




Dawood Hercules



Adding
Dimensions with Diverse
Business Interests

Annual Report 2011





We are pleased to share Dawood Hercules Corporation's new identity - our new name and logo. Over the last 44 years, as we have continued to invest in funding the growth of our underlying businesses, we have become much more diverse than what our name (formerly Dawood Hercules Chemicals Limited) suggested.

Dawood Hercules Corporation Limited is now an investment holding company with associated business interests which range from information technology and financial services to food, fertilizer, chemicals manufacturing and storage, and energy. We are proud of our heritage and reputation and our new identity reflects our abiding commitment to conducting our business as always, with the highest levels of integrity and professionalism. The new logo is congruent with the emerging reality of our present and our transforming vision for the future.

We believe businesses should develop intellectual as well as financial capital. Our commitment extends to encouraging sustainable business practices to protect our nation's human, natural and cultural resources. Finally and most importantly, it is our unequivocal belief that ethical business conduct is the only way to secure a better future for us all.





Dawood Hercules

Dawood Hercules Corporation Limited
(formerly Dawood Hercules Chemicals Limited)



Dawood Hercules

Dawood Hercules Corporation Limited
(formerly Dawood Hercules Chemicals Limited)

Wholly Owned Subsidiary



DH Fertilizers Limited

Associated Company



engro corp
Engro Corporation Limited

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Vision

To be the leading investor in and
wealth creator of value driven
businesses



Mission

We will maximize profit by investing in businesses that share our vision and fulfill our investment criteria to achieve our growth and return aspirations on a consistent basis.

We will create intrinsic value by incorporating efficiency and capability within our existing operations and through our investments.

Business Ethics & Core Values

This statement of Business Ethics and Core Values constitutes the basis on which Dawood Hercules Corporation Limited conducts its business. The Board of Directors and the employees of Dawood Hercules Corporation Limited are the custodians of the excellent reputation for conducting our business according to the highest principles of business ethics. Our reputation not only affects whether or not someone will do business with us, it also determines whether we are proud to be associated with this Company.

We are committed to conducting our business activities in honest and sincere alignment with our Core Values and in full compliance with all the applicable laws and regulations. We also believe in treating our employees with the same principles in order to build mutual respect, confidence and trust based upon integrity, honesty, openness and competence.

In order to maintain and enhance our reputation for integrity in our business, it is important for all of us individually and collectively to adhere to the highest moral, ethical and legal standards.

Core Values

At Dawood Hercules Corporation Limited, all our actions are based on and guided by the following values:

Integrity

We will conduct ourselves with uncompromising ethics and honesty at all times, in all situations, both professionally and personally.

Diversity

We respect the dignity, rights and views of others and will provide unrestricted opportunity for personal advancement to employees irrespective of gender, ethnicity, beliefs, cultures and religions.

Accountability

We will be accountable as individuals and as employees for our ethical conduct and for compliance with applicable laws and policies and directives of the management.

Commitment to Excellence

We will drive and achieve results while pursuing the highest standards and maximizing the use of resources.

Teamwork

We are committed to work as a team to achieve common goals whilst fairly recognising and rewarding individual contributions on merit.



Company Information

Board of Directors:

Mr. Hussain Dawood	Chairman
Mr. Shahid Hamid Pracha	Chief Executive Officer
Mr. Isar Ahmad	Director
Mr. Javed Akbar	Director
Mr. M. Abdul Aleem	Director
Mr. M. Aliuddin Ansari	Director
Mr. A. Samad Dawood	Director
Mr. Shahzada Dawood	Director
Mr. Parvez Ghias	Director
Mr. Asad Umar	Director

Board Audit Committee:

Mr. M. Abdul Aleem	Chairman
Mr. Isar Ahmad	Member
Mr. Javed Akbar	Member
Mr. Parvez Ghias	Member

Board Compensation Committee:

Mr. Hussain Dawood	Chairman
Mr. M. Aliuddin Ansari	Member
Mr. A. Samad Dawood	Member
Mr. Asad Umar	Member

Company Secretary:

Mr. Aftab Ahmed Qaiser

Chief Financial Officer:

Mr. Ali Aamir
(appointed 6 February 2012; succeeding Mr. Gulzar Saleem)

Registered Office:

Dawood Center, M.T. Khan Road
Karachi-75530
Tel: +92-21-35686001
Fax: +92-21-35693416
Email: qaiser@dawoodgroup.com
Web: www.dawoodhercules.com

