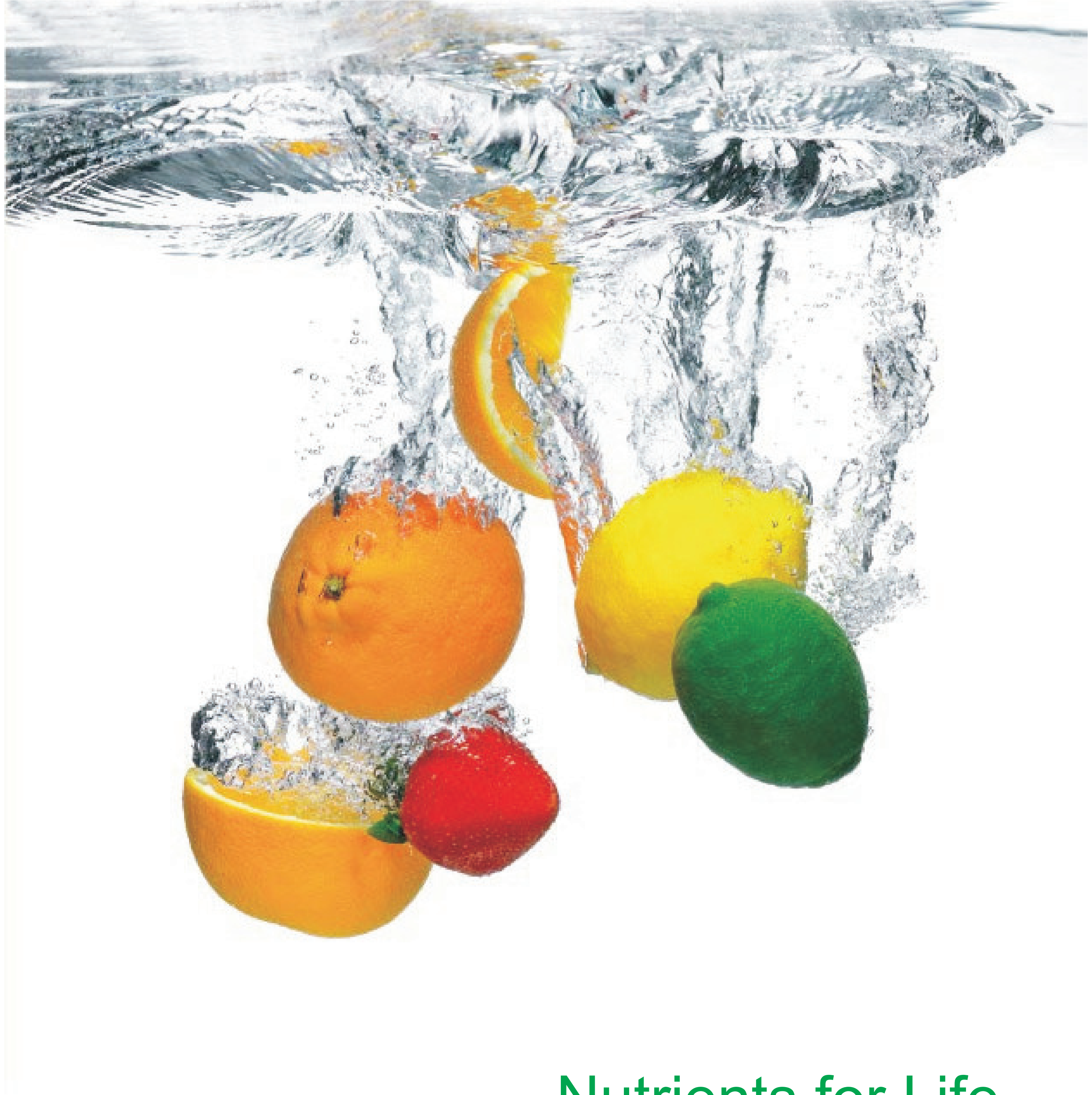
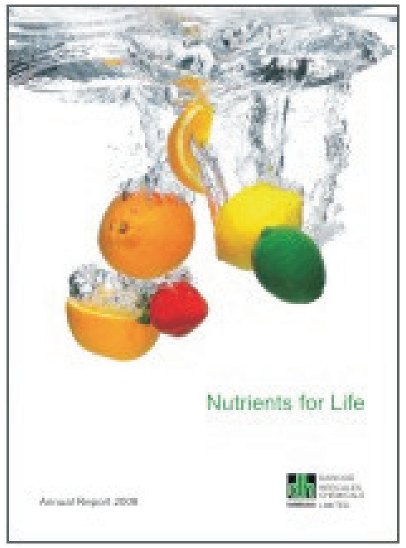


Nutrients for Life

Annual Report 2008

DAWOOD
HERCULES
CHEMICALS
LIMITED

About the Theme



Nutrients for Life

The productivity of the land under cultivation and its nutrients has to keep pace with the increasing population.

The ideal solution is to increase the land cultivation which however is not possible due to the scarcity of the same. Therefore the next best possible solution is to use in-organic fertilizers of which Urea and DAP are the preferred choices.

Contents

Indispensable Nutrients

The world is facing food challenges and so is Pakistan. Increasing population is reducing the land available for farming, globally. Expanding cities and income growth have increased the demand for food against their supply. This has led to a greater necessity to produce healthy crops and maximize yields by replenishing soil fertility after every harvest.

Vision & Mission

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

To offer consistent dividends to the shareholders.

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

"Our goal is to add value to whatever we do and whoever we deal with by focusing on the concepts of continuous improvement and customer orientation"

Strategy & Objectives

Our corporate strategy is aimed at developing and maintaining long term competitive advantage. For this, we constantly strive to develop systems which are not only consistent with our current needs but are also enablers of a futuristic culture. We want to make the best use of our resources and turn every challenge into an opportunity. While building upon our core strengths, we always explore new avenues for further growth.

"Value addition" and "sustainable development" are the most significant aspects of our corporate strategic objectives. Our goal is to add value to whatever we do and whoever we deal with. This is achieved through consistent focus on the concepts of continuous improvement and customer-orientation. The impact created in this way is not only profound but self-sustaining.

Business Ethics and Core Values

- Professionalism through leadership and integrity.
- Innovation, teamwork and partnership.
- Long term profitability and growth.
- Perpetual commitment to quality and continuous improvement.

Stakeholders Report

Dear Stakeholder,

The year 2008 will be long remembered as it was unique in many aspects. Globally, we saw what is being called "the once in centuries financial melt down".

At the national level, 2008 witnessed an alarming decline in foreign exchange reserves coupled with the threat of default. It also saw a steep rise in the interest rates, and a deteriorating law and order situation in the country.

It is due to the above mentioned reasons that the stakeholders' confidence in businesses has been shaken across the board, resulting in business failures one after the other.

The situation is evolving as far as the world wide financial melt down is concerned. What will be the future of the corporate world is hard to predict and remains to be seen? How companies will transform and re-align themselves in the coming days is a wild guess. Holding ground and planning for the future is the biggest challenge.

Despite all the unfavourable macro and micro indicators of 2008, the Company's performance in terms of production and sales was admirable. This reflects Management's ability to face challenges and take appropriate measures, and your everlasting strong confidence and belief in the corporate culture of the Company.

The Company will enter 2009 with full vigor and determination as it has good financial foundations and its corporate governance is among one of the best.

Crop Nutrients Essential for life Sustainability

Nutrients play a major role in replenishing our soil and meeting the ever growing need for food, fibre and fuel.

As crops grow, they exhaust the nutrients present in the soil. To produce healthy and abundant crops, nutrients need to be replenished for constant soil quality and increased productivity.

Dawood Hercules is proud to be a part of an industry, providing life sustaining resources and helping to maintain quality nutrients.

Nourishing Today - Nurturing Tomorrow

Dawood Hercules in its endeavour to nourish the nation is producing better and more crop nutrients and is always exploring avenues for enhancing productivity, performance and reliability through constant improvements.

Performance Highlights

Key Figures

508,050
Production (M.Tons) 2% ↑

3,116
Gross Profit (Million Rs.) 67% ↑

114
Capacity Utilization (%) 2% ↑

2,726
Operating Profit (Million Rs.) 73% ↑

527,860
Urea Sales (M.Tons) 4% ↑

7,429
Sales (Million Rs.) 48% ↑

Key Events

- A record breaking year, setting new standards in Sales, Production and Capacity Utilization.
- For the third consecutive year received the KSE Top 25 Companies Award (2007).
- ICAP and ICMAP Award for the third best annual report in the chemical and fertilizer sector.
- Achived ISO 14001 : 2004 and OHSAS 18001 : 2007 certification within a record period of four months.
- Attainment of seven million safe-man hours.

Company Information

Board of Directors

Hussain Dawood	Chairman
Shahzada Dawood	Chief Executive
Isar Ahmad	Director
Khawaja Amanullah	Director
S.M. Asghar	Director
Aleem Ahmed Dani	Director
A. Samad Dawood	Director
Abdul Ghafoor Gohar	Director
Haroon Mahenti	Director
Shahid Hamid Pracha	Director

Board Audit Committee

Aleem A. Dani	Chairman
A. Samad Dawood	Member
Haroon Mahenti	Member
Shahid H. Pracha	Member

Board Compensation Committee

Shahid H. Pracha	Chairman
S.M. Asghar	Member
A. Samad Dawood	Member
Shahzada Dawood	Member

Company Secretary

Aftab Ahmed Qaiser

qaiser@dawoodgroup.com

Chief Financial Officer

Gulzar Saleem

gulzar@dawoodgroup.com

Registered Office

35-A, Shahrah-e-Abdul Hameed
Bin Baadees (Empress Road),
Lahore.
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.
Tel: +92 (42) 7352762-7
Fax: +92 (42) 7313380

Bankers

Bank Al-Habib Ltd.
Habib Bank Ltd.
Habib Metropolitan Bank Ltd.
MCB Bank Ltd.
Allied Bank Ltd.
United Bank Ltd.
Meezan Bank Ltd.
Emirates Global Islamic Bank Ltd.

Auditors

KPMG Taseer Hadi & Co.

Chartered Accountants

201-Office Block, Siddiq Trade Centre,
72-Main Boulevard, Gulberg-II,
Lahore.

Tel: +92 (42) 5781751-6
Fax: +92 (42) 5781757
Website: www.kpmg.com.pk

Shares Registrar

M/s. Corplink (Pvt) Ltd.
Wings Arcade,
1-K, Commercial, Model Town,
Lahore.
Tel: +92 (42) 5839182, 5916719
Fax: +92 (42) 5869037

Tax Consultants

UHY Hassan Naeem & Company

Chartered Accountants

193-A, Shah Jamal, Lahore-54000
Tel: +92 (42) 7599938, 7599948
Fax: +92 (42) 7599740
E-mail: info@uhy-hnco.com

Legal Advisors

Hassan & Hassan

Advocates

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

Board of Directors

Hussain Dawood
Chairman

Shahzada Dawood
Chief Executive

Abdul Ghafoor Gohar
Director

S.M. Asghar
Director

Khawaja Amanullah
Director

Aleem Ahmed Dani
Director

A. Samad Dawood
Director

Isar Ahmad
Director

Haroon Mahenti
Director

Shahid Hamid Pracha
Director

Directors' Profile

Hussain Dawood
Chairman

is also the Chairman of Engro Chemical Pakistan Limited, Karachi Education Initiative and the Pakistan Poverty Alleviation Fund. He also serves as a member on the Boards of the Commonwealth Business Council, Pakistan Business Council, Pakistan Centre for Philanthropy, Institute of Strategic Studies and Beaconhouse National University. He is a Global Charter Member of The Indus Entrepreneurs (TiE) and the Honorary Consul of Italy, in Lahore. Mr. Dawood is the first Pakistani to become a member of the World Economic Forum in 1992. He is an MBA from the Kellogg School of Management, Northwestern University, USA, and a graduate in Metallurgy from Sheffield University, UK.

Shahzada Dawood
Vice Chairman & Chief Executive

is the Chairman of Dawood Lawrencepur Limited and serves as a Director on the Boards of, Engro Chemical Pakistan Limited and Sui Northern Gas Pipelines Limited. He is a member of the Board of Governors of National Management Foundation (LUMS) and also a member of the Board of Trustees of The Dawood Foundation. He is an M.Sc in Global Textile Marketing from Philadelphia University, USA, and LLB from Buckingham University, UK.

Isar Ahmad
Director

is a Director on the Boards of Engro Chemical Pakistan Limited, Engro Polymer & Chemicals Limited, Engro Foods Limited, Dawood Lawrencepur Limited, Central Insurance Company Limited and Tenaga Generasi Limited and at present is Group Director, Strategy and Business Development at The Dawood Group. He has had the experience of working in senior management positions in multinational and large Pakistani organizations. He held the positions of Finance Director, Supply Chain Director and Head of Business Unit at Reckitt Benckiser (previously Reckitt & Colman) and was the Managing Director of Haleeb Foods Limited (previously CDL Foods Limited). He has also been the Financial Advisor at Indus Motor Company Limited. He holds a Master Degree in Economics and is a Chartered Accountant from the Institute of Chartered Accountants in England & Wales.

Khawaja Amanullah
Director

is a senior Director of the Company who has been associated with Dawood Hercules Chemicals Limited since its inception. He has served on the Boards of a number of group companies. His lifelong association with The Dawood Group extends over a period of five decades and has been a very important member of the top management all along. He holds an Honours Degree in Literature.

S.M. Asghar
Director

is also a Director on the Boards of Sui Northern Gas Pipelines Limited and Dawood Lawrencepur Limited. He has over 35 year's industrial experience in finance, taxation, legal and corporate affairs. An accountant by profession, he is a Fellow Member of the Institute of Chartered Accountants of Pakistan as well as the Institute of Cost and Management Accountants of Pakistan.

Aleem Ahmed Dani
Director

is also a Director on the Boards of, Dawood Lawrencepur Limited and Central Insurance Company Limited and at present is the Group Director Finance at The Dawood Group. He also held the positions of Human Resources Director and Business Planning & Information Technology Director. He has served as Director Finance and Director Corporate Affairs at Glaxo Welcome Pakistan Limited and has been on the Boards of Glaxo Welcome Pakistan Limited and Welcome Pakistan Limited. He has also worked at a senior position in finance at Harrisons & Crosfield Canada Limited. He is a certified Director from the Pakistan Institute of Corporate Governance and a Fellow Member of the Institute of Cost & Management Accountants of Pakistan. He Graduated with Honours from the Institute of Cost and Management Accountants of Canada.

A. Samad Dawood
Director

is the Chairman of Central Insurance Company Limited and the Chief Executive of Dawood Corporation (Pvt.) Limited. He is a Director on the Boards of Sui Northern Gas Pipelines Limited, ABL Asset Management Co. Limited, Inbox Business Technologies (Pvt.) Limited, Sach International (Pvt.) Limited and Pebbles (Pvt.) Limited. He is a certified director from the Pakistan Institute of Corporate Governance and a Graduate in Economics from the University College London, UK,

Abdul Ghafoor Gohar
Director

is the Executive Director of the Company. He joined PIDC - National Gas Fertilizer Factory in 1958, as an Assistant Process Engineer at Daudkhel and received specialized training in fertilizer industry in France, Switzerland & Italy and worked at PAFL and NGFF till 1970. He has worked with Dawood Hercules in various capacities including Director Operations and Director Projects.

Haroon Mahenti
Director

is also a Director of Central Insurance Company Limited and Dawood Lawrencepur Limited. He has been associated with The Dawood Group for the last five decades, during which he has managed a number of companies and trading activities. He has attended various Advance Management Courses and possesses a rich experience in the field of Financial Management, including portfolio management and banking.

Shahid Hamid Pracha
Director

is also a Director on the Boards of Dawood Lawrencepur Limited, Central Insurance Company Limited, Inbox Business Technologies (Pvt.) Limited and Tenaga Generasi Limited and at present is Group Director HR and Public Affairs at The Dawood Group. He also represents The Dawood Foundation; the philanthropic arm of The Dawood Group and is currently the Chief Executive of the Karachi Education Initiative. Prior to joining The Dawood Group, he spent a major part of his career with ICI Plc's Pakistan operations in a variety of senior roles including a period of international secondment with the parent company in UK. He is also a founding member of the Pakistan Society for Human Resource Managers. He is a graduate electrical engineer from the University of Salford, UK.

The Management

From Left to Right:

Ch. Abdul Mughni Commercial Manager

Gulzar Saleem Chief Financial Officer

Aftab Ahmed Qaiser Company Secretary

A. R. Karimi Information Technology Manager

Khawaja Ahmad Arsalan Human Resources Manager

Muhammad Aslam Senior General Manager Projects

Syed Ahmad Ashraf Chief Internal Auditor

Shahid Riaz Manager Projects

Raja Khan Baig Manager Corporate Office Administration

From Left to Right:

Ahmad Din General Manager Plant

Farrukh S. Bashir Production Manager

Dr. Sajid Hassan Technical Manager

Nasir Iqbal Toor Training & ISO Manager

Arshad Mehmood Engineering Manger

Rana Muhmmad Saleem Health Safety & Environment Manager

Jawadullah Khan Assistant Technical Manager

Shafique Ahmed Assistant Production Manager (Urea / Bagging & Shipping)

Nabiel Sawaiz Assistant Production Manager (Ammonia / Utility)

Committees

Board Audit Committee

The Board has set up an audit committee comprising of four Directors to comply with the requirements of the regulators. The committee is appointed for a three-year term that immediately follows the elections of the Directors and is re-constituted after every election. The committee meets at least once in a quarter or as often as it considers necessary, to review and discuss the financial statements.

Purpose/Objective:

The Audit Committee assists the Board in discharging its responsibilities relating to the accounting, reporting, and financial practices of the Company. The Committee assists the Board with oversight of:

(a) the integrity of the Company's financial statements

(b) the Company's compliance with legal and regulatory requirements

(c) the independent auditor's qualification and independence; and

(d) the performance of the Company's internal audit function and independent auditors.

Functions:

- 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:
  - significant adjustments resulting from the audit;
  - the going-concern assumption;
  - any changes in accounting policies and practices;
  - compliance with applicable accounting standards;
  - compliance with listing regulations and other statutory and regulatory requirements;
- Facilitating the external audit and discussion with external auditors about major observations arising from interim and final audits and any matters that the auditors may wish to highlight;
- Ensuring and overseeing coordination between the internal and external auditors of the company;
- Monitoring the effectiveness and independence of external auditors;
- Review of management letter issued by external auditors and management's response thereto;
- 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 are adequate and effective;
- Review of the Company's statement on internal control systems prior to endorsement by the Board of Directors;
- Determination of compliance with relevant statutory requirements;

- Monitoring compliance with the best practices of corporate governance and identification of significant violations thereof;
- Reviewing, agreeing and approving the Internal Audit Plan;
- To review ongoing Risk Management Programs identifying all areas of potential risks;
- To ensure that Policies and Procedures have been designed to identify potential risks;
- To make sure that the remedial action is undertaken to redress the areas of weaknesses;
- To review the Company's Corporate Governance Practices pursuant to the Code of Corporate Governance issued by the Securities & Exchange Commission of Pakistan;
- To make recommendations to the Board for appointment, remuneration & removal of External Auditors and agreeing the terms of engagement;
- To review the objectives, compliance and manning of Internal Audit Department;
- To review and monitor the progress of an internal audit and work program;
- To evaluate management's response to internal audit's findings and recommendations;
- To consider any other issue or matter as may be assigned by the Board of Directors;

Board Compensation Committee

The Board Compensation Committee has been formed to have a special focus on the remuneration, salary and other perquisites of the Company's senior executives. It also assists the Board in matters regarding their compensation in relation to the Company's retirement, welfare and other benefit plans.

Functions:

- The Committee helps decide the compensation philosophy of the Company.
- Reviews and approves the Chief Executive and Senior Executives' compensation.
- Makes recommendations to the Board regarding compensation of Board members.
- Reviews and approves the performance targets to be applied in determining performance bonus.
- Reviews and approves the adoption of new incentive compensation plans for Senior Executives.
- Reviews and approves the adoption of new health and welfare programmes.
- The Committee also assists the Board in reviewing and monitoring processes related to succession plans.
- The Committee periodically reviews and monitors processes and initiatives related to work environment and culture.
- The Committee reviews and approves employment agreements and severance arrangements of the Chief Executive and other Senior Executives.
- The Committee reviews other benefit plans and recommends changes or adoption of new plans, to the Board of Directors.
- The Committee reports regularly to the Board of Directors on Committee findings, recommendations, and any other matters that the Committee deems appropriate.

