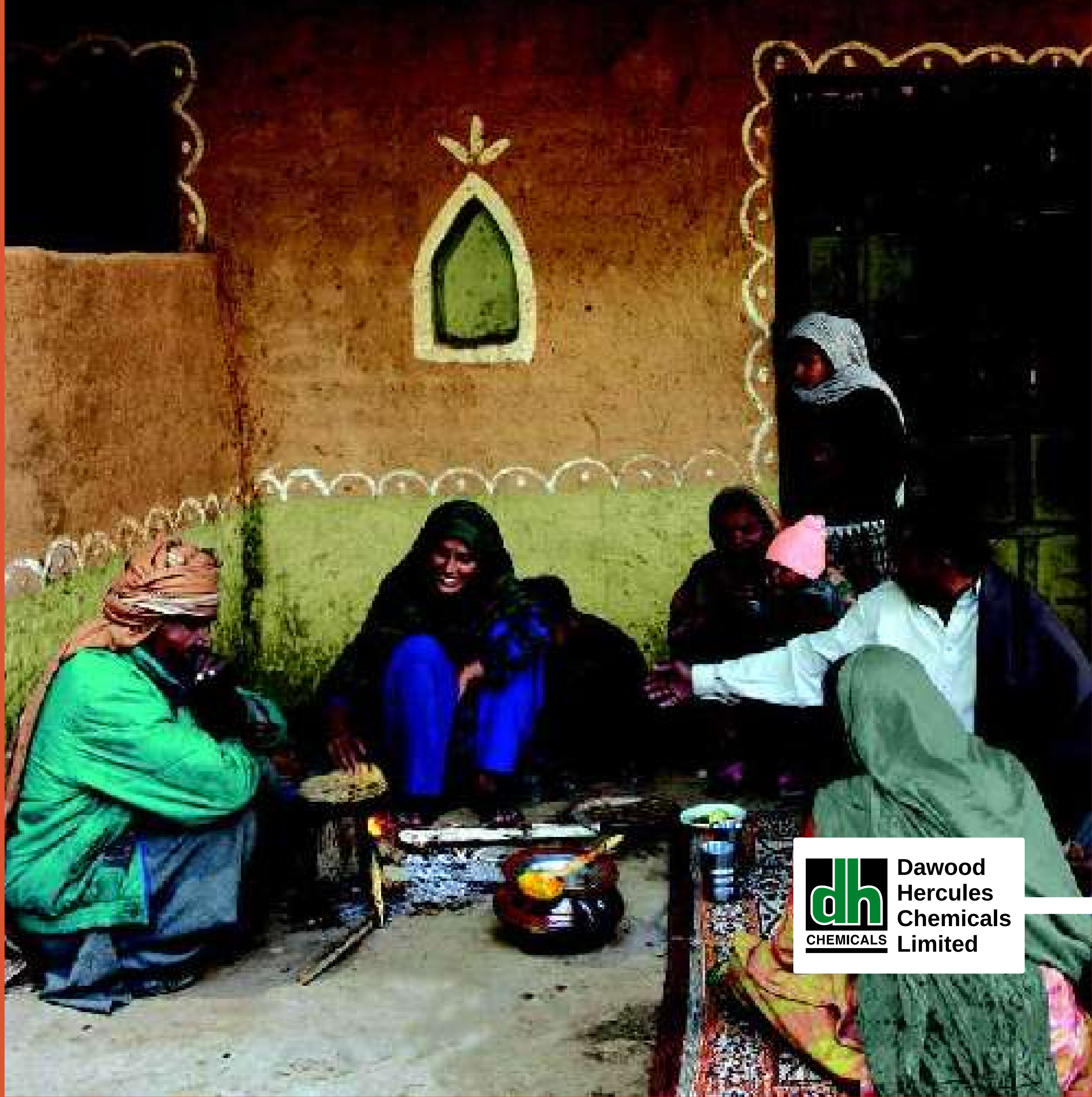
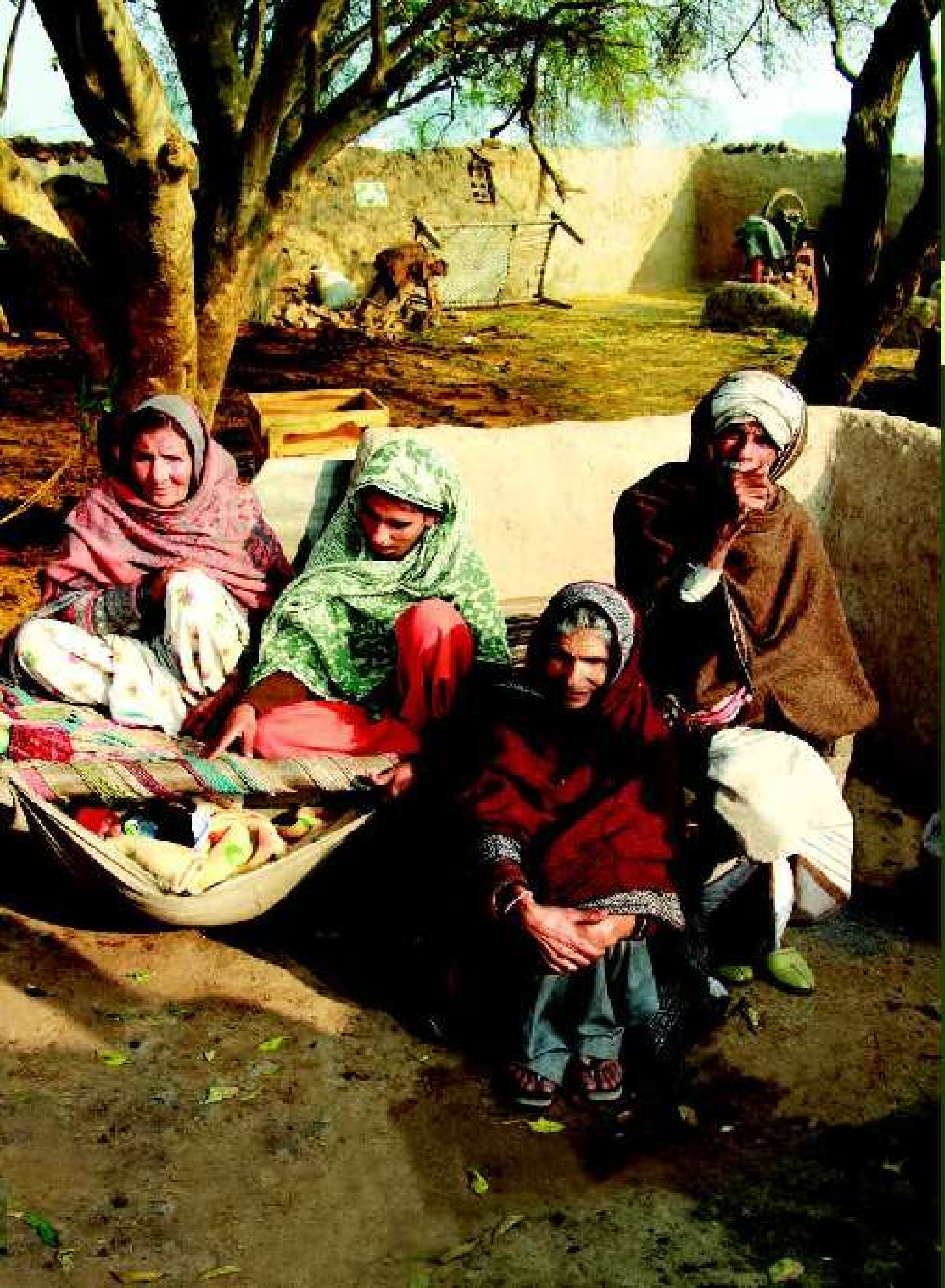
DAWOOD HERCULES CHEMICALS LIMITED
Manufacturers of Bubber Sher Urea

35-A, Shahrah-e-Abdul Hameed Bin Baadees
(Empress Road), Lahore-54000
Tel: +92 42 6301601 - 07 Fax: +92 42 6360343, 6364316
E-mail: info.dh@dawoodgroup.com
Website: www.dawoodhercules.com

# Annual Report 2007



Dawood
Hercules
Chemicals
Limited



# A few home truths...

This year Dawood Hercules highlights and pays tribute to the constitution of the family, and brings to the fore the families of the farmers, the employees and the corporate as the concept extends to the very notion of nationhood in Pakistan. It is the family that holds Pakistanis together, even those who have immigrated to other countries. It is the quom, the biraderi that inculcates a sense of identity, and this broadens into the belief of brotherhood that is pivotal to the religion of Islam as well as the other religions of the Book.

This perspective of nationalism is in consonance with the Chinese philosopher Confucius who asserted that “the strength of a nation derives from the integrity of the home”. In any given society, a family unit forms the foundation of socialisation and enculturation. Families are therefore fundamental to social cohesion, discipline and perpetuation of all aspects of culture, including religion, law, history and tradition. Moreover, families are a source of love, trust, sharing and protection and thus act as the gluing agents that bind social structures in communities. Not surprisingly, families often figure at the basis of different types of organisations and structures, be it businesses, monarchies, sainthood or heads of states. Many perceive families and family-run structures to be patriarchal, parochial, archaic, and the antithesis of professionalism and modernity, but in the world of business, family-owned businesses present a contradictory reality. Such family-controlled enterprises constitute the majority of businesses in the world. A whopping 80-90% of businesses in America are family-owned, while 75% of businesses in Britain are considered to be family firms. There are many multinational family-controlled businesses, notably, L'Oreal, Benetton, Siemens, Ikea and Kikkoman.

So what makes family businesses so popular and in many cases successful globally? The answer is that it is the mixture of commitment, loyalty, integrity, a legacy to look up to, a sense of shared identity with the name/business and most importantly emotionality...qualities that are farmed out from the hearth and home into the world at large.

# Performance Highlights

## KEY FIGURES

497,940 ▲12%
Production (Tons)

1,862 ▲42%
Gross Profit (Million Rs.)

112 ▲12%
Capacity Utilization (%)

1,572 ▲46%
Operating Profit (Million Rs.)

508,540 ▲16%
Urea Sales (Tons)

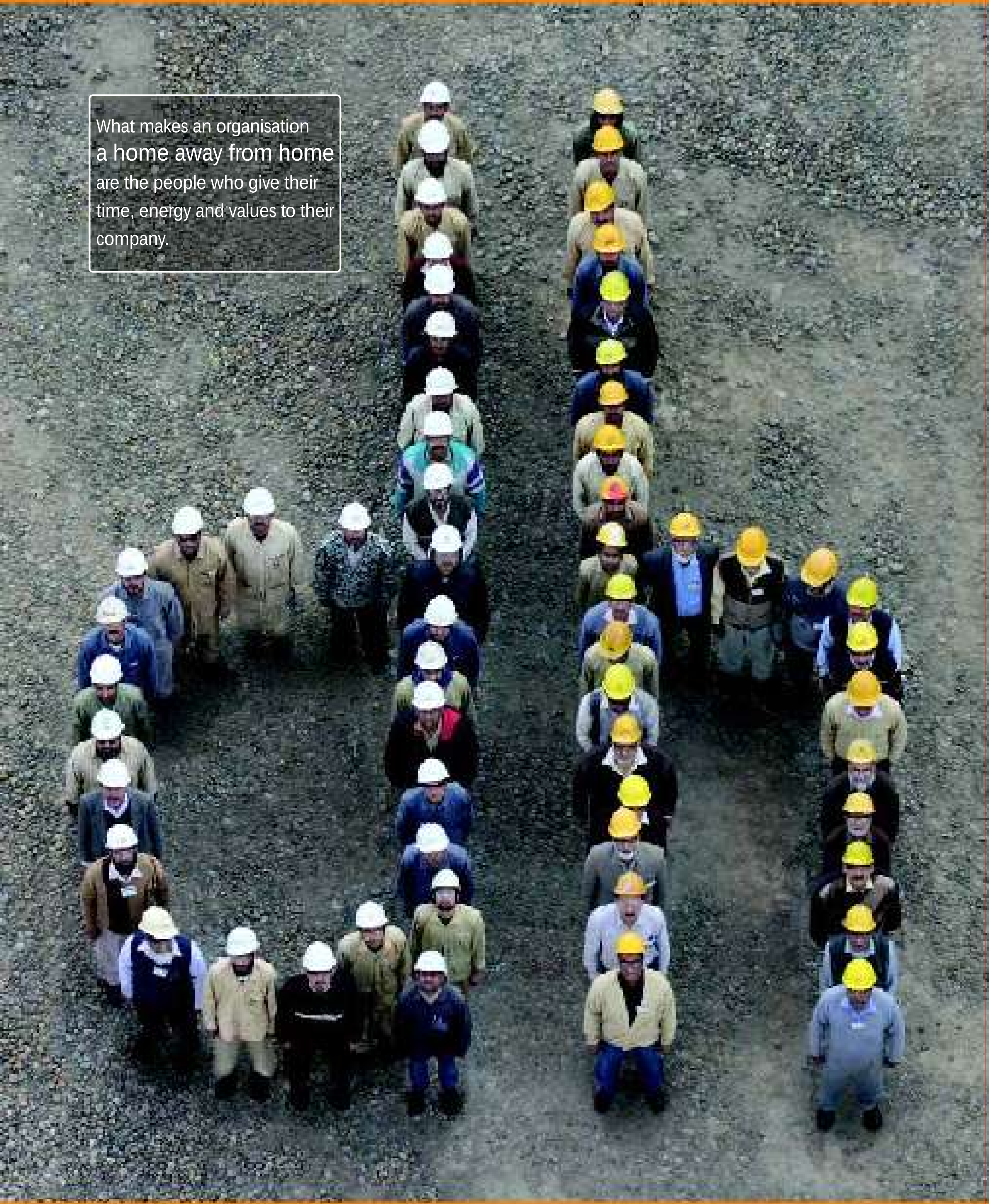
5,011 ▲29%
Sales (Million Rs.)

## KEY EVENTS

- Capacity utilization of 112%, the highest record in the Company's history.
- A record breaking year, setting new standards in Sales, Production, Capacity Utilization, Capital Gains and Earnings Per Share.
- Conversion from interest-based financing to Islamic financing.
- ICAP and ICMAP award for the second best annual report in the chemical and fertilizer sector.
- Market share of Urea expanded by 2%.
- For the second consecutive year received the KSE Top 25 Companies Award for 2006.

“Its all in the Family”

## Contents



What makes an organisation
a home away from home
are the people who give their
time, energy and values to their
company.

Dear Stakeholder,

The role of a business has changed in the past decade. An organisation is not just about making profits and projecting operational and financial performance. Companies have evolved into multidimensional entities that possess distinctive personas which need to present more than operational values. They are now required to manifest ethical and civic facets, and must be aware of their impact in all aspects, be it environmental, social, economic, communal, global... and the list goes on. Thus a corporation now stands as an individual and is perceived by society as such.

These changes in the evaluation of businesses are determined by the company's stakeholders, who want to know more about their organisation and how it runs its operations, along with what it does as a corporate 'citizen'. We consider everyone who is involved directly or indirectly with us as a stakeholder, each with varying degrees of interests in our business; to whom we are obligated to in diverging ways. It is this responsibility or corporate duty that we feel has propelled us to constantly review and improve our processes and continuously energizes us to tackle new challenges in through new means that contribute to the benefit of everyone.

# Company Information

## Board of Directors

**Hussain Dawood**
Chairman

Hussain Dawood is the Chairman of Dawood Hercules Chemicals Limited, Engro Chemical Pakistan Limited, Central Insurance Company, Pakistan Poverty Alleviation Fund and Dawood Foundation. He serves as a director of Sui Northern Gas Pipelines Limited and Shell. He is a member of the World Economic Forum and Pakistan Business Council. He is also Honorary Consul of Italy in Lahore.

**Shahzada Dawood**
Chief Executive

Shahzada Dawood is a director on the boards of Dawood Hercules Chemicals Limited, Dawood Lawrencepur Limited and Central Insurance Company Limited. He is also a director on the boards of Engro Chemical Pakistan Limited and its associated companies, Sui Northern Gas Pipelines Limited and a Member of the National Management Foundation (LUMS).

**Khawaja Amanullah**

He holds an Honours Degree in Literature. His lifelong association with The Dawood Group extends over a period of five decades during which he has served with most companies of the Group in various capacities.

**S.M.Asghar**

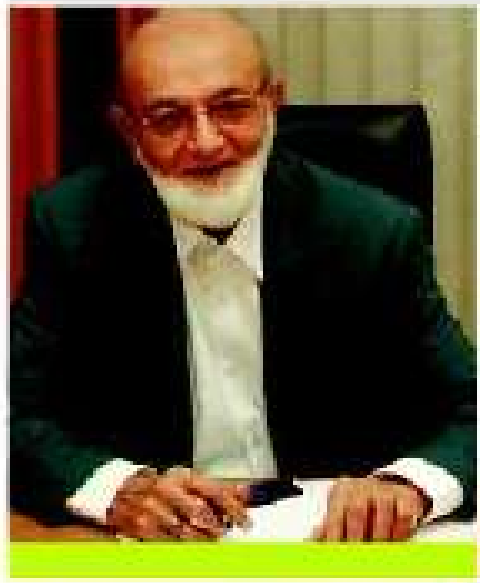
Director of Dawood Hercules Chemicals Limited since 1999. He is also on the Board of Sui Northern Gas Pipelines Limited. Mr. Asghar has over 35 years industrial experience in finance, taxation, legal and corporate affairs. An accountant by profession, is Member of the Institute of Chartered Accountants of Pakistan as well as the Institute of Cost and Management Accountants of Pakistan.

**A. Samad Dawood**

A Graduate in Economics from University College London UK. He is a Certified Director of Corporate Governance from Pakistan Institute of Corporate Governance. He is one of the directors of ABL Asset Management, Central Insurance Company Limited and an independent director of Pakistan Refinery Limited. He is also the Chief Executive Officer of the Dawood Corporation (Pvt.) Limited.

**Abdul Ghafoor Gohar**
Executive Director

Mr. Gohar Joined PIDC - National Gas Fertilizer Factory, in 1958 as Assistant Process Engineer at Daudkhel. He received specialized training in fertilizer industry in France, Switzerland and Italy and worked at PAFL and NGFF till 1970. He joined Dawood Hercules thereafter and worked in various capacities including Assistant Plant Manager, on BMR at Kelogg's office in London, G.M. DAHEG, Director Operations, Director Projects and is presently Executive Director.



**Haroon Mahenti**

Mr. Mahenti, is also a director of Central Insurance Company and Dawood Lawrencepur Limited. He has been associated with The Dawood Group for the last 48 years, during which period he has managed a number of companies and trading activities.

Mr. Mahenti has attended various Advance Management Courses and possesses a rich experience in the field of Financial Management including portfolio management and banking.

**Aftab Ahmed Qaiser**
Company Secretary
qaiser@dawoodgroup.com

Mr. Aftab Ahmed Qaiser signed up with the Dawood Group in 1978 and has worked in the Group's textile Companies in various capacities. He joined Dawood Hercules Chemicals Limited in 2002 as General Manager Finance. At present he is the Company Secretary.

He is a qualified Chartered Accountant from the Institute of Chartered Accountants in England and Wales in the year 1977.

He completed his articles from Ben-I-Freedman & Co, Chartered Accountants Cardiff (UK).

**Gulzar Saleem**
Chief Financial Officer
gulzar@dawoodgroup.com

Fellow member of the Institute of Chartered Accountants of Pakistan having more than 17 years experience of managing Corporate Planning, Treasury, Insurance, Taxation, Secretarial Practices, Accounting and Auditing in various Industries. He joined Dawood Hercules Chemicals Limited in March 1998.

## Board Audit Committee

S.M. Asghar
Chairman

A. Samad Dawood
Member

Haroon Mahenti
Member

## Senior General Manager Projects

Muhammad Aslam
E-mail:maslam@dawoodgroup.com

## Chief Internal Auditor

Syed Ahmad Ashraf
E-mail:ahmadashraf@dawoodgroup.com

## Human Resources Manager

Khawaja Ahmed Arsalan
E-mail:arsalan@dawoodgroup.com

## Commercial Manager

Ch. Abdul Mughni
E-mail:mughni@dawoodgroup.com

## Information Technology Manager

Ashraf R. Karimi
E-mail:arkarimi@dawoodgroup.com

## General Manager Plant

Ahmad Din
E-mail: ahmaddin@dawoodgroup.com

## Registered Office

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

## Plant

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

## Bankers

Bank Al-Habib Limited
Faysal Bank Limited
Habib Bank Limited
Habib Metropolitan Bank Limited
MCB Bank Limited
Allied Bank Limited
United Bank Limited
Meezan Bank Limited
Emirates Global Islamic Bank Limited

## Tax Consultants

UHY Hassan Naeem & Company
Chartered Accountants

193-A, Shah Jamal Lahore - 54000
Tel: +92 (42) 7599938, 7599948
Fax: +92 (42) 7599740

Info@uhy-hnco.com

## Auditors

KPMG Taseer Hadi & Co.
Chartered Accountants

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

Website: www.kpmg.com.pk

## Legal Advisors

Hassan & Hassan
Advocates

PAAF Building,
7D Kashmir Egerton Road,
Lahore, Pakistan
Tel: +92 (42) 6360800-03
Fax: +92 (42) 6360811-12

Website: www.hnh.com.pk

# Operating Highlights

Each prill, each sack is the
brain child of a collective effort.