Bankers:

Bank Al-Habib Limited
Barclays Bank PLC, Pakistan

Auditors:

M/s. KPMG Taseer Hadi & Co.
Chartered Accountants
53-L, Gulberg-III, Lahore
Tel: +92 (42) 35851587-88
Fax: +92 (42) 35781757

Shares Registrar:

M/s. Corplink (Pvt.) Limited
Wings Arcade, 1-K, Commercial
Model Town, Lahore
Tel: +92 (42) 35839182, 35916719
Fax: +92 (42) 35869037

Tax Consultants:

UHY Hassan Naeem & Company
Chartered Accountants
193-A, Shah Jamal, Lahore-54000
Tel: +92 (42) 37599938, 37599948
Fax: +92 (42) 37599740

Legal Advisors:

Hassan & Hassan (Advocates)
PAAF Building 7-D, Kashmir/Egerton Road,
Lahore
Tel: +92 (42) 36360800-03
Fax: +92 (42) 36360811-12



Fertilizers

Textiles

Chemicals

Alternate Energy

Investment

Information Technology

Information Technology
9,00%

Alternate Energy
6,61%

Chemicals
8,11%

Fertilizers
11,36%

Investment
9,98%

29,049

7,999

200

70

0

1

TL
Sell





Adding Dimensions

Performance Highlights

Key Figures

Sales Revenue
(Rs million)

2011 **6,310**

2010 **8,716**

Profit after Tax
(Rs million)

2011 **2,893**

2010 **3,248**

	2011	2010
Sales Revenue (Rs million)	6,310	8,716
Profit after Tax (Rs million)	2,893	3,248
Weighted average no of Ordinary shares	481,287	481,287
Earnings per share Basic and Diluted (Rs)	6.01	6.75
EBITDA (Rs million)	4,636	5,308
Market Capitalization (Rs million)	20,402	23,867
Market Capitalization (US\$ million) -31.12.11	227	277
Total Assets	31,966	30,355
Total Equity	25,128	22,359
Price Earnings Ratio (times)	7.05	11.11
Return on Equity (%)	11.51	14.52



Achievements 2011

- **KSE Top 25
Companies Award:**

12 awards in last
16 years (latest 2010)

- **Environment Excellence
Award 2011:**

This award was received
from the National Forum
of Environment & Health in
recognition of the Company's
efforts for a cleaner environment



dh
CHEMICALS

فیوریا 46
50 KG
NET
GUARANTEED ANALYSIS
NITROGEN 46%
dh
SANGHO HERCULES
MADE IN PAKISTAN



Adding Dimensions

Board of Directors

From Left to Right

Javed Akbar | Shahzada Dawood | M. Aliuddin Ansari | Parvez Ghias | M. Abdul Aleem



Hussain Dawood
(Chairman)

A. Samad Dawood

Shahid Hamid Pracha
(Chief Executive)

Asad Umar

Isar Ahmad

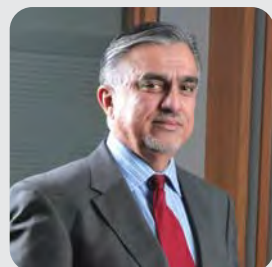


Directors' Profiles



Hussain Dawood
Chairman

Chairman of Dawood Hercules Corporation Limited. He is also the Chairman of Engro Corporation Limited, Pakistan Poverty Alleviation Fund and The Dawood Foundation. His Social Responsibilities include Chairmanship of the International Advisory Council of the Cradle to Cradle Institute in San Francisco, Karachi Education Initiative's Karachi School for Business & Leadership. He also serves as a Member of the Govt. of Pakistan Education Task Force, Director of the Pakistan Business Council, Pakistan Centre for Philanthropy, Beaconhouse National University and is a Global Charter Member of The Indus Entrepreneurs (TiE). He is the Honorary Consul of Italy in Lahore and was conferred the award "Ufficiale Ordine al Merito della Repubblica Italiana" by the Italian Government. Mr. Dawood is an MBA from the Kellogg School of Management, Northwestern University, USA, and a graduate in Metallurgy from Sheffield University, UK.