Management Committee

The Management Committee is responsible for implementation of the policies in the company. It works as the engine of the organization; determines and utilizes the resources and provides strategic leadership and planning to execute the Business Plan.

It reviews the operational performance of the Company and gives direction on issues relating to laws in vogue, employees, resources and other policy matters including the day-to-day operations.

Functions:

- Review the performance with regard to the following operational matters and take/recommend necessary actions for improvement therein:
  - Plant Operations
  - Production Performance
  - Shut Downs
  - Major Breakdown / 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 and Major changes in IT / Systems
  - Departmental expenses variance with the budget
  - Capital expenditure variance with the budget
  - Future planning of Capital Expenditure
  - Litigation and cases pertaining to plant operations
  - Implementation of Internal Audit recommendations
  - Status / Progress of I.R. situation
  - Environmental, Safety and Security issues / initiatives
  - Review of Training and ISO activities
  - Review of HSE activities
  - Risk Mitigation Plans
  - Recommendations made by other committees
  - Major issues (any area)

Human Resource Committee

The Human Resource Committee assists and makes recommendations to the Board of Directors on matters relating to organizational structure, management development, succession planning, performance evaluation and in establishing compensation policies and programmes to attract, retain and motivate key executives for the Company's current and long-term success. The Committee also conducts constant assessment of the Company's HR principles and philosophy.

Functions:

- To maintain a consultative role with the Board Compensation Committee (BCC) and assist it.
- To ensure that the company becomes and continues to be an equal opportunity employer
- To provide general oversight and philosophy of the management cadre compensation package
- To discharge the responsibility relating to compensation packages by reviewing their competitiveness with the market to attract, retain and motivate the best human resources
- To oversee the Company's plans for succession planning and development
- To ensure occupational health and safety of all cadre of employees
- To submit Management Succession Plan to the Board
- To appoint, hire or terminate outside consultants, experts and other advisors for assistance in the performance of HR functions
- To reward high performing executives
- To establish and maintain a process to set robust standards and measures that encourage superior performance and ethical behavior.
- To ensure that HR policies and procedures are aligned with the vision and strategic objectives of the Company.
- To provide leadership and guidance for the organizational transformation required to achieve the corporate goals.
- To motivate employees to ensure long-term development and success of the Company.
- To review and approve the following:
  - Recruitment and Selection
  - Induction of Trainees
  - Annual Increments and Promotions
  - Revision and restructuring of Supervisors' Compensation Package
  - Policies and Procedures
  - Succession Planning
  - Development plans for key executives with high potential
  - Local and Overseas Training
  - Acceptance of resignations
  - Termination of services
  - Organizational changes
  - Constitution of management team to negotiate agreement with CBA
  - The CBA agreement.
  - Any other tasks assigned by the Board

Capex Committee

The Capex Committee ensures that all major capital expenditures comprising tangible properties, such as; Land, Building, Plant, Machinery and Equipment, held for production of goods or administrative purposes are supported by quality and financially sustainable proposals, and thereafter recommends such proposals to the Board of Directors. It also considers reviews and recommends all other capital expenditure proposals in excess of Rupees Two Million, to the Board of Directors.

Functions:

- To ensure the Company's funds expended on capital items are spent efficiently and effectively, on the basis of NPV and IRR calculations.
- To preserve and enhance the financial stability of the Company.
- To ensure the optimal use of Company's resources.
- To ensure proper management from inception to completion with post implementation reviews.
- To ensure that the committee is fully informed of all relevant issues when making a decision regarding the authorization of a capital expenditure.
- To review and ensure the proper justification for the capital expenditures.

Committees

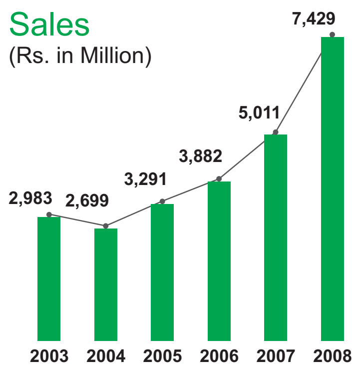
Ten Years at a glance

Ten Years at a Glance

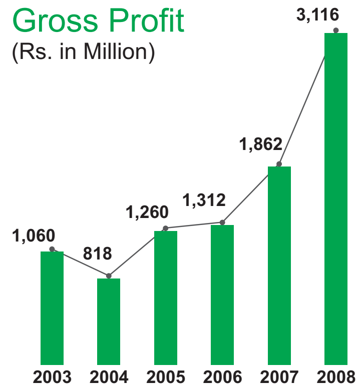
Sr.#	PARTICULARS	UNIT	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
A)	**INCOME STATEMENT**											
1	Sales Value	Rs. in Million	7,429	5,011	3,882	3,291	2,699	2,983	2,810	2,851	2,886	2,215
2	Gross Profit	Rs. in Million	3,116	1,862	1,312	1,260	818	1,060	1,010	745	970	623
3	Operating Profit	Rs. in Million	2,726	1,572	1,075	1,057	653	888	887	605	842	504
4	EBITDA	Rs. in Million	5,547	12,003	3,226	3,901	1,926	1,810	1,214	906	1,140	905
5	Profit Before Taxation	Rs. in Million	4,505	11,126	2,590	3,568	1,726	1,686	1,131	823	1,057	819
6	Profit After Taxation	Rs. in Million	3,063	10,134	2,054	2,868	1,240	1,379	793	595	764	622
B)	**DIVIDEND**											
1	Cash Dividend	%	25	30	80	85	105	100	95	100	100	100
2	Stock Dividend	%	10	20	0	15	Nil	Nil	50	20	Nil	Nil
C)	**BALANCE SHEET**											
1	Property, plant and equipment	Rs. in Million	1,396	1,374	1,347	690	530	464	334	400	419	498
2	Current Assets	Rs. in Million	5,027	11,237	8,510	6,364	9,757	6,180	2,267	2,111	1,902	1,716
3	Current Liabilities	Rs. in Million	1,577	3,573	6,672	3,345	4,379	2,994	520	758	698	963
4	Paid Up Capital	Rs. in Million	1,094	829	829	721	721	721	480	480	400	400
5	Reserves	Rs. in Million	16,289	18,061	8,444	8,635	7,114	5,645	4,010	3,055	3,020	2,656
6	No. of Ordinary Shares	Million	109.38	82.87	82.87	72.06	72.06	72.06	48.04	48.04	40.00	40.00
D)	**RATIO ANALYSIS**											
1	Gross Profit	%	42%	37%	34%	38%	30%	36%	36%	26%	34%	28%
2	Net Profit to Sales	%	41%	202%	53%	87%	46%	46%	28%	21%	26%	28%
3	Earnings Per Share	Rs.	28.00	92.65	24.79	34.61	17.21	19.13	11.01	12.38	19.11	15.56
4	Inventory Turnover	Time	9.01	5.70	12.80	17.46	21.90	17.08	14.18	12.96	8.25	9.38
5	Age of Inventory	Days	40.61	64.04	28.52	20.91	16.71	21.38	25.74	28.16	44.37	38.92
6	Debtors Turnover	Time	1,095.4	1,383.24	1,221.98	499.03	364.09	475.90	384.43	342.46	302.98	209.98
7	Average Collection Period	Days	0.33	0.26	0.30	0.73	1.01	0.77	0.95	1.07	1.21	1.74
8	Operating Cycle	Days	40.95	64.30	28.82	21.64	17.72	22.14	26.69	29.23	45.58	40.66
9	Total Assets Turnover	%	28.98	17.15	24.02	25.73	21.94	31.73	55.22	65.08	68.76	54.26
10	Fixed Assets Turnover	%	536.30	368.27	381.00	539.10	543.08	748.09	766.02	696.90	629.88	408.39
11	Break-up Value of Share with FVR	Rs.	158.91	227.95	111.90	129.83	108.72	88.34	93.47	73.58	85.51	76.41
12	Dividend Yield	%	1.13	0.76	2.71	3.32	5.34	5.69	7.09	13.70	12.35	9.52
13	Dividend Payout Ratio	%	8.93	3.24	32.27	24.56	61.01	52.26	86.29	80.78	52.33	64.29
14	Return on Equity	%	17.62	53.65	22.15	30.66	15.83	21.66	17.67	16.82	22.35	20.36
15	Debt Equity Ratio	%	36.26	34.41	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
16	Current Ratio	Time	3.19	3.15	1.28	1.90	2.23	2.06	4.36	2.79	2.72	1.78
17	Interest Cover Ratio	Time	6.00	15.72	5.66	14.83	21.85	49.27	1,233.31	-	-	-
18	Dividend Cover Ratio	Time	11.20	30.88	3.10	4.07	1.64	1.91	1.16	1.24	1.91	1.56
19	Return on capital employed	%	11.33	6.13	11.33	11.20	8.24	13.86	19.42	16.70	24.06	16.14
20	EBITDA margin	Time	0.75	2.40	0.83	1.19	0.71	0.61	0.43	0.32	0.40	0.41
21	Market Value per Share	Rs.	220.30	393.80	295.00	256.00	196.50	175.60	134.00	73.00	81.00	105.00
22	Market Capitalization	Rs. in Million	24,097	32,633	24,446	18,447	14,159	12,653	6,437	3,507	3,240	4,200
23	Price Earning Ratio	Time	7.87	4.25	11.90	7.40	11.42	9.18	12.17	5.90	4.24	6.75
E)	**PRODUCTION**											
1	Designed Production (for 12 months)	Thousand mt	445.50	445.50	445.50	445.50	445.50	445.50	445.50	445.50	445.50	445.50
2	Actual Production	Thousand mt	508.05	497.94	446.70	428.78	351.12	430.60	414.62	381.95	436.90	419.39
3	Capacity Utilization	%	114	112	100	96	79	97	93	86	98	94
4	Sales	Thousand mt	527.86	508.54	437.73	405.67	361.20	436.83	415.31	396.82	456.63	366.39
F)	**OTHERS**											
1	Employees	Nos.	478	474	485	472	481	498	525	533	554	584
2	Capital Expenditure	Rs. in Million	163.26	149.00	740.65	235.84	328.15	189.81	11.00	42.00	12.00	12.00
3	Contribution to the National Exchequer	Rs. in Million	1,092	857	773	665	724	857	767	615	633	665

Graphical Presentation

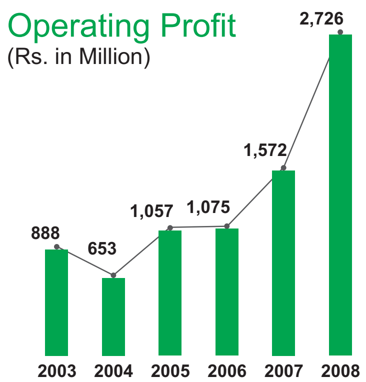
Sales
(Rs. in Million)



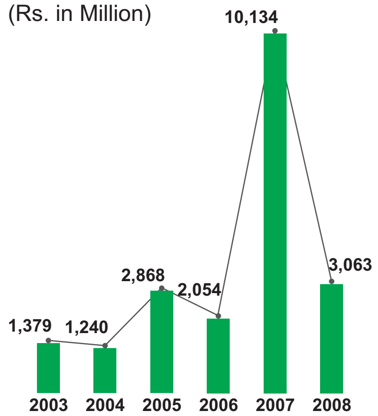
Gross Profit
(Rs. in Million)



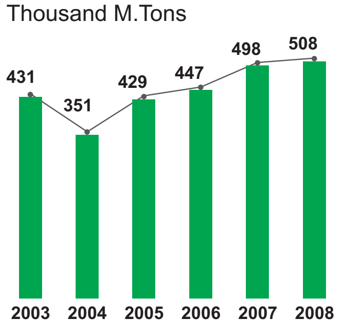
Operating Profit
(Rs. in Million)



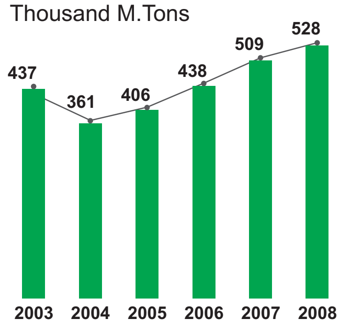
Profit after Tax
(Rs. in Million)



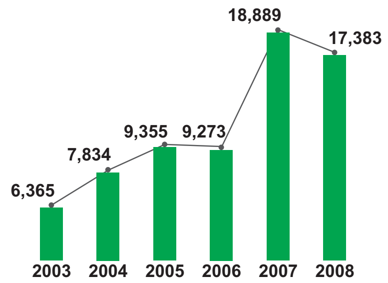
Urea Production
Thousand M.Tons



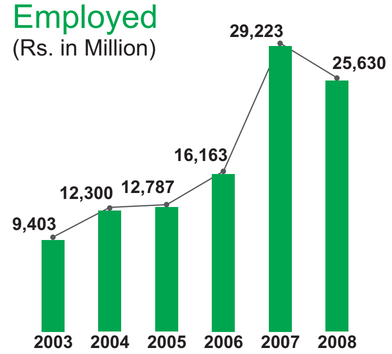
Urea Sale
Thousand M.Tons



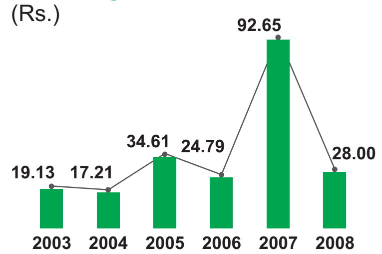
Shareholder Equity
(Rs. in Million)



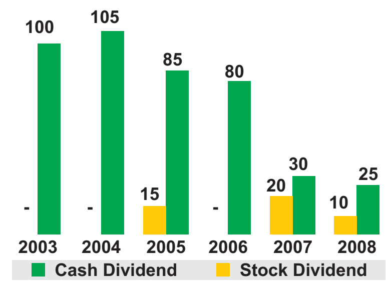
Total Assets Employed
(Rs. in Million)



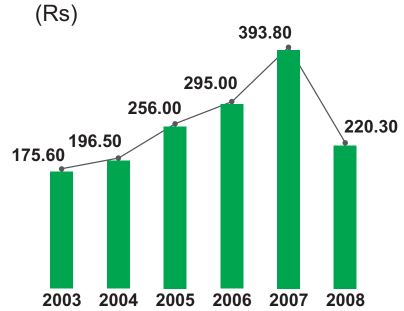
Earnings Per Share
(Rs.)



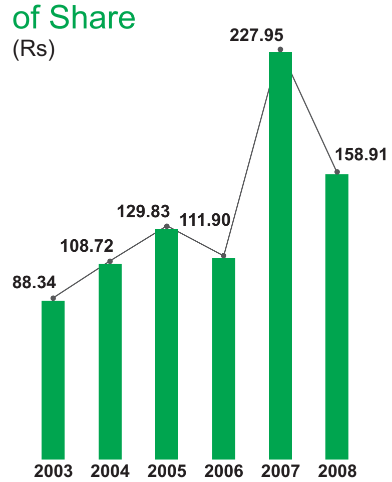
Total Dividend
(%)



Year End Market Value Per Share
(Rs)



Break-up Value of Share
(Rs)



Horizontal Analysis
Balance Sheet

Particulars	2006	2007	2008	07 Over 06	08 Over 07
	Rs. in Million			Percentage Change	
Share Capital & Reserves					
Issued, subscribed and paid up capital	828.66	828.66	1,093.83	0%	32%
Revenue reserves	8,204.37	17,841.62	20,415.40	117%	14%
Fair value reserve	240.11	219.05	(4,126.57)	-9%	-1984%
Shareholder's Equity with F.V.R	**9,273.14**	**18,889.33**	**17,382.66**	**104%**	**-8%**
Non Current Liabilities	217.89	6,760.55	6,670.36	3003%	-1%
Sub Total	**9,491.04**	**25,649.89**	**24,053.02**	**170%**	**-6%**
Current Liabilities					
Short term financing - secured	5,924.51	2,281.43	70.14	-61%	-97%
Trade and Other Payables	490.45	512.95	538.13	5%	5%
Markup payable on secured loans	169.89	249.44	275.85	47%	11%
Provision for taxation	86.80	529.00	693.00	509%	31%
Sub Total	**6,671.65**	**3,572.82**	**1,577.12**	**-46%**	**-56%**
Total	**16,162.69**	**29,222.70**	**25,630.14**	**81%**	**-12%**

Particulars	2006	2007	2008	07 Over 06	08 Over 07
	Rs. in Million			Percentage Change	
Assets					
Fixed Capital Expenditure	1,347.37	1,374.03	1,396.33	2%	2%
Investment in Associate	6,292.39	16,610.26	19,205.63	164%	16%
Long Term Loans and Advances	12.80	1.11	1.26	-91%	13%
Sub Total	**7,652.56**	**17,985.40**	**20,603.22**	**135%**	**15%**
Current Assets					
Stores, spares and loose tools	759.95	893.25	1,025.76	18%	15%
Stock in trade	237.30	867.51	89.57	266%	-90%
Trade debts	2.50	4.74	8.82	89%	86%
Loans, advances, deposits, prepayments and other receivables	298.71	491.75	735.40	65%	50%
Short term investments	7,155.38	7,882.22	2,233.42	10%	-72%
Cash and bank balances	56.29	1,097.82	933.94	1850%	15%
Sub Total	**8,510.13**	**11,237.31**	**5,026.92**	**32%**	**-55%**
Total Assets Employed	**16,162.69**	**29,222.70**	**25,630.14**	**81%**	**-12%**

Vertical Analysis
Balance Sheet

	2006	2007	2008	2006	2007	2008
	Rs. in Million			Percentage		
Share Capital & Reserves						
Issued, subscribed and paid up capital	828.66	828.66	1,093.83	5%	3%	4%
Revenue reserves	8,204.37	17,841.62	20,415.40	51%	61%	80%
Fair value reserve	240.11	219.05	(4,126.57)	1%	1%	-16%
Shareholder's Equity with F.V.R	**9,273.14**	**18,889.33**	**17,382.66**	**57%**	**65%**	**68%**
NON CURRENT LIABILITIES	217.89	6,760.55	6,670.36	1%	23%	26%
Sub Total	**9,491.04**	**25,649.89**	**24,053.02**	**59%**	**88%**	**94%**
Current Liabilities						
Short term financing - secured	5,924.51	2,281.43	70.14	37%	8%	0%
Trade and Other Payables	490.45	512.95	538.13	3%	2%	2%
Markup payable on secured loans	169.89	249.44	275.85	1%	1%	1%
Provision for taxation	86.80	529.00	693.00	1%	2%	3%
Sub Total	**6,671.65**	**3,572.82**	**1,577.12**	**41%**	**12%**	**6%**
Total	**16,162.69**	**29,222.70**	**25,630.14**	**100%**	**100%**	**100%**

Particulars	2006	2007	2008	2006	2007	2008
	Rs. in Million			Percentage		
Assets:						
Fixed Capital Expenditure	1,347.37	1,374.03	1,396.33	8%	5%	5%
Investment in Associate	6,292.39	16,610.26	19,205.63	39%	57%	75%
Long Term Loans and Advances	12.80	1.11	1.26	0%	0%	0%
Sub Total	**7,652.56**	**17,985.40**	**20,603.22**	**47%**	**62%**	**80%**
Current Assets						
Stores, spares and loose tools	759.95	893.25	1,025.76	5%	3%	4%
Stock in trade	237.30	867.51	89.57	1%	3%	0%
Trade debts	2.50	4.74	8.82	0%	0%	0%
Loans, advances, deposits, prepayments and other receivables	298.71	491.75	735.40	2%	2%	3%
Short term investments	7,155.38	7,882.22	2,233.42	44%	27%	9%
Cash and bank balances	56.29	1,097.82	933.94	0%	4%	4%
Sub Total	**8,510.13**	**11,237.31**	**5,026.92**	**53%**	**38%**	**20%**
Total Assets Employed	**16,162.69**	**29,222.70**	**25,630.14**	**100%**	**100%**	**100%**

Horizontal Analysis
Profit & Loss

Particulars	2006 (Rs. in Million)	2007 (Rs. in Million)	2008 (Rs. in Million)	07 Over 06 (Percentage Change)	08 Over 07 (Percentage Change)
Sales - net	3,882	5,011	7,429	29%	48%
Cost of goods sold	2,570	3,149	4,312	22%	32% 37%
Gross profit	**1,312**	**1,862**	**3,116**	**42%**	**67%**
Selling and administrative expenses	236	291	390	23%	34%
Operating profit	**1,075**	**1,572**	**2,726**	**46%** 31%	**73%** 37%
Finance cost	555	756	901	36%	19%
Other income	1,047	9,054	510	765%	-94%
	492	8,298	(392)	1587%	-105%
Profit for the year	**1,567**	**9,870**	**2,335**	**530%**	**-76%**
Other operating expenses	71	74	284	5%	282%
Profit before taxation and share from associate	**1,497**	**9,795**	**2,050**	**554%**	**-79%**
Share of profit from associate	1,093	1,331	2,455	22%	84%
Profit before taxation	**2,590**	**11,126**	**4,505**	**330%**	**-60%**
Provision for taxation	212	540	838	154%	55%
Share of taxation from associate	323	452	605	40%	34%
	535	992	1,443	85%	45%
Profit after taxation	**2,054**	**10,134**	**3,063**	**393%**	**-70%**
Earnings per share - basic and diluted	24.79	92.65	28.00	274%	-70%

Vertical Analysis
Profit & Loss

Particulars	2006 (Rs. in Million)	2007 (Rs. in Million)	2008 (Rs. in Million)	2006 (Percentage)	2007 (Percentage)	2008 (Percentage)
Sales - net	3,882	5,011	7,429	100%	100%	100%
Cost of goods sold	2,570	3,149	4,312	66%	63%	58%
Gross profit	**1,312**	**1,862**	**3,116**	**34%**	**37%**	**42%**
Selling and administrative expenses	236	291	390	6%	6%	5%
Operating profit	**1,075**	**1,572**	**2,726**	**28%**	**31%**	**37%**
Finance cost	555	756	901	14%	15%	12%
Other income	1,047	9,054	510	27%	181%	7%
	492	8,298	(392)	13%	166%	-5%
Profit for the year	**1,567**	**9,870**	**2,335**	**40%**	**197%**	**31%**
Other operating expenses	71	74	284	2%	1%	4%
Profit before taxation and share from associate	**1,497**	**9,795**	**2,050**	**39%**	**195%**	**28%**
Share of profit from associate	1,093	1,331	2,455	28%	27%	33%
Profit before taxation	**2,590**	**11,126**	**4,505**	**67%**	**222%**	**61%**
Provision for taxation	212	540	838	5%	11%	11%
Share of taxation from associate	323	452	605	8%	9%	8%
	535	992	1,443	14%	20%	19%
Profit after taxation	**2,054**	**10,134**	**3,063**	**53%**	**202%**	**41%**

Notice of Annual General Meeting

Notice is hereby given that the Forty-first Annual General Meeting of Dawood Hercules Chemicals Limited will be held at Hotel Avari, 87-Shahrah-e-Quaid-e-Azam, Lahore, at 1100 hours on Thursday, 16th April 2009, 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 Tuesday, 22nd April 2008.

