443,791</b>	<b>4,784,338,081</b>	<b>643,810</b>	<b>-</b>	<b>4,784,981,891</b>	<b>5,182,425,682</b>	<b>-</b>
<b>Financial liabilities</b>										
Short term financing	5,924,514,565	-	-	5,924,514,565	-	-	-	-	5,924,514,565	2,334,900,269
Trade and other payables	-	-	-	-	365,030,801	-	-	365,030,801	365,030,801	416,842,466
Markup payable on secured loans	-	-	-	-	169,938,009	-	-	169,938,009	169,938,009	48,239,280
<b>2006</b>	<b>5,924,514,565</b>	<b>-</b>	<b>-</b>	<b>5,924,514,565</b>	<b>534,968,810</b>	<b>-</b>	<b>-</b>	<b>534,968,810</b>	<b>6,459,483,375</b>	<b>2,800,002,015</b>
<b>2005</b>	<b>2,334,900,269</b>	<b>-</b>	<b>-</b>	<b>2,334,900,269</b>	<b>465,101,746</b>	<b>-</b>	<b>-</b>	<b>465,101,746</b>	<b>2,800,002,015</b>	<b>-</b>

**27.1 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 receivable is minimal as the Company allows minimum credit.

**27.2 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 4% to 11.32% (2005: .5% to 9.5%) per annum.

**27.3 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.

**27.4 Fair value of financial assets and liabilities**

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

**28. Related party transactions**

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

	2006 Rupees	2005 Rupees
Associated companies		
Sale of goods and services	4,219,935,502	3,586,870,600
Purchase of goods and services	2,036,757,885	961,632,795
Dividend Income	972,935,254	733,417,360

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

**29. Production capacity**

As against the annual production capacity of 445,500 tons (2005: 445,500 tons) of urea fertilizer the plant produced 446,700 tons (2005: 428,783 tons) which was 100.27% (2005: 96.25%) of designed capacity.

**30. Post balance sheet events**

The Board of Directors at their meeting held on 16 January 2007 have proposed a final cash dividend @ Rs. 4.50 per share for the year ended 31 December 2006, amounting to Rs. 372.898 million for approval of the members at the Annual General Meeting to be held on 27 February 2007. The financial statements do not reflect this proposed dividend.

**31. General**

**31.1** These financial statements have been authorised for issue by the Board of Directors of the Company on 16 January 2007.

**31.2** Figures have been rounded off to the nearest rupee.

Lahore:  
January 16, 2007

Shahzada Dawood  
Chief Executive

A.G. Gohar  
Director

## PATTERN OF SHAREHOLDING AS AT 31 DECEMBER 2006

Disclosure Requirement under the  
Code of Corporate Governance

### (a) Details of holding on 31.12.2006:

<b>(1) Associated Companies, Undertakings and Related Parties</b>	
Dawood Lawrencepur Limited	13,418,027
Dawood Corporation (Pvt.) Limited	3,593,786
Central Insurance Company Limited	2,486,581
The Dawood Foundation	3,273,415
Patek (Pvt.) Limited	26,737
Sach International (Pvt.) Limited	1,205
<b>(2) NIT &amp; ICP</b>	
National Bank of Pakistan, Trustee Department	411,737
Investment Corporation of Pakistan	160
<b>(3) Directors &amp; CEO (including holding of their spouses &amp; minor children)</b>	
Mr. Hussain Dawood - Chairman	5,737,751
Mr. Shahzada Dawood - CEO	850,173
Mr. A. Samad Dawood	850,466
Mr. Haroon Mahenti	296
Khawaja Amanullah	3
Mr. Abdul Ghafoor Gohar	3
Syed Muhammad Asghar	1
<b>(4) Executives</b>	230
<b>(5) Public Sector Companies and Corporations</b>	-
<b>(6) Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas &amp; Mutual Funds</b>	17,175,087
<b>(7) Shareholders holding ten percent or more shares</b>	
Faisal Finance S.A.	11,476,080
Dawood Lawrencepur Limited	13,418,027

(b) There was no trading/movement during the year 2006 in shares held by Directors/CFD/Company Secretary and their spouses & minor children except the receipt of 15% bonus shares distributed by the Company.