Shahid Hamid Pracha
Chief Executive Officer

Serves as Chief Executive of Dawood Hercules Corporation Limited and Chairman of DH Fertilizers Limited, Dawood Lawrencepur Limited, and Tenaga Generasi Limited. He is also a Director on the Boards of Cyan Ltd., Engro Powergen Ltd. and Engro Powergen Qadirpur Ltd. He previously served as Chief Executive of the Dawood Foundation, the philanthropic arm of the Dawood Hercules Corporation. Mr. Pracha is a graduate electrical engineer from the University of Salford, UK and prior to joining the Dawood Group, 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 the UK. He is also a founding member of the Pakistan Society for Human Resource Managers and previously served as the first CEO of the Karachi Education Initiative, the sponsoring entity of the Karachi School for Business & Leadership.



Isar Ahmad
Director

Mr. Ahmad has diversified experience of working in senior management positions in multinational and large Pakistani organizations, having served as Chief Executive of Dawood Hercules Corporation Limited, Chief Executive of DH Fertilizers Ltd., Finance Director, Supply Chain Director and Head of Business Unit at Reckitt Benckiser, Managing Director, Haleeb Foods, as well as having been the Financial Advisor at Indus Motor Company Limited. He holds a Masters Degree in Economics and is a Chartered Accountant from the Institute of Chartered Accountants of England & Wales. He also serves as a Director on the Boards of Cyan Limited, Engro Corporation Limited, Engro Polymer and Chemicals Limited, and Engro Foods Limited.



Javed Akbar
Director

He has a Masters degree in Chemical Engineering from United Kingdom and has over 35 years experience in fertilizer and chemical business with Exxon, Engro and Vopak. He has managed Exxon and Engro fertilizer plants and their expansions in Pakistan, worked in Exxon's Chemical Technology divisions in USA and Canada, and served as Human Resources Manager in Exxon Pakistan. He was part of the buyout team when Exxon divested its stake in Engro. Prior to his retirement in 2006, Javed Akbar was Chief Executive of Engro Vopak Terminal Limited, a joint venture between Engro and Royal Vopak of Holland. After his retirement, he established a consulting company specializing in analyzing and forecasting petroleum, petrochemical and energy industry trends and providing strategic insight. He also serves on the Board of Directors of DH Fertilizers Limited, Engro Fertilizers Limited, Engro Powergen Limited, Engro Powergen Qadirpur Limited, Engro Vopak Terminal Limited, Javed Akbar Associates (Private) Limited, Pakistan Petroleum Limited and is also on the panel of environmental experts of Sindh Environmental Protection Agency.





M. Abdul Aleem
Director

A Fellow Chartered Accountant (FCA) (Gold Medalist) and a Fellow Cost and Management Accountant (FCMA). Mr. Aleem has worked for 20 years in the oil refining, petrochemicals and oil marketing business. Between 1990 and 2004, he worked for British American Tobacco, (BAT), including the last ten years as the CEO of BAT operations in Cambodia, Mauritius and Indian Ocean. Since 2004, Mr. Aleem has worked for large GOP owned corporations. His last assignment was as the Managing Director of Pakistan State Oil Limited. Currently, he is the CE/Secretary General of OICCI. Mr. Aleem is also a Director of Meezan Bank Limited, Pakistan Institute of Corporate Governance and Chairman of Faysal Asset Management Company.



Muhammad Aliuddin Ansari
Director

Mr. Ansari is the Chief Executive Officer of Dewan Drilling, Pakistan's first independent oil & gas drilling company. He has also served as the Chief Executive Officer, AKD Securities and Chief Operating Officer, Emerging Europe for Credit Lyonnais Securities. He started his career as an investment manager at Worldinvest /Bank of America in London. Mr. Ansari is also on the Boards of Engro Corporation Limited, National Clearing Company of Pakistan and Faysal Asset Management. He holds a BA (Hon.) in Business Administration and Economics, with a major in Finance, from Richmond College, London.



A. Samad Dawood
Director

A graduate in Economics from University College London, UK and a Certified Director of Corporate Governance from the Pakistan Institute of Corporate Governance. He is the Chief Executive of Cyan Limited and Dawood Corporation (Pvt.) Limited. He also serves as Director on the Boards of Dawood Hercules Corporation Limited, Dawood Lawrencepur Limited, DH Fertilizers Limited, Engro Corporation Limited, Engro Fertilizers Limited, International Industries Limited, Inbox Business Technologies (Pvt.) Limited, Pebbles (Private) Limited, Sui Northern Gas Pipelines Limited, Tenaga Generasi Limited, and WWF Pakistan Limited. Mr. Dawood is a member of Young Presidents' Organization, Pakistan Chapter.