| Sr.# | PARTICULARS | UNIT | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | INCOME STATEMENT | | | | | | | | | | | |
| 1 | Sales Value | Rs. in Million | 5,011 | 3,882 | 3,291 | 2,699 | 2,983 | 2,810 | 2,851 | 2,886 | 2,215 | 2,767 |
| 2 | Gross Profit | Rs. in Million | 1,862 | 1,312 | 1,260 | 818 | 1,060 | 1,010 | 745 | 970 | 623 | 1,242 |
| 3 | Operating Profit | Rs. in Million | 1,572 | 1,075 | 1,057 | 653 | 888 | 886 | 605 | 842 | 504 | 1,147 |
| 4 | Profit Before Taxation | Rs. in Million | 11,126 | 2,590 | 3,568 | 1,726 | 1,686 | 1,131 | 823 | 1,057 | 819 | 1,329 |
| 5 | Profit After Taxation | Rs. in Million | 10,134 | 2,054 | 2,868 | 1,240 | 1,379 | 793 | 595 | 764 | 622 | 928 |
| | DIVIDEND | | | | | | | | | | | |
| 6 | Cash Dividend | % | 30 | 80 | 85 | 105 | 100 | 95 | 100 | 100 | 100 | 80 |
| 7 | Stock Dividend | % | 20 | Nil | 15 | Nil | Nil | 50 | 20 | Nil | Nil | 20 |
| | BALANCE SHEET | | | | | | | | | | | |
| 8 | Total Assets Employed | Rs. in Million | 29,223 | 16,163 | 12,787 | 12,300 | 9,403 | 5,089 | 4,380 | 4,197 | 4,083 | 3,841 |
| 9 | Current Assets | Rs. in Million | 11,237 | 8,510 | 6,364 | 9,757 | 6,180 | 2,267 | 2,111 | 1,902 | 1,716 | 3,247 |
| 10 | Current Liabilities | Rs. in Million | 3,573 | 6,672 | 3,345 | 4,379 | 2,994 | 520 | 758 | 698 | 963 | 935 |
| 11 | Paid Up Capital | Rs. in Million | 829 | 829 | 721 | 721 | 721 | 480 | 480 | 400 | 400 | 400 |
| 12 | Shareholders' Equity with FVR | Rs. in Million | 18,889 | 9,273 | 9,355 | 7,834 | 6,365 | 4,490 | 3,535 | 3,420 | 3,056 | 2,834 |
| 13 | No. of Ordinary Shares | Million | 82.87 | 82.87 | 72.06 | 72.06 | 72.06 | 48.04 | 48.04 | 40.00 | 40.00 | 40.00 |
| | RATIO ANALYSIS | | | | | | | | | | | |
| 14 | Gross Profit | % | 37 | 34 | 38 | 30 | 36 | 36 | 26 | 34 | 28 | 45 |
| 15 | Earnings Per Share | Rs. | 122.30 | 24.79 | 34.61 | 17.21 | 19.13 | 11.01 | 12.39 | 19.10 | 15.55 | 23.19 |
| 16 | Inventory Turnover | Time | 5.70 | 12.80 | 17.46 | 21.90 | 17.08 | 14.18 | 12.96 | 8.25 | 9.38 | 17.32 |
| 17 | Age of Inventory | Days | 64.04 | 28.52 | 20.91 | 16.67 | 21.38 | 25.74 | 28.16 | 44.25 | 38.92 | 21.07 |
| 18 | Debtors Turnover | Time | 1,383.24 | 1,221.98 | 499.03 | 364.09 | 475.90 | 384.43 | 342.46 | 302.98 | 209.98 | 57.60 |
| 19 | Average Collection Period | Days | 0.26 | 0.30 | 0.73 | 1.00 | 0.77 | 0.95 | 1.07 | 1.20 | 1.74 | 6.34 |
| 20 | Total Assets Turnover | % | 17.15 | 24.02 | 25.73 | 21.94 | 31.73 | 55.22 | 65.08 | 68.76 | 54.26 | 72.04 |
| 21 | Fixed Assets Turnover | % | 421.57 | 305.19 | 712.09 | 526.37 | 983.23 | 842.59 | 713.38 | 689.60 | 453.06 | 476.43 |
| 22 | Break-up Value of Share with FVR | Rs. | 227.95 | 111.90 | 129.83 | 108.72 | 88.34 | 93.47 | 73.59 | 85.50 | 76.40 | 70.86 |
| 23 | Dividend Yield | % | 0.76 | 2.71 | 3.32 | 5.34 | 5.69 | 7.09 | 13.70 | 12.35 | 9.52 | 8.99 |
| 24 | Dividend  Payout Ratio | % | 2.45 | 32.27 | 24.56 | 61.01 | 52.26 | 86.32 | 80.74 | 52.36 | 64.31 | 34.49 |
| 25 | Return on Equity | % | 53.65 | 22.15 | 30.66 | 15.83 | 21.66 | 17.66 | 16.83 | 22.34 | 20.35 | 32.73 |
| 26 | Debt Equity Ratio | % | 34.41 | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil |
| 27 | Current Ratio | Time | 3.15 | 1.28 | 1.90 | 2.23 | 2.06 | 4.36 | 2.78 | 2.72 | 1.78 | 3.47 |
| 28 | Interest Cover Ratio | Time | 13.96 | 3.69 | 10.76 | 14.21 | 49.27 | 1,233.31 | - | - | - | - |
| 29 | Market Value per Share | Rs. | 393.80 | 295.00 | 256.00 | 196.50 | 175.60 | 134.00 | 73.00 | 81.00 | 105.00 | 89.00 |
| 30 | Market Capitalization | Rs. in Million | 32,633 | 24,446 | 18,447 | 14,159 | 12,653 | 6,437 | 3,507 | 3,240 | 4,200 | 3,560 |
| 31 | Price Earning Ratio | Time | 3.22 | 11.90 | 7.40 | 11.42 | 9.18 | 12.18 | 5.89 | 4.24 | 6.75 | 3.84 |
| | PRODUCTION | | | | | | | | | | | |
| 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 | 497.94 | 446.70 | 428.78 | 351.12 | 430.60 | 414.62 | 381.95 | 436.90 | 419.39 | 423.52 |
| 34 | Capacity Utilization | % | 112 | 100 | 96 | 79 | 97 | 93 | 86 | 98 | 94 | 95 |
| 35 | Sales | Thousand mt | 508.54 | 437.73 | 405.67 | 361.20 | 436.83 | 415.31 | 396.82 | 456.63 | 366.39 | 436.10 |
| | OTHERS | | | | | | | | | | | |
| 36 | Employees | Nos. | 474 | 485 | 472 | 481 | 498 | 525 | 533 | 554 | 584 | 566 |
| 37 | Capital Expenditure | Rs. in Million | 149.00 | 740.65 | 235.84 | 328.15 | 189.81 | 11.00 | 42.00 | 12.00 | 12.00 | 14.00 |
| 38 | Contribution to the National Exchequer | Rs. in Million | 857 | 773 | 665 | 724 | 857 | 767 | 615 | 633 | 665 | 616 |

Be it a “dera” or a corporate meeting, we confer for the benefit of all.

# Notice of Annual General Meeting

Notice is hereby given that the Fortieth 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 1130 hours on Thursday, 28th February 2008, to transact the following business after recitation from the Holy Quran:

## ORDINARY BUSINESS:

1. To confirm the Minutes of the Extraordinary General Meeting held on Wednesday, 19 December 2007.

2. To receive, consider and adopt the Audited Accounts of the Company for the year ended 31 December 2007 together with the Auditors' and Directors' Reports thereon.

3. To consider and, if thought fit, approve payment of final cash dividend at the rate of Rs. 1.50 per share (15%) for the year ended 31 December 2007 as recommended by the Board of Directors. This is in addition to the interim cash dividend of Rs. 1.50 per share (15%) already paid during the year.

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

## SPECIAL BUSINESS:

5. To approve the issue of bonus shares in the ratio of 1 bonus share for every 5 ordinary shares held by the shareholders (20%) as recommended by the Board of Directors. To give effect to the above, the Directors have recommended to consider and, if thought fit, pass, with or without modification, the following resolution as an ordinary resolution.

   "RESOLVED, that a sum of Rs. 165,732,480/- (Rupees one hundred sixty five million seven hundred thirty two thousand four hundred eighty only) be capitalized out of the unappropriated profit of the Company and applied towards the issue of 16,573,248 ordinary shares of Rs. 10/- each as fully paid bonus shares to be allotted to the shareholders in proportion of 1 share for every 5 existing ordinary shares held by the members of the Company who are registered on the books of the Company on 20th February 2008 and that, after allotment, such new shares shall rank pari passu in all respect with the existing ordinary shares of the Company. These bonus shares will not be eligible for the final cash dividend of 15% for the year ended 31st December 2007.

   Members entitled to fractions of shares as a result of their holding either less than 5 Ordinary Shares or in excess of exact multiple of 5 Ordinary Shares be given the sale proceeds of their fractional entitlements for which purpose the fractions be consolidated and sold at the Stock Exchange.

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

6. To consider and if thought fit, pass with or without modification, the following Special Resolution to increase the Authorized Share Capital of the Company from Rupees One Billion to Rupees Ten Billion.

   "RESOLVED, that the Authorized Share Capital of the Company be and is hereby increased from Rs. 1,000,000,000/- (Rupees one billion) to Rs. 10,000,000,000 (Rupees ten billion) divided into 1,000,000,000 (one billion) ordinary shares of Rs. 10/- (Rupees ten) each.

   FURTHER RESOLVED, that Clause V of the Memorandum of Association of the Company be and is hereby amended and reworded accordingly and be read as under:

   v The capital of the Company is Rs. 10,000,000,000 (Rupees ten billion) divided into 1,000,000,000 (one billion) shares of Rs. 10/- (Rupees ten) each.

   The Company shall have powers to increase, reduce, subdivide, consolidate or otherwise reorganize its capital and to divide the shares into several classes from time to time in accordance with the provisions of the Companies Ordinance, 1984.

FURTHER RESOLVED, that the Chief Executive and the Company Secretary be and are hereby severally authorized to do any and all acts legitimately required to be undertaken on behalf of the Company to complete all formalities in connection with giving effect to the above Resolution."

Lahore
28 January 2008

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 20th February 2008 to 28th February 2008 (both days inclusive).

### 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.

## STATEMENT UNDER SECTION 160 (1) (b) OF THE COMPANIES ORDINANCE, 1984

### Agenda Item No. 6

The authorised share capital of the Company presently stands at Rupees One Billion divided into 100,000,000 shares of Rs. 10/- each. With the growing expansion of the Company's business, it is desirable to bring the authorised capital of the Company in proper co-relation with the magnitude of the Company's resources and the size of its Balance Sheet and to accommodate issuance of further rights & bonus shares from time to time in future. It is, therefore, considered advisable to increase the authorised share capital of the Company from Rupees One Billion to Rupees Ten Billion divided into 1,000,000,000 shares of Rs. 10/- each. The proposed increase of the authorised share capital of the Company has been unanimously recommended by the Board and requires the approval of the members in general meeting. Consequent upon the increase in authorised capital of the Company, its Memorandum of Association will require alterations so as to reflect the increased share capital. The proposed special resolution incorporates approval for corresponding changes in the Memorandum.

The Directors of the Company are interested to the extent of their shareholdings in the Company.

> If the family were a fruit, it would be an orange, a circle of sections, held together but separable - each segment distinct.
>
> Letty Cottin Pogrebin

# About Fertilizer

## Definition

Fertilizer is any naturally occurring or chemically synthesized material that increases the nutritional value of soil needed to enhance plant growth and yield.

## Background

Although, fertilizers in the form of manure were utilized by ancient farmers, the research into the chemical or nutritional needs of plants and the mounting pressure upon the earth for growing food to meet the demands of the ever-increasing global population triggered the manufacture and use of chemical fertilizers.

Modern synthetic fertilizers mainly contain compounds of nitrogen, phosphorus and potassium with secondary nutrients. Like all living organisms, plants growth depends on nutrients contained in the soil. The availability of these components in the soil diminishes as it is extracted by the plant for its growth. Thus the more a soil is used for cultivation, the more barren and parched of nutrients it becomes, resulting in the reduction in the plant quality and yield.

Fertilizers replenish the chemical components extracted by the flourishing plants from the soil and improve the growing potential of the soil. They also have the ability to create more nourishment than the soil is naturally able to supply.

## History

The process of adding substances to soil to improve its growing capacity was developed in the early days of agriculture. Ancient farmers knew that the first yields on a plot of land were much better than those of subsequent years. This caused them to move to new, uncultivated areas, which again showed the same pattern of reduced yields over time (this farming practice is known as ‘slash and burn’, ‘swidden’ cultivation or ‘shifting cultivation’). Eventually it was discovered that plant growth on a plot of land could be improved by spreading animal manure throughout the soil.

Over time, fertilizer technology became more refined. New substances that improved the growth of plants were discovered. The Egyptians are known to have added ashes from burned weeds to soil. Ancient Greek and Roman writings indicate that various animal excrements were used, depending on the type of soil or plant grown. It was also known by this time that growing leguminous plants on plots prior to growing wheat was beneficial (crop rotation). Other types of materials added include sea-shells, clay, vegetable waste, waste from different manufacturing processes, and other assorted trash.

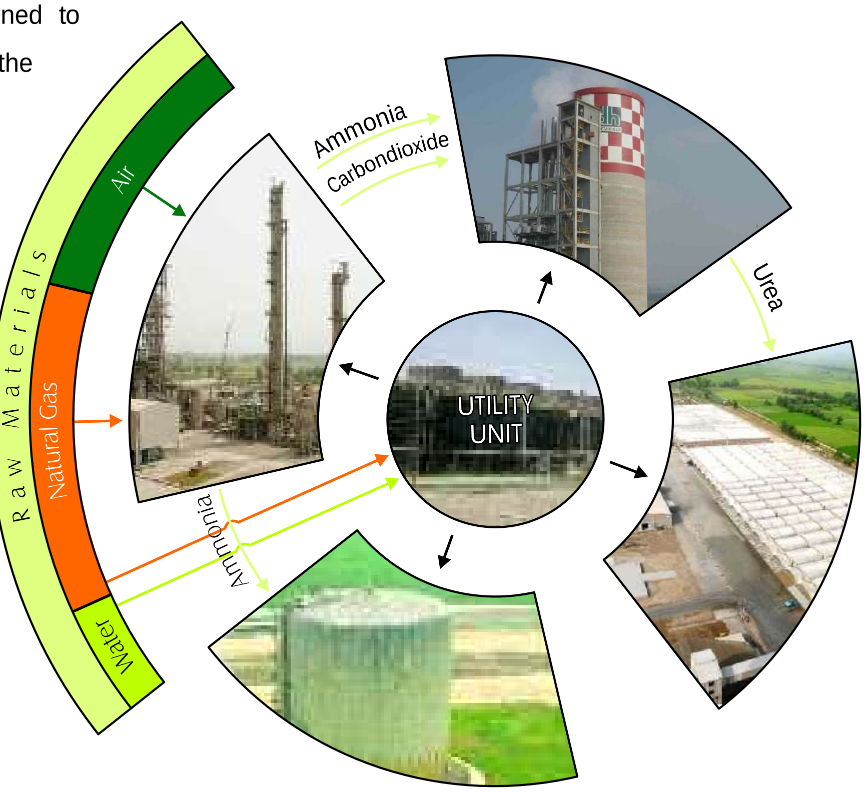
The chemical fertilizer industry, however, had its beginnings with a patent issued to Sir John Lawes, which outlined a method for producing a form of phosphate that was an effective fertilizer. The synthetic fertilizer industry experienced significant growth after the First World War, when facilities meant for ammonia and synthetic nitrates for explosives were converted to the production of nitrogenous fertilizers.

## The Manufacturing Process - Nitrogen Fertilizer Component

Fully integrated factories have been designed to produce compound fertilizers. Depending on the actual composition of the end product, the production process will differ from manufacturer to manufacturer.

## Nitrogen fertilizer component

Ammonia is produced using Nitrogen of air and Natural gas as raw material. In the process natural gas, steam and air are reacted to form Carbon Dioxide, Hydrogen and Nitrogen. The Carbon Dioxide is removed leaving behind mixture of Hydrogen and Nitrogen, which react at elevated temperature & pressure over iron catalysts produces Ammonia.



Though Ammonia itself is sometimes used as a fertilizer, it is often converted to Urea, Ammonium Sulphate, Ammonium Nitrate and Ammonia Phosphate for ease of handling.

Nitric Acid is produced by reaction of water with nitrous oxide formed by burning Ammonia with air in a vessel containing catalyst. Subsequently the Nitric Acid is neutralized with Ammonia to produce Ammonium Nitrate. The material is a good fertilizer as it contains high concentration of Nitrogen.

While ammonia itself is sometimes used as a fertilizer, it is often converted to other substances for ease of handling. like Ammonium Nitrate etc.

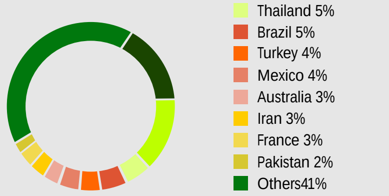
Nitric Acid is produced by reaction of water with nitrous oxide formed by burning Ammonia with air in a vessel containing catalyst. Subsequently the Nitric Acid is neutralized with Ammonia to produce Ammonium Nitrate. The material is a good fertilizer as it contains high concentration of Nitrogen.

## Bagging

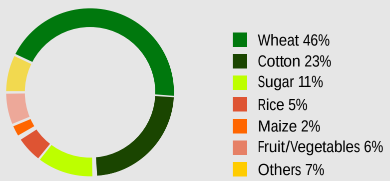
Fertilizers are typically supplied to farmers in 50 Kg. bags. To fill these bags the fertilizer is first delivered into a large hopper. An appropriate amount is released from the hopper into a bag that is held open by a clamping device.

The bag is on a vibrating surface, which allows better packing. When filling is complete, the bag is transported upright to a machine that seals it closed. The bag is then conveyed to a palletizer, which stacks multiple bags, readying them for shipment to distributors and eventually to farmers.

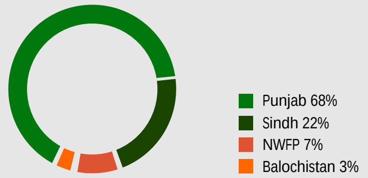
Top 10 Urea Importing Countries in the World

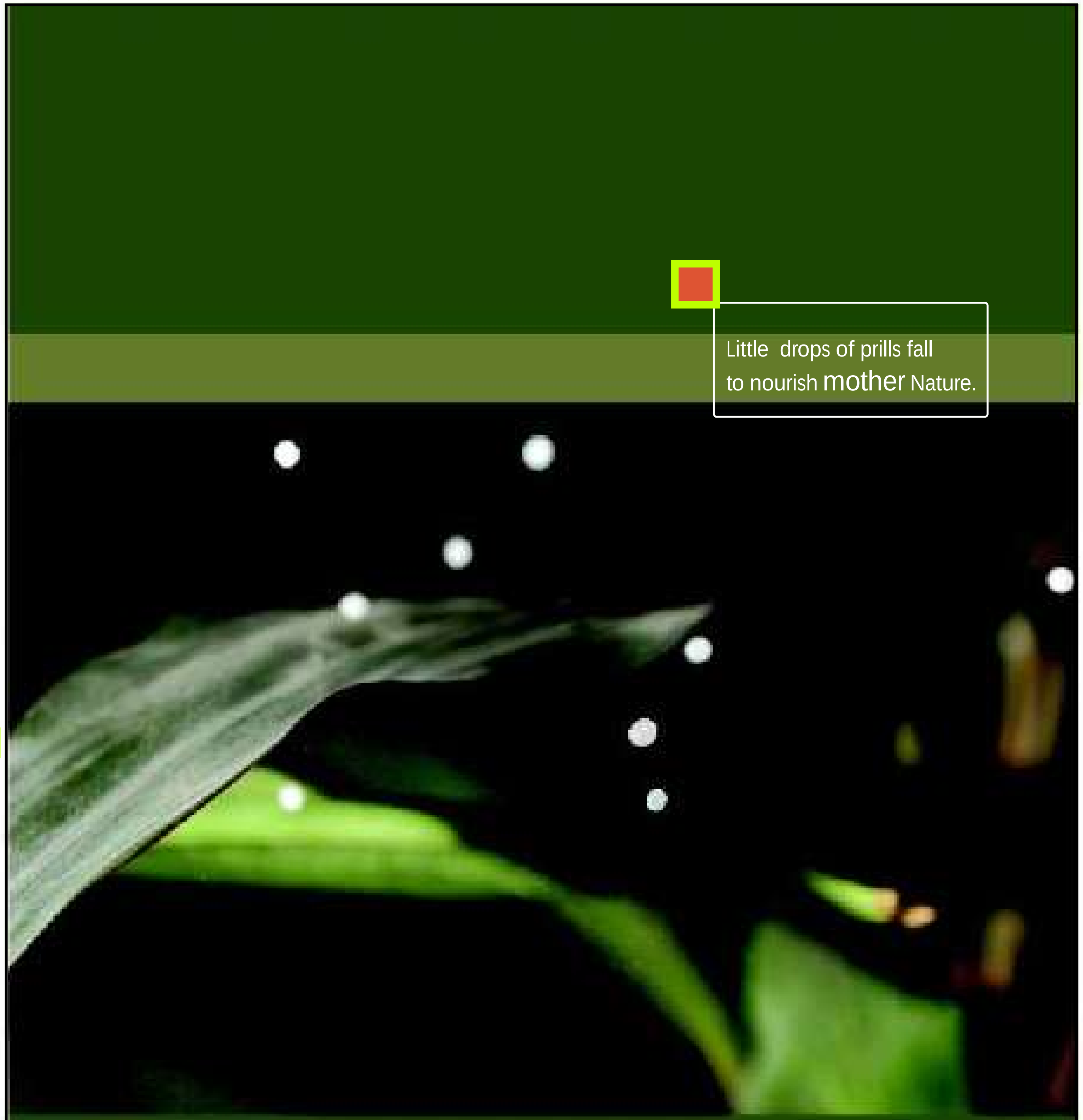


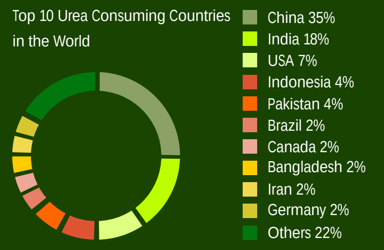
FERTILIZER USE BY CROP

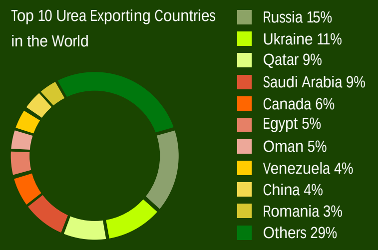


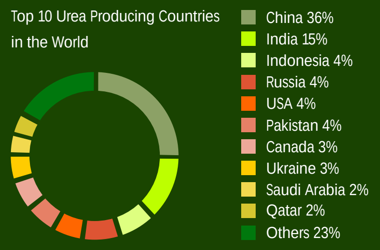
PROVINCE-WISE OFF-TAKE OF UREA











# Chairman's Review

*It gives me great pleasure to present my report on the performance of our Company. The year 2007 was one which I shall remember as the 'Year of Records'.*

## Corporate Governance

As the "Chief Corporate Governance Officer" it is my responsibility to continuously develop the corporate governance systems and monitor the performance of the Board of our Company. We started out by trying to understand how well our system operates at present and what international best practices we can imbibe. To this effect we have sent our directors and members of the top management on various training programs and conferences and I am happy to report that two members of the DH team have been certified as directors from the Pakistan Institute of Corporate Governance. With this in mind, we have chalked out an improvement plan, effects of which will become more visible in the coming years.

## Operating Performance

I am also very proud of the DH management. They have excelled in operating performance by delivering exceptional growth in an ever competitive market. Our top line has grown by 29% to above Rs. 5 billion, pushing our market share to 11%. Our operating profits have shown a similar growth, up by 46% to Rs 1.57 billion. In our Company succession planning remains a core issue. The Chief Executive deserves commendation for the many outstanding achievements he and his team have brought about.

## Investments

Our investment portfolio comprises mainly of a 38% ownership of Engro Chemical Pakistan Limited and 19% stake in Sui Northern Gas Pipelines Limited. Engro has embarked on a massive growth drive with investment plans in the tune of $1.6 billion. This includes setting up the largest single train state of the art urea plant in the world, a 220 MW power plant, back integration of the PVC business, expansion of the chemical terminal and organic growth for the newly formed foods division. To fuel this growth Engro increased its capitalization by issuing rights shares in June 2007, which with your permission our Company subscribed, amounting to a further investment of Rs. 1.2 billion. Engro's market capitalization has increased by a remarkable 179% during the year to close at Rs. 51.41 billion by 31 December 2007. To date our investment of Rs. 7.14 billion in Engro has grown about three times.

The energy of the Country continues to be dominated by the gas sector. With a 2/3rd share of the National gas distribution and transmission sector, Sui Northern is ideally

placed to play a pivotal role in the energy dynamics of the Country for the years to come. Sui Northern has embarked on a large capital expenditure program of Rs 19 billion to expand its network in the northern part of the country. This has resulted in the Company increasing its sales volume by 70% over the last 4 years. However, operating profits have lagged behind owing to the higher Unaccounted For Gas (UFG) losses. We continue to work with the SNGPL Management through our participation at the Board to bring these losses in line with OGRA requirements. The market capitalization of SNGPL on 31 December 2007 was Rs. 38.85 billion.