2. To receive, consider and adopt the Audited Accounts of the Company for the year ended 31st December 2008 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%) as recommended by the Board of Directors for the year ended 31st December 2008. This is in addition to the interim distributions of 10% bonus shares and cash dividend of Rs. 1.00 per share already paid during the year.

4. To appoint Auditors for the year ending 31st December 2009 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 consider and, if thought fit, pass the following Resolution, with or without modification, as a Special Resolution:

   "RESOLVED, that the Company be and is hereby authorized to further invest a sum of Rs.1,623,148,150/- (Rupees One Billion Six Hundred Twenty Three Million One Hundred Forty Eight Thousand One Hundred Fifty Only) in Engro Chemical Pakistan Limited (ECPL), an associated company, by subscribing for its full entitlement of 40% Right Shares (32,462,963 shares) at Rs.50/- per share (Rs.10/- face value with a premium of Rs. 40/-), being issued in accordance with the decision taken at the ECPL Board Meeting held on 21st January 2009."

A statement under section 160(1) (b) of the Companies Ordinance, 1984 pertaining to the Special Business referred to above is given hereunder.

By Order of the Board

Aftab Ahmed Qaiser

Company Secretary

Karachi

19th February 2009

Notes:

1. Closure of Share Transfer Books:

The share transfer books of the Company will remain closed from 7th April 2009 to 16th April 2009 (both days inclusive). Transfers received in order at the office of our Shares Registrar, M/s. Corplink (Pvt.) Ltd., Wings Arcade, 1-K, Commercial, Model Town, Lahore, by the close of business on Wednesday, 6th April 2009 will be treated in time for the purpose of entitlement of final cash dividend.

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:

Any change of address of Members should be notified immediately at the office of our Shares Registrar.

Statement Under Section 160(1) (b) of The Companies Ordinance, 1984 and Information Required Under SRO 865(I) 2000

This statement sets out the material facts concerning the Special Business, given in agenda item No. 5 of the Notice, to be transacted at the Forty-first Annual General Meeting of the Company.

Dawood Hercules Chemicals Limited (DHCL) is currently holding 81,157,408 Ordinary Shares of Engro Chemical Pakistan Limited (ECPL), an associated company, which constitute 38.13% of the latter's paid up capital. Three of DHCL's Directors are also members of the ECPL Board.

The Board of ECPL in its meeting held on 21st January 2009 has decided to issue 40% Right Shares to the shareholders of the Company as on 13th February 2009. This right issue is offered at a price of Rs. 50/- per share (Rs. 10/- per share face value plus a premium of Rs. 40/- per share). By virtue of its holding in ECPL, DHCL has become entitled of 32,462,963 ordinary shares of ECPL to be issued as Right Shares. The Directors of DHCL recommend subscribing to these right shares not only because it is necessary for maintaining the Company's holding %age but also because the price of Rs. 50/- per share is considered as a good investment. Additional information is given below:

I) Name of investee company or associated undertaking;

Engro Chemical Pakistan Limited (ECPL)

ii) Nature, Amount and Extent of Investment;

Investment of Rs. 1,623,148,150/- in Right Shares

iii) Average market price of the shares intended to be purchased during preceding six months in case of listed companies (last days' closings);

Market price of ECPL shares has averaged Rs. 166.25 (ranged Rs. 96.25 to Rs. 214.54) during the six months ended January 2009.

iv) Break-up value of shares intended to be purchased on the basis of last published financial statements;

2006: Rs. 55.70; 2007: Rs. 80.02;
2008: Rs. 108.47

v) Price at which shares will be purchased;

32,462,963 Right Shares at Rs. 50/- per share (Rs. 10/- face value plus premium of Rs. 40/- per share)

vi) Earnings per share of investee company in last 3 years;

2006: Rs. 15.13; 2007: Rs. 16.51;
2008: Rs. 20.50

vii) Source of funds from where shares will be purchased;

Own and or borrowed funds

viii) Period for which investment will be made;

Long-term

ix) Purpose of investment;

To maintain the present ratio of holding and for return on investment

x) Benefits likely to accrue to the Company and the shareholders from the proposed investment;

The receipt of dividend income from ECPL and increase in value for shareholders

xi) Interest of directors and their relatives in the investee company;

The Directors of the Company are interested to the extent of their respective shareholdings in DHCL & ECPL.

Chairman's Review

I am pleased to present my review on our Company's performance for the year 2008.

2008 proved to be another year of excellence and significant achievements. Our Company delivered excellent financial results and once again broke the sales and production records set last year. Moreover, the gross and operating profits also showed considerable improvement which needs to be acknowledged. These commendable achievements also reflect our Plant's safety and operational reliability. We are grateful to all concerned for their dedication which resulted in such a successful year.

Corporate Governance

Setting Standards for Corporate Governance is the prime responsibility resting on my shoulders. For this purpose, we started sometime back by evaluating how well our current system operates and what International best practices we can adopt. The composition of the Board was reviewed earlier this year and to ensure the most effective leadership for the development of the Company, the Board was expanded from seven to ten members. I am delighted to welcome Mr. Isar Ahmad, Mr. Aleem A. Dani and Mr. Shahid Hamid Pracha as the new Board members of the Company.

Human Resources

With a clear understanding about human resources being one of the most important components of the value chain and the differentiating factor to provide competitive advantage, we placed special focus on this resource by improving our HR policies. The revamping of the Performance Management System has been progressing to ensure proper measurement of employees' performance, addressing their developmental needs and aligning rewards with performance. Our recruitment procedures ensure that we engage the best available technical and non-technical expertise. Our company continued to invest in the professional development of its employees and a detailed training plan was developed through a professional training need analysis.

Corporate Social Responsibility

As a socially responsible organisation, we continue to conduct our business ethically and contribute to the economic growth by improving the quality of life of our people and their families as well as having a special focus on the community around the plant and the society on the whole. Our initiatives have mainly been in the areas of health, education and the environment. The eye camp started couple of years ago is having a great impact on the lives of the economically under privileged people of the communities around the plant. Building on this experience, a women health camp has also been initiated in the same vicinity. The TCF-Dawood Hercules Campus School which is in the second year of its operations is providing education to more than 250 students from the villages around the plant. To address the basic need of clean drinking water and after the successful commissioning of a water purification plant at the TCF-DH Campus School, our Company further installed three such plants during the year. I am proud to mention that Dawood Hercules was among the first organisations to help and support the people left homeless and without food due to the earthquake that jolted Balochistan and the law and order situation in the Swat Valley, by dispatching relief goods.

Health, Safety and Environment

Safety of operations and environment protection are given top most priority at DHCL plant. It is my pleasure to mention that we have, for the 1st time in DHCL history crossed the Seven Million safe man-hours mark, spanned over almost 7 years. As part of our sustained efforts for strengthening our HSE Management System, we also achieved ISO 14001:2004 and OHSAS 18001:2007 Certifications for environment and safety performance, respectively. We monitor our results and review our shortcomings on an ongoing basis as a part of the continuous improvement process.

DHCL is registered with Environmental Protection Agency of Pakistan (EPA) under SMART-2 environmental performance monitoring program and reports its environmental performance to EPA on monthly basis, as per regulatory requirements. The report includes Effluent and gaseous emissions from the plant site which are within National Environment Quality

Standards (NEQS) limits. More projects are in pipeline to further reduce the emissions. Tree plantation area adjacent to the production facilities has also been increased to improve the joining environment.

Investments

We also look for equity investment opportunities that can add value to the business and improve its profitability. Investments in stocks and portfolio management has earned the Company Rs. 4.4 billion in cash dividends and Rs. 3.0 billion in the shape of net capital gains over the past six years. Apart from this, the Company had also realized a capital gain of Rs. 8.7 billion from the sale of Engro shares during 2007 which was utilized towards reacquisition of the shares at the prevailing market price.

Major investments of our Company are in Engro Chemical Pakistan Limited (ECPL) and Sui Northern Gas Pipelines Limited (SNGPL). With over 38% holding, DHCL is the largest shareholder of ECPL, a fast growing profitable organization engaged in diversified activities. Its urea expansion project, which will be the world's largest single train Ammonia Urea Plant, is on target to achieve commercial production by mid 2010. SNGPL has the largest gas transmission and distribution network in the country which is of strategic importance. It has the potential to substantially increase its profits by controlling the unaccounted for gas losses and expansion of its operations within and outside the country. Its management is actively pursuing these avenues.

International Accounting Standard-39 requires that any impairment loss in the value of “Available for Sale” financial assets be recognized in the Profit & Loss Account. In cognisance of the heavy and abnormal fall in the share market, however, SECP vide SRO 150(I)/2009 dated 13th February 2009 has also permitted an alternate method. It has given the option that the impairment loss recognised as on 31st December 2008 due to valuation of listed equity investments held as “Available for Sale” to quoted market prices of that date may be shown under the “Equity” (instead of P & L). In this option, subject impairment loss is required to be taken to the profit and loss in the year 2009 on quarterly basis after adjustment for the effect of price movements in that year. Your Board is of the view that the share prices on 31st December, 2008, were not the true indicator of their real worth and should recover in 2009. It has, therefore, decided to avail the SECP option and show the impairment loss relating to the SNGPL shares directly under Equity in the 2008 Accounts.

Awards and Recognition

Your Company has been awarded the Karachi Stock Exchange Top-25 Companies award for the year 2007, which is the 10th such award in the last 13 years. The Company has improved its ranking by climbing to 10th position as against 18th of the last year.

Acknowledgment

I greatly appreciate the contributions made by the Board and the continuous support received from all stakeholders specially the Government, the shareholders, the customers, the suppliers and the society at large. I would like to thank the executive management and all the employees for their sincerity, teamwork, dedication, loyalty and hard work to achieve the company's business objectives.

I am confident that the management of the Company is capable of dealing with future challenges and notching up further accomplishments.

Hussain Dawood

Chairman

Directors' Report

Fertiliser Marketing Review

Global Fertiliser Supply

After several years of extraordinary growth, the world economy is entering a depressed period. The situation started deteriorating quickly during the third quarter of 2008. This slow down in the world economy is likely to impact the fertiliser demand in several ways. Firstly, it will make it risky for the farmers to invest in fertilisers. Secondly, in many countries farmers will experience difficulties in accessing the credit with which they purchase inputs including fertilisers. Thirdly, with the decline in purchasing power, consumers might shift their dietary preferences thus impacting the fertiliser demand. And lastly, the falling crude oil prices have to be matched with a proportional drop in feed stock price which seems unlikely.

Unlike the year 2007, when the global fertiliser market entered a new demand-pull cycle, driven by a surge in overall consumption and a shortage of available supply, the year 2008 especially the second half saw deteriorated market conditions for fertilisers. The world fertiliser markets have experienced a period of great volatility despite the strong positive demand prospects envisaged at the beginning of 2008. In the second half of 2008, the fertiliser industry faced a slow down of sales amid rising inventories as farmers delayed purchases in expectation of further price reductions and tightening financial conditions.

The world average price of Urea jumped to an all time high of US $850 in the middle of the year and settled at US $220 at the end of the year. It is expected that the price may take a further downward turn in the first half of the year 2009. The International Fertilizer Association (IFA) had last year forecast a bullish medium term outlook for fertilisers. However, with the global melt down, the IFA has revised its projection stating that it is very speculative at this time, as the evolution of the economic, financial and agriculture context in 2009 is hardly predictable.

Global Fertiliser Consumption

Mt nutrients	2007-08 (e)	2008-09 (f)	2009-10 (f)	Annual Change Over Previous	
N	100.5	101.1	104.5	+0.5%	+3.45
P2O5	39.3	37.5	38.8	-4.7%	+3.6%
K2O	28.9	26.5	27.5	-8.2%	+3.9%
Total	168.7	165.0	170.9	-2.5%	+3.5%

(e) estimated; (f) forecast Source: IFA, June 2008

The IFA's 2008 global capacity survey shows that the world urea capacity is forecast to reach 200 Mt in 2012. The recent decline in demand associated with financial constraints has started to impact capacity projects. Several projects were delayed in 2008, and such delays are likely to continue between 2009 -12. Thus the compound annual growth rate of 5.5 per cent over 2007 as predicted earlier is not likely to be attained.

Due to the delays in the completion of several projects, only a limited capacity of 5.4 Mt was added in 2008. The world urea supply for 2008 as estimated by the IFA in June 2008 was 150.6 Mt as against the demand of 147.6 Mt. IFA estimates of the urea supply/demand balance have evolved from severe supply tightness in 2007 to a gradually increasing surplus. According to IFA, year 2009 will be characterized by the serge of new capacity, mostly being available during the second half of the year and a possible recovery of the nitrogen fertiliser markets during the second half of 2009.

Global Urea Supply/Demand Balances 2008-09

	2008 Expected Mt	2009 Forecast Mt
Urea Supply	150.6	159.2
Urea Demand	147.6	154.8
Global Balance	+2.9	+4.4

Source: IFA. June 2008

It will be safe to assume that some projects planned during the period 2009-12 are likely to be delayed or even cancelled in the near term, and there is a probability that further rationalisation of demand/supply may occur in Europe and South Asia.

Pakistan's Fertiliser Scenario

The fertiliser consumption in Pakistan is said to be low; currently averaging 162.5 kg per hectare. Fertiliser consumption is closely linked to the economic growth of the country. This fact is proved by the positive correlation between the fertiliser consumption per hectare and nominal GDP. Further growth of fertiliser off-take, however, can only be assured by the economic well being of the agriculture sector. The government has increased the support price of wheat, and the prices of other cereal have also gone up, therefore, it is expected that the usage of fertiliser per acre will increase in future.

Local Market Scenario – Urea /DAP

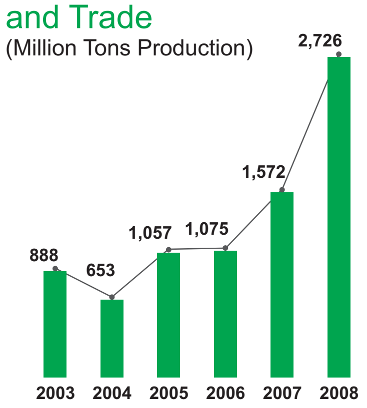
In contrast to the year 2007, when the local market remained suppressed, the year 2008 saw an unprecedented increase in the demand of Urea and DAP. Many reasons were attributed to this upsurge in demand, some of them being the unprecedented increase in the international prices of Urea and DAP, the non-availability of imported fertilisers, the smuggling of fertilisers to a neighbouring country and the psychological factor, which led to hoarding.

The excess demand of Urea compared to its supply was due to the fact that there was a tremendous increase in the price of DAP, making it uneconomical for farmers, who shifted their preference to Urea substituting it for DAP, thus increasing the demand for Urea.

The Urea off-take at the national level during 2008 was 5532 Kilo tons as compared to 4917 Kilo tons in year 2007 depicting a growth rate of around 12%. This increase in urea sale was in spite of the fact that the Government of Pakistan offered a subsidy on DAP to make its use attractive for farmers. Nevertheless, the increase in price DAP outpaced the subsidy, thus the off-take of DAP during the year 2008 was at 755 Kilo tons. Rising international prices have again put this nutrient beyond the reach of our farmers, reducing DAP sales in the first half of current Rabi (2008-09) and forcing them to switch to urea application which has consequently increased its demand by 10% as compared to the previous Rabi (2007-08).

This switch over is a cause of concern for the advocates of balanced use of fertilisers as the preference for the cheaper urea over the more expensive DAP will once again create an imbalance in the application of nutrients.

World Urea Production and Trade
(Million Tons Production)



Agriculture Credit

The overall liquidity crunch in the financial sector has led to a general shrinkage in the availability of credit, including agriculture. Adding fuel to the fire was the hyper-inflation in the country, especially in food items. This hyper-inflation has stimulated an increase in the mark-up rates across the board. Consequently, the farmers have been left with very little margin between their cost of production and sales revenue. Hence, credit utilisation during the year 2008 has been at its minimum and the allocation of Rs. 200 billion by the Central Bank for the fiscal year 2007-08 remained under utilized.

Distribution Network

During the year the Company took a strategic decision of re-structuring its distribution and marketing system. The Company is in direct contact with its distributors and has ensured that it receives constant feed back from the farmers. It is also assuring the quality and availability of its product in the market through constant supervision.

Performance Review

The Board of Directors is delighted to present its review for the year 2008.

Production Performance

Operations during the year remained excellent. The Plant touched the production level of 508,050 M. Tons in the year under review. This was the first time that the plant had achieved this production level. The urea production in 2008 was 508 thousand metric tons as against the designed capacity of 445 thousand metric tons and last year's production of 498 thousand metric tons. The current production level was achieved despite 33.394 days of plant shutdown on account of gas curtailment and maintenance.

The Company also achieved a new record in urea production of 1,551 M. Tons in a single day on 14th November 2008, the highest in the Company's history. The capacity utilisation for the year stood at 114%.

Sales Performance

During the period under review, the Company sold 527,860 M. Tons of urea compared to 508,540 M. Tons of last year, showing growth of 4%.

Financial Performance

This was another milestone year in the history of your Company. The Company recorded sales of Rs. 7,429 Million as compared to Rs. 5,011 Million for the year 2007, thus an increase of 48% in sales value over last year.

Gross Profit for the year under review stood at Rs. 3,116 Million against the gross profit of Rs. 1,862 Million, for the year 2007. The operating profit showed a healthy increase of 73% for the year under review and climbed to Rs. 2,726 Million as compared to Rs. 1,572 Million for the year 2007.

The profit before tax and share from Associate stood at Rs. 2,050 Million as compared to Rs. 9,795 Million in 2007. The major cause of decrease in the profit before tax is the fact that the Company recognized capital gains in the year 2007.