## PATTERN OF SHAREHOLDING AS AT 31 DECEMBER 2006

Category-Wise  
Category-Wise

Categories of Shareholders	Number of Shareholders	Total Shares Held	Percentage
Individuals	2,098	11,916,782	14.38
Joint Stock Companies	22	50,286,228	60.68
Financial Institutions	13	12,038,540	14.53
Insurance Companies	7	4,982,647	6.01
Investment Companies	2	4,978	0.01
Educational/Charitable Institutions	5	3,472,730	4.19
Modaraba	1	600	0.00
Mutual Funds	3	153,300	0.19
The Administrator, Abandoned Properties, Government of Pakistan	1	10,432	0.01
Securities & Exchange Commission of Pakistan	1	3	0.00
	2,153	82,866,240	100.00

# PATTERN OF SHAREHOLDING

As at 31 December 2006

Shareholding Range		Number of Shareholders	Total Shares Held
From	To		
1	100	358	16,256
101	500	1,193	344,160
501	1,000	261	178,950
1,001	5,000	244	517,809
5,001	10,000	36	251,387
10,001	15,000	9	102,387
15,001	20,000	11?	195,047
20,001	25,000	2	43,565
25,001	30,000	4	111,986
30,001	35,000	1	33,980
35,001	40,000	1	36,156
55,001	60,000	2	117,136
65,001	70,000	1	68,540
70,001	75,000	2	150,000
110,001	115,000	1	110,023
115,001	120,000	2	237,215
125,001	130,000	2	256,577
145,001	150,000	1	149,735
160,001	165,000	1	161,000
205,001	210,000	1	209,747
330,001	335,000	1	333,849
410,001	415,000	2	823,087
850,001	855,000	4	3,402,691
1,030,001	1,035,000	1	1,034,337
2,030,001	2,035,000	1	2,032,506
2,485,001	2,490,000	1	2,486,581
3,270,001	3,275,000	1	3,273,415
3,590,001	3,595,000	1	3,593,786
4,550,001	4,555,000	1	4,553,729
6,235,001	6,240,000	2	12,479,616
6,605,001	6,610,000	2	13,214,880
7,450,001	7,455,000	1	7,452,000
11,475,001	11,480,000	1	11,476,080
13,415,001	13,420,000	1	13,418,027
		<b>2,153</b>	<b>82,866,240</b>



## DAWOOD HERCULES CHEMICALS LIMITED

### PROXY FORM

I/We \_\_\_\_\_  
of \_\_\_\_\_ being a member of Dawood Hercules Chemicals Limited and holder of \_\_\_\_\_  
Ordinary Shares, as per:  
Share Register Folio No. \_\_\_\_\_ and/or  
CDC Participant ID No. \_\_\_\_\_ Sub A/c No. \_\_\_\_\_,  
hereby appoint Mr./Ms. \_\_\_\_\_ of  
\_\_\_\_\_, another member of the Company\* (or failing him Mr./Ms. \_\_\_\_\_  
of \_\_\_\_\_, another member of the Company\*) as my/our proxy to attend, speak and vote for me/us  
and on my/our behalf, at the Thirty-ninth Annual General Meeting of the Company to be held on Tuesday, 27 February 2007  
at the Company's Registered Office at 35-A, Shahrah-e-Abdul Hameed Bin Baadees (Empress Road), Lahore, and at any  
adjournment thereof.  
Signed this \_\_\_\_\_ day of \_\_\_\_\_ 2007

#### WITNESSES:

1. Signature: \_\_\_\_\_  
Name: \_\_\_\_\_  
Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
CNIC No. or  
Passport No. \_\_\_\_\_

2. Signature: \_\_\_\_\_  
Name: \_\_\_\_\_  
Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
CNIC No. or  
Passport No. \_\_\_\_\_

Signature on  
Revenue Stamps  
of Rupees Five

Signature should agree with the  
specimen signature with the Company.

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

#### IMPORTANT:

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

AFFIX  
CORRECT  
POSTAGE

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



For Comments and feedback  
[creativeunit@dawoodgroup.com](mailto:creativeunit@dawoodgroup.com)

INSPIRATION FROM NATURE TAKING



**DAWOOD HERCULES CHEMICALS LIMITED**

**MANUFACTURERS OF RUBBER-SHET UREA**

25-A, Shaikh-e-Akmal Hamud Bin Basim (Empress Road), Lahore.  
Tel: +92 42 6301821-07 Fax: +92 42 6364216, 6362343  
E-mail: info.dh@dawoodgroup.com Website: www.dawoodhercules.com