## Health, Safety and Environment

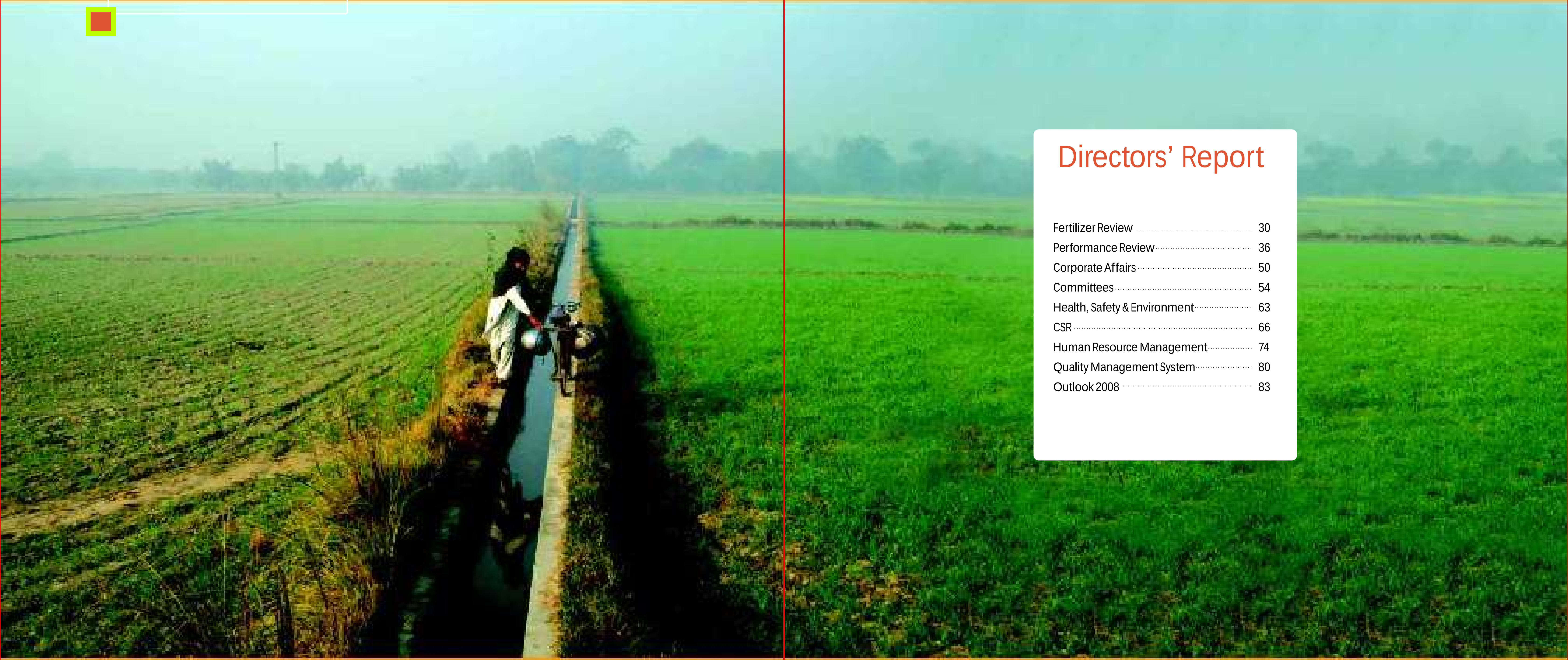
We have placed ever more importance to the HSE practices of our Company. Safety has become a priority focus for us. The effects have already benefitted our lives. The impact of accidents continues to decline as our safety culture thrives. This has led us to reach 6 million man hours without LWI on 29 December 2007.

## Corporate Social Responsibility

We at DH are very aware of the impact we have on the lives of those around us. We have concentrated more and more on the concept of the “double bottom line”. For this purpose we have set out clear objectives with which to conduct our Corporate Social Responsibilities. We continue to work with society at large, with a particular focus on the community around the Plant. We have initiated several educational, health and emergency relief projects ranging from eye camps to supplies for disaster struck areas of Baluchistan and Bangladesh. The opening of the TCF-Dawood Hercules Campus School is one such highlight that I cherish as one of our most important successes this year. It is a place where over 200 children in the Plant's vicinity gain an opportunity to receive education. Also the Company plans to address the seminal need of clean drinking water in the villages around the Plant. In addition, the gracious and generous contributions of Dawood Hercules' Employees and The Dawood Foundation for the reconstruction of an earthquake demolished Federal Government school in Muzaffarabad, are all projects that will add collective value to our Country and our Organisation.

In conclusion it is my privilege to be associated with an institution in which all its employees are enthusiastically committed with courage and a shared identity to the values of human dignity, respect, integrity, truthfulness, honesty, dedication, hard work, and loyalty. I am convinced that such a team will continue to realise yet greater accomplishments.

Necessity is the mother of invention



# Directors’ Report

# Fertilizer Marketing Review

## Global Review

### Production:

According to the International Fertilizer Association (IFA) Report (December 2007) the global urea production in 2007 was estimated to be 143.1 million tons products, representing a 6% increase over 2006, while the main production expansions took place in China, Egypt and Saudi Arabia. Global urea trade was pushed up at a rate of 12% to 35.1 million tons. by the sustained requirements from large consumers such as India, West Europe and the United States. China proved to be one of the world's largest urea exporter, with exports exceeding 4 million tons.

### Demand:

After revealing some unexpected strength in 2006, the world urea demand remained stable during 2007, although the fertilizer market is expected to continue to grow till year 2011. Simultaneously some 50 new plants are scheduled to be launched within the same period.

According to the initial estimates for the year ended 2007 the world fertilizer consumption has fallen slightly but increased steadily in South Asia (including Pakistan) by 4%, and in East Asia by 3.3%.

Globally, the urea consumption in 2007 is estimated to be 145.2 million nutrient tons, as compared to 131.3 million tons in 2006.

Global Urea Supply/Demand Balances
(Million Tons Products)

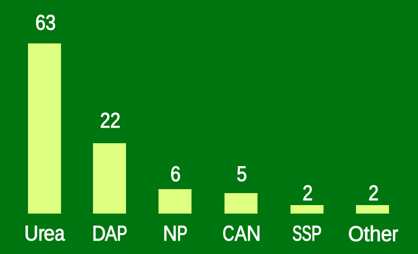
| | 2007 Expected | 2008-11 Forecast |
|---|---|---|
| Urea Supply | 145.2 | 178.8 |
| Urea Demand | 143.3 | 163.7 |
| Global Balance | +1.9 | +15.1 |

Source: IFA

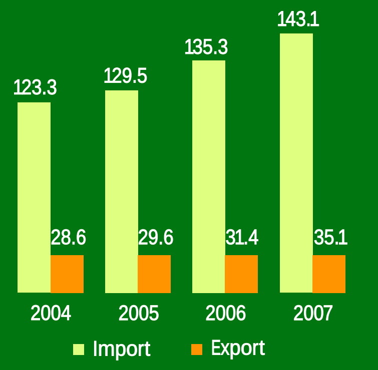
## Pakistan's Fertilizer Scenario

The fertilizer consumption in Pakistan is said to be low with the current fertilizer consumption averaging to 162.5 kg per hectare. The fertilizer consumption closely follows the economic growth of the country as exhibited by the positive correlation between the fertilizer consumption per hectare and nominal GDP. The further growth of fertilizer off-take is predicated on the economic well being of the agriculture sector.

SHARE OF UREA (%)



WORLD UREA PRODUCTION AND TRADE
(Million Tons Products)



## Local Market Scenario – Urea /DAP

In contrast to the last year the local market remained suppressed during the first six months of 2007 as a result of which the national urea inventory burgeoned to 800,000 metric tons by the fifth month as compared to 215,000 metric tons in May 2006. This excess supply situation posed a great challenge to the industry in view of the factors in play. Dawood Hercules adopted an aggressive marketing strategy which resulted in the Company surpassing its 2006 record with a growth rate of 16%. Urea sales picked up perceptibly in the fall and it is expected that a growth rate of 8% over the last year will be achieved in this Rabi (2007-08) period.

Urea off-take at national level during the year 2007 was 4.90 million tons as compared to 5.20 million tons in year 2006 depicting a negative growth rate of 6.1%. This drop in urea sale is attributable to the subsidy offered by the Government of Pakistan on DAP (Di-ammonium Phosphate) making its use attractive for farmers. Resultantly, DAP sales in Rabi 2006-07 soared by 52% over the corresponding period last year. Encouraged by this high DAP demand, the Company imported 42,988 metric tons of DAP in this fall. Rising international prices, once again, has made this nutrient beyond the reach of our farmers reducing DAP sales by 24% in first half of current Rabi (2007-08) and forcing farmers to switch over to urea application which consequently increased its demand by 10% as compared to previous Rabi (2006-07). This switch over is a cause for concern to advocators of 'balanced use of fertilizers' as preference for cheaper urea over dearer DAP will once again create an imbalance in applications of nutrients and it is estimated that this year the ratio will be 1:5 instead of ideal 1:1. The Govt. in anticipation of rise in urea demand has imported 200,000 tons of urea to meet any shortfall.

## Agriculture Credit

During July - December 2006 banks disbursed Rs. 72 billion to the agriculture sector which is 16% higher than the disbursement of Rs. 62 billion during the same period last year. The disbursement covered about 45% of SBP targets for the financial year 2006-07 as against 48% covered in the corresponding period last year. Out of the total disbursements farm sector got a share of 87% whereas non-form sector had a share of only 13%.

During the last one and half year interest rates of the banks are at their top levels and those high rates have severely hit agri loans. For the fiscal year 2007-08 the central bank has raised the agri credit target to Rs. 200 billion, up by Rs. 40 billion from the last year. This target set is only achievable, if interest rates remain stable.

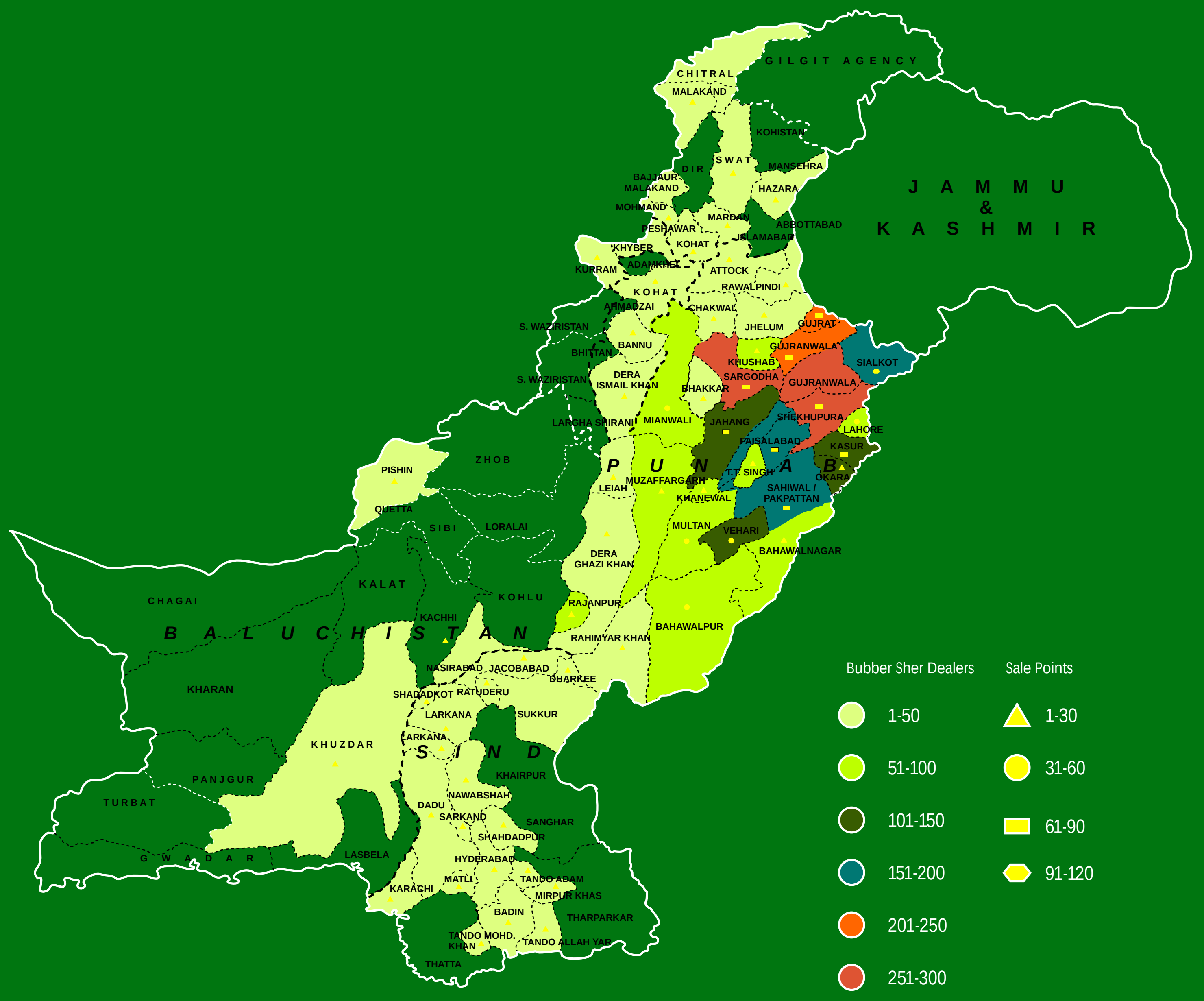
"If you want one year of prosperity, grow grain.
If you want ten years of prosperity, grow trees.
If you want one hundred years of prosperity, grow people."

Chinese Proverb


Bubber Sher:
a household
name

# Distribution Network

The map shows point of sales of Bubber Sher Urea in the market.



# Performance Review

## Financial Results

The Board of Directors takes pleasure in reporting that the year 2007 was another milestone in the history of our Company. The year recorded sales of Rs. 5,011 million as compared to  Rs. 3,882 million for the year 2006. Gross Profit for the period under review stood at Rs. 1,862 million against the Gross Profit of Rs. 1,312 million, of the comparable period for the year 2006. The operating profit showed a healthy increase of 46.2% for the year under review and climbed to Rs. 1,572 million as compared to Rs. 1,075 million of the year 2006.

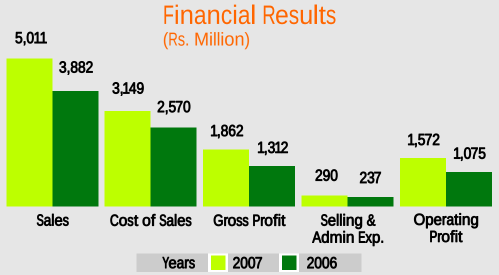
The profit before tax and share from associate jumped to Rs. 9,795 million from Rs. 1497 million in 2006. The major source of increase in pre-tax profit is the capital gain of Rs. 8,661million, slightly offset by the increase in financial expenses to Rs. 756 million from Rs. 555 million of last year.

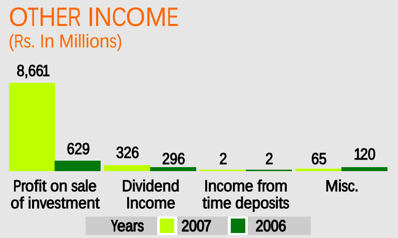
Profit before taxation, including the share from associate, jumped to Rs. 11,126 million (L.Y. Rs. 2,590 million). The year's profit after taxation including the share of associate has been reported at Rs. 10,134 million (L.Y. Rs. 2,054 million). The summary of the operating results of the Company for the year under review along with the comparatives for the last year are as under:

| | Rupees in Million | |
|---|---|---|
| | 2007 | 2006 |
| Sales | 5,011 | 3,882 |
| Cost of Sales | (3,149) | (2,570) |
| Gross Profit | 1,862 | 1,312 |
| Selling & Admin Expenses | (290) | (237) |
| Operating Profit | 1,572 | 1,075 |
| Financial & other charges | (830) | (626) |
| Other Income | 9,054 | 1,047 |
| Share of Profit from Associate | 1,330 | 1,093 |
| Income Tax | | |
| DHCL | (540) | (212) |
| Associate | (452) | (323) |
| Net Profit After Tax | 10,134 | 2,054 |

## Capital Gain

As the shareholders are aware that the tax exemption on capital gain is only available up to the tax year 2008, which in case of your Company corresponds to the year ending December 2007. There was no indication from the Government for extending the period for tax exemption; therefore the Board of our Company decided to recognize the capital gains in the accounts. For this purpose the approval of shareholders was obtained in the EGM held on 19 December 2007.

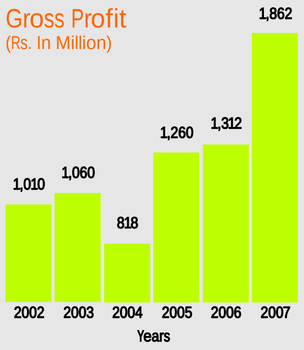


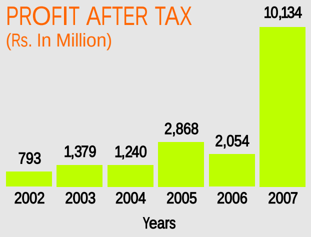


With the approval of the shareholders, transactions were completed at arms length and in conformity with all the legal requirements. Resultantly the Company has recognized a capital gain of Rs. 8,661 million.

## Plant Performance

The BMR completed in 2006 has began to pay off in 2007 with optimum Plant performance Operations remained excellent during the year. The urea production in 2007 was 498 thousand metric tons as against the designed production of 445 thousand metric tons and last year's production of 446 thousand metric tons. The current production level was achieved despite the 18-day plant shutdown on account of gas curtailment and maintenance.





| | |
|---|---|
| 1968 | Dawood Hercules was incorporated |
| 1969 | Construction of 1,100 metric tons per day (MTPD) urea fertilizer Plant with a capacity of 625 MTPD anhydrous ammonia was launched |
| 1971 | Commercial production started |
| 1988 | BMR Program was launched |
| 1991 | BMR program was completed with the cost of Rs. 1,250 million |
| 1997 | A remarkable production volume was achieved. The year was celebrated as the silver jubilee year |
| 2004 | Another milestone. A new prill tower at a cost of Rs. 300 million was erected |
| 2006 | To improve performance, reliability and productivity second BMR was done. |

# 2007: Breaking Records

### Five Million Safe Man-Hours

Achieved the milestone of Five Million Safe Man-Hours on 31 January 2007.

### Sales Record

Unprecedented sales of Rs. 508,540 million tons of urea.

### Plant Operation

Attained the landmark of Five Year Safe Plant Operation on 26 February 2007

### Six Million Safe Man-Hour

Passed the Six Million Safe Man-Hours milestone on 29 December 2007.

### Highest Capacity Utilization

Highest capacity utilization achieved; 1,500 MTPD in winter and 1,450 MTPD during the peak summer season.

### Monthly Production Record

Urea production for the month of December, 2007 peaked at 45,802 metric tons, scoring a daily average of 1,477 metric tons; thus establishing unsurpassed records for the monthly production and the average daily production to date since the Plant was commissioned in 1971.

### Yearly Production Record

Urea production for 2007 escalated to 497,940 metric tons, marking it as the highest annual production by a significant margin of + 51,240 metric tons.

"Unity, Faith and Discipline" (Jinnah, Father of the Nation)

These are the lessons we learn from our father figures, our legends, our heroes, our ancestors and our predecessors - all of whom we wish to emulate.

### Capital Gain

Capital Gain of Rs. 8.7 billion set a new benchmark.

### Earnings Per Share

Earnings Per Share peaked to a new high at Rs. 122.30.

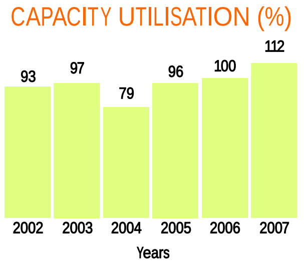
The Company also achieved a new record in urea production of 1500 metric tons in a single day on 19th November 2007, the highest in the Company's history. The capacity utilization for the year stood at 112%. In terms of percentage the production for the year 2007 exceeds 11.47% over last year.

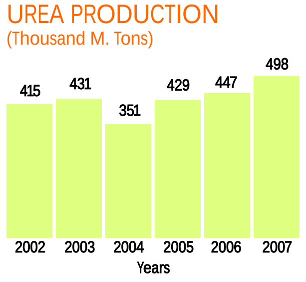
## Sales Review

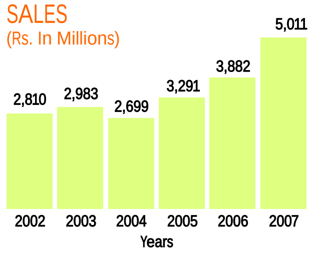
During the first half of the year there was a nationwide build up of urea inventory. This amassing was partly due to the inventory of imported urea and partly due to the slow off-take. The situation improved in the second half and consequently by the close of the year under review the Company was able to sell 509 thousand metric tons of urea, which was 71 thousand metric tons or 16.2% more than last year. Furthermore, the Company sold 13 thousand metric tons of DAP from its imported 43 thousand metric tons of stock.

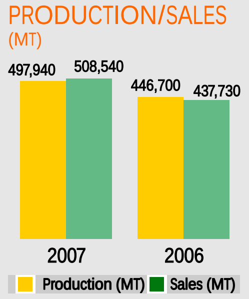
The product mix of urea and DAP facilitated the farmers and led to the increase in the sale of urea in the second half of 2007.

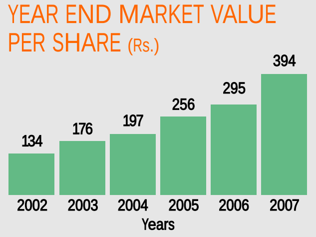
The Company's sales reached Rs. 5,011 million for the year 2007 as compared to Rs. 3882 million in 2006, a 29.1% increase.









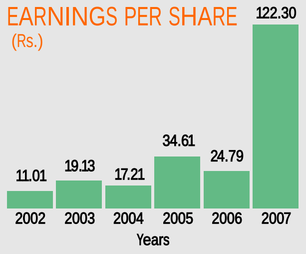


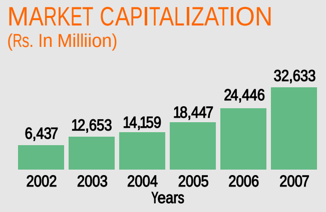
## Earnings per Share

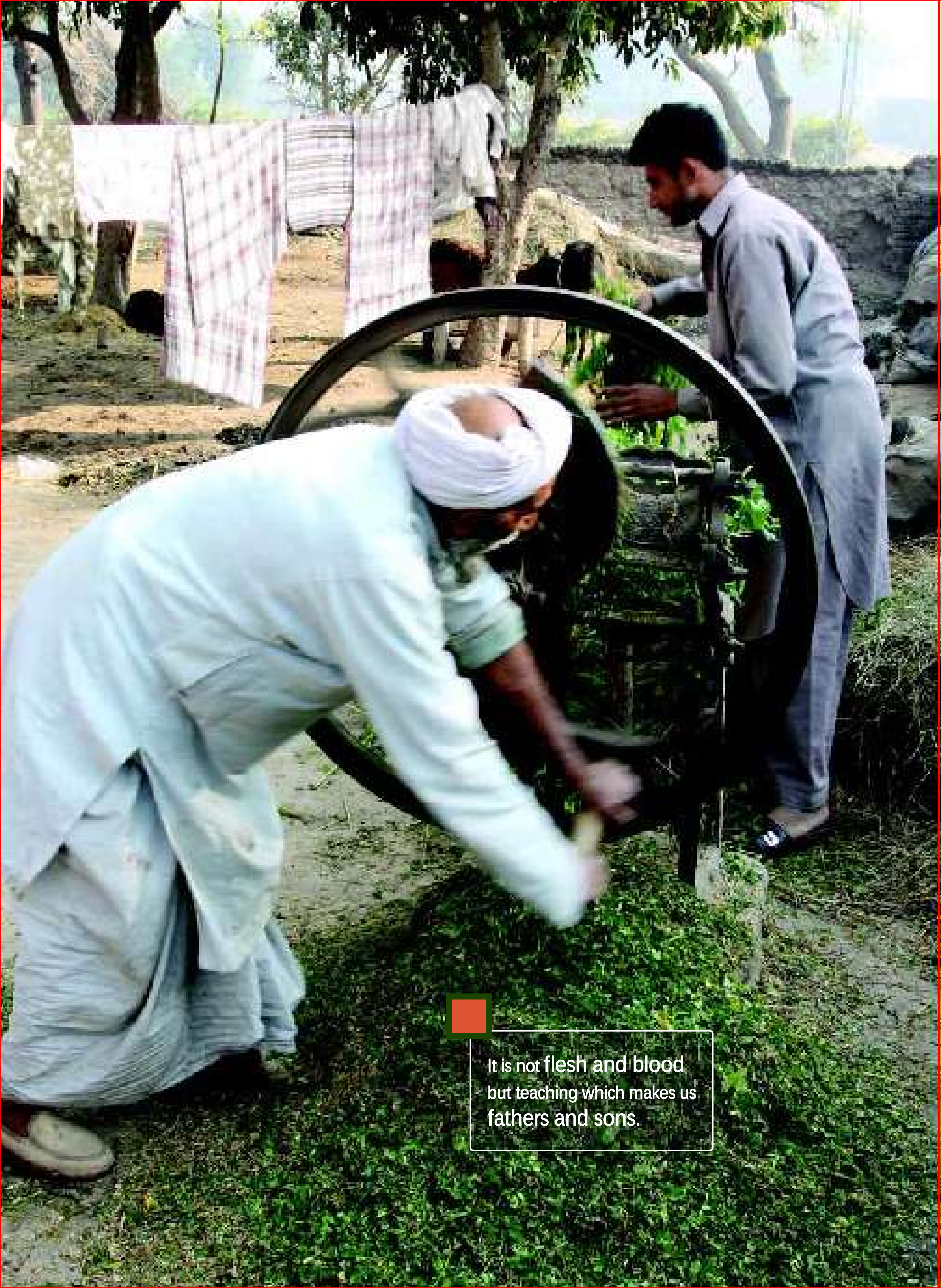
The Earnings per Share (EPS) of the Company stood at Rs. 122.30 as compared to Rs. 24.79 of the last year. The break-up of EPS of Rs. 122.30 is portioned into three segments with the Company earning Rs. 11.47 per share from operations, Rs. 100.22 per share from other income and Rs. 10.61 per share from the earnings of associate.