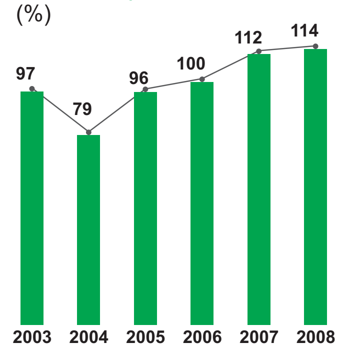
Profit before taxation, including the share from Associate, stood at Rs. 4,505 Million (L.Y. Rs. 11,126 Million). The year's profit after taxation including the share of Associate has been reported at Rs. 3,063 Million (L.Y. Rs. 10,134 Million).

Treatment of Impairment Loss

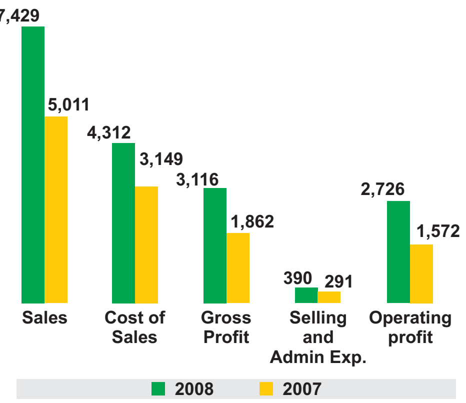
International Accounting Standard 39 (IAS 39) deals with the impairment in the value of investments classified as “Available for Sale”. The requirement of the said IAS is that such impairment loss should be routed through profit and loss account and not through equity.

In view of the KSE floor mechanism during 2008 and the national / global financial crisis, your Board believes that the quoted prices on 31st December 2008 were not a fair

Capacity Utilisation
(%)



Financial Results
(Rs. in Million)

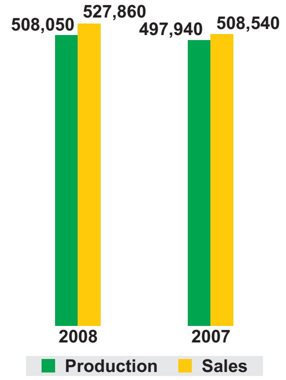


reflection of the equity values. The Board is, therefore, of the opinion that treatment of "impairment loss" in accordance with the requirements of IAS 39 would not reflect the true state of affairs of the Company. The Securities and Exchange Commission of Pakistan (SECP) has also viewed it as "rare circumstances" and given the option to take the impairment loss as of 31st December 2008 directly to the Equity. The Board has decided to avail the option provided by the SECP with respect to the Company's investment in SNGPL. Complete details in this regards are given under Note 26 to the accounts.

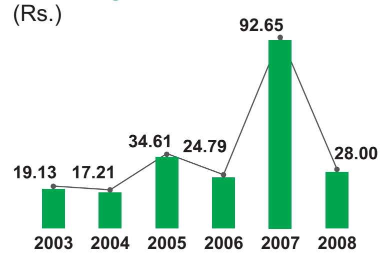
The summary of the operating results of the Company for the year under review along with the comparatives for the last year are as under:

	Rupees in Million	
	2008	2007
Sales	7,429	5,011
Cost of Sales	4,313	3,149
Gross Profit	3.116	1,862
Distribution & Admin Expenses	390	291
Operating Profit	2,726	1,571
Financial & other charges	1,085	830
Impairment loss on available for sale investment	100	-
Other Income	510	9,054
Share of Profit from Associate	2,455	1,331
Income Tax		
DHCL	(838)	(540)
Associate	(605)	(452)
Net Profit After Tax	3,063	10,134

Production / Sales
(MT)



Earnings Per Share
(Rs.)



Summary of Cash Activity

The following is the abridged statement of funds generated and applied during the year as compared to year 2007:

	Rupees in Million	
	2008	2007
Sources of Funds	4,321	4,581
Less Application of Funds	4,484	3,539
Increase (Decrease) in cash & cash equivalents	**(163)**	**1,042**

Your Company follows a balanced and pro-active approach of managing its cash and liquidity. Excess cash is invested and funds are borrowed on short term and long term basis as and when the situation warrants.

At present, the Company sees no immediate pressure on its short term and long term financing needs. There are adequate back up arrangements to meet any contingency in liquidity.

Earnings Per Share

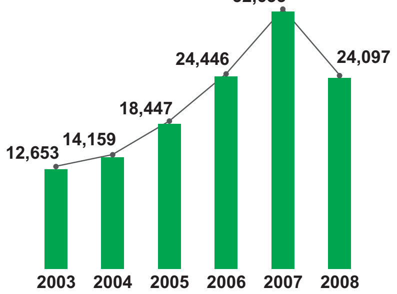
The Earnings Per Share (EPS) of the Company stood at Rs. 28.00 as compared to Rs. 92.65 of the last year. The break-up of EPS of Rs. 28.00 is portioned into three segments with the Company earning Rs. 15.08 per share from operations, loss of Rs. 3.99 per share from other income and Rs. 16.91 per share from the earnings of Associate.

Market Capitalisation

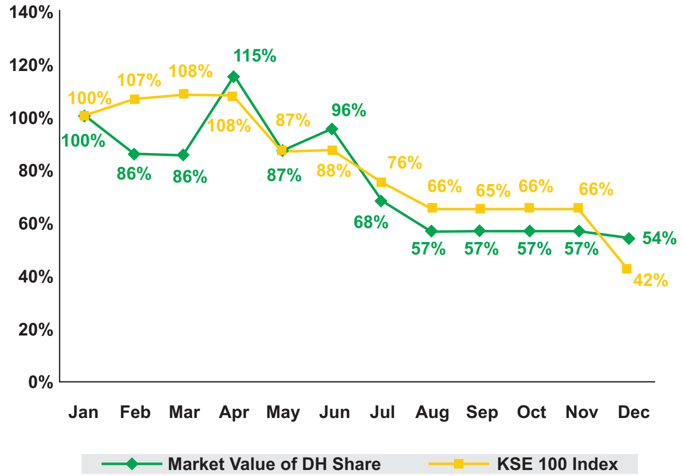
The market capitalisation of the Company during the year fluctuated with the crisis ridden capital market. The peak value of the share during the year reached Rs. 505.95 on 21st April 2008 and the lowest price of Rs. 220.30 was hit on 31st December 2008.

At the close of the year, the market capitalisation was Rs. 24,097 Million, with a market value of Rs. 220.30 per share and break-up value of Rs. 158.91 per share. The strong performance in stock market depicts the market confidence in the value of your Company.

Market Capitalization
(Rs. in Million)



DHCL Share Price / KSE 100 Index



Net Worth

Due to stock market crash and application of IAS-39, there was a significant decline in the net worth during the year 2008 amounting to Rs. 1,507 Million, showing a reduction of eight percent over last year. The decrease in the per share book value from Rs. 227.95 to Rs. 158.91 was partly attributable to the bonus shares issued in 2008.

Market Value of Shares Vs. KSE 100 Index (2008)

In spite of the unprecedented financial crisis, the share of our Company suffered a relatively less erosion than the volatile KSE 100 Index. During the year, the KSE 100 Index decreased by 57% whereas the stock of your Company decreased by only 44%. This depicts your Company's considerable financial strength and strong fundamentals.

Appropriations

During the year, the Board declared an interim cash dividend and stock dividend of Rs. 1.00 per share (10%) at the end of the second quarter.

In addition to the above, the Board is pleased to recommend a final cash dividend of Rs.1.50 per share (15%) for approval by the shareholders in the ensuing Annual General Meeting, making a total of 25% cash dividend and 10% stock dividend for the year 2008.

Development Expenditure

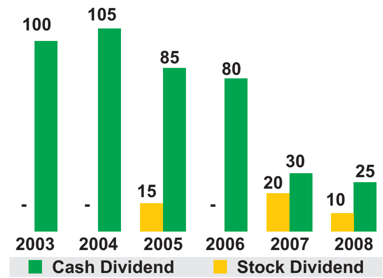
The Company took a strategic decision of replacing its three decades old steam turbine with an efficient and energy saving Gas Turbine. The order was placed after opening the Letter of Credit. The allied equipment was also ordered and other allied work had been in process. It is hoped that the turbine would be in operation by the end of the year 2009.

Awards and Recognition

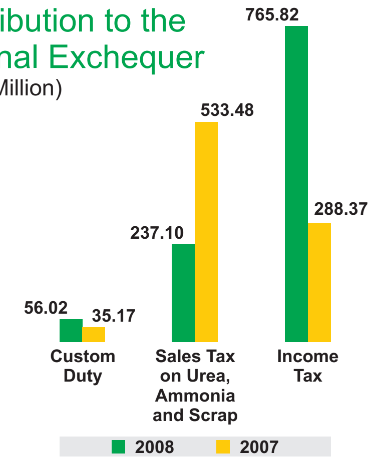
Your Company has been awarded the Karachi Stock Exchange Top-25 Companies Award for the year 2007, which is the 10th such award bestowed upon it in the last 13 years. The Company has improved its ranking by climbing to 10th position as against 18th last year.

The Joint Committee of ICAP and ICMAP awarded the

Total Dividend
(%)



Contribution to the National Exchequer
(Rs. in Million)



3rd position to the Company's Annual Report 2007 in the Chemical & Fertiliser category.

ISO 14001:2004 and OHSAS 18001:2007 Certification

This was another great accomplishment of your Company. The above certification was achieved within a record period of four months. The purpose of these Standards is to support and promote good occupational health, safety and environment practices in balance with socio-economic needs. These standards include commitment to continual improvement, prevention of pollution & injuries and compliance with applicable laws.

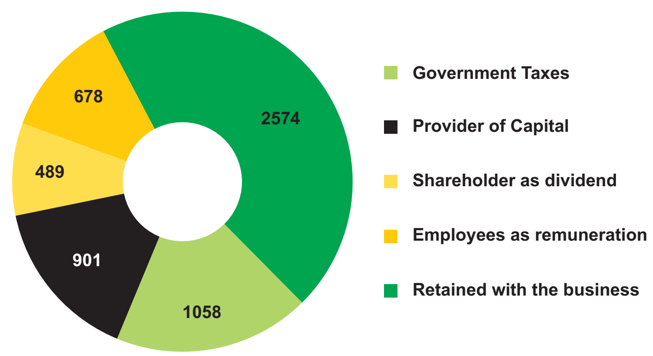
Contribution to the National Exchequer

Dawood Hercules is one of the leaders in contribution to the National Exchequer. Our Company's input amounted to Rs. 1,059 Million as compared to Rs. 857 Million of the preceding year. This includes Rs. 766 Million (L.Y. Rs. 288 Million) as Income Tax, Rs. 237 Million (L.Y. Rs. 534 Million) as Sales Tax, Rs. 56 Million (L.Y. Rs. 35 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. 123.00 Million (L.Y. Rs. 110.00 Million).

Contribution to National Economy

Your Company's contribution to the national economy by way of value addition was Rs. 5,701 Million (L.Y. Rs. 12,253 Million). The beneficiaries were: the Government; receiving Rs. 1,059 Million (L.Y. Rs. 857 Million), the Company employees; Rs. 678 Million (L.Y. Rs. 506 Million), the shareholders; Rs. 489 Million (L.Y. Rs. 497 Million) and the provider of Capital Rs. 901 Million (L.Y. Rs. 756 Million). The amount of Rs. 2,574 Million (L.Y. Rs. 9,637 Million) was retained in the business.

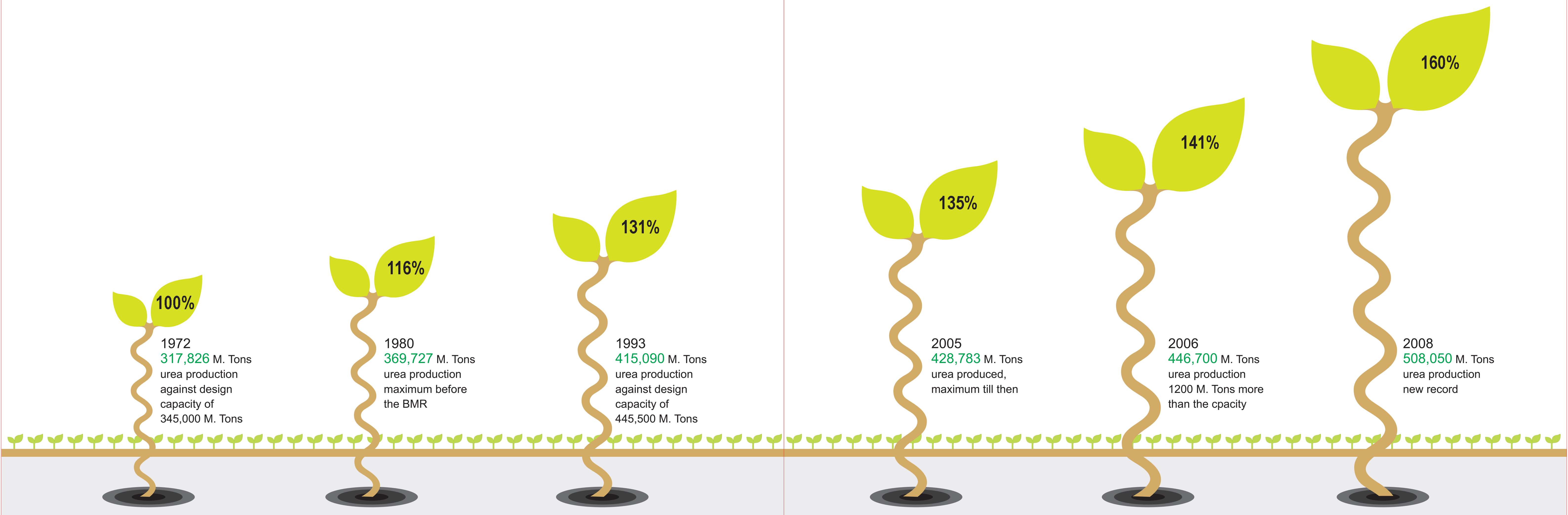
Value addition and distribution during 2008



Growth & Continual Improvement

Plant Performance over the years

Production landmarks leading to the historic figure of 508,050 Metric Tons achieved this year.



Corporate Affairs

An Extraordinary General Meeting of the shareholders was held on 22nd April 2008, in which a new and enlarged Board comprising of ten directors instead of seven was elected for a three-year term starting 29th April 2008. The Board welcomed the three new Directors namely Mr. Isar Ahmad, Mr. Aleem A. Dani and Mr. Shahid Hamid Pracha.

Board Meetings

Six meetings of the Board of Directors were held during the year 2008. Attendance of each Director is given below:

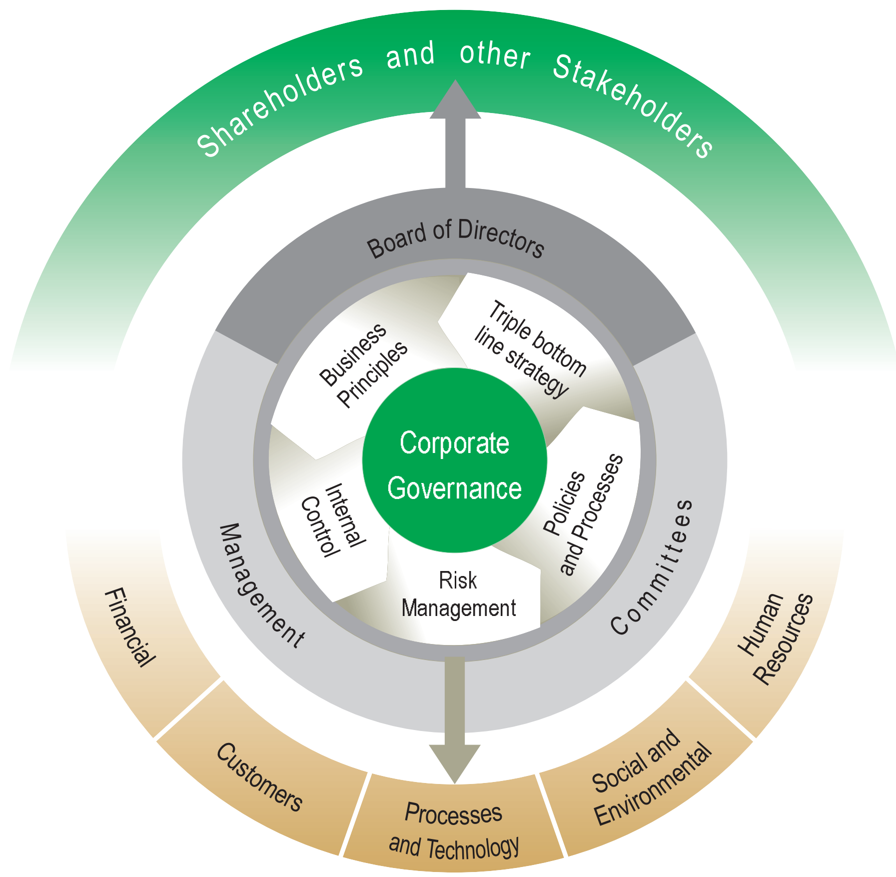
Name of Directors	Meetings Attended
Mr. Hussain Dawood	5
Mr. Isar Ahmad	1*
Khawaja Amanullah	3
Mr. S.M. Asghar	5
Mr. Aleem A. Dani	2*
Mr. A. Samad Dawood	3
Mr. Shahzada Dawood	6
Mr. Abdul Ghafoor Gohar	6
Mr. Haroon Mahenti	4
Mr. Shahid Hamid Pracha	2*

* Two meetings were held after their election

Increase in the Authorisd Share Capital of the Company

With the growing expansion of the Company's business, it was desirable to bring the authorised share capital of the Company in accordance with the magnitude of the Company's resources, size of its Balance Sheet and to accommodate issuance of further rights and bonus shares from time to time. It was, therefore, considered advisable to increase the authorised share capital of the Company form Rupees One Billion to Rupees Ten Billion, divided into 1,000,000,000 shares of Rs. 10/- each.

In the 40th Annual General Meeting (AGM) of the Company held on 28th February 2008, the shareholders gave their approval to increase the Authorised Share Capital of the Company.



Investment in Engro Chemical Pakistan Limited (ECPL)

The Board of ECPL in its meeting held on 20th February 2008 decided to issue 10% Right Shares to the shareholders of the Company. This rights issue was offered at a price of Rs. 175/- per share (Rs. 10/- per share face value plus a premium of Rs. 165/- per share). By virtue of its holding in ECPL, DHCL became entitled to 7,377,946 ordinary shares of ECPL to be issued as Right Shares. The Directors of DHCL recommended subscription of these shares not only because it was required to maintain the Company's holding percentage but also because the price of Rs. 175/- per share was considered as a good investment.

An Extraordinary General Meeting (EGM) of the Company was held on 22nd April 2008 in which the shareholders gave their approval under section 208 of the Companies Ordinance, 1984 for the subscription of 10% Right Shares of ECPL.

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. International Accounting and Reporting Standards, as applicable and notified by the SECP, have been followed in the preparation of the financial statements. These statements present 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 the preparation of the financial statements and accounting estimates are based on reasonable and prudent judgment.

The system of internal control is sound in design and has been effectively implemented and monitored. There are no significant doubts upon the Company's ability to continue as a going concern.

The annual report including the annual audited financial statements are circulated well before the prescribed time of four months. There has been no material departure from the best practices of Code of Corporate Governance, as detailed in the listing regulations of the Stock Exchanges.

Compliance with the Code of Corporate Governance

The Company's Statement of Compliance with the Code of Corporate Governance as set out in the listing regulations of the Karachi and Lahore Stock Exchanges, and the review report of the auditors to the members on the statement of compliance with the best practices of code of corporate governance is annexed in the financials section of this report.

Statement of Ethics and Business Practices

The Board has adopted the Statement of Ethics and Business Practices. All employees have been informed and are required to observe the Rules of Conduct in relation to business and its regulations.

Ownership

As at 31st December 2008, there were 2,482 shareholders on the record of the Company.

Pattern of Shareholding

The Pattern of Shareholding of the Company as at 31st December 2008, along with the necessary information is available at the end to this report along with the proxy form.

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. 652.49 Million. Fair value of the assets of the funded defined benefit gratuity plan for management staff was Rs. 92.61 Million as at 31st December 2008, according to the actuarial valuation, whereas the value of assets of defined contribution plan for non-management staff was Rs. 43.37 million as on 30 June 2008.

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 41st Annual General Meeting, as auditors of the Company for the year ending 31st December 2009.

Risk Management

Your Company uses a structured approach in identifying, assessing and controlling risks to support better decision making for the effective and efficient use of resources. The Company endeavours to mitigate financial risk through hedging programmes.

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

In order to enhance service to our dealers and farmers, Dawood Hercules ensures that it receives constant feedback from the farmers and assures quality and product availability through constant supervision.

Health, Safety and Environment

Dawood Hercules nurtures an environment that values expression of ideas, the merging of different experiences, teamwork, ethical behaviour and performance, both at the corporate office and 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 for other stakeholders and the country on the whole. The main objective of Dawood Hercules is to ensure that all its operations and processes follow procedures that protect people, property and the environment. These include our interaction with our employees, clients, contractors, suppliers, partners, 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 at the workplace.

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 second, how health can affect work. Examples of the former include phenomena such as noise exposure causing hearing loss, or improper lighting leading to eye strain or headaches; the latter can create situations affecting fitness for air travel, etc. Dawood Hercules employs strict policies regarding health which apply to all employees during recruitment and service. The employment of any 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 Seven Million Safe-man Hours

The safety of the people working with the Company is of foremost concern to us. Last year, we reported the attainment of Five Million Safe Man Hours i.e. safe operation without any incidence of Lost Work Injury (LWI). Total recordable incident rate (TRIR) for the year 2008 was 0.37. The entire Dawood Hercules team kept its focus on this issue and Al-Humdolillah, the year ended with the attainment of Seven Million Safe-Man Hours on 29th November 2008, which translates to 2,469 safe operation days without any LWI. At the year end, the Company recorded 2,501 days, representing 7,083,548 Man hours from the last LWI.

The issue of safety is an on-going venture, 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) was completed during the year. That is not all, HSE meetings, Plant Safety Meetings and Monthly Safety Implementation Committee (SIC) Meetings were held all year round. Scheduled area safety inspections took place to check emergency preparedness, safety equipments and safety related issues. The Floor Safety Committees enforced safety methods and strengthened safety alertness at the grass root level through safety awareness campaigns and trainings which comprised presentations, briefings, video shows, banners, talks and bulletins. First Aid Training Sessions were also held at the plant and head office and the Emergency Exit plan reviewed. The practice of inducting new employees to 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 all over the world. The Company has attained the OHSAS 18001:2007 certification, which endorses the Company's effort in this regard. 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 also being set in motion by the engineers of the Company to decrease the emission of carbon dioxide at the Plant.

The plantation of trees that began last year, continued during the earlier part of 2008. The administrative department of Dawood Hercules also adopted measures to implement the recycling of paper, glass, and plastic at the corporate office and Plant.

Corporate Social Responsibility

Your Company is striving to become a leading enterprise with a strong sense of social contribution. A CSR Committee with representatives from different functional areas is responsible for evolving a strategic direction for the Company's social initiatives. The Committee's mandate is to initiate, facilitate, coordinate and monitor CSR projects of the Company and its mission is to:

- foster a culture of philanthropy in the organisation
- contribute for the welfare of community with special emphasis on health, education and environment
- help victims of natural disasters
- promote employee volunteering for community initiatives

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."

For Dawood Hercules, CSR is the integration of social and environmental concerns in our business operations. It is part of our day-to-day business as CSR activities are effective in developing employees' skills for management and team work. On a larger scale, it nurtures and promotes a culture of fellowship, team loyalty and sharing among people, as well as bolstering sentiments of having been part of worthwhile and meaningful causes.

During the year 2008, the Company continued systemising its CSR activities. The focus was on the communities and villages in the vicinity of our operations.

HEALTH

Eye Camp

The weekly free eye camp started in November 2006 continues to be a huge success. The under-privileged people of the adjoining communities have greatly benefitted from this project initiated by the company. Its popularity can be measured from the fact that people from as far as Southern Punjab have also started visiting this Camp to seek treatment for their eye ailments. This has turned out to be the flagship CSR activity of the Company.

A qualified ophthalmologist examines the patients and the ones with minor problems are given medical advice along with free medicines. Those requiring cataract surgery are referred to a private hospital in Lahore and provided with breakfast and transport facility free of cost. All expenses related to surgery including medicines, examinations and procedures are borne by the Company. To-date, 103 camps had been held recording over 22,500 visits and 1,056 cataract operations.

The CSR Committee has decided to continue this activity in 2009 due to the popularity and huge impact on the communities availing its services.

Women Health Camp

During the year, the CSR Committee decided to expand its activities and build upon the experience acquired through organizing the eye camps. The Committee realised that the women living in the villages around the Plant do not have access to quality medical treatment due to their economic and sociological conditions leaving them at the mercy of quacks which at times has had devastating consequences. It was therefore decided to set up a weekly Women Health Camp to cater for the gynaecological and other medical problems of women. Ever since its inauguration in May 2008, the Camp has been well-received and is making a significant impact on the lives of these women. A lady doctor assisted by qualified paramedical staff provides quality medical services. Besides this, free medicines as well as free ultrasound facility are also available to the patients. By the year end, 3,573 patients' visits were recorded in 28 camps.

Cleft Lip Operation

We had reported last year about the CSR Committee's initiative to undertake treatment of a TCF School student who suffered from cleft lip deformity. The child was

successfully operated upon, significantly improving his appearance. He is currently being examined by a dentist for orthodontic treatment which is to be undertaken in near future.

EDUCATION

TCF School – Dawood Hercules Campus

The school set up in collaboration with The Citizen Foundation (TCF) in the village of Noorpur Virkan opposite the Company's plant in Sheikhupura is in the second year of its operation. More than 250 needy children from the local community are getting quality education in this institution. On the request of the school administration, the CSR Committee has decided to set up a play area in the school lawn. The Committee is also contemplating to expand the school capacity to cater to future requirements.

ENVIRONMENT

Plantation Drive

The maintenance of 37,000 trees planted in the land surrounding the DH plant was carried out on regular basis during the year. Many of the planted trees have now reached the self-sustaining stage. A boundary wall is being constructed around the plantation area.

Water Purification Plants

We had reported last year about the installation of a water purification plant. This plant provides clean drinking water to TCF School – DH Campus as well as the people living in its proximity. This year three more such plants were set up. The first of these was installed at Noorpur Virkan where a large number of villagers are benefiting from it. The second plant was installed in a densely populated area near the village Bawe dee Kuttiya, opposite the DH Plant. The third plant was installed at the Mayo Hospital, Lahore, for the benefit of the patients and the hospital staff.

The CSR Committee has decided to set up four more water purification plants and is currently working on identifying the most suitable places for this purpose.

EMERGENCY RELIEF

The Company's CSR initiatives are aimed at making a sustainable impact on our surroundings. There is a deliberate effort at moving beyond charity and donations and doing what is enduring and has a larger purpose.

However, charity and donations still have a role to play. For example, people struck by natural disasters such as earthquake, cyclones etc. need prompt assistance, food and clothing. The following emergency relief activities were undertaken during the year:

Swat

The law and order situation in the Swat Valley has turned this paradise into a nightmare for the locals. It is estimated that a majority of the 1.5 million inhabitants of the Swat Valley have abandoned their homes and taken refuge elsewhere. Those who are able to afford leasing a home are managing the disruption to their lives. However, there are thousands of poor and marginalised people left at the mercy of their fate.

Dawood Hercules has dispatched 400 bags containing food items (flour, rice, tea and sugar) besides blankets, and toys for children. Volunteers from the Head Office and Plant assembled to pack the goods and load them on the trucks taking the relief goods to Swat.

Balochistan Earthquake

The powerful earthquake that jolted Ziarat district and northern & central parts of Balochistan on 29th October 2008 left thousands of people homeless, who were in dire need of food and protection against the rapid onset of a chilling winter. The CSR Committee decided to act swiftly by bringing some relief in their lives.

The Committee managed to arrange 300 quilts and 150 cotton blankets which were dispatched within 48 hours after the tragedy struck, to Quetta, on 31st October 2008. Keeping up with their tradition, a large number of The Dawood Group employees volunteered in packing and loading these relief goods to ensure timely dispatch.

OTHER

A "Women's Day" was organised by the DH Colony women in which the families of DH employees also participated. The proceeds from the event were donated to the Roshni Foundation School for special persons.

The CSR Committee is trying to enhance the scale of its operations. It is initiating projects with prospects for sustained growth. It is also working to ensure visibility for its projects, not as a publicity tool but as a means for ensuring the multiplying effect of the community initiative.

Human Resource Management

In the exceedingly competitive business environment of today, one resource that can make a significant difference for an organization is its human capital. Our remarkable operational achievements during the year have been the outcome of the commitment and collective efforts of the employees of all cadres. The management of your Company is fully conscious of this fact and consistently endeavors to create and maintain an environment where everybody can fully realize his/her potential. A brief description of major HR activities in the year 2008 is given below:

The management has initiated the revamping process for Performance Management System to establish and maintain a productivity and performance driven culture in the Company. An experienced consultant has been engaged for this purpose.

The 24th batch of the Graduate Engineers Training Program has completed its training. An introduction to the corporate functions has been included in their curriculum. A significant development was an adventure trip of the trainee engineers to the Fairy Meadows and Nanga Parbat base camp. This provided them with an opportunity to develop their leadership, coordination, team building and problem solving skills. The 25th batch has started training and the most important feature of this new batch is the induction of three female engineers. Being a socially responsible organization and for the encouragement and development of young female engineers in the country, an additional quota of 10% has been specifically allocated for female engineers. Apart from the specified quota, the female candidates will also be competing on open merit. 25 candidates were inducted into the 22nd batch of the Operators Training Scheme. Classes of Diploma and Matriculate apprentices are also underway.

The Company continued to invest in the professional development of its employees. This year, a detailed training plan was developed through proper training needs analysis (TNA). Various in-house and outside training programs, seminars and workshops in the areas of management, plant operation and maintenance, information technology, finance, training etc were arranged throughout the year. About 100 employees attended management training courses in reputed institutions of the country. Various in-house training workshops and seminars were also arranged by the Training Department.

The remuneration structure of the management staff was significantly improved for retaining the competitive edge. A variable component was introduced so that the contribution of high performing individuals could be adequately rewarded. Pay & benefits structure of the workers was also improved under Settlement with the Union for the period 2008-2010.

For the first time, Flexible office timings have been introduced for employees working at the Head Office of the Company. The objective is to enhance their productivity and facilitate them in maintaining a desirable work-life balance.

Research Brings More Productivity

The Research and Development done at Dawood Hercules involves continuous analysis and diagnostics which contributes to optimum utilization of resources, assuring product quality and increased yield.

Outlook 2009

The government's increase in the support price for wheat will lead to increase in cultivation and a consequent rise in demand for Urea. Further the high prices of DAP will most likely increase the demand for urea.

Pakistan may not be able to benefit from the falling international fertiliser prices as its currency is consistently depreciating against the major world currencies. In addition, the depleting foreign exchange reserves and increasing cost of finances will outweigh any benefit of falling world fertilisers prices. Thus it is expected that the pressure on domestic demand will continue and we will once again see 2009 as a demand driven year.

The Company is forecasting the production of around 500 thousand metric tons for the year 2009 and is confident of selling its entire production. The limiting factor can be the feed and fuel stock supply, as it is anticipating a discontinuance of gas supply in the month of January and low pressures in February.

As reported last year the Company is in the process of replacing one 7.5 Mega Watt steam turbine with a 10 Mega Watt gas turbine which is 50% more efficient, thus contributing to more energy saving. It is anticipated that the company can make-up for any production loss due to gas supply disruptions, after the turbine is fully operational.

Acknowledgment

The Directors feel pleasure in reporting about the dedication of the employees of all cadres. Achieving the highest ever production of over 500 thousand metric tons and getting to the seven million safe man hours shows the commitment and team work of the employees.

The Directors pay special thanks to all stakeholders for their contribution in the progress of the Company.

On behalf of the Board

Shahzada Dawood

Chief Executive

Preparing Today for Tomorrow

Realising the needs of tomorrow's world, Dawood Hercules is investing in the systems and processes today, to make them exceedingly efficient.

Keeping Pace to Achieve Bigger Goals

Maintaining consistent capacity utilization of 100% and above for three consecutive years, Dawood Hercules is moving towards a promising future.

Business Process Re-Engineering

The Company effectively utilises "Business Process Re-Engineering" to achieve excellence in plant's operational reliability and optimum capacity utilisation. The company's performance during the year under review clearly shows the achievements that have been attained through advance technological interventions in process equipment, during the last two years.

The company management wants to ensure integration of information processing work into real work to guarantee safe operation and maintenance of the plant in order to avert any loss in terms of life, resources, and property.

In-depth analysis through reviews and evaluations are conducted on regular basis by the competent professionals to arrive at the most economically viable and technically logical solutions.

Quality Management System

The vision of our Quality Management System (QMS) is full utilization of state of the art technologies to improve processes and operations applying both proactive and reactive techniques.

The Company's QMS is built upon a set of policies, processes and procedures that have been specifically formulated for the efficient execution of the company's core business activities. It enables the company to identify, measure, control and integrate various processes within the organisation for a systematic approach leading to continuous improvement of business performance.

The compatibility of the Company's existing QMS with internationally recognised standards for Quality Management System provides a framework to ensure customer satisfaction about the quality of our product.

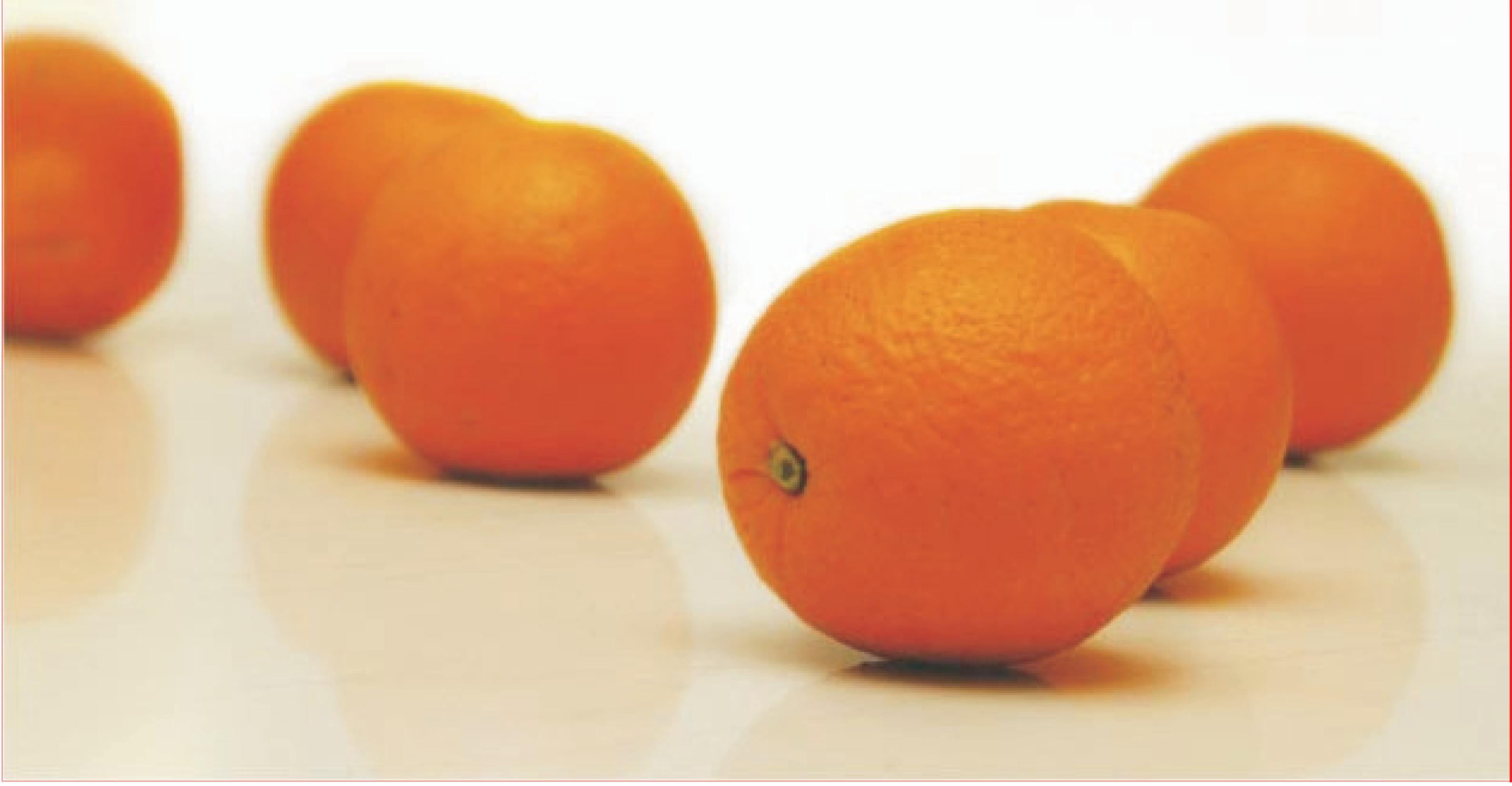
The Company's policy towards professionalism, quality consciousness and customer satisfaction has given it the privilege of being the first Pakistani fertiliser manufacturer to obtain ISO 9002:1994 certification and subsequently certification for compliance to the requirements of ISO 9001:2000 for review of quality management system. The Management Review Meetings are held on a regular basis for effective adherence and system control requirements.

The essential elements of Company's QMS are as under:

- Improving personnel skills through training and qualification.
- Controlling the Product Specifications.
- Controlling Documentation.
- Controlling Purchase.
- Defining and Controlling Production Processes.
- Constituting Corrective and Preventive Action against errors.
- Installation of Product Handling, Storage and Distribution.

Delivering Outstanding Nutrient Result

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 ten Directors including the Chief Executive. The Company encourages representation of independent non-executive Directors.

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 Chief Executive 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 Chief Executive.

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 Chief Executive and CFO before approval of the Board.

13. The Directors, Chief Executive 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 four members, majority of whom are non-executive Directors.

16. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

17. The Board has setup an effective internal audit function.

18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with the International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

19. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

20. We confirm that all other material principles contained in the Code have been complied with.

Karachi
19 February 2009

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
19 February 2009

KPMG Taseer Hadi & Co.
Chartered Accountants

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Dawood Hercules Chemicals Limited ("the Company") as at 31 December 2008 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 2008 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
19 February 2009

KPMG Taseer Hadi & Co.
Chartered Accountants

PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2008

	Note	2008 Rupees	2007 Rupees
Sales - net	5	7,428,702,879	5,011,002,249
Cost of goods sold	6	(4,312,462,959)	(3,148,550,713)
Gross Profit		**3,116,239,920**	**1,862,451,536**
Distribution and administrative expenses	7	(389,846,789)	(290,879,875)
Operating Profit		**2,726,393,131**	**1,571,571,661**
Finance cost	8	(901,450,815)	(755,840,660)
Realized gain on disposal of investment in associate		-	8,658,697,711
Other operating income	9	509,591,425	395,240,918
		(391,859,390)	8,298,097,969
Profit for the year		**2,334,533,741**	**9,869,669,630**
Other operating expenses	10	(183,934,447)	(74,370,791)
Impairment on available for sale investments	26.3	(100,310,990)	-
Profit before taxation		**2,050,288,304**	**9,795,298,839**
Provision for taxation	11	(837,800,000)	(539,700,000)
Profit after taxation without share from associate		**1,212,488,304**	**9,255,598,839**
Share of profit from associate		2,455,124,644	1,330,767,095
Share of taxation from associate		(604,924,691)	(451,919,410)
		1,850,199,953	878,847,685
Profit after taxation		**3,062,688,257**	**10,134,446,524**
Earnings per share - basic and diluted	29	**28.00**	**92.65**

The annexed notes 1 to 34 form an integral part of these financial statements. The parameters used for determination of the value of equity securities held as available for sale and the information about impairment loss and its impact on profit and loss account is disclosed in note 26.2.