## Market Capitalization

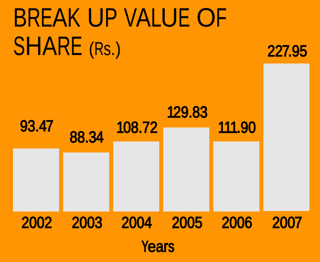
The market capitalization of our Company during the year fluctuated with the capital market. The peak value of the share during the year reached Rs. 420 on 27 December and the lowest price of Rs. 231 was hit on 5 September.



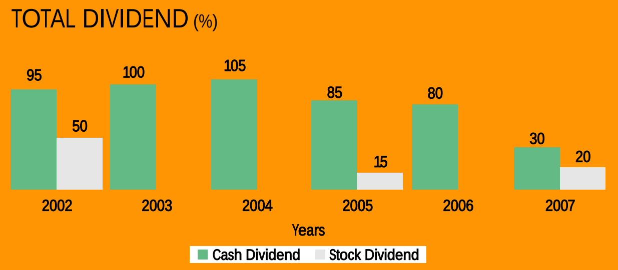




It is not flesh and blood
but teaching which makes us
fathers and sons.



BREAK UP VALUE OF SHARE (Rs.)



TOTAL DIVIDEND (%)

At the close of the year, the market capitalization was Rs. 32,633 million, with a market value of Rs. 393.80 per share and break-up value of Rs. 227.95 per share. The strong performance depicts the market confidence in the value of our Company.

## Gain in Net Worth

There was a significant gain in net worth during the year 2007 amounting to Rs. 9,616 million which was a rise of 104% over the last year and therefore increased the per share book value from Rs. 111.90 to Rs. 227.95.

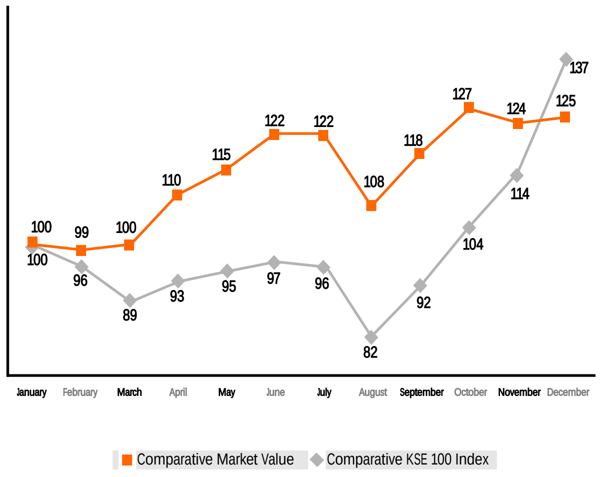
## Market Value of Shares vs KSE 100 Index (2007)

The share of our Company outperformed the KSE 100 Index by considerable margin. During the year the KSE 100 Index increased by 25% whereas the stock of your Company improved by 37% outperforming the benchmark on yearly basis.

## Appropriations

During the year the Board declared an interim dividend of Rs. 1.50 per share (15%) at the end of the second quarter.

Market Value of Shares Vs KSE100 Index (2007)



In addition to the above, the Board is pleased to recommend a final cash dividend of Rs. 1.5 per share (15%) and a stock dividend of 1 share for each 5 held (20%) for approval by the shareholders in the ensuing Annual General Meeting, making a total of 50% for the year.

## Capital Investment

The BMR of 2006 began manifesting results in 2007. The increased production of 53 thousand tons in 2007 over the capacity production of 445 thousand metric tons was the outcome of timely decisions regarding the 2006 BMR. To enhance the capacity, reliability and efficiency of the Plant, we are contemplating options for further BMR in the future.

## Installation of Gas Turbine Power Generator

We at DH are striving to conserve energy in various ways. To save the energy and mitigate the risk of the present turbo generator's sudden failure, a study was carried out for putting up a Gas Turbine Power Generator as an alternative to our existing Turbo Generators. After carrying out in-depth analyses and discussions with various experts, as well as gathering information from other fertilizer plants, it was decided to procure the Gas Turbine with Heat Recovery Steam Generator (HRSG) for Process use and Co-generation.

The project is planned to be commissioned by January 2009.

## Islamic Mode of Financial Arrangements

To exhibit our commitment and zeal for implementing Islamic Shariah with its true spirit, the company has switched over from conventional interest based financial arrangements to Shariah compliant mode of financing. A composition of long term and short term Musharaka and Murabaha financing of Rs. 8.50 billion was arranged during the year which was the biggest Islamic mode of financial arrangements by any company till then.

## Long term arrangements

Musharaka arrangement of Rs. 6.5 billion obtained for a period of 5 years represented by Islamic Sukuk Certificates in favour of the participants, carrying markup at average six months KIBOR plus 120 bps payable on half yearly basis. The financing is secured by a ranking charged created by way of hypothecation of specific fixed assets of the Company.

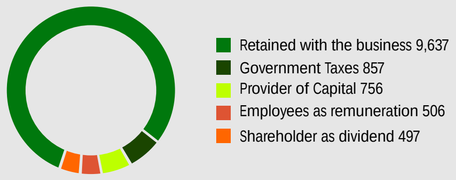
## Short term arrangements

Murabaha finance facility of Rs. 1.203 billion for purchase of right shares of Engro Chemical, carrying markup @ 3 months KIBOR plus 100 bps payable quarterly and secured against pledge of shares with 30% margin. Principle amount is payable in lump sum at the end of tenor i.e. 15 August 2008.

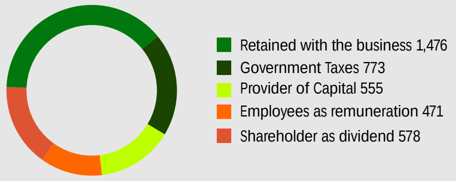
## Awards and Recognition:

This year the annual report of Dawood Hercules ranked second in the Chemical and Fertilizer category for the “Best Presented Annual Reports” by the Institute of Chartered Accountants of Pakistan (ICAP), and Institute of Cost and Management Accountants of Pakistan (ICMAP).

Value addition and distribution
during 2007



Value addition and distribution
during 2006



The Company has also been awarded the Karachi Stock Exchange's Top 25 Companies Award, which is ninth such award in last 12 years.

## Contribution to the National Exchequer

Dawood Hercules is one of the leaders in its contribution to the National Exchequer. Our Company's input amounted to Rs. 857.01 million as compared to Rs. 772.71 million of the preceding year. This includes Rs. 288.37 million (L.Y. 273.08 million) as Income Tax, Rs. 533.48 million (L.Y. Rs.453.35 million) as Sales Tax, Rs. 35.17 million (L.Y. Rs. 46.27 million) as Custom and Excise Tax. Furthermore the Company's contribution to the National Exchequer as withholding tax agent under different provisions of Income Tax Ordinance 2001, amounted to Rs. 110 million (L.Y. Rs. 95 million)

## Contribution to National Economy

Your Company's contribution to the national economy by way of value addition was Rs. 12,253 million (L.Y. Rs. 3,853 million). The beneficiaries were the Govt., receiving Rs. 857 million (L.Y. Rs. 773 million), the Company employees; Rs. 506 million (L.Y. Rs. 471 million), the shareholders; Rs. 497 million (L.Y. Rs. 578 million) and the provider of Capital Rs. 756 million (L.Y. Rs. 555 million). The amount of Rs. 9,637 million (L.Y. Rs. 1,476 million) was retained in the business.

Together we are determined
to create a Company of which
we can be proud of.

# Corporate Affairs

## Board Meetings

Six meetings of the Board of Directors were held during the year 2007. Attendance by each Director is provided

| Name of Directors | Meetings Attended |
|---|---|
| Hussain Dawood | 6 |
| Shahzada Dawood | 5 |
| Khawaja Amanullah | 3 |
| S. M. Asghar | 6 |
| A. Samad Dawood | 5 |
| Abdul Ghafoor Gohar | 4 |
| Haroon Mahenti | 5 |

## Corporate and Financial Reporting

The Financial Statements together with the notes thereto have been drawn up by the management in conformity with the Companies Ordinance, 1984. These statements present fairly the Company's state of affairs, the results of its operations, cash flow and changes in equity.

Proper books of accounts have been maintained by the Company. Appropriate accounting policies have been consistently applied in preparation of the financial statements and accounting estimates are based on reasonable and prudent judgment.

International Accounting and Reporting Standards, as applicable in Pakistan have been followed in preparation of financial statements and any departure therefrom have 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.

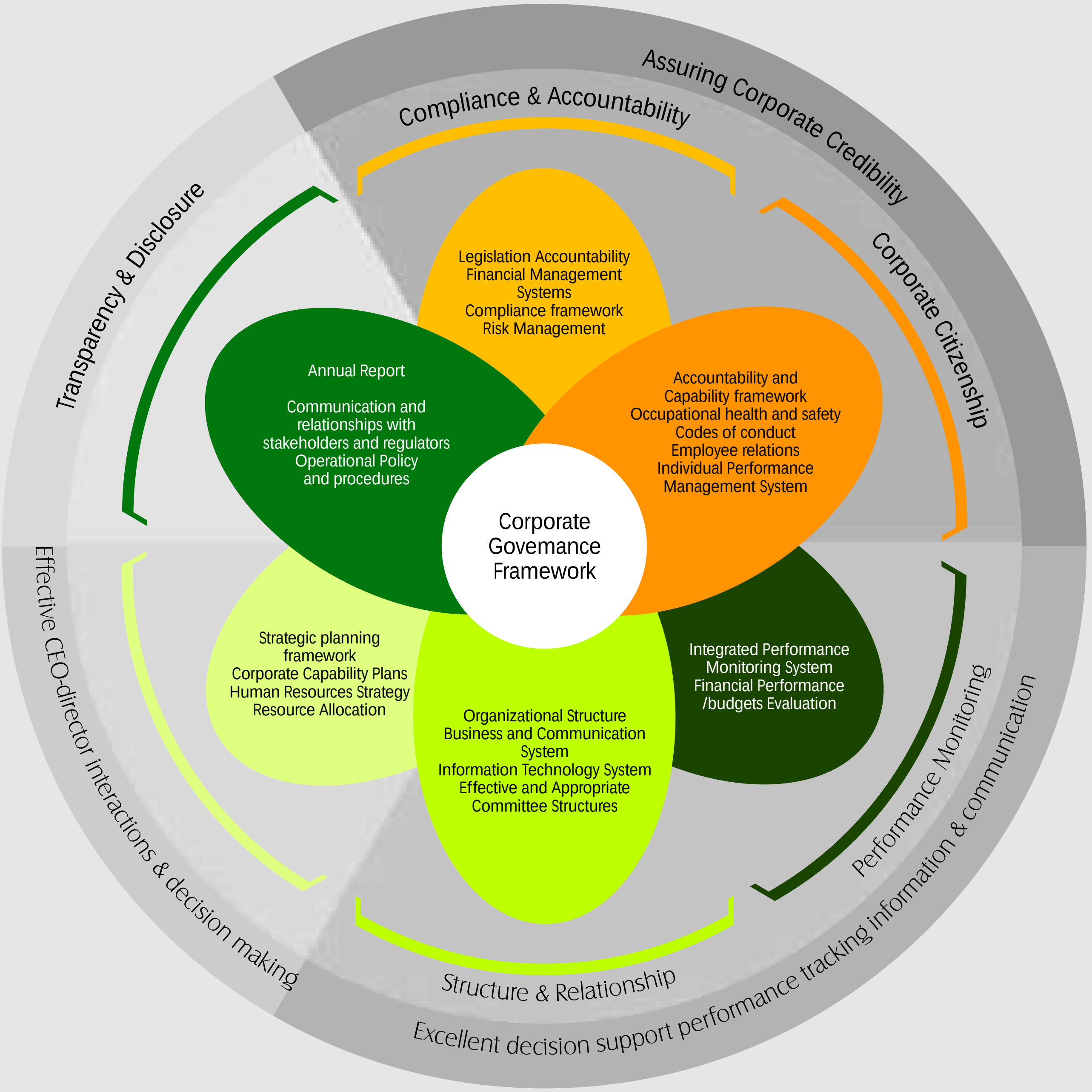
There has been no material departure from the best practices of Code of Corporate Governance, as detailed in the listing regulations.

## Compliance with the Code of Corporate Governance

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

### Our Comprehensive Approach to Corporate Governance

The perceived quality of a company's corporate governance can influence its share price as well as the cost of raising capital. quality is determined by the financial markets, legislation and other external market forces plus the international organisational environment; how policies and processes are implemented and how people are led. external forces are, to a large extent, outside the circle of control of any board. the internal environment is quite a different matter, and offers companies the opportunity to differentiate from competitors through their board culture.



## Pattern of Shareholding

### Ownership

As at 31 December 2007 there were 2,247 Shareholders on the record of the Company.

Pattern of Shareholding of the Company as at 31 December 2007, 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. 582.63 million. Fair value of the assets of the funded defined benefit gratuity plan was Rs. 113.49 million as at 31 December 2007, 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 40th Annual General Meeting, as auditors of the Company for the year ending 31 December 2008.

## RISK MANAGEMENT

Our Company uses a structured approach in identifying, assessing and controlling risks to support better decision-making for effective and efficient use of resources.

The Company endeavours to mitigate financial risk through hedging programs. 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.

The Company mitigates the risks of fire of its assets vis a vis - urea stocks and stores, spares, plant and machinery, building, furniture and fixture, equipment, electrical appliances, computers, mobile phones by taking out fire insurance, while the Company takes out comprehensive insurance policy for its fleet of vehicles. The Company also insures its imported and local consignments of goods by taking out marine insurance cover.

In order to get the fruit,
one must risk climbing
the tree.

# Committees

To assist the Board and Chief Executive in decision-making and policy formation, a secondary stratum of management in the form committees is situated in the corporate structure. These committees ensure and systematise internal control and are functional in administering good governance through their prudent and systematic approach. The committees are deployed to verify and inspect that applicable laws and rules are fully followed, that fiduciary responsibility is discharged appropriately along with safeguarding the interests of stakeholders in all business practices.

## AUDIT COMMITTEE

Pursuant to the Code of Corporate Governance, the Board has established an Audit Committee comprising of three Directors, of which the majority of the members are non-executive directors. The Committee meets at least once every quarter to review the accounts and any concerns 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. The Audit Committee has the authority to ask for any information or explanation in order to satisfy it regarding financial statements and internal controls.

### Functions

The terms of reference of the Audit Committee shall include the following:

- Determination of appropriate measures to safeguard the Company's assets;
- Review of preliminary announcements of results prior to publication;
- Review of quarterly, half-yearly and annual financial statements of the Company, prior to their approval by the Board of Directors, focusing on:
    - major judgmental areas;
    - significant adjustments resulting from the audit;
    - the going-concern assumption;
    - any changes in accounting policies and practices;
    - compliance with applicable accounting standards; and
    - compliance with listing regulations and other statutory and regulatory requirements.
- Facilitating the external audit and discussion with external auditors of major observations arising from interim and final audits and any matter that the auditors may wish to highlight (in the absence of management, where necessary);
- review of management letter issued by external auditors and management's response thereto;
- ensuring coordination between the internal and external auditors of the Company;
- review of the scope and extent of internal audit and ensuring that the internal audit function has adequate resources and is appropriately placed within the Company;
- consideration of major findings of internal investigations and management's response thereto;
- ascertaining that the internal control system including financial and operational controls, accounting system and reporting structure arc adequate and effective;
- review of the Company's statement on internal control systems prior to endorsement by the Board of Directors;
- instituting special projects, value for money studies or other investigations on any matter specified by the Board of Directors, in consultation with the Chief Executive and to consider remittance of any matter to the external auditors or to any other external body;
- determination of compliance with relevant statutory requirements;
- monitoring compliance with the best practices of corporate governance and identification of significant violations thereof; and
- consideration of any other issue or matter as may be assigned by the Board of Directors.

## MANAGEMENT COMMITTEE

The Committees is headed by Chief Executive and it meets every month.

The purpose of the Management Committee is to improve coordination and review operational issues including costs and budgets, opportunities and threats and facilitate/coordinate timely decision making to improve performance and operating efficiency.

### Functions:

- Periodically reassess the performance with regard to the following operational matters and take / recommend necessary actions for improvement:
    - Plant operations
    - Production performance
    - Shut downs

- Major break-down / failure of equipment
- Gas availability situation
- Gas consumption (energy efficiency)
- Wastages
- Quality of prill (product quality)
- Stores & Spares Inventory
- Manpower
- Sales performance
- Procurement performance
- Implementation of capital projects
- Introduction, enhancement & major changes in IT / systems
- Departmental expenses variance with the budget
- Capital expenditure variance with the budget
- Departmental expenses - monthly
- Litigation and cases pertaining to plant operations
- Implementation of Internal audit recommendations
- Status / progress of I.R. situation
- Environmental, safety & security issues / initiatives
- Recommendations made by other committees
- Major issues (any area)

- To review and approve capital expenditure up to Rs. 200,000/-
- Review and recommend the following to the CEO / Board for approval:

a. Vision / Mission Statement, Core Values and goals and objectives
b. Biz Plan and Budgets
c. Limits of Authority Table
d. Policy changes
e. Major write-offs (products, bad debts, claims etc.)

## STRATEGIC CAPEX COMMITTEE

The Committee is headed by Chief Executive and its meeting is convened as and when required.

The rationale behind 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 execution of approved projects to ensure economical and timely implementation.

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.

### Functions:

The committee forwards its recommendations to the Board of Directors concerning major Capex Projects after reviewing all material aspects of the proposals including the following:

- Capex proposal / justification
- Project cost estimates
- Implementation plan
- Funding plan
- Pay-back (where applicable)
- Projected profitability and cash flow
- Follow-up procedure
- Monitoring of implementation progress
- Review of post implementation performance

## HUMAN RESOURCE COMMITTEE

The Committee is headed by Chief Executive and its meeting is held at least once in a quarter.

The primary objective of the Human Resource Committee is to assist in the promotion of an environment which is conducive to the Company employees for their optimum performance. The Committee periodically advises the Management in adopting measures which will augment energy and interest.

The terms of reference of the Human Resource Committee are to supervise the overall HR function and issue necessary guidelines. Their ambit of responsibilities also include the review and recommendation of the organization structural changes and HR policies, recruitment, promotion and increment criteria and CBA Agreement.

### Functions:

- To perform various HR functions under the guidance of the Board of Directors (BOD).
- Motivate the employees to pursue long-term development and success of the Company.
- Establish and maintain a process to set robust

performance measures and targets that encourage superior executive performance and ethical behaviour.

- Assist the board of Directors in implementing the principles of good corporate governance in day to day management of the Company.
- To motivate employees to pursue the long-term development and success of the Company.
- To review and approve the following in accordance with the approved criteria:
    - Recruitment and Selection.
    - Employment on Contract.
    - Induction of Trainees.
    - Annual Increments & Promotions.
    - Revision and restructuring of Supervisors' Compensation Package
    - Policies and Procedures.
    - Succession planning for key executives.
    - Development plans for key executives with high potential.
    - Local and overseas Training.
    - Job descriptions.
    - Acceptance of resignations.
    - Termination of service.
    - Ex-Pakistan Leave.
    - Organizational changes.
    - Constitution of management team for negotiation of agreement with CBA.
- Any other task assigned by the board of Directors from time to time.

## PROCUREMENT COMMITTEE

The Committee is headed by Chief Executive and it meets once in a week.

The main objective of the Procurement Committee is to facilitate procurement related functions of the Company with a view to ensure timely supply of the required materials at competitive prices and avoid wastage and unnecessary blockage of funds. This Committee is also responsible for scrap disposal.

### Functions:

- To review and approve Local and Off- Shore Purchase Orders.
- To negotiate all long-term and / or high value purchases, e.g.
    - Catalysts and Chemicals
    - PP and Cotton bags
    - Granules
    - Meat and Chicken
    - Vegetables and Fruits
    - Milk, etc.
- To approve the list of Suppliers.
- To review selected indents.
- To get direct information from Suppliers / Market to satisfy themselves about the prices on quotations / POs, where deemed necessary.
- To review the Procurement Budget proposal and give its recommendations for revision / approval thereof.
- To compare the purchases of the Company with the Procurement Budget and review the explanations for material variances, if any.
- To review and, if considered appropriate, approve the list of items declared as scrap.
- To sell the scrap at the best negotiated price.

# Health, Safety And Environment

Dawood Hercules nurtures an environment that values expressions of ideas, the merging of different experiences, teamwork, ethical behaviour and performance, both in the corporate office and at the Plant site. As a responsible employer, the Company ensures that all its operations comply with the Health, Safety and Environmental (HSE) standards. it maintains HSE as a core value which is upheld by our commitment to the following:

- Creating an incident-free environment;
- Conducting business with minimal adverse environmental impact;
- Integrating HSE into all of our business activities;
- Defining HSE value, and;
- Demonstrating industry leadership in HSE performance.

These HSE standards not only create value for the Company and its people, but also our customers, stakeholders and the Country. The main objective of the Dawood Hercules is to ensure that all its operations and processes follow procedures that protect people, property and the environment. These include our dealings with our employees, clients, contractors, suppliers, partners and customers and the surrounding communities. It is imperative that our employees conduct their duties and responsibilities in compliance with the applicable law and industry standards relating to health and safety in the workplace and protection of the environment.

## HEALTH

Occupational health is defined as “the promotion and maintenance of the highest degree of physical, mental and social well-being of workers in all occupations by preventing departures from health, controlling risks and the adaptation of work to people, and people to their jobs”.(ILO/WHO 1950). Employees' occupational health involves two elements; first, how work can influence health, and secondly, how health can affect work. Examples of the former include such incidents as noise exposure causing hearing loss, or improper lighting producing eye strain or headaches; while the latter implies instances such as fitness for air travel, etc. Dawood Hercules employs strict policies regarding health which apply to all employees during recruitment and service. The employment of underage person is strictly prohibited and all employees are required to undergo medical check-ups regularly. There is a dispensary present at the Plant, and an ambulance is available for any emergency.

## SAFETY: Crossing the Six million safe man hours

The year began with Dawood Hercules traversing the Five Million Safe Man-Hours on January 30, 2007, while we reached the Five years' Safe Operation mark on February 25, 2007, without any incidence of Lost Work Injury (LWI). The year ended with the attainment of Six Million Safe Man-Hours on December 25, 2007, which translates to 2,129 safe operation days without any LWI. At the year end, the Company recorded 2,135 days, representing 6,019,932 Man-Hours from the last LWI.