Karachi
19 February 2009

Shahzada Dawood
Chief Executive

A.G. Gohar
Director

BALANCE SHEET
For the year ended 31 December 2008

	Note	2008 Rupees	2007 Rupees
LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorized capital			
1,000,000,000 ordinary shares of Rs. 10 each		10,000,000,000	1,000,000,000
Issued, subscribed and paid up capital	12	1,093,834,360	828,662,400
Revenue reserves		20,415,396,327	17,841,618,878
Fair value reserve		(4,126,573,941)	219,050,827
		17,382,656,746	18,889,332,105
NON CURRENT LIABILITIES			
Long term loans	13	6,302,500,000	6,500,000,000
Deferred taxation	14	327,700,000	207,200,000
Staff retirement and other service benefits	15	40,162,519	53,353,807
		6,670,362,519	6,760,553,807
CURRENT LIABILITIES			
Short term financing - secured	16	70,139,213	2,281,428,109
Trade and other payables	17	538,132,695	512,953,299
Accrued markup		275,848,576	249,436,081
Provision for taxation		693,000,000	529,000,000
		1,577,120,484	3,572,817,489
CONTINGENCIES AND COMMITMENTS	18		
		25,630,139,749	29,222,703,401

The annexed notes 1 to 34 form an integral part of these financial statements. The parameters used for determination of the value of equity securities held as available for sale and the information about impairment loss and its impact on profit and loss account is disclosed in note 26.2

Karachi
19 February 2009

Shahzada Dawood
Chief Executive

A.G. Gohar
Director

Balance Sheet

BALANCE SHEET
For the year ended 31 December 2008

	Note	2008 Rupees	2007 Rupees
ASSETS			
NON - CURRENT ASSETS			
FIXED CAPITAL EXPENDITURE			
Property, plant and equipment	19	1,328,779,975	1,188,664,372
Capital work in progress	20	67,553,966	185,364,261
		1,396,333,941	1,374,028,633
INVESTMENT IN ASSOCIATE	21	19,205,628,008	16,610,255,523
LONG TERM LOANS AND ADVANCES	22	1,259,750	1,113,125
CURRENT ASSETS			
Stores, spares and loose tools	23	1,025,764,636	893,254,067
Stock in trade	24	89,568,216	867,510,588
Trade debts		8,821,267	4,742,483
Loans, advances, deposits, prepayments and other receivables	25	72,251,421	65,418,057
Advance income tax		663,149,343	426,333,334
Short term investments	26	2,233,424,979	7,882,223,476
Cash and bank balances	27	933,938,188	1,097,824,115
		5,026,918,050	11,237,306,120
		25,630,139,749	29,222,703,401

The annexed notes 1 to 34 form an integral part of these financial statements. The parameters used for determination of the value of equity securities held as available for sale and the information about impairment loss and its impact on profit and loss account is disclosed in note 26.2

Karachi
19 February 2009

Shahzada Dawood
Chief Executive

A.G. Gohar
Director

CASH FLOW STATEMENT
For the year ended 31 December 2008

	Note	2008 Rupees	2007 Rupees
Cash flow from operating activities			
Profit before taxation		4,505,412,948	11,126,065,934
Adjustment for non cash expenses and other items:			
Depreciation		140,571,813	121,309,761
Finance costs		901,450,815	755,840,660
Profit on sale of property, plant and equipment		(135,709)	(42,308,835)
Realized gain on disposal of investment in associate		-	(8,658,697,711)
Unrealized loss/(gain) due to fair value adjustment of investment at fair value through profit or loss		3,891,637	(10,401,353)
Impairment loss on available for sale investments		100,310,990	-
Realized gain on disposal of investment at fair value through profit or loss		(88,968,571)	(2,204,805)
Share of profit of associate		(2,455,124,644)	(1,330,767,095)
Dividend income		(351,548,225)	(326,018,550)
Provision for staff retirement and other service benefits		47,136,679	23,042,475
Profit on term deposits		(41,648,350)	(2,194,931)
		(1,744,063,565)	(9,472,400,384)
Profit before working capital changes		**2,761,349,383**	**1,653,665,550**
Working capital changes			
(Increase)/decrease in current assets:			
Stocks, stores and spares		645,431,803	(763,516,849)
Trade debtors		(4,078,784)	(2,239,634)
Loans, advances, deposits, prepayments and other receivables		(6,833,364)	8,526,909
Increase/(decrease) in current liabilities:			
Trade and other payables		24,671,615	21,372,481
		659,191,270	(735,857,093)
Cash generated from operations		3,420,540,653	917,808,457
Finance cost paid		(875,038,320)	(676,298,088)
Taxes paid		(765,816,009)	(288,371,382)
Staff retirement and other service benefits paid		(60,327,967)	(15,381,750)
(Increase)/Decrease in long term loans and advances		(146,625)	11,686,490
Net cash inflow/(outflow) from operating activities		**1,719,211,732**	**(50,556,273)**
Cash flow from investing activities			
Fixed capital expenditure		(163,260,995)	(149,343,686)
Proceeds from sale of property, plant and equipment		519,583	43,688,380
Profit on time deposits		41,648,350	2,194,931
Proceeds from disposal of available for sale investments		573,313,944	-
Proceeds from disposal of investments at fair value through profit or loss		4,199,230,015	408,000,000
Investments at fair value through profit or loss		(3,508,904,290)	(1,119,000,000)
Proceeds from sale of investment in associate		-	20,215,572,589
Investment in associate		(1,291,140,550)	(21,464,235,045)
Dividends received		897,516,243	794,357,744
Net cash inflow/(outflow) from investing activities		**748,922,300**	**(1,268,765,087)**
Cash flow from financing activities			
Short term financing		(2,211,288,896)	(3,643,086,456)
Long term loans		(197,500,000)	6,500,000,000
Dividends paid		(223,231,063)	(496,062,634)
Net cash (outflow)/inflow from investing activities		**(2,632,019,959)**	**2,360,850,910**
Net (decrease)/increase in cash and cash equivalents		**(163,885,927)**	**1,041,529,550**
Cash and cash equivalents at the beginning of year		**1,097,824,115**	**56,294,565**
Cash and cash equivalents at the end of year	27	**933,938,188**	**1,097,824,115**

The annexed notes 1 to 34 form an integral part of these financial statements.

Karachi
19 February 2009

Shahzada Dawood
Chief Executive

A.G. Gohar
Director

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2008

	Share capital	Revenue reserves			Fair value reserve	Total
		General reserve	Unappropriated profit	Total		
	Rupees					
Balance as on 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 available for sale investments	-	-	-	-	3,239,143	3,239,143
Net profit for the year	-	-	10,134,446,524	10,134,446,524	-	10,134,446,524
Total recognized 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 unrealized gain from measurement to fair value of available for sale investments	-	-	-	-	(24,300,000)	(24,300,000)
Final cash dividend @ 45% for the year ended 31 December 2006	-	-	(372,898,080)	(372,898,080)	-	(372,898,080)
Ist interim cash dividend @ 15% for the year ended 31 December 2007	-	-	(124,299,360)	(124,299,360)	-	(124,299,360)
	-	-	(497,197,440)	(497,197,440)	-	(497,197,440)
Balance as on 31 December 2007	828,662,400	700,000,000	17,141,618,878	17,841,618,878	219,050,827	18,889,332,105
Net profit for the year	-	-	3,062,688,257	3,062,688,257	-	3,062,688,257
Reversal of deferred tax arised on unrealized gain from measurement to fair value of available for sale investments	-	-	-	-	24,300,000	24,300,000
Fair value reserve on disposal of available for sale investments transferred to profit & loss account	-	-	-	-	(24,740,847)	(24,740,847)
Fair value reserve on available for sale investments transferred to profit & loss account as impairment loss under IAS -39	-	-	-	-	(218,609,980)	(218,609,980)
Impairment loss recognized in equity as permitted under SRO 150(1)/2009 (Note # 26.2)					(4,126,573,941)	(4,126,573,941)
	-	-	3,062,688,257	3,062,688,257	(4,345,624,768)	(1,282,936,511)
Final cash dividend @15% for the year ended 31 December 2007	-	-	(124,299,360)	(124,299,360)	-	(124,299,360)
Final stock dividend @ 20 % for the year ended 31 December 2007	165,732,480	-	(165,732,480)	(165,732,480)	-	-
1st interim stock dividend @ 10% for the year ended 31 December 2008	99,439,480	-	(99,439,480)	(99,439,480)	-	-
1st interim cash dividend @ 10% for the year ended 31 December 2008	-	-	(99,439,488)	(99,439,488)	-	(99,439,488)
	265,171,960	-	(488,910,808)	(488,910,808)	-	(223,738,848)
Balance as on 31 December 2008	**1,093,834,360**	**700,000,000**	**19,715,396,327**	**20,415,396,327**	**(4,126,573,941)**	**17,382,656,746**

The annexed notes 1 to 34 form an integral part of these financial statements.

Karachi
19 February 2009

Shahzada Dawood
Chief Executive

A.G. Gohar
Director

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2008

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 BASIS OF PREPARATION

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 Standards, interpretations and amendments to published approved accounting standards

Amendments to Published standards effective in 2008

IAS 29 - Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 28th April 2008). The Company does not have any operations in Hyperinflationary Economies and therefore the application of the standard is not likely to have an effect on the Company's financial statements.

IFRS 7- Financial Instruments: Disclosures (effective for annual periods beginning on or after 2008 April 2008) supersedes IAS 30- Disclosures in the Financial Statements of Banks and Similar Financial Institutions and the disclosure requirements of IAS 32- Financial Instruments : Disclosure and Presentation. The application of the standard is not expected to have significant impact on the Company's financial statements other than increase in disclosures.

IFRIC 13 - Customer Loyalty Programmes (effective for annual periods beginning on or after 01 July 2008) addresses the accounting by entities that operate or otherwise participate in customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services .The application of IFRIC 13 is not likely to have effect on the Company's financial statements.

IFRIC 16 - Hedge of Net Investment in a Foreign Operation. (effective for annual periods beginning on or after 1 October 2008) clarifies that net investment hedging can be applied only to foreign exchange differences arising between the functional currency of a foreign operation and the parent entity's functional currency and only in an amount equal to or less than the net assets of the foreign operation, the hedging instrument may be held by any entity within the group except the foreign operation that is being hedged and that on disposal of a hedged operation, the cumulative gain or loss on the hedging instrument that was determined to be effective is reclassified to profit or loss. The Interpretation allows an entity that uses the step-by-step method of consolidation an accounting policy choice to determine the cumulative currency translation adjustment that is reclassified to profit or loss on disposal of a net investment as if the direct method of consolidation had been used. The amendment is not relevant to the Company's operations.

Standard, amendments and interpretations effective in 2009

Revised IAS 1 - Presentation of financial statements (effective for annual periods beginning on or after 1 January 2009) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. The application of this standard is not likely to have any effect on the Company's financial statements.

Revised IAS 23 - Borrowing costs (effective for annual periods beginning on or after 1 January 2009) removes the option to expense borrowing costs and requires that an entity capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. As a result of change in the standard the Company would be required to change its policy with regard to borrowing cost.

Amendments to IAS 32 - Financial instruments: Presentation and IAS 1 Presentation of Financial Statements (effective for annual periods beginning on or after 01 January 2009) – Puttable Financial Instruments and Obligations Arising on Liquidation requires puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a prorata share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met.
The amendments, which require retrospective application, are not expected to have any impact on the Company's financial statements.

Amendment to IFRS 2 - Share-based Payment – Vesting Conditions and Cancellations (effective for annual periods beginning on or after 1 January 2009) clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The application of this standard is not likely to have any effect on the Company's financial statements.

Revised IFRS 3 - Business Combinations (applicable for annual periods beginning on or after 01 July 2009) broadens among other things the definition of business resulting in more acquisitions being treated as business combinations, contingent consideration to be measured at fair value, transaction costs other than share and debt issue costs to be expensed, any pre-existing interest in an acquiree to be measured at fair value, with the related gain or loss recognized in profit or loss and any non-controlling (minority) interest to be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis. The application of this standard is not likely to have an effect on the Company's financial statements.

Amended IAS 27 - Consolidated and Separate Financial Statements (effective for annual periods beginning on or after 1 July 2009) requires accounting for changes in ownership interest by the group in a subsidiary, while maintaining control, to be recognized as an equity transaction. When the group loses control of subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognized in the profit or loss. The application of the standard is not likely to have an effect on the Company's financial statements.

IAS 27 'Consolidated and separate financial statements'(effective for annual periods beginning on or after 01 January 2009). The amendment removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The amendment is not likely to have an effect on Company's financial statements.

IFRS 8 - Operating Segments (effective for annual periods beginning on or after 1 January 2009) introduces the "management approach" to segment reporting. IFRS 8 will require a change in the presentation and disclosure of segment information based on the internal reports that are regularly reviewed by the Company's "chief operating decision maker" in order to assess each segment's performance and to allocate resources to them. Currently the Company presents segment information in respect of its business and geographical segments. This standard will have no effect on the Company's reported total profit or loss or equity.

Amendments to IAS 39 - Financial Instruments: Recognition and Measurement – Eligible hedged Items (effective for annual periods beginning on or after 1 July 2009) clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendment is not likely to have an effect on the Company's financial statements.

IFRIC 15 - Agreement for the Construction of Real Estate (effective for annual periods beginning on or after 01 October 2009) clarifies the recognition of revenue by real estate developers for sale of units, such as apartments or houses, 'off-plan', that is, before construction is complete. The amendment is not relevant to the Company's operations.

IFRIC 17 - Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after 01 July 2009) states that when a company distributes non cash assets to its shareholders as dividend, the liability for the dividend is measured at fair value. If there are subsequent changes in the fair value before the liability is discharged, this is recognized in equity. When the non cash asset is distributed, the difference between the carrying amount and fair value is recognized in the income statement. As the Company does not distribute non-cash assets to its shareholders, this interpretation has no impact on the Company's financial statements.

IFRS 5 Amendment - Improvements to IFRSs - IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (effective for annual periods beginning on or after 1 July 2009) specify that: if an entity is committed to a sale plan involving the loss of control of a subsidiary, then it would classify all of that subsidiary's assets and liabilities as held for sale when the held for sale criteria in paragraphs 6 to 8 of IFRS 5 are met disclosures for discontinued operations would be required by the parent when a subsidiary meets the definition of a discontinued operation. The amendment is not likely to have an effect on Company's financial statements.

IAS 41 (Amendment), 'Agriculture' (effective from 1 January 2009). It requires the use of a market-based discount rate where fair value calculations are based on discounted cash flows and the removal of the prohibition on taking into account biological transformation when calculating fair value. The amendment is not likely to have an effect on Company's financial statements.

3 BASIS OF MEASUREMENT

These financial statements have been prepared on the basis of historical cost convention, except for revaluation of certain financial instruments at fair value and recognition of certain employee retirement benefits at present value.

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect 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 judgments 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 effects only that period, or in the period of revision and future periods if the 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:

- retirement and other benefits	note	4.2
- residual value and useful lives of depreciable assets	note	4.3
- provision for taxation	note	4.6
- provisions and contingencies	note	4.13

4 SIGNIFICANT ACCOUNTING POLICIES

4.1 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.

Revenue from sale of goods is recognized when the significant risk and rewards of ownership of the goods are transferred to the buyer i.e. on the dispatch of goods to the customers.

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

Dividend income is recognized as income when the right of receipt is established.

4.2 Retirement and Other Benefits

Defined benefit plan- Gratuity

The Company operates an approved funded defined benefit gratuity plan for management staff having a service period of more than five years . Provisions are made in the financial statements to cover obligations on the basis of actuarial valuations carried out annually. The most recent valuation was carried out on 31 December 2008 using the "Projected unit credit method".

The amount recognized in balance sheet represents the present value of the defined benefit obligation as on 31 December 2008 as adjusted for unrecognized actuarial gains and losses.

Cumulative net unrecognized actuarial gains and losses at the end of the previous year which exceed 10% of the greater of the present value of the Company obligations and the fair value of plan assets are amortized over the expected average working lives of the participating employees.

Accumulated Compensated absences

Provisions are made annually to cover the obligation for accumulating compensated absences based on actuarial valuation and are charged to profit. The most recent valuation was carried out on 31 December 2008 using the "Projected unit credit method".

The amount recognized in the balance sheet represents the present value of the defined benefit obligations. Actuarial gains and losses are charged to profit immediately in the period when these occur.

Other Benefits

Defined Contribution Plan

The Company had maintained a defined benefit gratuity fund for its non-management staff up to 30 June 2008. During the year the Company has changed benefit plan for non management staff from defined benefit to defined contribution. Now monthly contributions are made to the fund by the Company as per agreement with the Workers' Union.

Provident Fund

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.

4.3 Fixed Capital Expenditure

Property, Plant and Equipment

Property,plant and equipment except freehold land are stated at cost less accumulated depreciation and any identified impairment loss. Freehold land is stated at cost less any identified impairment loss.

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 end 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.

The Company assesses at each balance sheet date whether there is any indication that property, plant and equipment may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in income currently.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognized, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to income during the period in which they are incurred.

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.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as an income or expense.

Capital work-in-progress

Capital work in progress is stated at cost less any identified impairment loss and represents expenditure incurred on property, plant and equipment during the construction and installation. Transfers are made to relevant property, plant and equipment category as and when assets are available for use.

4.4 Inventories

Inventories 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, labor and appropriate manufacturing overheads.

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

4.5 Foreign Currencies

All monetary assets and liabilities in foreign currencies are translated into rupees at exchange rates prevailing at the balance sheet date. Transactions in foreign currencies are translated into rupees at exchange rates prevailing at the date of transaction. 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. Exchange gains and losses are included in the income currently.

4.6 Taxation

Income tax expense comprise current and deferred tax. Income tax is recognized in profit and loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current

Provision of current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year if enacted after taking into account tax credits, rebates and exemptions, 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

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. 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 utilised.

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 the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except in the case of items credited or charged to equity in which case it is included in equity.

4.7 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 which are intended to be held for an indefinite period of time but may be sold in response to the need for liquidity are classified as available for sale. Available for sale investments are recognized initially at cost being the fair value of the consideration given plus any directly attributable transaction costs. After initial recognition, these are stated at fair values unless fair values can not be measured reliably, with any resulting gains and losses being taken directly to equity until the investment is disposed or impaired. At each reporting date, these investments are remeasured at fair value, unless fair value cannot be reliably measured. At the time of disposal, the respective surplus or deficit is transferred to income currently. Fair value of quoted investments is their bid price on Karachi Stock Exchange at the balance sheet date. Unquoted investments, where active market does not exist, are carried at cost as it is not possible to apply any other valuation methodology.

Investments intended to be held for less than twelve months from the balance sheet date or to be sold to raise operating capital, are included in current assets, all other investments are classified as non-current. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

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.

Available for sale investments are tested for impairment at each reporting date. Investments are considered to be impaired if there is a significant or prolonged decline in the fair value of the investments at the reporting date.

Investments at fair value through profit or loss account

Investments which are acquired principally for the purpose of generating profits from short term fluctuations in price or dealer margin are classified as "Investments at fair value through profit and loss account" these are initially recognized on trade date at cost being the fair value of the consideration given and derecognized by the Company on the date it commits to sell them off. Transaction costs are charged to profit and loss as and when incurred. At each balance sheet date, fair value is determined on the basis of year-end bid prices obtained from stock exchange quotations. Any resultant increase/(decrease) in fair value is recognized in the profit and loss account for the year.

4.8 Financial Assets and Liabilities

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. All financial assets and liabilities are initially measured at cost, which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value, amortised cost or cost, as the case may be. The particular measurement methods adopted are disclosed in the individual policy statements associated with each item. The Company derecognizes the financial asset and financial liability when it ceases to be a party to such contractual provisions of the instrument.

4.9 Offsetting of Financial Assets and Liabilities

A financial asset and a financial liability is offset and the net amount is reported in the balance sheet if the Company has a legally enforceable right to set-off the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

4.10 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.

4.11 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.

4.12 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.

4.13 Provisions

Provisions are recognized when the Company has a legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. However, provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

4.14 Borrowing Costs

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

4.15 Impairment

The Company assesses at each balance sheet date, whether there is any indication that asset may be impaired. If such an indication exists, the carrying amount of such assets is reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed their respective recoverable amounts, assets are written down to their recoverable amount and resulting impairment loss is recognised in income currently. The recoverable amount is higher of an asset's fair value less costs to sell and value in use.

4.16 Related Party Transactions

The Company enters into transactions with related parties on an arm's length basis. Prices for

transactions with related parties are determined using admissible valuation methods, except in extremely rare circumstances where, subject to approval of the Board of Directors, it is in the interest of the Company to do so.

4.17 Dividend

Dividend distribution to the Company's shareholders is recognized as a liability in the period in which the dividends are approved.

5 SALES - NET

	Note	2008 Rupees	2007 Rupees
Own manufactured		6,381,652,996	5,186,195,217
Less: Sales tax		222,546,528	523,165,368
		6,159,106,468	4,663,029,849
Purchased product		1,283,552,991	357,282,618
Less: Sales tax		13,956,580	9,310,218
		1,269,596,411	347,972,400
		7,428,702,879	5,011,002,249

6 COST OF SALES

	Note	2008 Rupees	2007 Rupees
Raw and packing materials consumed	6.1	1,585,352,674	1,313,798,190
Fuel and power		860,132,540	664,557,495
Catalysts and chemicals		37,009,876	34,588,528
Salaries, wages, benefits and staff welfare	6.2	487,080,799	374,206,667
Stores and spares consumed		241,688,565	148,785,047
Repairs and maintenance		51,759,132	48,387,746
Travel and conveyance		49,065,658	38,054,298
Rent, rates and taxes		2,191,778	2,295,496
Insurance		22,243,496	22,019,439
Depreciation	19.1	123,586,514	103,147,140
Communication, stationery and office supplies		3,236,669	3,087,881
Other expenses		7,999,709	5,146,537
		3,471,347,410	2,758,074,464
Add: Opening stock of work-in-process		9,643,989	12,033,657
Less: Closing stock of work-in-process	24	8,033,236	9,643,989
		1,610,753	2,389,668
Cost of goods manufactured		3,472,958,163	2,760,464,132
Add: Opening stock of finished goods		150,131,038	219,646,946
Less: Closing stock of finished goods	24	50,092,662	150,131,038
		100,038,376	69,515,908
Cost of sales - Own manufactured		3,572,996,539	2,829,980,040
Purchased product		739,466,420	318,570,673
		4,312,462,959	3,148,550,713

6.1 Raw and Packing Materials Consumed

	Note	2008 Rupees	2007 Rupees
Opening stock		3,777,142	5,614,831
Add: Purchases		1,613,017,850	1,311,960,501
		1,616,794,992	1,317,575,332
Less: Closing stock	24	31,442,318	3,777,142
		1,585,352,674	1,313,798,190

6.2 Salaries, wages, benefits and staff welfare include Rs. 7.582 million (2007: Rs. 6.564 million) in respect of contribution to staff gratuity funds and Rs. 14.244 million (2007:Rs. 12.194 million) in respect of provident funds.

7 DISTRIBUTION AND ADMINISTRATIVE EXPENSES

	Note	2008 Rupees	2007 Rupees
Salaries, wages, benefits and staff welfare	7.1	190,861,605	131,429,544
Communication, stationery and office supplies		46,489,289	36,058,152
Rent, rates and taxes		29,955,918	26,930,315
Travel and conveyance		26,187,612	22,619,658
Repairs and maintenance		18,653,368	14,017,805
Depreciation	19.1	16,985,299	18,162,621
Legal and professional charges		2,175,801	16,595,592
Sales promotion, advertising and market development		47,541,585	11,117,425
Insurance		331,162	845,211
Donations	7.2	962,799	5,512,400
Other expenses		9,702,351	7,591,152
		389,846,789	290,879,875

7.1 Salaries, wages, benefits and staff welfare include Rs. 3.735 million (2007: Rs. 3.021 million) in respect of contribution to staff gratuity funds and Rs. 6.327 million (2007: Rs. 5.375 million) in respect of provident funds.

7.2 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.

8 FINANCE COST

	Note	2008 Rupees	2007 Rupees
Mark-up:			
Short term borrowings		90,811,676	546,163,411
Long term loans		810,593,802	209,611,649
Interest on workers' profits participation fund	17.3	45,337	65,600
		901,450,815	755,840,660

9 OTHER OPERATING INCOME

	2008	2007
Income from financial assets:		
Realized gain on disposal of short term investments available for sale	48,241,570	-
Realized gain on disposal of investments at fair value through profit or loss	40,727,001	2,204,805
Unrealized (loss)/ gain due to fair value adjustment of investment at fair value through profit or loss	(3,891,637)	10,401,353
Income from time deposits	41,648,350	2,194,931
	126,725,284	14,801,089
Income from related parties:		
Dividend income from Sui Northern Gas Pipelines Limited	351,548,225	326,018,550
Income from non-financial assets:		
Sale of scrap	11,116,520	6,546,919
Gain on redemption of Sukuks from Meezan Islamic Income fund	15,331,925	-
Profit on sale of property, plant and equipment	135,709	42,308,835
Miscellaneous	4,733,762	5,565,525
	31,317,916	54,421,279
	509,591,425	395,240,918

10 OTHER OPERATING EXPENSES

	Note	2008 Rupees	2007 Rupees
Workers' profits participation fund	17.3	91,210,941	40,755,801
Workers' welfare fund	17	92,000,000	33,000,000
Auditors' remuneration:			
Audit fee		600,000	500,000
Half year review and other certifications		80,000	80,000
Out of pocket expenses		43,506	34,990
		183,934,447	74,370,791

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

11 PROVISION FOR TAXATION

	2008 Rupees	2007 Rupees
Current - for the year	693,000,000	529,000,000
Deferred	144,800,000	10,700,000
	837,800,000	539,700,000

11.1 Reconciliation of Tax Charge for the Year

	2008 %	2007 %
Applicable tax rate	35.00	35.00
Tax effect of amounts that are not deductible for tax purposes	1.17	1.63
Tax effect of amount that relate to prior periods	-	0.00
Tax effect of amounts exempt from tax	(0.66)	(27.25)
Tax effect of amount taxed at lower rate	(1.95)	(0.73)
Tax effect of associate	(1.54)	0.26
	32.02	8.91

12 ISSUED, SUBSCRIBED AND PAID UP CAPITAL

2008 Number of shares	2007 Number of shares		2008 Rupees	2007 Rupees
13,900,000	13,900,000	Ordinary shares of Rs 10 each fully paid in cash	139,000,000	139,000,000
95,483,436	68,966,240	Ordinary shares of Rs 10 each issued as bonus shares	954,834,360	689,662,400
109,383,436	82,866,240		1,093,834,360	828,662,400

12.1 Reconciliation of Issued, Subscribed And Paid Up Capital

	2008 Number of shares	2007 Number of shares
Outstanding as at 01 January	82,866,240	82,866,240
Bonus shares issued during the year	26,517,196	-
	109,383,436	82,866,240

12.2 Shares Held by Related Parties

	2008 Rupees	2007 Rupees
Dawood Lawrencepur Limited		
Percentage of equity held 16.19% (2007: 16.19%)	17,711,795	13,418,027
Dawood Corporation (Private) Limited		
Percentage of equity held 0.02% (2007: 4.34%)	23,147	3,593,786
The Dawood Foundation		
Percentage of equity held 3.95% (2007: 3.95%)	4,320,907	3,273,415
Central Insurance Company Limited		
Percentage of equity held 2.97% (2007: 2.97%)	3,249,946	2,462,081
Patek (Private) Limited		
Percentage of equity held 0.032% (2007: 0.032%)	35,292	26,737
Sach International (Private) Limited		
Percentage of equity held 0.001% (2007: 0.001%)	1,590	1,205
	25,342,677	22,775,251

13 LONG TERM LOANS

Participatory redeemable capital - secured

13.1 Long term loans

Opening balance	6,500,000,000	-
Certificates issued during the Year	-	6,500,000,000
Redemption during the year	(197,500,000)	-
Closing balance	6,302,500,000	6,500,000,000

13.2 Participatory

	2008 Rupees		2007 Rupees	
	Number of Sukuk Certificates	Face Value of Consolidated Sukuk Certificates	Number of Sukuk Certificates	Face Value of Consolidated Sukuk Certificates
Banks				
Habib Bank Limited	60,000	3,000,000,000	60,000	3,000,000,000
Meezan Bank Limited	20,000	1,000,000,000	20,000	1,000,000,000
Allied Bank Limited	20,000	1,000,000,000	20,000	1,000,000,000
United Bank Limited	12,000	600,000,000	12,000	600,000,000
MCB Bank Limited	14,000	700,000,000	14,000	700,000,000
Meezan Islamic Income Fund	-	-	3,950	197,500,000
Meezan Tahaffuz Pension Fund	50	2,500,000	50	2,500,000
Total	126,050	6,302,500,000	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, an investment agent (Meezan Bank Limited) has been appointed as trustee under a trust deed dated 12 September 2007 at a 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	(Rupees in 000)
First tranche	1,300,000
Second tranche	2,600,000
Third tranche	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 units.

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.

During the year on 13 November 2008, the Company has exercised call option and purchased 3,950 sukuk certificates from Meezan Islamic Income Fund for Rs. 182.168 million (Face value: Rs.197.5 million) resulting in a profit of Rs. 15.332 million.

14 DEFERRED TAXATION

	Note	2008 Rupees	2007 Rupees
Deferred liability arising due to accelerated depreciation allowance		187,500,000	158,700,000
Deferred liability arising due to unrealized profits of associate		153,800,000	23,400,000
Deferred (asset)/liability arising in respect of provision for leave encashment		(13,600,000)	800,000
Deferred liability arising due to unrealized gain on investments		-	24,300,000
		327,700,000	207,200,000

15 STAFF RETIREMENT AND OTHER SERVICE BENEFITS

	Note	2008 Rupees	2007 Rupees
Defined benefit plan funded for management staff	15.1	586,278	162,973
Defined benefit plan funded for non-management staff	15.2	-	571,396
Defined contributory gratuity funded for non-management staff	15.4	485,421	-
Compensated absences	15.5	39,090,820	52,619,438
		40,162,519	53,353,807

15.1 Defined Benefit Plan Funded - for Management Staff

	Note	2008 Rupees	2007 Rupees
Amounts recognized in the balance sheet are as follows:			
Present value of defined benefit obligation	15.1.1	112,043,566	101,938,100
Fair value of plan assets	15.1.2	(92,607,699)	(72,006,260)
Unrecognized actuarial losses		(18,849,589)	(29,768,867)
Liability as at 31 December		586,278	162,973
Net liability as at 01 January		162,973	215,607
Charge to profit and loss account	15.1.3	9,762,761	7,664,314
Contribution made by the Company		(9,339,456)	(7,716,948)
Liability as at 31 December		586,278	162,973

15.1.1 Movement in Liability for Defined Benefit Obligation

	2008 Rupees	2007 Rupees
Present value of defined benefit obligation as at 01 January	101,938,100	86,624,636
Current service cost	8,594,571	7,374,504
Interest cost	10,193,810	7,796,217
Benefits paid during the year	(10,795,483)	(10,986,053)
Actuarial loss on present value of defined benefit obligation	2,112,568	11,128,796
Present value of defined benefit obligation as at 31 December	112,043,566	101,938,100

15.1.2 Movement in Fair Value of Plan Assets

	2008 Rupees	2007 Rupees
Fair value of plan assets as at 01 January	72,006,260	76,475,907
Expected return on plan assets	7,200,626	7,647,591
Funds Transferred from Workers Gratuity Fund	4,000,000	-
Contributions paid during the year	9,339,456	7,716,948
Benefits paid during the year	(10,795,483)	(10,986,053)
Actuarial gain (loss) on plan assets	10,856,840	(8,848,133)
Fair value of plan assets as at 31 December	92,607,699	72,006,260
Plan assets consist of the following:		
Term finance certificates of listed company	-	4,500,000
Funds placed under mark up arrangements with banks	92,607,699	67,506,260
	92,607,699	72,006,260

15.1.3 Charge to Profit And Loss Account

	2008 Rupees	2007 Rupees
Current service cost	8,594,571	7,374,504
Interest cost	10,193,810	7,796,217
Expected return on plan assets	(7,200,626)	(7,647,591)
Contributions received from workers gratuity fund	(4,000,000)	-
Actuarial loss	2,175,006	141,184
	9,762,761	7,664,314

15.1.4 Actual return on plan assets of funded gratuity scheme was Rs. 18.057 million (2007: Rs. 1.201million).

15.1.5 Historical information

	2008 Rupees	2007 Rupees	2006 Rupees	2005 Rupees	2004 Rupees
Present value of defined benefit obligation	112,043,566	101,938,100	86,624,636	83,827,648	78,908,628
Fair value of plan assets	(92,607,699)	(72,006,260)	(76,475,907)	(79,168,843)	(74,907,260)
Deficit in the plan	19,435,867	29,931,840	10,148,729	4,658,805	4,001,368
Experience adjustment arising on plan liabilities	2,112,568	11,128,796	3,139,055	(890,429)	(1,038,023)
Experience adjustment arising on plan assets	10,856,840	(8,848,133)	(2,147,213)	(1,772,405)	(1,830,016)

15.1.6 The Company expects to pay Rs. 13.123 million in contributions to defined benefit plan in 2009.

15.2 Defined Benefit Plan Funded for Non-Management Staff

The Company had maintained a defined benefit gratuity fund for its non-management staff up to 30 June 2008. During the year the Company has changed benefit plan for non management staff from defined benefit to defined contribution. Now monthly contributions are made to the fund by the Company as per agreement with the Workers' Union.

Amounts recognized in balance sheet are as follows:	Note	2008 Rupees	2007 Rupees
Present value of defined benefit obligation	15.2.1	-	39,770,746
Fair value of plan assets	15.2.2	-	(41,480,476)
Unrecognized actuarial losses		-	2,281,126
Liability as at 31 December		-	571,396

15.2.1 Movement In Liability For Defined Benefit Obligation

	2008 Rupees	2007 Rupees
Present value of defined benefit obligation as at 01 January	-	43,163,618
Current service cost	-	1,962,076
Interest cost	-	3,884,726
Benefits paid during the year	-	(2,127,409)
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

15.2.2 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
Contributions paid during the year	-	2,105,724
Benefits paid during the year	-	(2,127,409)
Actuarial (loss) on plan Assets	-	(4,831,139)
Fair value of plan assets at 31 December	-	41,480,476

Plan assets consist of the following:

Funds placed under mark up arrangements with banks	-	37,500,000
Cash at bank	-	3,980,476
	-	41,480,476

15.2.3 Charge to Profit and Loss Account

Current service cost	-	1,962,076
Interest cost	-	3,884,726
Expected return on plan assets	-	(3,825,685)
	-	2,021,117

15.3 Assumptions used for valuation of the defined benefit schemes for management staff are as under:

	31 Dec-08 % per annum	31 Dec-07 % per annum
Discount rate	15	10
Expected rate of return on plan assets	10	10
Expected rate of increase in salary	14	9

Average expected remaining working life time of management employees is 9 years .

15.4 Defined Contributory Gratuity Funded for Non - Management Staff

	2008 Rupees	2007 Rupees
Net liability as at 01 January (transferred from defined benefit plan-funded)	571,396	-
Charge to profit and loss account	1,554,517	-
Contribution made by the Company	(1,640,492)	-
Liability as at 31 December	485,421	-

15.5 Compensated absences

	Note	2008 Rupees	2007 Rupees
Opening balance		52,619,438	44,821,472
Expenses recognized during the year		35,819,401	13,357,044
Payments made during the year		(49,348,019)	(5,559,078)
Closing balance		39,090,820	52,619,438

16 SHORT TERM FINANCING - SECURED

Running finance	16.1	70,139,213	196,477,709
Murabaha finance- for purchase of shares	16.2	-	1,202,926,000
Murabaha finance - for import of DAP fertilizer	16.3	-	882,024,400
		70,139,213	2,281,428,109

16.1 This represents utilized portion of short term running finance facility available from Habib bank Limited under mark-up arrangement. This facility aggregate Rs. 398 million (2007: Rs 398 million) and expires on 31 Jan 2009, carries mark-up at the rate of one month KIBOR plus 200 bps (2007: KIBOR plus 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 2008 was Rs. 515 million (2007: Rs. 3,636 million).

16.2 These have been repaid during the year.

17 TRADE AND OTHER PAYABLES

	Note	2008 Rupees	2007 Rupees
Trade creditors			
Related parties	17.1	6,947,626	175,312,772
Others		46,361,842	21,323,698
		53,309,468	196,636,470
Advances from customer-related party		-	72,607,039
Advances from customers		163,106,101	-
Unclaimed dividends		16,110,559	15,602,774
Accrued expenses		97,234,387	72,748,449
Sales tax payable		-	59,328,680
Deposits	17.2	14,573,293	15,615,681
Workers' profits participation fund	17.3	91,479,433	40,978,956
Workers' welfare fund	10	92,000,000	33,000,000
Others		10,319,454	6,435,250
		538,132,695	512,953,299

17.1 The maximum aggregate amount due from related parties at the end of any month during the year was Rs. 869.320 million (2007: Rs. 484.312 million).

17.2 The above deposits are interest free and repayable on demand or otherwise adjustable in accordance with the Company's policy. These deposits include Rs. Nil (2007: Rs. 10 million) received from Dawood Corporation (Private) Limited, a related party, as deposit money under the urea sales agreement.

17.3 Workers' Profits Participation Fund

	Note	2008 Rupees	2007 Rupees
Balance at the beginning of the year		40,978,956	26,125,813
Add: Allocation for the year	10	91,210,941	40,755,801
Interest on funds used in the Company's business	8	45,337	65,600
		132,235,234	66,947,214
Less: Amount paid to the fund		40,755,801	25,968,258
		91,479,433	40,978,956

18 CONTINGENT LIABILITIES AND COMMITMENTS

18.1 Contingent Liabilities

The Company is contingently liable for:

	2008 Rupees	2007 Rupees
Counter guarantees given to the bank	2,171,467	2,171,467
Indemnity bonds/guarantees given to Customs authorities equivalent to duties chargeable on import of machinery payable if matter is decided by the CBR against the Company regarding the eligibility of certain machinery and equipment for duty free import under BMR programme (contingent liability of capital nature)	2,959,510	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

18.2 Commitments

Commitments in respect of contracts for capital expenditure	416,880,644	26,798,610
Commitments in respect of store purchases	119,711,876	75,759,049

19 PROPERTY, PLANT AND EQUIPMENT

	COST				DEPRECEATION				
	As at 01 January 2008	Additions	Disposals	As at 31 December 2008	As at 01 January 2008	For the Period	Disposals	As at 31 December 2008	Net book value as at 31 December 2008
	Rupees								
Freehold land	250,656,856	-	-	250,656,856	-	-	-	-	250,656,856
Buildings on freehold land	114,635,802	-	-	114,635,802	73,641,339	3,920,237	-	77,561,576	37,074,226
Railway siding	2,314,451	-	-	2,314,451	2,291,307	-	-	2,291,307	23,144
Plant and machinery	2,531,689,209	174,214,162	-	2,705,903,371	1,744,388,878	75,819,782	-	1,820,208,660	885,694,711
Catalysts	137,640,283	78,572,268	-	216,212,551	94,300,162	34,459,838	-	128,760,000	87,452,551
Furniture, fittings and equipment	47,725,400	2,405,027	-	50,130,427	39,750,764	1,319,381	-	41,070,145	9,060,282
Data processing equipment	96,540,902	1,292,558	-	97,833,460	83,614,966	8,447,888	-	92,062,854	5,770,606
Motor vehicles	96,102,060	24,587,275	776,807	119,912,528	50,653,175	16,604,687	392,933	66,864,929	53,047,599
	3,277,304,963	281,071,290	776,807	3,557,599,446	2,088,640,591	140,571,813	392,933	2,228,819,471	1,328,779,975

	COST				DEPRECEATION				
	As at 01 January 2007	Additions	Disposals	As at 31 December 2007	As at 01 January 2007	For the Period	Disposals	As at 31 December 2007	Net book value as at 31 December 2007
	Rupees								
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
	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

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

	Note	2008 Rupees	2007 Rupees
Cost of Sales	6	123,586,514	103,147,140
Distribution and administrative expenses	7	16,985,299	18,162,621
		140,571,813	121,309,761

19.2 Disposal of property, plant and equipment

Type of property, plant and equipment	Sold to	Original cost	Accumulated depreciation	Written down value	Sale proceeds	Mode of disposal
		Rupees				
Motor vehicles	**Employees**					
Suzuki Cultus	Mr. Iftikhar Ali	613,157	235,043	378,114	388,333	As per Company Policy
Aggregate of other items of property, plant and equipment with individual book values not exceeding Rs. 50,000		163,650	157,890	5,760	131,250	As per Company Policy
		776,807	392,933	383,874	519,583	

20 CAPITAL WORK IN PROGRESS

	2008 Rupees	2007 Rupees
Plant and machinery	1,853,966	185,364,261
Advance for plant and machinery	65,700,000	-
	67,553,966	185,364,261

21 INVESTMENT IN ASSOCIATE

Engro Chemical Pakistan Limited (ECPL)

	2008 Rupees	2007 Rupees
73,779,462 (2007: 64,156,054) ordinary shares of Rs 10 each	16,610,255,523	6,292,386,865
Add: Cost of 7,377,946 (2007: 9,623,408) right shares acquired during the year	1,291,140,550	1,202,926,000
Cost of acquisition of Nil (2007: 73,779,462) ordinary shares during the year	-	20,261,309,045
Percentage of equity held - 38.13% (2007: 38.13%)		
	1,291,140,550	21,464,235,045
Share of post acquisition profits	1,850,199,953	878,847,685
	19,751,596,026	28,635,469,595
Less: Cost of sale of Nil (2007: 73,779,462) ordinary shares during the year	-	11,556,874,878
Dividends received during the period	545,968,018	468,339,194
	545,968,018	12,025,214,072
	19,205,628,008	16,610,255,523

21.1 Fair value of investments in associate Rs. 7,828 million (2007: Rs.19,606 million).

21.2 The financial year end of ECPL is 31 December. Though, the financial statements of ECPL for the year ended 31 December 2008 are available with the Company but in order to maintain consistency with prior years the financial results as of 30 September have been used for the purpose of application of equity method.