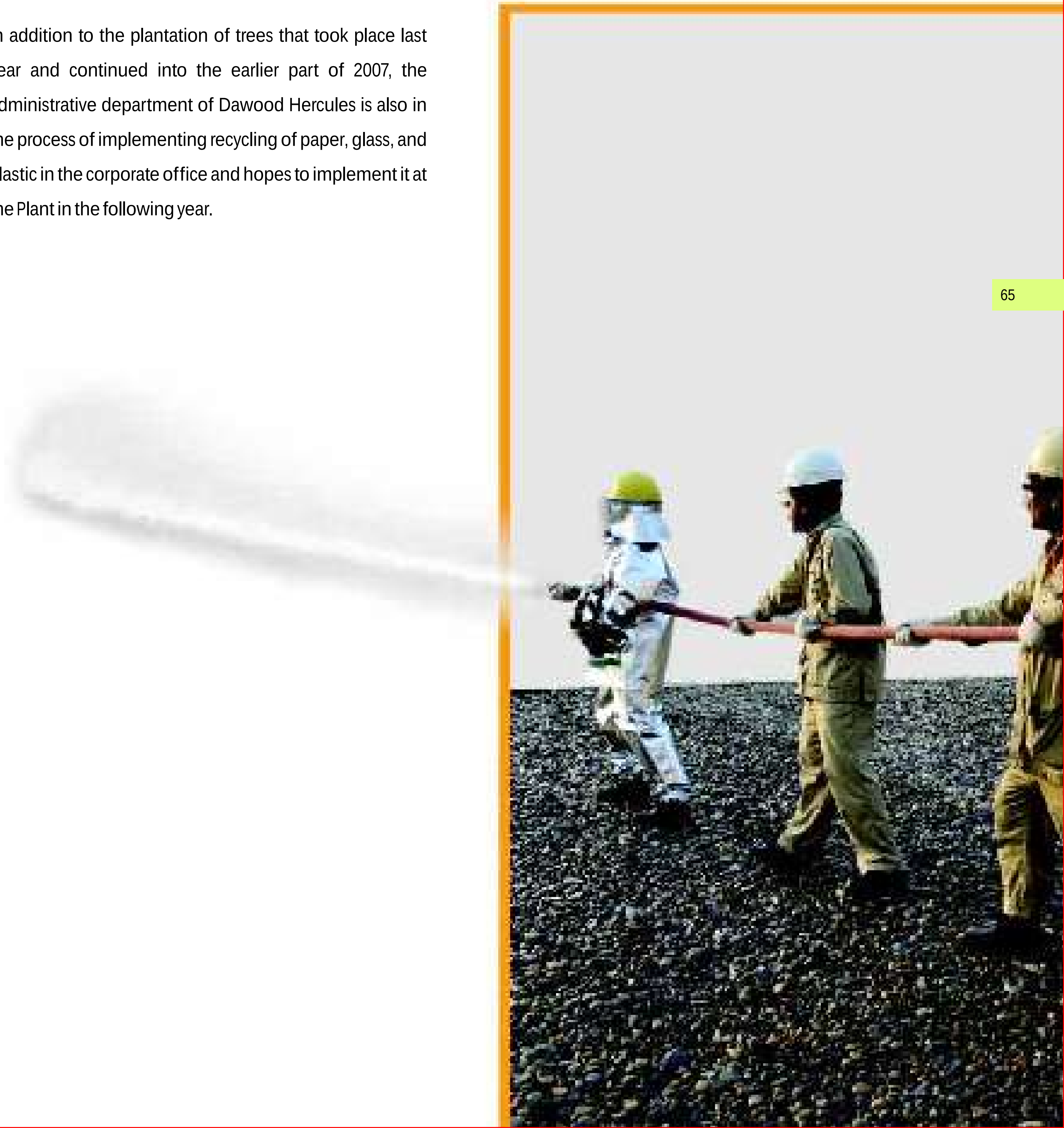
The issue of safety is on-going, and we continue to review our safety processes and have developed and executed a new incident/accident investigation procedure. Furthermore, a Management Safety Audit (MSA) procedure is in the pipeline for implementation. During the year, HSE meetings, Plant Safety Meetings and Monthly Safety Implementation Committee (SIC) Meetings were held. Scheduled area safety inspections took place to check emergency preparedness, safety equipments and safety related issues. In addition, Floor Safety Committees enforced safety methods and strengthened safety alertness at the grass root level through safety awareness campaigns and trainings which comprised of presentations, briefing, video shows, banners, talks and bulletins. First Aid Training Sessions were also held at the plant and head office and the Emergency Exit plan was reviewed. The practice of inducting new employees through Health, Safety & Environment Department continued and refresher courses on the use of various safety equipments were conducted throughout the year. Moreover, safe driving rules (compulsory wearing of seat belts and adhering to speed limits) were put into place for all employees at the Plant and at the office.

## ENVIRONMENT

The importance of protecting the environment has increasingly become a concern the world over. In Pakistan, multiple discourses are emerging about what the government, the corporations and individuals are doing to conserve the environment. We, at the Company feel that it is imperative to ensure that the surrounding atmosphere and the effluent water of the Plant continue to remain well within the limits permitted by the National Environmental Quality Standards. Furthermore, plans are being set in motion by the engineers of the Company to decrease the emission of carbon dioxide at the Plant.

As a part of continual improvement five DH Engineers from the Plant Site and Head Office participated in ISO-14001 (Environment Management System) 5 days training course which was conducted by Moody International.

In addition to the plantation of trees that took place last year and continued into the earlier part of 2007, the administrative department of Dawood Hercules is also in the process of implementing recycling of paper, glass, and plastic in the corporate office and hopes to implement it at the Plant in the following year.



# Corporate Social Responsibility

Corporate Social Responsibility (CSR) has become the duty of every corporation. Organisations usually have their own ideas and definition of what CSR means to them. Simply put; “CSR is about business giving back to society”.[1] But CSR has a much greater and complex role within corporations. From a purely business point of view, CSR activities are greatly beneficial in projecting and enhancing the Company’s image, reputation and brand. CSR activities are also especially effective in developing employee skills of management, team work, and giving. While on a larger scale, it nurtures and promotes a culture of commonality, team loyalty and sharing among people, as well as augments sentiments of having been part of worthwhile and meaningful causes. And lastly, a company performing CSR activities is able to benefit the community and positively contribute to the society as a whole.

For us Corporate Social Responsibility means “the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.”[2] Last year we reported the formation of our CSR Committee which was entrusted with the responsibility to determine and identify the areas where the Company could participate positively to the development and improvement of society and the creation of a better Pakistan as well as fulfil its corporate and civic duty to the Nation. The CSR Committee mapped out and demarcated its funds according to the areas of Health, Education, Environment, Social Benefits and carved out a portion of its budget for emergency relief, as and when required. The Committee has attempted to concentrate on the Sheikhupura area around the DH plant for its philanthropic activities, in order to facilitate the inhabitants of the area in all aspects of communal life.

In the preceding report of 2006, various projects initiated by the CSR were reported to the members. This year the Committee has continued to work in the same vein on the various projects it had kick started previously. It gives us immense pleasure to report the following accomplishment in the areas of social activities:

## HEALTH:

### Blood Donation Drive: Making blood brothers/sisters

Pursuant to the pervious year's success in donating blood, another blood donation drive was organised and this time conducted with Fatimid Foundation. The objective was to collect as many bottles of blood as possible for Hemophiliac or Thalassemic patients, especially children

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1& 2: Corporate social responsibility - What does it mean? (2007, April). Corporate Social Responsibility News and Resources. Retrieved January 10, 2008. Form http://www.mallenbaker.net/csr/CSRfiles/definition.html

## A New Beginning

Gulfam, a 7 year old student in our TCF School was born with a cleft lip and palate, a congenital abnormality that separates him from the rest of his class fellows. Cleft lip is a condition where the plates of the skull that form the roof of the mouth (the hard palate) are not completely joined, leaving either a gap or a hole in the jaw or a ‘hole’ in the roof of the mouth.

Studies show that the incidence of cleft lip deformities are higher among Asians, particularly Pakistanis. The rate of cleft and palate deformities in Pakistan is estimated as 1.91 per 1,000 births. Treatment of this congenital deformity depends upon the type and severity of the condition, and may require a series of corrective surgeries that could span a lifetime.

For Gulfam, who belongs to a poor family in Shiekhupura, the chance to receive treatment is small, due to their meagre resources. The CSR Committee has with the permission of his parents, decided to begin his treatment. At present, he is undergoing various examinations by a team of doctors (which includes an orthodontist and a plastic surgeon) to see how best to proceed in correcting the abnormality.

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Elahi, M.M., Jackson, I.T., Elahi, O., Khan, A.H., Mubarak, F.M., Tariq, G.B., & Mitra, A. (2004). Epidemiology of cleft lip and cleft palate in Pakistan. Plastic & Reconstructive Surgery, 113(6), 1548-1555.

who suffer from these genetic conditions. Thalassemia, especially, continues to proliferate in Pakistan, and it is estimated that 3-8% of the Pakistani population suffers from the disorder[3].

Fatimid Foundation is the largest blood band and haematological services provider in Pakistan that is geared towards the underprivileged[4]. Doing our bit to pull up our sleeves and lend a hand, the Company's employees, their relatives and friends volunteered for the noble cause and donated more than 160 bags of blood. Their humble donation was thankfully acknowledged by the parents of Thalassemic children; whose very survival depends upon receiving a continuous supply of blood.

### Eye Camp: Keeping an eye on Sheikhupura

The DH Plant is located in the surrounding rural areas of Lahore where the majority of inhabitants are unable to obtain affordable treatment within their vicinity for eye conditions. CSR Committee set up a rudimentary camp in November 2006 on an experimental basis which has proved to be extremely successful for eye treatments. Patients were seen on a first come first serve basis. All medicines and necessary surgical procedures were provided free of cost. Food and transportation were also offered to patients.

The Eye Camp from its induction in November 2006 to the close of the year 2007 has treated a total of 11500 patients, out of which 500 patients in danger of losing their vision due to cataracts were successfully operated upon. The Company has spent approximately Rs.2.5 million to date on this cause, which has earned us an enormous amount of gratitude from people, whose excitement in having their sight restored cannot be expressed in words. This has encouraged the Committee to continue and persevere with this activity onto the next year as well as to look for other such endeavours.

## EDUCATION:

### TCF-Dawood Hercules Campus: A Different School of Thought

As reported in our Annual Report for the year 2006, the Company established a school with The Citizens Foundation (TCF), a well-renowned not-for-profit organization. The School is located in the village of Noorpur Virkan, District Sheikhupura, situated across the road from the DH Plant. TCF possesses a vast experience in

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3: See - http://en.wikipedia.org/wiki/Thalassemia,
4: See - http://www.fatimid.org

the field of education and is at present running 455 schools, which impart education to 55,000 students[5]. The construction of the school building began in mid 2006, incurring a cost of Rs. 20 million.

The School became fully functional in summer 2007, and has rapidly filled to capacity, catering to approximately 213 students, who are currently receiving primary education. The Company organised an opening ceremony to mark the occasion on 26th November 2007. The Committee hopes that it will be able to continue its support of the School by extending its capacity in the future. However, for the moment DH has borne the running expenses of the School's first year, which amounts to Rs.1.8 million, and has purchased the entire furniture for the School, in addition to a Suzuki van procured for the transport of the School staff.

## ENVIRONMENT:

### Afforestation: Planting At the Plant

The afforestation of 50 acres of land surrounding the DH Plant began in September 2006 and was completed in March 2007. The project is being maintained by replacing indigenous plants that die with new ones. It is hoped by the Company that the forest will begin to thrive in three years.

### Water Purification : Clean Water for Everyone

The district of Sheikhupura is a heavily industrialised area. Countless factories bellow smoke and steam, consume millions of gallons of water, which is then pumped out as industrial waste; making the search for clean water by the poor communities as gigantic a task as the factories that sprawl over Sheikhupura's horizons.

Realising this dearth of clean drinking water, the CSR Committee tested the water at several sites in the district and has planned to set up four water purification plants, each having a capacity for purifying 1,000 gallons per hour (GPH) at different areas in proximity of the DH plant. At present one of the above-mentioned units is in operation and is providing clean drinking water to the community of Nurpur Virkan[6]. The second unit is scheduled to be up and running by the end of January 2008, whereas the other remaining two units are targeted to be operational by June 2008.

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5. See - http://www.thecitizensfoundation.org

6. Lab tests have been conducted to check the bacterial content of the treated water throug Shaukat Khanum Diagnostic Centre. The results show that the water is now within the parameters for safe drinking.

When dark, tumultuous and tempestuous clouds overcast the rays of hope - each **member** of our corporation **pulls together** to do what we can.

## EMERGENCY RELIEF:

### Baluchistan Flood Relief: Deluge, Destruction and Destitution

A deluge struck the province of Baluchistan, taking with it the homes and infrastructure of the towns and villages. Thousands were left without shelter and electricity, while the rain poured relentlessly, sweeping away everything in its wake. Having learnt the extreme importance of immediate proactivity in the face of disaster from the earthquake that shook the entire Nation in October, 2005; we immediately procured 500 tents that were despatched post-haste to Baluchistan. These efforts were appreciated by the concerned authorities and a note of thanks was issued by the Relief Commissioner of Baluchistan to this effect.

### Bangladesh Ceaseless Cyclones

Almost every year Bangladesh suffers from considerable destruction of life and property due to floods and cyclones. As a disaster-prone country, its people are often left destitute and without access to proper food, shelter, sanitation and medical facilities. For this purpose, the Company sent 10,000 hospital bed sheets as a small contribution on its part.

## SOCIAL BENEFITS:

### Roshni's Special People: Going an Extra Mile

Roshni Association is an NGO driven to care for the needs of special people and provides day care and vocational training to those over the age of sixteen. The organisation concentrates on harmoniously integrating the “three parts of the human life – work, social life and cultural life[7]” according the requirements of the special men and women in 'Roshni Village' located on Bedian Road near Lahore. DH has donated a van for their convenience and the CSR Committee is considering providing them further support in the forthcoming year.

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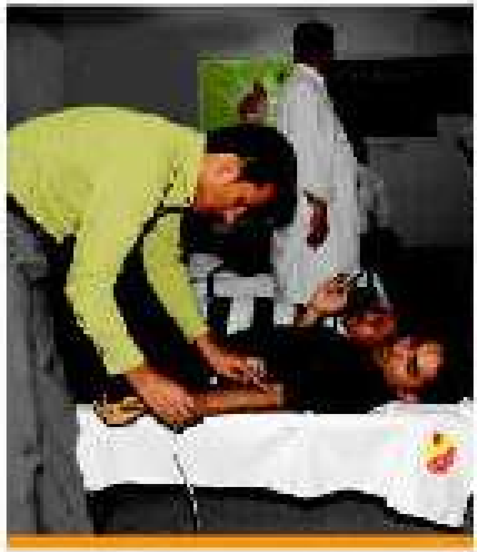
[7] See http://www.roshni.org.pk/community.html



### Blood Donation Drive

- DH employees, friends and relatives participated in blood bank for Haemophilic and Thalassemic patients as volunteers.
- 160 bags of blood collected.

### Eye Camp

- Rs. 2.5 million expended for optical treatment.
- 11,500 patients examined at by the close of the year.
- Approximately 500 patients underwent cataract replacement surgery.

### TCF School

- 213 students under tutelage.
- Imparting quality education to the underprivileged children of Sheikhupura.
- Rs. 20 million spent for building construction.
- Rs. 1.8 million donated for running expenses.

> "Peace, like charity, begins at home"
>
> Franklin D. Roosevelt

### Planting at the Plant

- 50 acres of land reserved for afforestation, of which 42 acres have been covered.
- Approximately 37,000 trees have been planted.
- Forest projected to thrive in 3 to 5 years.

### Water Purification

- 4 water purification plants scheduled in Sheikhupura, each having a capacity to clean 1,000 gallons of water per hour.
- 1 plant in function at TCF.
- Remaining plants to be operational by June '08.

### Emergency Relief

- 500 tents donated to the flood-affected people in Baluchistan.
- 10,000 hospital bed sheets donated to Bangladesh.

### Social Benefits

- A van gifted to Roshni Association.

# Human Resource Management

The Company considers its human resource as the most valuable asset and, therefore, consistently endeavours to create and maintain an environment conducive to their further development. The excellent operational achievements during the year would not have been possible without the commitment and active involvement of our people because an organization cannot achieve its objectives without a motivated workforce.

## Organizational Development

In continuation of the Management's endeavours to optimize professionalism and productivity, an organizational restructuring exercise was undertaken during the year 2007. The Safety and Training Department was bifurcated into two independent departments. The prime objective of the Health, Safety and Environment (HSE) Department was focused on implementing the highest standards of safety and occupational health and to handle the technical and regulatory aspects of the environment. The Training Department, on the other hand, was pressed to organise the training and development functions on professional lines in close coordination with the Human Resources Department. This arrangement is believed to produce further improvements in the quality of the Company's training schemes and facilitate the capacity building and skill development of existing and prospective employees. The Electrical and Instrument Section of the Engineering Department was also split into two independent sections having separate in-charges. The Bagging and Shipping unit of the Production Department was strengthened to improve productivity and efficiency. This organizational re-structuring will continue onto the next year.

## Policy Formulation

Coupled with the organizational changes and development mentioned above; the Management devised various policies for providing an enabling framework whereby various HR policies and procedures were revamped to align them with the changing trends and requirements, in order to empower the employees at different levels of management.

A job rotation and enrichment plan was put in place. This plan is intended to:

- supply exposure to employees in various operations of the Company thus enhancing their decision making ability;
- encourage them to acquire new skills and diversified experience;
- place employees in jobs for which they are best suited;
- attain maximum efficiency and production;

Sharing our work and our duties,makes us brothers.

## HR Transformation

Our effective HR Management involves managing a constant tension between efficiency and effectiveness. In order for our HR team to act as effective business partners, they are geared up to transform the way they operate to focus less on transactional and administrative services and more on strategic value adding activities that support our Company.

## Workforce Transformation

Our HR team designs and implements initiatives that reduce stress in the workplace and create more effective reward programmes - making us an employer of choice.

1- Build an organizational structure that attracts and retains the best available talent.

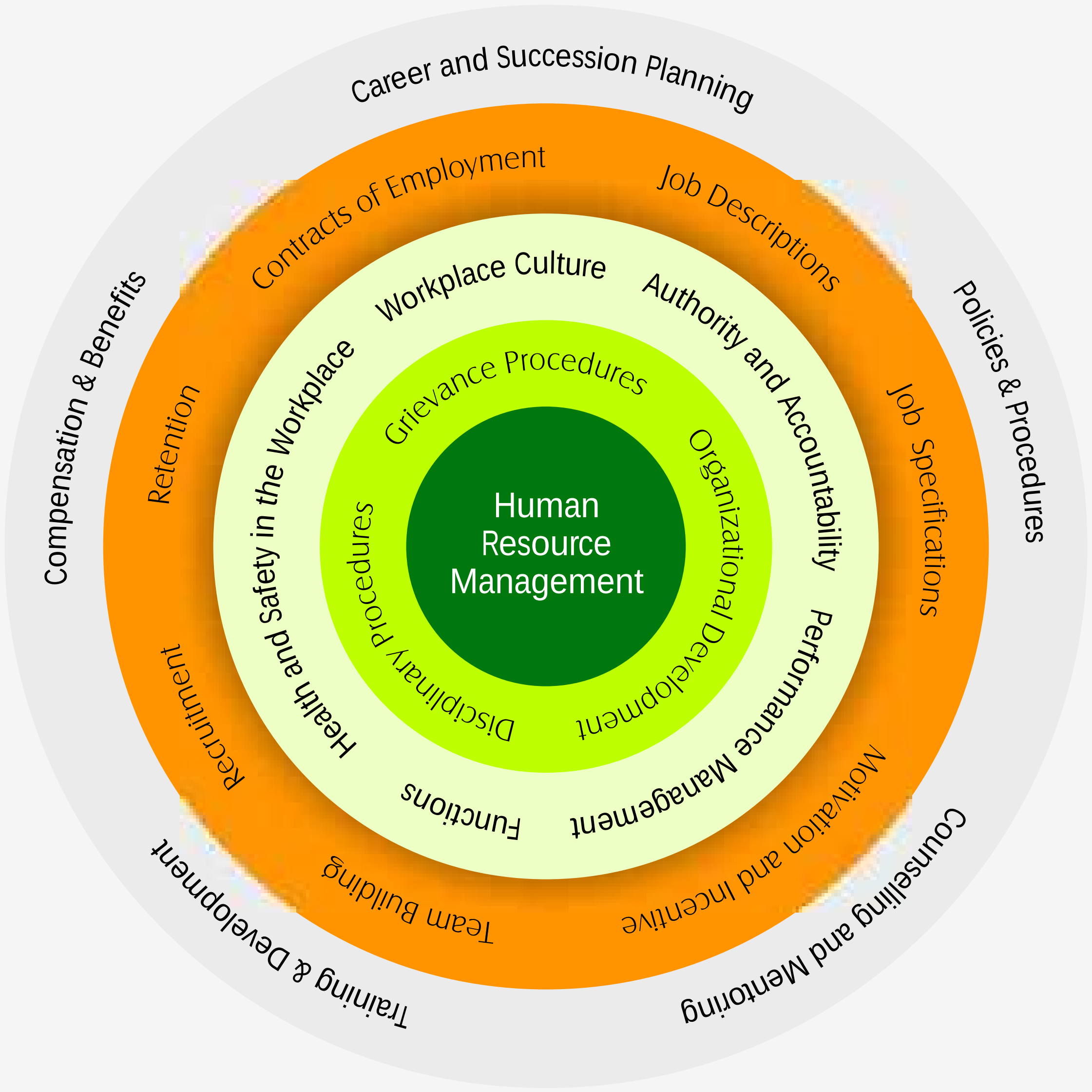
2- Harness the productivity advantages of a Committed workforce.

3- Compete more effectively for the best available people.

## Knowledge Transformation

HR provides assistance to establish our business objectives relating to the new solution, secure executive support, build our business case, and manage the involvement of all key stakeholders.

HR will also develop a tailored programme of employee communications, training and process re-engineering to help achieve our long term objective.



- promote career and succession planning in the organization as a source of motivation especially for employees possessing high leadership and management potential.

This initiative is expected to propel the positive cultural changes already in motion within the Company.

## Training and Development

As a responsible corporate citizen, the Company has played a significant role in training young people for highly technical jobs. Over 1,300 persons including engineers, operators, diploma holders and matriculate apprentices have been trained in the Company's institutionalized training centre. The Graduate Engineers Training Program of the Company was revamped to make it more vigorous and competitive. The 24th batch with increased strength started training during the year. The selection process for Diploma Apprenticeship Training was in the last stage at the year end and the batch is expected to start training early 2008. The stipends for all training schemes were significantly increased to cater to the financial needs of the trainees.

The Company offers internship opportunities to the students of engineering, commerce and management disciplines. This year the internship scheme was also overhauled to make it more progressive and beneficial for the students.

We have continued to invest in the professional development of our employees. Various in-house and outside training programs, seminars and workshops in the areas of management, plant operation and maintenance, information technology, finance, training, et cetera were arranged throughout the year. Senior level employees including Directors were sent abroad with the objective of equipping them with the modern business techniques.

## Compensation and Benefits

The Company offers a competitive compensation package to its employees. The Provident Fund, Gratuity, free medical facility, bonus, transportation, loan facility and other monetary and non-monetary benefits form integral part of the Total Remuneration. In order to keep pace with the rising inflation and market demand for technical staff and to retain the leading edge in the industry, a salary revision exercise was undertaken during the year whereby the salaries of the management staff were significantly raised, especially of the good performers. This initiative was taken in line with the Company's objective of attracting and retaining good employees. Another salary revision exercise is also planned for the year 2008. The salaries of the non-management staff were also increased in accordance with the Settlement with CBA.