21.3 Summarized financial information of ECPL is as follows:

	Note	2008 Rupees	2007 Rupees
Total assets as at 30 September		73,689,867,000	44,541,390,000
Total liabilities as at 30 September		52,085,942,000	31,678,950,000
Revenue (12 months period from 01 October to 30 September)		41,077,709,000	30,334,355,000
Profit after taxation (12 months period from 01 October To 30 September)		4,851,712,000	2,315,310,000

22 LONG TERM LOANS AND ADVANCES - UNSECURED CONSIDERED GOOD

	Note	2008 Rupees	2007 Rupees
Executives	22.1 & 22.3	416,660	419,730
Other employees	22.2	843,090	693,395
		1,259,750	1,113,125

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

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

22.3 Reconciliation of Carrying Amounts of Loans to Executives

	2008 Rupees	2007 Rupees
Opening balance	3,301,690	3,634,085
Disbursement during the year	5,549,400	3,049,290
Promotion of non-executive employees as executives	3,159,385	1,338,210
Loan recovered during the year	(6,067,865)	(4,719,895)
Closing balance	5,942,610	3,301,690
Less: Current portion shown under current assets	5,525,950	2,881,960
	416,660	419,730

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

22.5 The maximum amount due from executives at any month end during the year was Rs. 8.076 million (2007: Rs. 4.231 million)

23 STORES, SPARES AND LOOSE TOOLS

	2008 Rupees	2007 Rupees
Stores	367,278,446	349,565,791
Spares	750,143,399	658,505,818
Loose tools	12,066,057	12,269,763
Stores and spares in transit	131,941,734	108,577,695
	1,261,429,636	1,128,919,067
Less: Provision for obsolete items	235,665,000	235,665,000
	1,025,764,636	893,254,067

Stores and spares include items which may result in fixed capital expenditure but are not distinguishable.

24 STOCK IN TRADE

	Note	2008 Rupees	2007 Rupees
Raw and packing materials		31,442,318	3,777,142
Material in process		8,033,236	9,643,989
Finished goods - own manufactured		50,092,662	150,131,038
- purchased product		-	703,958,419
		89,568,216	867,510,588

25 LOANS, ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	Note	2008 Rupees	2007 Rupees
These receivables are all unsecured and considered good:			
Advances to suppliers for goods and services	25.1	35,037,713	23,843,791
Advances and loans:			
Executives	25.3 & 22.3	5,525,950	2,881,960
Employees	25.3	8,149,025	21,324,771
Sales Tax		7,952,358	-
Prepayments		6,726,477	6,673,693
Deposits		2,100,118	3,600,118
Others		6,759,780	7,093,724
		72,251,421	65,418,057

25.1 This includes due from related party Rs. 2.433 million (2007: Rs. 2.433). Maximum aggregate amount due from at the end of any month during the year was Rs. 2.762 million (2007 : Rs. 2.466 million).

25.2 Chief Executive and directors have not taken any loan/advance from the Company (2007: Rs Nil).

25.3 Advances and loans to executives and employees include Rs. 11.757 million (2007: Rs. 18.335 million) being current portion of the loans described under note 22.3 and the balance represents interest free advance.

26 SHORT TERM INVESTMENTS - AVAILABLE FOR SALE

These comprise of fully paid ordinary shares of the following listed companies:	Note	2008 Rupees	2007 Rupees
Related parties - Quoted			
Sui Northern Gas Pipelines Limited			
Opening cost of 108,672,850 ordinary shares of Rs 10 each - at cost		6,796,835,201	6,796,835,201
Cost of 8,230,500 shares disposed during the year		(514,768,428)	-
Closing cost of 100,442,350 shares of Rs 10 each - at cost	26.1	6,282,066,773	6,796,835,201
Percentage of equity held: 18.29% (2007: 19.79%)			
Adjustment arising from measurement at fair value		-	326,670,117
Impairment loss	26.2	(4,126,573,941)	-
		(4,126,573,941)	326,670,117
		2,155,492,832	7,123,505,318

	Note	2008 Rupees	2007 Rupees
Others - Quoted			
Southern Electric Power Company Limited			
6,270,000 (2007: 6,270,000) ordinary shares of Rs 10 each - at cost		118,431,290	118,431,290
Percentage of equity held: below 10% (2007: below 10%)			
Adjustment arising from measurement to fair value		-	(83,319,290)
Impairment loss	26.3	(100,310,990)	-
		18,120,300	35,112,000
		2,173,613,132	7,158,617,318
Financial assets at fair value through profit and loss account classified as held for trading			
Un-quoted			
Meezan Islamic Fund (type - B AMIN)			
Nil (2007: 13,859,532) units of Rs. 50 each		-	713,204,805
Adjustment arising from measurement to fair value		-	10,401,353
		-	723,606,158
KASB			
640,247 (2007: NIL) units of Rs. 100 each		63,703,484	-
Adjustment arising from measurement to fair value		(3,891,637)	-
		59,811,847	-
		2,233,424,979	7,882,223,476

26.1 24 million shares having a market value of Rs. 515 million on 31 December 2008 are pledged with HBL against running finance.

26.2 The Karachi Stock Exchange (Guarantee) Limited ("KSE") placed a "Floor Mechanism" on the market value of securities based on the closing prices of securities prevailing as on 27 August 2008. Under the "Floor Mechanism", the individual security price of equity securities could vary within normal circuit breaker limit, but not below the floor price level. The mechanism was effective from 28 August 2008 and remained in place until 15 December 2008. Consequent to the introduction of 'floor mechanism' by KSE, the market volume declined significantly during the period from 27 August 2008 to 15 December 2008. There were lower floors on a number of securities at 31 December 2008. The equity securities have been valued at prices quoted on the KSE on 31 December 2008.

SECP vide SRO 150(1)/2009 dated 13 February, 2009 has allowed that the impairment loss, if any, recognized as on 31 December 2008 due to valuation of listed equity investments held as "Available for Sale" to quoted market prices of 31 December 2008 may be shown under the equity. The amount taken to equity including any adjustment/effect for price movements in 2009 shall be taken to Profit and Loss account on quarterly basis during the calendar year ending on 31 December 2009. The amount taken to equity at 31 December 2008 shall, however be treated as a charge to Profit and Loss Account for the purposes of distribution as dividend.

International Accounting Standard 39 – Financial Instruments: Recognition and Measurement (IAS 39) requires that available for sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. Such impairment loss should be transferred from equity to Profit and Loss Account.

In view of the floor mechanism as explained above and current economic conditions in the country, the management believes that these are 'rare circumstances'' and the plunge in equity markets cannot be considered to be a fair reflection of equity values.The management is of the opinion that recognition of impairment loss pertaining to this 'Available for Sale' investment through Profit and Loss account will not reflect the true state of affairs of the Company and has, therefore, opted to show it under the Equity, as permitted by the SECP.

The recognition of impairment loss in accordance with the requirements of IAS 39 would have had the following effect on these financial statements:

	2008 Rs. in '000
Increase in 'Impairment Loss' in Profit and Loss Account	4,126,574
Decrease in profit for the year	4,089,574
Decrease in Earnings per share	37.39
Decrease in Deficit on revaluation of Available for Sale Securities	4,126,574
Decrease in Un-appropriated profit	4,089,574

26.3 As a result of significant and prolonged decline in the value of investments below cost the difference between cost and fair value as at 31 Dec 2008 has been recognized as impairment loss in the profit and loss account.

27 CASH AND BANK BALANCES

	Note	2008 Rupees	2007 Rupees
With banks:			
On current accounts		112,476,736	153,467,104
On saving accounts	27.1	720,970,090	481,465,931
Time deposits	27.2	100,000,000	462,000,000
		933,446,826	1,096,933,035
Cash in hand		491,362	891,080
		933,938,188	1,097,824,115

27.1 These carry mark up at the rate ranging from 5% to 10.9% per annum (2007: 4% to 6%).

27.2 These carry mark up at the rate ranging from 11% to 14.50% per annum (2007: 7.5% to 8.3%).

28 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	2008 Rupees			2007 Rupees		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
Managerial remuneration	6,720,987	27,296,439	109,689,286	3,712,410	20,164,511	73,185,849
Retirement benefits	993,127	2,418,854	11,256,721	629,910	2,418,854	7,433,626
Rent and utilities	3,015,650	8,003,208	32,948,864	1,485,000	7,448,844	23,362,337
Leave fair assistance		568,522		-	1,003,920	-
Medical		820,782	3,008,242	-	447,864	1,590,942
	10,729,764	39,107,805	156,903,113	5,827,320	31,483,993	105,572,754
Number of employees	1	4	66	1	3	48

(Including those who worked part of the year).

Chief Executive, 4 directors (2007: 3) and 66 executives of the Company (2007: 48) are provided with free use of cars owned and maintained by the Company.

Meeting fees amounting to Rs.36,000 (2007: 34,000) were paid to 10 (2007: 7) directors including Chief Executive.

29 EARNINGS PER SHARE

29.1 Basic and Diluted

	Note	2008 Rupees	2007 Rupees
Profit after taxation	Rupees	3,062,688,257	10,134,446,524
Weighted average number of ordinary shares	No. of shares	109,383,436	109,383,436
Earnings per share- basic	Rupees	28.00	92.65

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

30 FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

	INTEREST / MARKUP BEARING				NON - INTEREST / MARKUP BEARING					
	Maturity with in one year	Maturity in more than one year and less than five years	Maturity in more than five years	Sub Total	Maturity with in one year	Maturity in more than one year and less than five years	Maturity in more than five years	Sub Total	2008 Total	Credit Risk
	Rupees									
Financial assets										
Short term investments	-	-	-	-	2,233,424,979	-	-	2,233,424,979	2,233,424,979	-
Loans and advances	-	-	-	-	11,756,670	1,259,750	-	13,016,420	13,016,420	-
Trade debts	-	-	-	-	8,821,267	-	-	8,821,267	8,821,267	8,821,267
Cash and bank balances	820,970,090	-	-	820,970,090	112,968,098	-	-	112,968,098	933,938,188	-
	820,970,090	**-**	**-**	**820,970,090**	**2,366,971,014**	**1,259,750**	**-**	**2,368,230,764**	**3,189,200,854**	**8,821,267**
Financial liabilities										
Long term loans	-	6,302,500,000	-	6,302,500,000	-	-	-	-	6,302,500,000	
Short term financing	70,139,213	-	-	70,139,213	-	-	-	-	70,139,213	
Trade and other payables	-	-	-	-	179,382,474	-	-	179,382,474	179,382,474	
Accrued markup	-	-	-	-	275,848,576	-	-	275,848,576	275,848,576	
	70,139,213	**6,302,500,000**	-	**6,372,639,213**	**455,231,050**	**-**	**-**	**455,231,050**	**6,827,870,263**	

Financial Assets and Liabilities

	INTEREST / MARKUP BEARING				NON - INTEREST / MARKUP BEARING					
	Maturity with in one year	Maturity in more than one year and less than five years	Maturity in more than five years	Sub total	Maturity with in one year	Maturity in more than one year and less than five years	Maturity in more than five years	Sub total	2007 Total	Credit Risk
	Rupees									
Financial assets on balance sheet										
Short term investments	-	-	-	-	7,882,223,476	-	-	7,882,223,476	7,882,223,476	-
Loans and advances	-	-	-	-	18,334,660	1,113,125	-	19,447,785	19,447,785	-
Trade debts	-	-	-	-	4,742,483	-	-	4,742,483	4,742,483	4,742,483
Cash and bank balances	943,465,931	-	-	943,465,931	154,358,184	-	-	154,358,184	1,097,824,115	-
	943,465,931	**-**	**-**	**943,465,931**	**8,059,658,803**	**1,113,125**	**-**	**8,060,771,928**	**9,004,237,859**	**4,742,483**
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	
Trade and other payables	-	-	-	-	301,422,943	-	-	301,422,943	301,422,943	
Accrued markup	-	-	-	-	249,436,081	-	-	249,436,081	249,436,081	
	2,281,428,109	**6,500,000,000**	**-**	**8,781,428,109**	**550,859,024**	**-**	**-**	**550,859,024**	**9,332,287,133**	

30.1 Financial Risk Management Objectives

The Company finances its operations through equity, borrowings and management of working capital with a view to maintain a reasonable mix between the various sources of finance to minimise risk. Taken as a whole, risk arising from the company's financial instruments is limited as there is no significant exposure to market risk in respect of such instruments.

a) Concentration of credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counter parties failed completely to perform as contracted. The Company's credit risk is primarily attributable to its trade debts and its balances at banks. The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. The Company has no significant concentration of credit risk as exposure is spread over a large number of counter parties in the case of trade debts. Out of the total financial assets of Rs. 3,189 million (2007: Rs. 9,004 million) financial assets which are subject to credit risk amount to Rs .8.821 million (2007 : Rs. 4.742 million). To manage exposure to credit risk, the Company applies credit limits to its customers and also obtains collaterals, where considered necessary.

b) Interest rate risk management

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Significant interest rate risk exposures are primarily managed by a mix of borrowings at fixed and variable interest rates. The effective interest rate for the financial assets and financial liabilities range between 5% to 16.52% (2007 : 4% to 11.50%)

c) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises mainly where receivables and payables exist due to transactions with foreign buyers and suppliers.

d) Liquidity risk

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

e) Capital management

The Board’s policy is to maintain an efficient capital base so as to maintain investor, creditor and market confidence and to sustain the future development of its business. The Board of Directors monitors the return on capital employed, which the Company defines as operating income divided by total capital employed. The Board of Directors also monitors the level of dividends to ordinary shareholders.

The Company's objectives when managing capital are:

i) 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

ii) to provide an adequate return to shareholders.

The Company manages the capital structure in the context of economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may, for example, adjust the amount of dividends paid to shareholders, issue new shares, or sell assets to reduce debt.

The Company monitors capital on the basis of the debt-to-equity ratio - calculated as a ratio of total debt to equity.

The debt-to-equity ratios as at 31 December 2008 and at 31 December 2007 were as follows:

	2008 Rupees	2007 Rupees
Total debt	6,372,639,213	8,781,428,109
Less: Cash and Cash equivalents	(933,938,188)	(1,097,824,115)
Net Debt	5,438,701,025	7,683,603,994
Total equity	17,382,656,746	18,889,332,105
Debt -to -equity ratio	0.31	0.41

The decrease in the debt-to-equity ratio in 2008 has resulted primarily from payment of short term borrowings amounting to Rs. 2,211 million and impairment of short term investments-(available for sale) amounting to Rs. 4,226 million.

Neither there were any changes in the Company’s approach to capital management during the year nor the Company is subject to externally imposed capital requirements.

30.2 Fair Value of Financial Assets and Liabilities

The carrying value of financial assets and liabilities reflected in the financial statements approximates their fair values. Fair value is determined on the basis of objective evidence at each reporting date.

31 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:

	2008 Rupees	2007 Rupees
Associated company		
Sale of goods and services	3,260,708,720	5,427,452,217
Purchase of goods and services	2,331,658,187	2,113,202,177
Dividend Income	545,968,018	794,357,744

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

32 PRODUCTION CAPACITY

As against the annual production capacity of 445,500 tons (2007: 445,500 tons) of urea fertilizer the plant produced 508,050 tons (2007: 497,940 tons) which was 114.04% (2007: 111.77%) of designed capacity.

33 POST BALANCE SHEET EVENTS

The Board of Directors at its meeting held on 19 February 2009 has proposed a final cash dividend @ Rs. 1.50 per share amounting to Rs. 164,075,154 for the year ended 31 December 2008 for approval of the members at the Annual General Meeting to be held on16 April 2009. The financial statements do not reflect this proposed dividend.

34 GENERAL

34.1 These financial statements have been authorised for issue by the Board of Directors of the Company on 19 February 2009.

34.2 Figures have been rounded off to the nearest rupee.

Karachi
19 February 2009

Shahzada Dawood
Chief Executive

A.G. Gohar
Director

PATTERN OF SHAREHOLDING
As at 31 December 2008
Disclosure Requirement under the Code of Corporate Governance

Details of holding on 31.12.2008:

Associated Companies, Undertakings and Related Parties	
Dawood Lawrencepur Limited	17,711,795
Dawood Foundation	4,320,907
Central Insurance Company Ltd.	3,249,946
Patek (Pvt.) Ltd.	35,292
Dawood Corporation (Pvt.) Ltd.	23,147
Sach International (Pvt.) Ltd.	1,590
NIT & ICP	
National Bank of Pakistan, Trustee Department	482,022
Investment Corporation of Pakistan	211
Directors & Chief Executive (including holding of their spouses & minor children)	
Mr. Hussain Dawood - Chairman	9,820,754
Mr. Shahzada Dawood - Chief Executive	1,122,227
Mr. A. Samad Dawood	1,122,614
Mr. Haroon Mahenti	390
Khawaja Amanullah	3
Mr. Abdul Ghafoor Gohar	3
Syed Muhammad Asghar	1
Executives	390
Public Sector Companies and Corporations	-
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas & Mutual Funds	23,787,599
Shareholders holding ten percent or more shares	
Faisal Private Bank (Switzerland) SA	15,148,425
Dawood Lawrencepur Limited	17,711,795

PATTERN OF SHAREHOLDING
As at 31 December 2008
Category-wise

Categories of Shareholders	Number of Shareholders	Total Shares Held	Percentage
Individuals	2,389	18,567,325	16.97
Joint Stock Companies	46	62,366,950	57.02
Financial Institutions	13	15,683,849	14.34
Insurance Companies	6	6,568,594	6.01
Investment Companies	1	6,292	-
Educational/Charitable Institutions	5	4,583,998	4.20
Modarabas	2	579	-
Mutual Funds	17	1,534,577	1.40
Leasing Companies	1	60,500	0.06
The Administrator, Abandoned Properties, Government of Pakistan	1	10,769	-
Securities & Exchange Commission of Pakistan	1	3	-
Total	**2,482**	**109,383,436**	**100.00**

PATTERN OF SHAREHOLDING
As at 31 December 2008

Shareholding Range		Number of Shareholders	Total Shares Held
From	To		
1	100	380	16,517
101	500	1,330	446,932
501	1,000	275	199,980
1,001	5,000	353	769,506
5,001	10,000	55	381,208
10,001	15,000	18	224,378
15,001	20,000	8	134,895
20,001	25,000	10	229,607
25,001	30,000	6	160,034
30,001	35,000	1	33,834
35,001	40,000	5	190,570
40,001	45,000	4	175,093
45,001	50,000	1	47,725
50,001	55,000	1	55,000
60,001	65,000	1	60,500
70,001	75,000	1	72,098
80,001	85,000	1	82,529
90,001	95,000	1	90,472
95,001	100,000	1	99,000
110,001	115,000	2	222,113
125,001	130,000	1	129,140
130,001	135,000	2	262,570
165,001	170,000	1	168,533
170,001	175,000	1	170,500
205,001	210,000	1	207,020
325,001	330,000	1	330,000
340,001	345,000	1	342,408
430,001	435,000	1	432,740
480,001	485,000	1	482,022
750,001	755,000	1	754,160
840,001	845,000	1	840,400
1,120,001	1,125,000	3	3,367,068
1,275,001	1,280,000	1	1,279,407
1,355,001	1,360,000	1	1,359,600
2,680,001	2,685,000	1	2,682,907
3,245,001	3,250,000	1	3,249,946
4,320,001	4,325,000	1	4,320,907
8,235,001	8,240,000	2	16,473,090
8,695,001	8,700,000	1	8,698,527
8,721,001	8,726,000	2	17,443,640
9,835,001	9,840,000	1	9,836,640
15,145,001	15,150,000	1	15,148,425
17,710,001	17,715,000	1	17,711,795
		2,482	**109,383,436**