## Industrial Relations

Dawood Hercules has always been proud of the cordial relations maintained between the management and employees, which continues to be exemplary. During the year, a new union was elected by the workers and the whole process of elections and transfer of power was completed in a smooth and peaceful manner. During the 37 years history of the Company, there has not been a single incident of workers' strike, lockout or go-slow. A total of 16 settlements have been reached with the Workers Union in a peaceful and amicable environment. Negotiations for the next settlement shall be held after June 2008.

## Employees' Welfare

A performance-driven working environment requires the continued fortification of the employees' morale. In our culture an individual is believed to be an amalgamation of the mind, body and soul. Thus in order to boost the productivity, sense of well being and energy levels of people, an environment must be created that inculcates aspects of harmony, discourse and good wholesome fun.

The employees of the Company are therefore encouraged to arrange and fully participate in the annual sport festival, which involves cricket, badminton, volleyball matches, cycle races and athletics. This year, the DH women and children also participated in the Sports Day competitions. Besides, these sports events, Qirat and Naat competitions, debates and quizzes are also organised. Furthermore, seasonal employee matches of snooker and table tennis occur intermittently in the DH office gymnasium.

The people in the Organisation are not only the most important and crucial asset of the Company, but they create the Company's successes. The Management hence strives to ensure that all cadres of employees continue to remain motivated. In this regard, we have introduced smart new uniforms for all drivers within the Company. We are proud to state that we have organised the serving of meals and refreshments free of cost to the labourers hired contractually in the Bagging and Shipping Department. Furthermore, they have been furnished with uniforms that are designed to protect their shoulders from the heat of the freshly bagged urea. This exercise has greatly improved their performance.

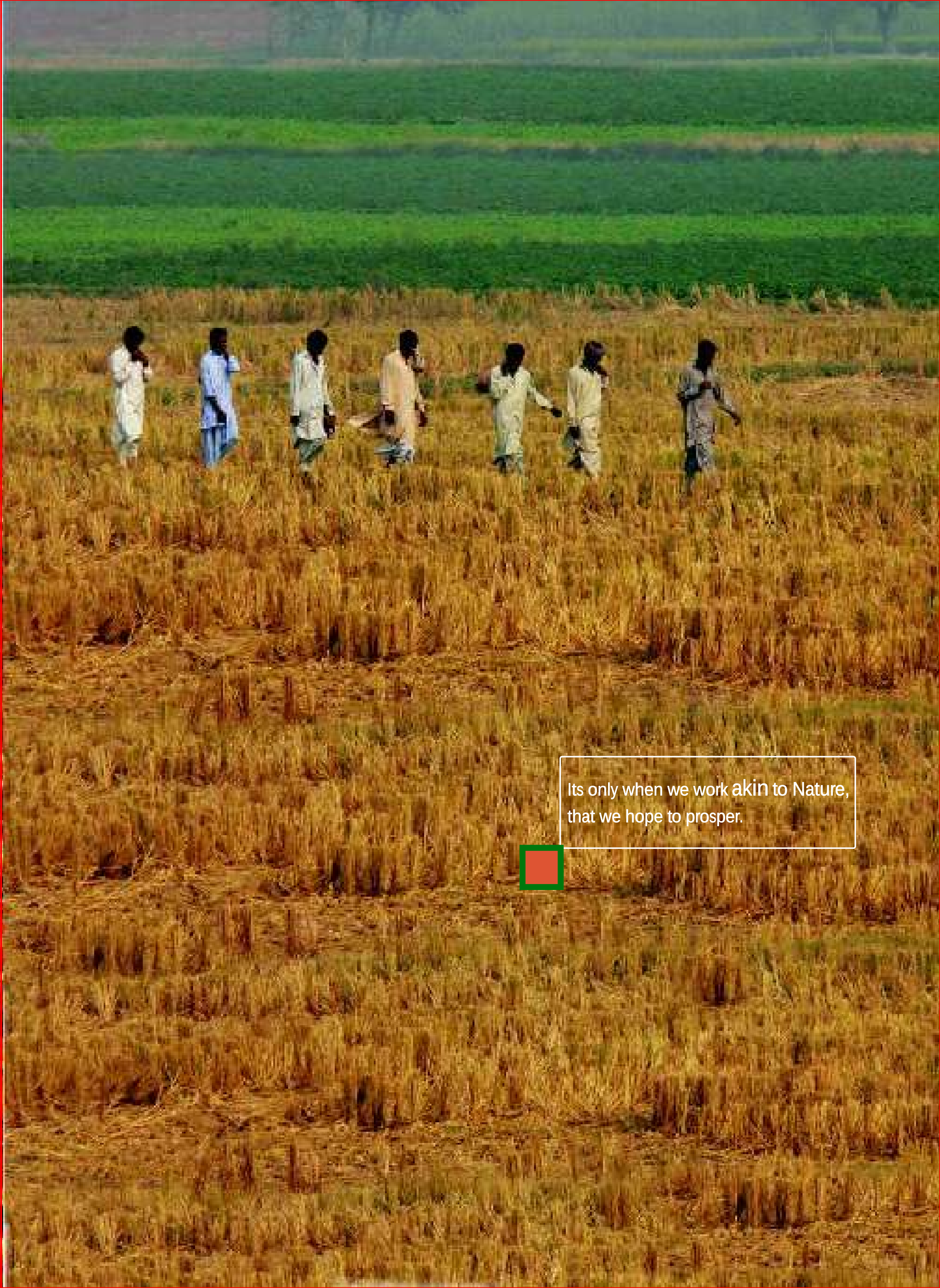
New uniforms of the Bagging and Shipping labourers.

Spirituality is extremely crucial to Pakistanis as it cultivates contentment. DH has a tradition of furnishing the cost of performing Hajj for 16 employees each year that are selected through a draw at the annual DH Haj dinner. Till now, a total of 325 employees have performed the sacred pilgrimage since 1988 under this scheme. In the same way, 4 employees are selected for Umrah every month when a specified production target is achieved. Accordingly, a total of 40 employees were selected through draw during the year. Since the inception of this scheme in 1997, a total of 252 employees have performed Umrah.

# Quality Management System

An effective quality management system underpins a successful organization by providing direction in a systematic and transparent manner. It allows competitiveness, efficient and ensures the ability to deliver what the customer requires in the best way possible.

ISO 9001 is an internationally recognized standard for Quality Management. The standard provides a framework of globally recognized principles of quality management to ensure client's satisfaction through continuous improvement and a systems approach to management and effective leadership. The Quality management system of Dawood Hercules Chemicals Limited was assessed and registered in accordance with quality assurance standard BS EN ISO-9002: 1994 by M/s Moody International in November 1997. Considering quality assurance standards, Dawood Hercules took another initiative in May, June 2001 to upgrade its quality management system from ISO-9002: 1994 to ISO-9001: 2000 quality assurance standard in November 2002. We are at present targeting the attainment of ISO 14001 certification by 2009, by which time we will have fully conformed to all requirements of NEQS.



Driving onwards
and forwards towards
greener pastures.

# Outlook 2008

Demand of different fertilizers during the year 2008 will be determined primarily by the interplay of the following parameters:

- Food production requirement
- Agronomic needs
- Agricultural credit
- Water availability
- Crops and fertilizer prices

Steep rise in the international price of DAP during the recent past is likely to suppress its usage unless the Government allows corresponding increase in the subsidy. Any shrinkage in the DAP application will escalate demand for urea which is otherwise expected to follow the study growth pattern.

The Plant is in a good condition and Urea production for the year 2008 is expected to be in excess of the design capacity.

## ACKNOWLEDGEMENT

The Directors are fully appreciative of the dedication and commitment of employees in all cadres and would like to thank them for their contribution in the progress of the Company.

On behalf of the Board

Shahzada Dawood
Chief Executive Officer

# 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.

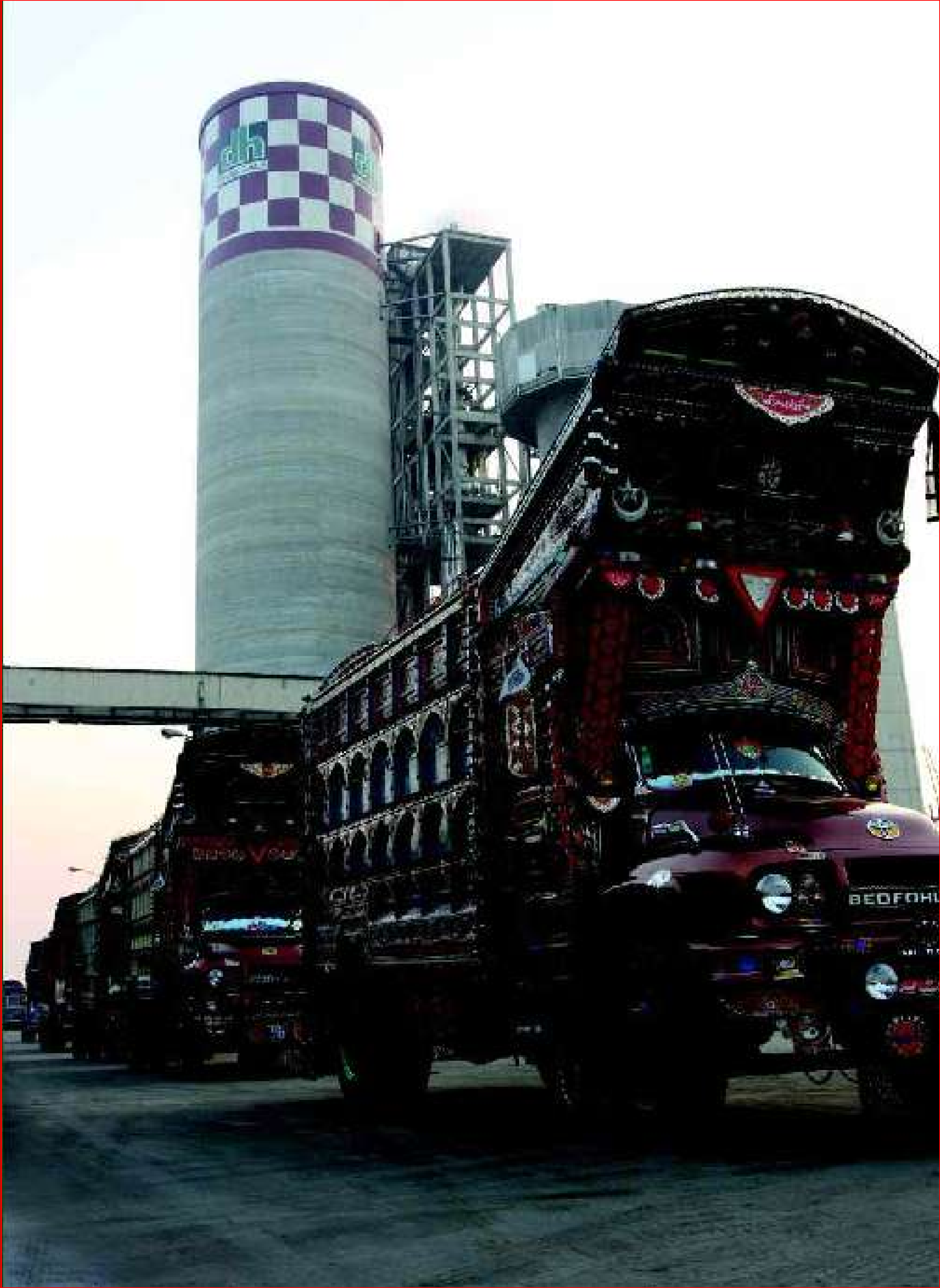
To create safe, healthy environment and friendly atmosphere for the employees.

To improve quality of life for the employees.

> "Cherish your visions and your dreams, as they are the children of your soul, the blueprints of your ultimate achievements".
>
> Napoleon Hill

# 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.



# Financial Statements

# 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 NBFI 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 orientation courses for its Directors and executives 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:
28 January 2008

Shahzada Dawood
Chief Executive

# Review Report to the Members on Statement of Compliance with best practices of Code of Corporate Governance

We have reviewed the statement of compliance with the best practices contained in the Code of Corporate Governance prepared by the Board of Directors of Dawood Hercules Chemicals Limited ("the Company") to comply with the Listing Regulations of the respective Stock Exchanges, where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the statement of compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control system sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention, which causes us to believe that the statement of compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance.

Lahore
28 January 2008

KPMG TASEER HADI & CO.
Chartered Accountants

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# Auditors' Report to the Members

We have audited the annexed balance sheet of Dawood Hercules Chemicals Limited ("the Company") as at 31 December 2007 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 2007 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
28 January 2008

KPMG TASEER HADI & CO.
Chartered Accountants

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# PROFIT AND LOSS ACCOUNT
## For the year ended 31 December 2007

| | Note | 2007 Rupees | 2006 Rupees |
|---|---|---|---|
| Sales - net | 3 | 5,011,002,249 | 3,881,749,695 |
| Cost of goods sold | 4 | 3,148,550,713 | 2,570,246,167 |
| **Gross Profit** | | **1,862,451,536** | **1,311,503,528** |
| Selling and administrative expenses | 5 | 290,879,875 | 236,129,083 |
| **Operating Profit** | | **1,571,571,661** | **1,075,374,445** |
| Finance cost | 6 | 755,840,660 | 555,469,279 |
| Realized gain on disposal of investment in associate | | 8,658,697,711 | - |
| Other income | 7 | 395,240,918 | 1,047,260,406 |
| | | 8,298,097,969 | 491,791,127 |
| **Profit for the year** | | **9,869,669,630** | **1,567,165,572** |
| Other operating expenses | 8 | 74,370,791 | 70,508,258 |
| Profit before taxation and share from Associate | | 9,795,298,839 | 1,496,657,314 |
| Share of profit from Associate | | 1,330,767,095 | 1,092,926,538 |
| **Profit before taxation** | | **11,126,065,934** | **2,589,583,852** |
| Provision for taxation | 9 | 539,700,000 | 212,200,000 |
| Share of taxation from Associate | | 451,919,410 | 323,177,058 |
| | | 991,619,410 | 535,377,058 |
| **Profit after taxation** | | **10,134,446,524** | **2,054,206,794** |
| **Earnings per share - basic and diluted** | 27 | **122.30** | **24.79** |

The annexed notes 1 to 32 form an integral part of these financial statements.

Lahore
28 January 2008

Shahzada Dawood
Chief Executive

A.G. Gohar
Director

# BALANCE SHEET AS AT 31 DECEMBER 2007

| | Note | 2007 Rupees | 2006 Rupees |
|---|---|---|---|
| **Liabilities** | | | |
| **Share Capital And Reserves** | | | |
| Authorized capital | | | |
| **100,000,000 ordinary shares of Rs. 10 each** | | **1,000,000,000** | **1,000,000,000** |
| Issued, subscribed and paid up capital | 10 | 828,662,400 | 828,662,400 |
| Revenue reserves | | 17,841,618,878 | 8,204,369,794 |
| Fair value reserve on short term investments | | 219,050,827 | 240,111,684 |
| | | **18,889,332,105** | **9,273,143,878** |
| **Non Current Liabilities** | | | |
| Long Term Loans | 11 | 6,500,000,000 | - |
| Deferred taxation | 12 | 207,200,000 | 172,200,000 |
| Staff retirement and other service benefits | 13 | 53,353,807 | 45,693,082 |
| | | **6,760,553,807** | **217,893,082** |
| **Current Liabilities** | | | |
| Short term financing - secured | 14 | 2,281,428,109 | 5,924,514,565 |
| Trade and other payables | 15 | 512,953,299 | 490,446,012 |
| Markup payable on secured loans | | 249,436,081 | 169,893,509 |
| Provision for taxation | | 529,000,000 | 86,800,000 |
| | | 3,572,817,489 | 6,671,654,086 |
| **Contingencies And Commitments** | 16 | | |
| | | **29,222,703,401** | **16,162,691,046** |

The annexed notes 1 to 32 form an integral part of these financial statements.

Lahore
28 January 2008

# BALANCE SHEET AS AT 31 DECEMBER 2007

| | Note | 2007 Rupees | 2006 Rupees |
|---|---|---|---|
| **Assets** | | | |
| **Fixed Capital Expenditure** | | | |
| Property, plant and equipment | 17 | 1,188,664,372 | 1,271,931,809 |
| Capital work in progress | 18 | 185,364,261 | 75,442,444 |
| | | **1,374,028,633** | **1,347,374,253** |
| **Investment In Associate** | 19 | 16,610,255,523 | 6,292,386,865 |
| **Long Term Loans And Advances** | 20 | 1,113,125 | 12,799,615 |
| **Current Assets** | | | |
| Stores, spares and loose tools | 21 | 893,254,067 | 759,952,372 |
| Stock in trade | 22 | 867,510,588 | 237,295,434 |
| Trade debts | | 4,742,483 | 2,502,849 |
| Loans, advances, deposits, prepayments and other receivables | 23 | 491,751,391 | 298,706,918 |
| Short term investments | 24 | 7,882,223,476 | 7,155,378,175 |
| Cash and bank balances | 25 | 1,097,824,115 | 56,294,565 |
| | | 11,237,306,120 | 8,510,130,313 |
| | | **29,222,703,401** | **16,162,691,046** |

Shahzada Dawood
Chief Executive

A.G. Gohar
Director

# CASH FLOW STATEMENT
## For the year ended 31 December 2007

| | Note | 2007 Rupees | 2006 Rupees |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| **Profit before taxation** | | **11,126,065,934** | **2,589,583,852** |
| Adjustment for non cash expenses and other items: | | | |
| Depreciation charged to profit and loss account | | 121,309,761 | 81,426,153 |
| Finance costs | | 755,840,660 | 555,469,279 |
| Profit on sale of property, plant & equipment | | (42,308,835) | (1,062,740) |
| Realized gain on disposal of investment in associate | | (8,658,697,711) | - |
| Profit on sale of short term investments | | - | (629,031,905) |
| Unrealized gain due to fair value adjustment of investments at fair value through profit or loss | | (10,401,353) | - |
| Realized gain on disposal of investments at fair value through profit or loss | | (2,204,805) | - |
| Share of profit of associate | | (1,330,767,095) | (1,092,926,538) |
| Liabilities no longer payable written back | | - | (98,979,288) |
| Dividend income | | (326,018,550) | (296,380,500) |
| Provision for staff retirement and other service benefits | | 23,042,475 | 20,273,909 |
| Profit on term deposits | | (2,194,931) | (1,733,302) |
| | | (9,472,400,384) | (1,462,944,932) |
| **Profit before working capital changes** | | **1,653,665,550** | **1,126,638,920** |
| **Working capital changes** | | | |
| **(Increase)/decrease in current assets:** | | | |
| Stocks, stores and spares | | (763,516,849) | (186,305,459) |
| Trade debtors | | (2,239,634) | 1,347,495 |
| Loans, advances, deposits, prepayments and other receivables | | 8,526,909 | 47,363,496 |
| **Increase / (Decrease) in current liabilities:** | | | |
| Trade and other payables | | 21,372,481 | (40,405,885) |
| | | **(735,857,093)** | **(178,000,353)** |
| **Cash generated from operations** | | **917,808,457** | **948,638,567** |
| Finance costs paid | | (676,298,088) | (433,815,050) |
| Taxes paid | | (288,371,382) | (273,086,747) |
| Staff retirement and other service benefits paid | | (15,381,750) | (14,879,906) |
| Decrease/(Increase) in long term loans and advances | | 11,686,490 | (12,155,805) |
| **Net cash(outflow)/inflow from operating activities** | | **(50,556,273)** | **214,701,059** |
| **Cash flow from investing activities** | | | |
| Fixed capital expenditure | | (149,343,686) | (740,653,533) |
| Proceeds from sale of property, plant & equipment | | 43,688,380 | 3,215,388 |
| Profit on term deposits | | 2,194,931 | 1,733,302 |
| Proceeds from disposal of available for sale investments | | - | 2,005,000,000 |
| Proceeds from disposal of investment held for trading | | 408,000,000 | - |
| Proceeds from sale of investment in associate | | 20,215,572,589 | - |
| Investment in associate | | (21,464,235,045) | (466,589,440) |
| Short term investments | | (1,119,000,000) | (5,450,545,000) |
| Dividends received | | 794,357,744 | 972,935,254 |
| **Net cash (outflow) from investing activities** | | **(1,268,765,087)** | **(3,674,904,029)** |
| **Cash flow from financing activities** | | | |
| Short term financing | | (3,643,086,456) | 3,589,614,296 |
| Long term loans | | 6,500,000,000 | - |
| Dividends paid | | (496,062,634) | (472,035,897) |
| **Net cash inflow from financing activities** | | **2,360,850,910** | **3,117,578,399** |
| **Net increase/(decrease) in cash and cash equivalents** | | **1,041,529,550** | **(342,624,571)** |
| **Cash and cash equivalents at the beginning of the year** | | 56,294,565 | 398,919,136 |
| **Cash and cash equivalents at the end of the year** | 25 | **1,097,824,115** | **56,294,565** |

The annexed notes 1 to 32 form an integral part of these financial statements.

| | | |
|---|---|---|
| Lahore<br>28 January 2008 | Shahzada Dawood<br>Chief Executive | A.G. Gohar<br>Director |

# STATEMENT OF CHANGES IN EQUITY
## For the year ended 31 December 2007

| | Share capital | Revenue reserves | | | Fair value reserve | Total |
|---|---|---|---|---|---|---|
| | | General reserve | Unappropriated profit | Total | | |
| | | | Rupees | | | |
| **Balance as at 1st January 2006** | **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 available for sale | - | - | - | - | (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 year | - | - | 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 dividend @ 15% for the year ended 31 December 2006 | - | - | (124,299,360) | (124,299,360) | - | (124,299,360) |
| 2nd interim dividend @ 20% for the year ended 31 December 2006 | - | - | (165,732,480) | (165,732,480) | - | (165,732,480) |
| | 108,086,400 | - | (578,262,240) | (578,262,240) | - | (470,175,840) |
| **Balance as at 31 December 2006** | **828,662,400** | **700,000,000** | **7,504,369,794** | **8,204,369,794** | **240,111,684** | **9,273,143,878** |
| Adjustment arising from measurement to fair value of investments available for sale | - | - | - | - | 3,239,143 | 3,239,143 |
| Net profit for the year | - | - | 10,134,446,524 | 10,134,446,524 | | 10,134,446,524 |
| Total recognised income and expenses for the year | - | - | 10,134,446,524 | 10,134,446,524 | 3,239,143 | 10,137,685,667 |
| Deferred tax arising on unrealised gain from measurement to fair value of investment available for sale | - | - | - | - | (24,300,000) | (24,300,000) |
| Final dividend @ 45% for the year ended 31 December 2006 | - | - | (372,898,080) | (372,898,080) | - | (372,898,080) |
| 1st interim dividend @ 15% for the year ended 31 December 2007 | - | - | (124,299,360) | (124,299,360) | - | (124,299,360) |
| | - | - | (497,197,440) | (497,197,440) | (24,300,000) | (521,497,440) |
| **Balance as at 31 December 2007** | **828,662,400** | **700,000,000** | **17,141,618,878** | **17,841,618,878** | **219,050,827** | **18,889,332,105** |

The annexed notes 1 to 32 form an integral part of these financial statements

| | | |
|---|---|---|
| Lahore<br>28 January 2008 | Shahzada Dawood<br>Chief Executive | A.G. Gohar<br>Director |

# NOTES TO THE FINANCIAL STATEMENTS
## For the year ended 31 December 2007

### 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, purchase and sale of 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 approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

#### 2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention, except for those available for sale and investments at fair value through profit or loss, 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 judgments are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgment 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 judgments were exercised in application of accounting policies are as follows:

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

#### 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. Actuarial valuations are carried out on regular intervals to determine and adjust the liability on the balance sheet date. The actuary, for ascertaining the fair value of assets and liabilities, has adopted the projected unit credit method.

The Company recognizes actuarial gains/losses over the expected future service of current members, 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 2007 to determine the liability at the balance sheet date. Related details are given in note 13 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 recognizes actuarial gains/losses immediately. Valuation for the current year was carried out as at 31 December 2007 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 administrated 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.

Assets residual values ' and useful lives ' are reviewed at each financial year and adjusted if impact on depreciation is significant.

Depreciation is charged on prorata basis on additions from the following month in which the asset is put to use and on disposals up to the month 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.

**Investments at fair value through profit or loss**

Investments that are acquired principally for the purpose of generating profit from short term fluctuations in price or dealer's margin are classified as investment at fair value through profit or loss.

Investments at fair value through profit or loss are initially recognized at cost, being the fair value of the consideration given. Subsequent to initial recognition these are recognized at fair value unless fair value can not be reliably measured. Any surplus or deficit on revaluation of investments is charged to income currently.

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.

### 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

Amendments to published standards effective in 2007

IAS 1 (Amendment) - "Presentation of Financial Statements", is mandatory for the Company's accounting periods beginning on or after 01 January 2007. Adoption of this amendment only impacts the format and extent of disclosures as presented in note 10 to the financial statements.

Standards, amendments and interpretations effective in 2007 but not relevant

Other new standards, amendments and interpretations that are mandatory for the Company's accounting periods beginning on or after 01 January 2007 are considered not to be relevant or have any significant effect to the Company's operations.

Standards or interpretations not yet effective but relevant

IAS 23 "Borrowing Costs" has been revised and is effective for the Company's accounting period beginning after 01 January 2009. Adoption of this standard will have an impact on the accounting policy of the Company for treatment of borrowing cost.

## 3. SALES - NET

| | Note | 2007 Rupees | 2006 Rupees |
|---|---|---|---|
| Own manufactured | | 5,186,195,217 | 4,333,920,696 |
| Less: Sales tax | | 523,165,368 | 452,171,001 |
| | | 4,663,029,849 | 3,881,749,695 |
| Purchased product | | 357,282,618 | - |
| Less: Sales tax | | 9,310,218 | - |
| | | 347,972,400 | - |
| | | **5,011,002,249** | **3,881,749,695** |

## 4 COST OF GOODS SOLD

| | | | |
|---|---|---|---|
| Raw and packing materials consumed | 4.1 | 1,313,798,190 | 1,095,028,600 |
| Fuel and power | | 664,557,495 | 777,794,244 |
| Catalysts and chemicals | | 34,588,528 | 32,780,083 |
| Salaries, wages, benefits and staff welfare | 4.2 | 374,206,667 | 352,273,291 |
| Stores and spares consumed | | 148,785,047 | 158,674,708 |
| Repairs and maintenance | | 48,387,746 | 99,166,907 |
| Travel and conveyance | | 38,054,298 | 40,238,492 |
| Rent, rates and taxes | | 2,295,496 | 2,359,257 |
| Insurance | | 22,019,439 | 17,824,247 |
| Depreciation | 17.2 | 103,147,140 | 64,496,091 |
| Communication, stationery and office supplies | | 3,087,881 | 3,889,767 |
| Other expenses | | 5,146,537 | 2,753,074 |
| | | 2,758,074,464 | 2,647,278,761 |
| Add: Opening stock of work-in-process | | 12,033,657 | 12,182,512 |
| Less: Closing stock of work-in-process | 22 | 9,643,989 | 12,033,657 |
| Cost of goods manufactured | | 2,760,464,132 | 2,647,427,616 |
| Add: Opening stock of finished goods | | 219,646,946 | 142,465,497 |
| Less: Closing stock of finished goods | 22 | 150,131,038 | 219,646,946 |
| Cost of goods sold - Own manufactured | | 2,829,980,040 | 2,570,246,167 |
| - Purchased product | | 318,570,673 | - |
| **Cost of goods sold** | | **3,148,550,713** | **2,570,246,167** |

### 4.1 Raw and packing materials consumed

| | Note | 2007 Rupees | 2006 Rupees |
|---|---|---|---|
| Opening stock | | 5,614,831 | 9,784,439 |
| Add: Purchases | | 1,311,960,501 | 1,090,858,992 |
| | | 1,317,575,332 | 1,100,643,431 |
| Less: Closing stock | 22 | 3,777,142 | 5,614,831 |
| | | **1,313,798,190** | **1,095,028,600** |

**4.2** Salaries, wages, benefits and staff welfare include Rs. 6.564 million (2006: Rs. 6.281 million) in respect of contribution to staff gratuity funds and Rs. 12.194 million (2006: Rs. 11.161 million) in respect of provident funds.

## 5 SELLING AND ADMINISTRATIVE EXPENSES

| | Note | 2007 Rupees | 2006 Rupees |
|---|---|---|---|
| Salaries, wages, benefits and staff welfare | 5.1 | 131,429,544 | 118,413,092 |
| Communication, stationery and office supplies | | 36,058,152 | 29,913,561 |
| Rent, rates and taxes | | 26,930,315 | 19,818,513 |
| Travel and conveyance | | 22,619,658 | 21,401,824 |
| Repairs and maintenance | | 14,017,805 | 14,937,467 |
| Depreciation | 17.2 | 18,162,621 | 16,930,062 |
| Legal and professional charges | | 16,595,592 | 3,770,074 |
| Sales promotion, advertising and market development | | 11,117,425 | 4,507,605 |
| Insurance | | 845,211 | 688,780 |
| Donations | 5.2 | 5,512,400 | 31,500 |
| Other expenses | | 7,591,152 | 5,716,605 |
| | | **290,879,875** | **236,129,083** |

**5.1** Salaries, wages, benefits and staff welfare include Rs. 3.021 million (2006: Rs. 2.686 million) in respect of contribution to staff gratuity funds and Rs. 5.375 million (2006: Rs. 5.314 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.

## 6 FINANCE COST

| | Note | 2007 Rupees | 2006 Rupees |
|---|---|---|---|
| Mark-up: Short term financing | | 546,163,411 | 555,424,779 |
| Long term financing | | 209,611,649 | - |
| Interest on workers' profits participation fund | 15.3 | 65,600 | 44,500 |
| | | **755,840,660** | **555,469,279** |

## 7 OTHER INCOME

| | Note | 2007 Rupees | 2006 Rupees |
|---|---|---|---|
| Income from financial assets: | | | |
| Profit on sale of short term investments available for sale | | - | 629,031,905 |
| Realized gain on disposal of investments at fair value through profit or loss | | 2,204,805 | - |
| Unrealized gain due to fair value adjustment of investment at fair value through profit or loss | | 10,401,353 | - |
| Income from term deposits | | 2,194,931 | 1,733,302 |
| | | **14,801,089** | **630,765,207** |
| Income from related parties: | | | |
| Dividend income from | | | |
| Sui Northern Gas Pipelines Limited | | 326,018,550 | 296,380,500 |
| Income from non-financial assets: | | | |
| Sale of scrap | | 6,546,919 | 16,037,957 |
| Profit on sale of property, plant and equipment | | 42,308,835 | 1,062,740 |
| Liabilities no longer payable written back | | - | 98,979,288 |
| Miscellaneous | | 5,565,525 | 4,034,714 |
| | | 54,421,279 | 120,114,699 |
| | | **395,240,918** | **1,047,260,406** |

## 8 OTHER OPERATING EXPENSES

| | | | |
|---|---|---|---|
| Workers' profits participation fund | 15.3 | 40,755,801 | 25,968,258 |
| Workers' welfare fund | 15 | 33,000,000 | 44,000,000 |
| Auditors' remuneration: | | | |
| Audit fee | | 500,000 | 425,000 |
| Half year review and other certifications | | 80,000 | 80,000 |
| Out of pocket expenses | | 34,990 | 35,000 |
| | | **74,370,791** | **70,508,258** |

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 advisor of the Company.

## 9 PROVISION FOR TAXATION

| | | |
|---|---|---|
| Current | | |
| For the year | 529,000,000 | 104,000,000 |
| Prior period | - | (17,200,000) |
| Deferred | 10,700,000 | 125,400,000 |
| | **539,700,000** | **212,200,000** |

### 9.1 Reconciliation of tax charge for the year

| | 2007 % | 2006 % |
|---|---|---|
| Applicable tax rate | 35.00 | 35.00 |
| Tax effect of amounts that are not deductible for tax purposes | 1.63 | 0.05 |
| Tax effect of amount that relate to prior periods | 0.00 | (0.66) |
| Tax effect of amounts exempt from tax | (27.25) | (9.64) |
| Tax effect of amount taxed at lower rate | (0.73) | (3.43) |
| Tax effect of associate | 0.26 | (0.66) |
| **Average effective rate charged on income** | **8.91** | **20.66** |

## 10 ISSUED, SUBSCRIBED AND PAID UP CAPITAL

| 2007 No. of shares | 2006 No. of shares | | 2007 Rupees | 2006 Rupees |
|---|---|---|---|---|
| 13,900,000 | 13,900,000 | Ordinary shares of Rs 10 each fully paid in cash | 139,000,000 | 139,000,000 |
| 68,966,240 | 68,966,240 | Ordinary shares of Rs 10 each issued as fully paid bonus shares | 689,662,400 | 689,662,400 |
| **82,866,240** | **82,866,240** | | **828,662,400** | **828,662,400** |

### 10.1 Reconciliation of issued, subscribed and paid up capital

| | 2007 No. of shares | 2006 No. of shares |
|---|---|---|
| Outstanding as at 01 January | 82,866,240 | 72,057,600 |
| Fully paid bonus shares issued during the year | - | 10,808,640 |
| | **82,866,240** | **82,866,240** |

### 10.2 Shares held by related parties

| | 2007 No. of shares | 2006 No. of shares |
|---|---|---|
| **Dawood Lawrencepur Limited** | | |
| Percentage of equity held 16.19% (2006: 16.19%) | 13,418,027 | 13,418,027 |
| **Dawood Corporation (Private) Limited** | | |
| Percentage of equity held 4.34% (2006: 4.34%) | 3,593,786 | 3,593,786 |
| **The Dawood Foundation** | | |
| Percentage of equity held 3.95% (2006: 3.95%) | 3,273,415 | 3,273,415 |
| **Central Insurance Company Limited** | | |
| Percentage of equity held 2.97% (2006: 3.00%) | 2,462,081 | 2,486,581 |
| **Patek (Private) Limited** | | |
| Percentage of equity held 0.032% (2006: 0.032%) | 26,737 | 26,737 |
| **Sach International (Private) Limited** | | |
| Percentage of equity held 0.001% (2006: 0.001%) | 1,205 | 1,205 |
| | 22,775,251 | 22,799,751 |

**10.3** The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Company defines as net operating income divided by total shareholders' equity.

**The Company's objectives when managing capital are:**

**a)** to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and

**b)** to provide an adequate return to shareholders by pricing products commensurately with the level of risk.

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new shares, or sell assets to reduce debt.

Consistently with others in the industry, the Company monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Net debt is calculated as total debt (as shown in the balance sheet) less cash and cash equivalents. Adjusted capital comprises all components of equity (i.e share capital, share premium and retained earnings).

The debt-to-equity ratios at 31December 2007 and at 31 December 2006 were as follows:

| | 2007 Rupees | 2006 Rupees |
|---|---|---|
| Total debt | 8,781,428,109 | 5,924,514,565 |
| Less: cash and cash equivalents | (1,097,824,115) | (56,294,565) |
| Net debt | 7,683,603,994 | 5,868,220,000 |
| Total equity | 18,889,332,105 | 9,273,143,878 |
| **Debt-to-equity ratio** | **0.41** | **0.63** |

The decrease in the debt-to-equity ratio during 2007 resulted primarily from the capital gain realized on the sale of investment in associate amounting to Rs. 8,659.697 million, improved profitability and higher sales volume resulting in significant increase in equity.

During the year the Company has changed its approach to capital management by financing its activities through long term rather than short term financing arrangements.

The Company is not subject to externally imposed capital requirements.

## 11 LONG TERM LOANS

**Participatory Redeemable capital - secured**

| Participatory | 2007 | | 2006 | |
|---|---|---|---|---|
| | Number of Sukuk Certificates | Face Value Rs. of Consolidated Sukuk Certificates | Number of Sukuk Certificates | Face Value Rs. of Consolidated Sukuk Certificates |
| **Banks** | | | | |
| Habib Bank Limited | 60,000 | 3,000,000,000 | - | - |
| Meezan Bank Limited | 20,000 | 1,000,000,000 | - | - |
| Allied Bank Limited | 20,000 | 1,000,000,000 | - | - |
| United Bank Limited | 12,000 | 600,000,000 | - | - |
| MCB Bank Limited | 14,000 | 700,000,000 | - | - |
| Meezan Islamic Income Fund | 3,950 | 197,500,000 | - | - |
| Meezan Tahaffuz Pension -Fund-Debt Sub Fund | 50 | 2,500,000 | - | - |
| **Total** | **130,000** | **6,500,000,000** | **-** | **-** |

Participatory redeemable capital represents Islamic Sukuk certificates issued to banks under musharaka arrangements. The loan is secured by a ranking charge created by way of hypothecation over the specific moveable fixed assets of the Company upto the extent of Rs. 7.72 billion, comprising various machinery of urea and ammonia plant .The facility carries mark-up at average six months ask side KIBOR plus 120 bps payable half yearly subject to a minimum of 3.5% per annum and a maximum of 25% per annum.

**Trustee**

In order to protect the interest of the Certificate Holders, and investment agent (Meezan Bank Ltd.) has been appointed as trustee under a trust deed dated 12 September 2007 at fee of Rs. 500,000 each year till the expiry of the agreement. in case the Company defaults on any of its obligations, the trustee may enforce the Company's obligations in accordance with the terms of the trust deed.

**TERM OF PAYMENT**

The principal amount is repayable according to the following schedule:

| Payment | Date | (Rupees in 000) |
|---|---|---|
| First Trenche | at any time between 18 September 2008 to 18 September 2011 | 1,300,000 |
| Second Trenche | 18 March 2012 | 2,600,000 |
| Third Trenche | 18 September 2012 | 2,600,000 |
| | | **6,500,000** |

In case of default in payment, the Company will be liable to pay an markup at the rate six month KIBOR plus 200 bps per annum of the unpaid amount.

Face value of each sukuk certificate is Rs 50,000 which consist of 13 sukuk unit.

**Call option**

Under the Musharaka arrangement the Company carries a right to exercise "Call Option" to purchase all or any of the Sukuk units from certificate holders at their applicable Buy Out Prices (Pre Purchase) at any time after the expiry of one year from the issue date. "The Call Option" can be exercised by the company after giving a prior written notice of at least thirty days of its intention to purchase all or any of the remaining Sukuk Units having aggregate face value of multiple of Rs. 100 million.

## 12 DEFERRED TAXATION

| Note | 2007 Rupees | 2006 Rupees |
|---|---|---|
| Deferred liability arising due to accelerated depreciation allowance | 158,700,000 | 170,700,000 |
| Deferred liability arising due to unrealized profits of associate | 23,400,000 | 17,500,000 |
| Deferred debits arising in respect of provision for gratuity and other timing differences | 800,000 | (16,000,000) |
| Deferred liability arising due to unrealized gain on investments | 24,300,000 | - |
| | **207,200,000** | **172,200,000** |

## 13 STAFF RETIREMENT AND OTHER SERVICE BENEFITS

| | | | |
|---|---|---|---|
| Defined benefit plan funded for management staff | 13.1 | 162,973 | 215,607 |
| Defined benefit plan funded for non-management staff | 13.2 | 571,396 | 656,003 |
| Compensated absences | 13.4 | 52,619,438 | 44,821,472 |
| | | **53,353,807** | **45,693,082** |

### 13.1 Defined benefit plan funded for management staff

| | | | |
|---|---|---|---|
| Amounts recognized in the balance sheet are as follows: | | | |
| Present value of defined benefit obligation | 13.1.1 | 101,938,100 | 86,624,636 |
| Fair value of plan assets | 13.1.2 | (72,006,260) | (76,475,907) |
| Unrecognized actuarial losses | | (29,768,867) | (9,933,122) |
| **Liability as at 31 December** | | **162,973** | **215,607** |
| Net liability as at 01 January | | 215,607 | 11,951 |
| Charge to profit and loss account | 13.1.3 | 7,664,314 | 6,062,697 |
| Contribution made by the Company | | (7,716,948) | (5,859,041) |
| **Liability as at 31 December** | | **162,973** | **215,607** |

### 13.1.1 Movement in liability for defined benefit obligation

| | | |
|---|---|---|
| Present value of defined benefit obligation as at 01 January | 86,624,636 | 83,827,648 |
| Current service cost | 7,374,504 | 5,643,405 |
| Interest cost | 7,796,217 | 7,544,488 |
| Benefits paid during the year | (10,986,053) | (13,529,960) |
| Actuarial loss on present value of defined benefit obligation | 11,128,796 | 3,139,055 |
| **Present value of defined benefit obligation as at 31 December** | **101,938,100** | **86,624,636** |

### 13.1.2 Movement in fair value of plan assets

| | 2007 Rupees | 2006 Rupees |
|---|---|---|
| Fair value of plan assets as at 01 January | 76,475,907 | 79,168,843 |
| Expected return on plan assets | 7,647,591 | 7,125,196 |
| Contributions paid during the year | 7,716,948 | 5,859,041 |
| Benefits paid during the year | (10,986,053) | (13,529,960) |
| Actuarial (loss) on plan assets | (8,848,133) | (2,147,213) |
| **Fair value of plan assets as at 31 December** | **72,006,260** | **76,475,907** |
| 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 | 67,506,260 | 71,975,907 |
| | **72,006,260** | **76,475,907** |

### 13.1.3 Charge to profit and loss account

| | | |
|---|---|---|
| Current service cost | 7,374,504 | 5,643,405 |
| Interest cost | 7,796,217 | 7,544,488 |
| Expected return on plan assets | (7,647,591) | (7,125,196) |
| Actuarial loss | 141,184 | - |
| | **7,664,314** | **6,062,697** |

**13.1.4** Actual return on plan assets of funded gratuity scheme was Rs. 1.201 million (2006: Rs. 4.978 million).

### 13.1.5 Historical information

| | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| | Rupees | | | | |
| Present value of defined benefit obligation | 101,938,100 | 86,624,636 | 83,827,648 | 78,908,628 | 74,514,461 |
| Fair value of plan assets | (72,006,260) | (76,475,907) | (79,168,843) | (74,907,260) | (68,550,166) |
| **Deficit in the plan** | **29,931,840** | **10,148,729** | **4,658,805** | **4,001,368** | **5,964,295** |
| Experience adjustment arising on plan liabilities | 11,128,796 | 3,139,055 | (890,429) | (1,038,023) | 619,179 |
| Experience adjustment arising on plan assets | (8,848,133) | (2,147,213) | (1,772,405) | (1,830,016) | (370,979) |

**13.1.6** The Company expects to pay Rs. 13.762 million in contributions to defined benefit plan in 2008.

### 13.2 Defined benefit plan funded for non-management staff

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

---

| | Note | 2007 Rupees | 2006 Rupees |
|---|---|---|---|
| Amounts recognized in balance sheet are as follows: | | | |
| Present value of defined benefit obligation | 13.2.1 | 39,770,746 | 43,163,618 |
| Fair value of plan assets | 13.2.2 | (41,480,476) | (42,507,615) |
| Unrecognized actuarial losses | | 2,281,126 | - |
| **Liability as at 31 December** | | **571,396** | **656,003** |
| Net liability as at 01 January | | 656,003 | - |
| Charge to profit and loss account | 13.2.3 | 2,021,117 | 2,904,736 |
| Contribution made by the Company | | (2,105,724) | (2,248,733) |
| **Liability as at 31 December** | | **571,396** | **656,003** |

### 13.2.1 Movement in liability for defined benefit obligation

| | | |
|---|---|---|
| Present value of defined benefit obligation as at 01 January | 43,163,618 | - |
| Current service cost | 1,962,076 | - |
| Interest cost | 3,884,726 | - |
| 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 | (2,127,409) | (3,786,978) |
| Actuarial (gain) on present value of defined benefit obligation | (7,112,265) | - |
| **Present value of defined benefit obligation as at 31 December** | **39,770,746** | **43,163,618** |

### 13.2.2 Movement in fair value of plan assets

| | | |
|---|---|---|
| Fair value of plan assets at 01 January | 42,507,615 | - |
| Expected return on plan assets | 3,825,685 | - |
| Assets transferred from defined contribution to defined benefit plan | - | 44,045,860 |
| Contributions paid during the year | 2,105,724 | 2,248,733 |
| Benefits paid during the year | (2,127,409) | (3,786,978) |
| Actuarial (loss) on plan Assets | (4,831,139) | - |
| Fair value of plan assets at 31 December | 41,480,476 | 42,507,615 |
| **Plan assets consist of the following:** | | |
| Funds placed under mark up arrangements with banks | 37,500,000 | 37,500,000 |
| Cash at bank | 3,980,476 | 5,007,615 |
| | **41,480,476** | **42,507,615** |

### 13.2.3 Charge to profit and loss account

| | | |
|---|---|---|
| Current service cost | 1,962,076 | - |
| Interest cost | 3,884,726 | - |
| 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 | (3,825,685) | - |
| | **2,021,117** | **2,904,736** |

**13.2.4** The Company expects to pay Rs. 1.914 million in contributions to defined benefit plan in 2008.

**13.3** Assumptions used for valuation of the defined benefit schemes for management and non-management staff are as under:

| | Note | 2007 % per annum | 2006 % per annum |
|---|---|---|---|
| Discount rate | | 10 | 9 |
| Expected rate of return on plan assets | | 10 | 9 |
| Expected rate of increase in salary | | 9 | 8 |

Average expected remaining working life time of management and non-management employees is 9 years and 10 years respectively.

### 13.4 COMPENSATED ABSENCES

| | Note | 2007 Rupees | 2006 Rupees |
|---|---|---|---|
| Opening balance | | 44,821,472 | 40,287,128 |
| Expenses recognized during the year | | 13,357,044 | 11,306,476 |
| Payments made during the year | | (5,559,078) | (6,772,132) |
| **Closing balance** | | **52,619,438** | **44,821,472** |

## 14 SHORT TERM FINANCING - SECURED

| | | | |
|---|---|---|---|
| Running finance | 14.1 | 196,477,709 | 5,924,514,565 |
| Murabaha finance-of purchase of shares | 14.2 | 1,202,926,000 | - |
| Murabaha finance-for import of DAP fertilizer | 14.3 | 882,024,400 | - |
| | | **2,281,428,109** | **5,924,514,565** |

**14.1** These represent utilized portion of short term running finance facilities available from various banks under mark-up arrangements. These facilities aggregate Rs. 3,100 million (2006: Rs. 9,300 million) and expire on various dates latest by 31 May 2008, carrying mark-up rates of one to three months KIBOR plus 75-125 (2006: KIBOR plus 75-125) 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 2007 was Rs. 6,275 million (2006: Rs. 8,957 million).

**14.2** This represent short term Murabaha finance facility availed from Meezan Bank Limited and Habib Bank Limited for purchase of shares. The facility carries mark-up @ 3-month KIBOR plus100 bps per annum payable quarterly and the principal amount is payable in lump-sum at the end of tenor i.e 15 August 2008.This facility is secured against pledge of share with 30% margin thereon.

**14.3** This represent short term Murabaha finance facility availed from Meezan Bank Limited and Bank AL Habib Limited for import of DAP fertilizer. The facility carries mark-up @ 3-month KIBOR plus 50 bps per annum. The facility aggregate available is Rs. 1,900 million (2006-nil). The principal and profit to Meezan Bank Limited is to be paid in lump sum at maturity date which is 150 days from the date of draw down i.e 5 March 2008. For Bank AL Habib Limited principal and profit is to be paid within a maximum period of 120 days from the date of draw down i.e 2 February 2008. This facility is secured against pledge of share of Engro Chemical Pakistan Limited with 30% margin coverage.

## 15 TRADE AND OTHER PAYABLES

| | Note | 2007 Rupees | 2006 Rupees |
|---|---|---|---|
| Trade creditors | | | |
| Related parties | 15.1 | 175,312,772 | 189,682,058 |
| Others | | 21,323,698 | 28,692,284 |
| | | 196,636,470 | 218,374,342 |
| Advances from customer-related party | 15.1 | 72,607,039 | 3,276,640 |
| Unclaimed dividends | | 15,602,774 | 14,467,968 |
| Accrued expenses | | 72,748,449 | 113,340,245 |
| Sales tax payable | | 59,328,680 | 45,429,445 |
| Deposits | 15.2 | 15,615,681 | 16,583,313 |
| Workers' profits participation fund | 15.3 | 40,978,956 | 26,125,813 |
| Workers' welfare fund | 8 | 33,000,000 | 44,000,000 |
| Others | | 6,435,250 | 8,848,246 |
| | | **512,953,299** | **490,446,012** |

**15.1** The maximum aggregate amount due from related parties at the end of any month during the year was Rs. 484.312 million (2006: Rs. 521.270 million).

**15.2** The above deposits are interest free and repayable on demand or otherwise adjustable in accordance with the Company's policy. These deposits include Rs. 10 million (2006: Rs. 10 million) received from Dawood Corporation (Private) Limited, a related party, as deposit money under the urea sales agreement.

### 15.3 Workers' profits participation fund

| | Note | 2007 Rupees | 2006 Rupees |
|---|---|---|---|
| Balance at the beginning of the year | | 26,125,813 | 40,053,098 |
| Add: Allocation for the year | 8 | 40,755,801 | 25,968,258 |
| Interest on funds used in the Company's business | 6 | 65,600 | 44,500 |
| | | 66,947,214 | 66,065,856 |
| Less: Amount paid to the fund | | 25,968,258 | 39,940,043 |
| | | **40,978,956** | **26,125,813** |

## 16 CONTINGENCIES AND COMMITMENTS

### 16.1 Contingent liabilities

| **The Company is contingently liable for:** | | |
|---|---|---|
| Counter guarantees given to the bank | 2,171,467 | 2,171,467 |
| Indemnity bonds/guarantees given to Customs authorities equivalent to duties chargeable on import of machinery payable if matter is decided by the CBR against the Company regarding the eligibility of certain machinery and equipment for duty free import under BMR programme (contingent liability of capital nature) | 45,811,747 | 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 |

### 16.2 Commitments

| | | |
|---|---|---|
| Commitments in respect of contracts for capital expenditure | 26,798,610 | - |
| Commitments in respect of store purchases | 75,759,049 | 41,906,472 |

## 17 PROPERTY, PLANT AND EQUIPMENT

| | COST in Rupees | | | | DEPRECIATION in Rupees | | | | Net book value as at 31-12-2007 Rupees |
|---|---|---|---|---|---|---|---|---|---|
| | As at 01-01-2007 | Additions | Disposals | As at 31-12-2007 | As at 01-01-2007 | For the Period | Disposals | As at 31-12-2007 | |
| Freehold land | 249,982,856 | 674,000 | - | 250,656,856 | - | - | - | - | 250,656,856 |
| Buildings on freehold land | 105,003,968 | 9,631,834 | - | 114,635,802 | 70,059,838 | 3,581,501 | - | 73,641,339 | 40,994,463 |
| Railway siding | 2,314,451 | - | - | 2,314,451 | 2,291,307 | - | - | 2,291,307 | 23,144 |
| Plant and machinery | 2,531,789,012 | 9,900,197 | 10,000,000 | 2,531,689,209 | 1,681,519,472 | 72,769,406 | 9,900,000 | 1,744,388,878 | 787,300,331 |
| Catalysts | 137,640,283 | - | - | 137,640,283 | 74,915,353 | 19,384,809 | - | 94,300,162 | 43,340,121 |
| Furniture, fittings and equipment | 46,498,089 | 1,227,311 | - | 47,725,400 | 38,090,071 | 1,660,693 | - | 39,750,764 | 7,974,636 |
| Data processing equipment | 93,749,202 | 2,791,700 | - | 96,540,902 | 73,277,773 | 10,337,193 | - | 83,614,966 | 12,925,936 |
| Motor vehicles | 92,838,888 | 15,196,827 | 11,933,655 | 96,102,060 | 47,731,126 | 13,576,159 | 10,654,110 | 50,653,175 | 45,448,885 |
| **2007** | **3,259,816,749** | **39,421,869** | **21,933,655** | **3,277,304,963** | **1,987,884,940** | **121,309,761** | **20,554,110** | **2,088,640,591** | **1,188,664,372** |
| **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** | **1,271,931,809** |

**17.1** Cost of fully depreciated assets is (i.e carried at 1% of cost) Rs. 1,714.480 million (2006: Rs. 1,717.317 million).

**17.2** Depreciation charge for the year has been allocated as follows:

| | Note | 2007 Rupees | 2006 Rupees |
|---|---|---|---|
| Cost of goods sold | 4 | 103,147,140 | 64,496,091 |
| Selling and administrative expenses | 5 | 18,162,621 | 16,930,062 |
| | | **121,309,761** | **81,426,153** |

### 17.3 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 | Rupees | Rupees | Rupees | Rupees |
| **Plant and machinery** | | | | | | |
| Harp Assembly | NIQ Traders | 10,000,000 | 9,900,000 | 100,000 | 37,861,000 | Negotiations |
| **Motor vehicles** | Employees | | | | | |
| Toyota Corolla | Shakeel Chughtai (P - 404) | 909,340 | 121,246 | 788,094 | 831,295 | As per Company Policy |
| Suzuki Mehran | Ashraf R. Krimi (IT - 002) | 385,098 | 243,896 | 141,202 | 166,876 | As per Company Policy |
| Suzuki Mehran | M. Tauseef Basit (P-532) | 307,140 | 220,117 | 87,023 | 120,297 | As per Company Policy |
| Honda City | Mr. Ijaz Ahmad (ST-028) | 746,560 | 671,904 | 74,656 | 232,018 | As per Company Policy |
| Toyota Corolla | S. Muhammad Saleem (P-457) | 125,000 | 64,583 | 60,417 | 429,203 | As per Company Policy |
| Aggregate of other items of property, plant and equipment with individual book values not exceeding Rs. 50,000 | | 9,460,517 | 9,332,364 | 128,153 | 4,047,691 | As per Company Policy |
| | | **21,933,655** | **20,554,110** | **1,379,545** | **43,688,380** | |

## 18 CAPITAL WORK IN PROGRESS

| | 2007 Rupees | 2006 Rupees |
|---|---|---|
| Plant and machinery | 185,364,261 | 75,442,444 |
| | **185,364,261** | **75,442,444** |

## 19 INVESTMENT IN ASSOCIATE

| | 2007 Rupees | 2006 Rupees |
|---|---|---|
| **Engro Chemical Pakistan Limited (ECPL)** | | |
| 64,156,054 (2006: 64,156,054) ordinary shares of Rs 10 each | 6,292,386,865 | 5,732,602,699 |
| Add: Cost of 9,623,408 right shares acquired during the year | 1,202,926,000 | 466,589,440 |
| Cost of acquisition of 73,779,462 ordinary shares during the year | 20,261,309,045 | - |
| Percentage of equity held - 38.13% (2006: 38.13%) | | |
| Share of post acquisition profits | 878,847,685 | 769,749,480 |
| | 28,635,469,595 | 6,968,941,619 |
| Less: Cost of sale of 73,779,462 ordinary shares during the year | 11,556,874,878 | - |
| Dividends received during the period | 468,339,194 | 676,554,754 |
| | 12,025,214,072 | 676,554,754 |
| | **16,610,255,523** | **6,292,386,865** |

**19.1** Fair value of investments in associate Rs. 19,606 million (2006: Rs.10,842 million).

**19.2** 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.

**19.3** Summarized financial information of ECPL is as follows:

| | Note | 31-Dec-07 | 31-Dec-06 |
|---|---|---|---|
| Total assets as at 30 September | | 44,541,390,000 | 17,142,531,000 |
| Total liabilities as at 30 September | | 31,678,950,000 | 8,512,432,000 |
| Revenue (12 months period from 01 Oct to 30 Sep) | | 30,334,355,000 | 18,814,025,000 |
| Profit after taxation (12 months period from 01 Oct to 30 Sep) | | 2,315,310,000 | 2,018,485,000 |

## 20 LONG TERM LOANS AND ADVANCES - UNSECURED CONSIDERED GOOD

| | | 2007 Rupees | 2006 Rupees |
|---|---|---|---|
| Executives | 20.1 & 20.3 | 419,730 | 588,080 |
| Employees | 20.2 | 693,395 | 12,211,535 |
| | | **1,113,125** | **12,799,615** |

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

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

**20.3** Reconciliation of carrying amounts of loans to executives

| | 2007 Rupees | 2006 Rupees |
|---|---|---|
| Opening balance | 3,634,085 | 1,346,495 |
| Disbursement during the year | 3,049,290 | 4,450,860 |
| Promotion of non-executive employees as executives | 1,338,210 | 670,225 |
| Loan recovered during the year | (4,719,895) | (2,833,495) |
| Closing balance | 3,301,690 | 3,634,085 |
| Less: Current portion shown under current assets | 2,881,960 | 3,046,005 |
| | **419,730** | **588,080** |

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

20.5 The maximum amount due from executives at any month end during the year was Rs. 4.231 million (2006:Rs.3.634 million)

## 21 STORES, SPARES AND LOOSE TOOLS

| | 2007 Rupees | 2006 Rupees |
|---|---|---|
| Stores | 349,565,791 | 265,513,267 |
| Spares | 658,505,818 | 629,428,549 |
| Loose tools | 12,269,763 | 12,357,908 |
| Stores and spares in transit | 108,577,695 | 88,317,648 |
| | 1,128,919,067 | 995,617,372 |
| Less: Provision for obsolete items | 235,665,000 | 235,665,000 |
| | **893,254,067** | **759,952,372** |

## 22 STOCK IN TRADE

| | Note | 2007 Rupees | 2006 Rupees |
|---|---|---|---|
| Raw and packing materials | | 3,777,142 | 5,614,831 |
| Material in process | | 9,643,989 | 12,033,657 |
| Finished goods - own manufactured | | 150,131,038 | 219,646,946 |
| - purchased product | | 703,958,419 | - |
| | | **867,510,588** | **237,295,434** |

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

| | | | |
|---|---|---|---|
| These receivables are all unsecured and considered good: | | | |
| Advances to suppliers for goods and services | 23.1 | 23,843,791 | 26,671,311 |
| Advances and loans: | | | |
| Executives | 23.3 & 20.3 | 2,881,960 | 3,046,005 |
| Employees | 23.3 | 21,324,771 | 22,239,367 |
| Advance income tax | | 426,333,334 | 224,761,952 |
| Prepayments | | 6,673,693 | 5,020,111 |
| Deposits | | 3,600,118 | 2,683,991 |
| Miscellaneous receivables | | 7,093,724 | 14,284,181 |
| | | **491,751,391** | **298,706,918** |

**23.1** This includes due from related party Rs. 2.433 million (2006: Rs. 0.272). Maximum aggregate amount due from at the end of any month during the year was Rs. 2.466 million (2006:Rs. 1.051 million).

**23.2** Chief Executive and directors have not taken any loan/advance from the Company (2006: Rs Nil).

**23.3** Advances and loans to executives and employees include Rs. 18.335 million (2006: Rs. 18.667 million) being current portion of the loans described under note 20.3 and the balance represents interest free advance.

## 24 SHORT TERM INVESTMENTS - AVAILABLE FOR SALE

| | 2007 Rupees | 2006 Rupees |
|---|---|---|
| These comprise of fully paid ordinary shares of the following listed companies: | | |
| **Related parties - Quoted** | | |
| **Sui Northern Gas Pipelines Limited** | | |
| 108,672,850 (2006: 108,672,850) ordinary shares of Rs. 10 each-at cost | 6,796,835,201 | 6,796,835,201 |
| Percentage of equity held: 19.20% (2006: 19.20%) | | |
| Adjustment arising from measurement to fair value | 326,670,117 | 321,236,474 |
| | 7,123,505,318 | 7,118,071,675 |
| **Others - Quoted** | | |
| **Southern Electric Power Company Limited** | | |
| 6,270,000 (2006: 6,270,000) ordinary shares of Rs 10 each - at cost | 118,431,290 | 118,431,290 |
| Percentage of equity held: 10% (2006: 10%) | | |
| Adjustment arising from measurement to fair value | (83,319,290) | (81,124,790) |
| | 35,112,000 | 37,306,500 |
| | **7,158,617,318** | **7,155,378,175** |
| **Financial assets at fair value through profit and loss account classified as held for trading** | | |
| **Un-quoted** | | |
| **Meezan Islamic Fund (type - B AMIN)** | | |
| 13,859,532 (2006: NIL) units of Rs. 50 each | 713,204,805 | - |
| Adjustment arising from measurement to fair value | 10,401,353 | - |
| | 723,606,158 | - |
| | **7,882,223,476** | **7,155,378,175** |

## 25 CASH AND BANK BALANCES

| | Note | 2007 Rupees | 2006 Rupees |
|---|---|---|---|
| With banks: | | | |
| On current accounts | | 153,467,104 | 5,722,638 |
| On saving accounts | 25.1 | 481,465,931 | 50,217,181 |
| Term deposits | 25.2 | 462,000,000 | - |
| | | 1,096,933,035 | 55,939,819 |
| Cash in hand | | 891,080 | 354,746 |
| | | **1,097,824,115** | **56,294,565** |

**25.1** These carry mark up at the rate ranging from 4% to 6% per annum (2006: 4% to 5% per annum).

**25.2** These carry mark up at the rate ranging from 7.5% to 8.3% per annum (2006: NIL).

## 26 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

| | 2007 Rupees | | | 2006 Rupees | | |
|---|---|---|---|---|---|---|
| | Chief Executive | Director | Executive | Chief Executive | Director | Executive |
| Managerial remuneration | 3,712,410 | 20,164,511 | 73,185,849 | 3,599,910 | 19,007,952 | 49,812,499 |
| Retirement benefits | 629,910 | 2,418,854 | 7,433,626 | 629,910 | 2,599,428 | 5,491,633 |
| Rent and utilities | 1,485,000 | 7,448,844 | 23,362,337 | 1,485,000 | 7,545,444 | 15,550,791 |
| Leave fair assistance | - | 1,003,920 | - | - | 422,360 | - |
| Medical | - | 447,864 | 1,590,942 | - | 346,944 | 1,426,532 |
| | **5,827,320** | **31,483,993** | **105,572,754** | **5,714,820** | **29,922,128** | **72,281,455** |
| **Number of employees** | **1** | **3** | **48** | **1** | **4** | **40** |

(Including those who worked part of the year).

Chief Executive, 3 directors (2006: 4) and 48 executives of the Company (2006: 40) are provided with free use of cars owned and maintained by the Company.

Meeting fees amounting to Rs. 34,000 (2006: 24,000) were paid to 7 directors including Chief Executive (2006:7).

## 27 EARNINGS PER SHARE

### 27.1 Basic and diluted

| | | 2007 | 2006 |
|---|---|---|---|
| Profit after taxation | Rupees | 10,134,446,524 | 2,054,206,794 |
| Weighted average number of ordinary shares | No. of shares | 82,866,240 | 82,866,240 |
| Basic earnings per share | Rupees | 122.30 | 24.79 |

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

## 28 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

| | Interest / Markup Bearing | | | | Non-Interest / Markup Bearing | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | 2007 Total | 2006 Total |
| **Financial assets** | Rupees | | | | | | | | | |
| Short term investments | - | - | - | - | 7,882,223,476 | - | - | 7,882,223,476 | 7,882,223,476 | 7,155,378,175 |
| Loans and advances | - | - | - | - | 18,334,660 | 1,113,125 | - | 19,447,785 | 19,447,785 | 31,467,060 |
| Trade debts | - | - | - | - | 4,742,483 | - | - | 4,742,483 | 4,742,483 | 2,502,849 |
| Cash and bank balances | 943,465,931 | - | - | 943,465,931 | 154,358,184 | - | - | 154,358,184 | 1,097,824,115 | 56,294,565 |
| **2007** | **943,465,931** | **-** | **-** | **943,465,931** | **8,059,658,803** | **1,113,125** | **-** | **8,060,771,928** | **9,004,237,859** | **7,245,642,649** |
| **2006** | **50,217,181** | **-** | **-** | **50,217,181** | **7,182,625,853** | **12,799,615** | **-** | **7,195,425,468** | **7,245,642,649** | |
| **Financial liabilities** | | | | | | | | | | |
| Long Term Loans | - | 6,500,000,000 | - | 6,500,000,000 | - | - | - | - | 6,500,000,000 | - |
| Short term financing | 2,281,428,109 | - | - | 2,281,428,109 | - | - | - | - | 2,281,428,109 | 5,924,514,565 |
| Trade and other payables | - | - | - | - | 301,422,943 | - | - | 301,422,943 | 301,422,943 | 365,030,801 |
| Markup payable on secured loans | - | - | - | - | 249,436,081 | - | - | 249,436,081 | 249,436,081 | 169,938,009 |
| **2007** | **2,281,428,109** | **6,500,000,000** | **-** | **8,781,428,109** | **550,859,024** | **-** | **-** | **550,859,024** | **9,332,287,133** | **6,459,483,375** |
| **2006** | **5,924,514,565** | **-** | **-** | **5,924,514,565** | **534,968,810** | **-** | **-** | **534,968,810** | **6,459,483,375** | |

### 28.1 CREDIT RISK MANAGEMENT

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

### 28.2 INTEREST RATE RISK MANAGEMENT

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest rates. The Company has borrowed funds at fixed and market based rates and as such the risk is minimized. The effective interest rate for the financial assets and liabilities ranges between 4% to 11.50% (2006: 4% to 11.32%) per annum.

### 28.3 LIQUIDITY RISK MANAGEMENT

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

### 28.4 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

## 29 RELATED PARTY TRANSACTIONS

The 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:

| | 2007 Rupees | 2006 Rupees |
|---|---|---|
| **Associated company** | | |
| Sale of goods and services | 5,427,452,217 | 4,219,935,502 |
| Purchase of goods and services | 2,113,202,177 | 2,036,757,885 |
| Dividend income | 794,357,744 | 972,935,254 |

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

## 30 PRODUCTION CAPACITY

As against the annual production capacity of 445,500 tons (2006: 445,500 tons) of urea fertilizer the plant produced 497,940 tons (2006: 446,700 tons) which was 111.77% (2006: 100.27%) of designed capacity.

## 31 POST BALANCE SHEET EVENTS

The Board of Directors at its meeting held on 28 January 2008 has proposed a final cash dividend @ Rs1.50 per share amounting to Rs. 124,299,360 and 20% stock dividend for the year ended 31 December 2007 for approval of the members at the Annual General Meeting to be held on 28 February 2008. The financial statements do not reflect these proposed dividends.

## 32 GENERAL

32.1 These financial statements have been authorised for issue by the Board of Directors of the Company on 28 January 2008.

32.2 Figures have been rounded off to the nearest rupee.

Lahore
28 January, 2008

Shahzada Dawood
Chief Executive

A.G. Gohar
Director

## PATTERN OF SHAREHOLDING AS AT 31 DECEMBER 2007

### Disclosure Requirement under the Code of Corporate Governance

| | |
|---|---|
| **Details of holding on 31.12.2007:** | |
| **Associated Companies, Undertakings and Related Parties** | |
| Dawood Lawrencepur Limited | 13,418,027 |
| Dawood Corporation (Pvt.) Ltd. | 3,593,786 |
| Central Insurance Company Ltd. | 2,462,081 |
| The Dawood Foundation | 3,273,415 |
| Patek (Pvt.) Ltd. | 26,737 |
| Sach International (Pvt.) Ltd. | 1,205 |
| **NIT & ICP** | |
| National Bank of Pakistan, Trustee Department | 411,737 |
| Investment Corporation of Pakistan | 160 |
| **Directors & CEO (including holding of their spouses & minor children)** | |
| 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 |
| **Executives** | 426 |
| **Public Sector Companies and Corporations** | - |
| **Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas & Mutual Funds** | 16,787,043 |
| **Shareholders holding ten percent or more shares** | |
| Faisal Private Bank (Switzerland) SA | 11,476,080 |
| Dawood Lawrencepur Limited | 13,418,027 |

## PATTERN OF SHAREHOLDING AS AT 31 DECEMBER 2007

### Category-Wise

| Categories of Shareholders | Number of Shareholders | Total Shares Held | Percentage |
|---|---|---|---|
| Individuals | 2,179 | 12,112,046 | 14.62 |
| Joint Stock Companies | 34 | 50,468,383 | 60.90 |
| Financial Institutions | 13 | 11,910,733 | 14.37 |
| Insurance Companies | 6 | 4,759,010 | 5.75 |
| Investment Companies | 2 | 4,903 | 0.01 |
| Educational/Charitable Institutions | 5 | 3,472,730 | 4.19 |
| Modaraba | 1 | 500 | 0.00 |
| Mutual Funds | 4 | 116,800 | 0.14 |
| Leasing Companies | 1 | 10,700 | 0.01 |
| The Administrator, Abandoned Properties, Government of Pakistan | 1 | 10,432 | 0.01 |
| Securities & Exchange Commission of Pakistan | 1 | 3 | 0.00 |
| **Total** | **2,247** | **82,866,240** | **100.00** |

# PATTERN OF SHAREHOLDING

## As at 31 December 2007

| Shareholding Range | | Number of Shareholders | Total Shares Held |
|---|---|---|---|
| From | To | | |
| 1 | 100 | 392 | 19,554 |
| 101 | 500 | 1,223 | 357,630 |
| 501 | 1,000 | 266 | 188,587 |
| 1,001 | 5,000 | 264 | 590,745 |
| 5,001 | 10,000 | 37 | 261,958 |
| 10,001 | 15,000 | 10 | 119,925 |
| 15,001 | 20,000 | 12 | 213,047 |
| 20,001 | 25,000 | 3 | 67,265 |
| 25,001 | 30,000 | 5 | 140,886 |
| 30,001 | 35,000 | 1 | 33,980 |
| 35,001 | 40,000 | 1 | 36,156 |
| 45,001 | 50,000 | 1 | 49,000 |
| 50,001 | 55,000 | 2 | 105,820 |
| 55,001 | 60,000 | 1 | 59,616 |
| 65,001 | 70,000 | 1 | 68,540 |
| 70,001 | 75,000 | 1 | 75,000 |
| 75,001 | 80,000 | 1 | 80,000 |
| 80,001 | 85,000 | 1 | 83,568 |
| 100,001 | 105,000 | 1 | 100,023 |
| 125,001 | 130,000 | 1 | 127,677 |
| 160,001 | 165,000 | 1 | 161,000 |
| 205,001 | 210,000 | 1 | 209,747 |
| 245,001 | 250,000 | 1 | 250,000 |
| 325,001 | 330,000 | 1 | 328,169 |
| 330,001 | 335,000 | 1 | 333,849 |
| 410,001 | 415,000 | 1 | 411,350 |
| 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 |
| 2,460,001 | 2,465,000 | 1 | 2,462,081 |
| 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 |
| | | 2,247 | 82,866,240 |

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# 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 Fortieth Annual General Meeting of the Company to be held on Thursday, 28 February 2008 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 ________________ 2008

**WITNESSES:**

1. Signature: ________________________
   Name: ________________________
   Address: ________________________
   ________________________
   ________________________
   CNIC No. or
   Passport No. ________________________

2. Signature: ________________________
   Name: ________________________
   Address: ________________________
   ________________________
   ________________________
   CNIC No. or
   Passport No. ________________________

Signature on
Revenue Stamps
of Rupees Five

Signature should agree with the
specimen signature with the Company.

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

**IMPORTANT:**

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

2 . CDC shareholders and their proxies are each requested to attach an attested photocopy of their new/computerized National Identity Card (CNIC) or Passport with this proxy form before submission to the Company.

3. All proxies attending the AGM are requested to bring their original CNIC/Passport for identification.

AFFIX
CORRECT
POSTAGE

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

## 2nd Position

ICAP & ICMAP
Best Corporate Report Awards 2006 - Chemical & Fertilizers sector

## 3rd Position

ICAP & ICMAP
Best Corporate Report Awards 2005 - Chemical & Fertilizers sector