Shahzada Dawood
Director

Joined the Board in 1996. He is a Director of Avanceon Limited, Dawood Corporation (Private) Limited, Dawood Hercules Corporation Limited, Dawood Lawrencepur Ltd, DH Fertilizers Limited, Engro Corporation Ltd, Engro Fertilizers Limited, Engro Foods Limited, Engro Polymer & Chemicals Limited, Engro Powergen Limited, Engro Powergen Qadirpur Limited, Engro Vopak Terminal Limited, Patek (Private Limited) Pebbles (Private) Limited, Sach International (Private) Limited, Sirius (Private) Limited and Tenaga Generasi Limited. He is a member of the Board of Governors of National Management Foundation (LUMS) and also a member of Board of Trustees of Dawood Foundation. He is an M.Sc in Global Textile Marketing from Philadelphia University, USA, an LLB from Buckingham University, UK and a Certified Director of Corporate Governance from the Pakistan Institute of Corporate Governance.



Parvez Ghias
Director

Parvez Ghias is the Chief Executive Officer at Indus Motor Company Limited, a leading automobile manufacturer in the country of Toyota and Daihatsu brands. He also serves as an independent director on the board of Standard Chartered Bank Pakistan Limited and Dawood Hercules Corporation Limited. Prior to joining Indus Motor in 2005, he was Vice President and CFO at Engro Chemical Pakistan Limited where he served as a member of the Board of Directors for several years. Mr. Ghias is a fellow of the Institute of Chartered Accountants from England & Wales and member of several faculties of the Institute and holds a Bachelors Degree in Economics and Statistics.



Asad Umar
Director

Asad Umar graduated as an MBA from the IBA, Karachi in 1984. Started his career with HSBC, Pakistan and in 1985 he joined Exxon subsequently renamed Engro. During his years with Engro, he has worked in all the major divisions, of the Company. He also worked on an assignment with Exxon Chemical overseas in Canada. He was the first President of Engro Polymer & Chemicals Ltd. In January 2004, he took over as President & Chief Executive of Engro Corporation Ltd. Mr. Umar is the Chairman of all Engro subsidiaries, Pakistan Business Council, Pakistan Chemical & Energy Sector Skill Development Company and Punjab Skill Development Fund. He is also a member of the Board of Directors of Engro Corporation Ltd., Karachi Education Initiative, State Bank of Pakistan. He has previously been a Director of OGDCL, KSE, PCP, PSO & Port Qasim Authority (PQA), Pakistan Institute of Corporate Governance, Member of The Board of Trustees of Lahore University of Management Sciences. He is also a Past Chapter Chair of Young Presidents' Organisation (YPO), Pakistan Chapter. He was awarded the Sitra-i-Imtiaz in 2010.



Committees

Board Audit Committee

The Board has set up an audit committee comprising of four independent non executive Directors. The Committee meets at least once in a quarter or as often as it considers necessary, to review and discuss the financial statements. The Committee also meets with the external auditors at least once a year.

After each meeting, the Chairman of the Committee reports to the Board. The Committee met four times in the year.

DIRECTORS' NAMES:

M. Abdul Aleem (Chairman)
Isar Ahmad
Javed Akbar
Parvez Ghias

The Head of Internal Audit function acts as Secretary of the Committee.

Board Compensation Committee

Board Compensation Committee is responsible for reviewing and approving the company's executive compensation, overall compensation strategy, human resources management policies, performance evaluation and succession plans including career planning for employees with high potential.

The Board Compensation Committee consists of three non-executive and one executive Director. The Chief Executive Officer attends the meetings by invitation.

DIRECTORS' NAMES

Hussain Dawood (Chairman)
M. Aliuddin Ansari
A. Samad Dawood
Asad Umar

The Secretary of the Committee is Akram Durrani, Director HR & Corporate Affairs.



M. Abdul Aleem
(Chairman)



Isar Ahmad



Hussain Dawood
(Chairman)



M. Aliuddin Ansari



Javed Akbar



Parvez Ghias



A. Samad Dawood



Asad Umar







Adding Dimensions

Operating Highlights

Ten Years at a Glance

Sr#	Particulars		2011	2010	2009 Restated	2008
A) INCOME STATEMENT						
1	Sales Value	Rs. in Million	6,310	8,716	11,040	7,429
2	Gross Profit	Rs. in Million	2,266	3,501	3,960	3,116
3	Operating Profit	Rs. in Million	1,462	3,145	57	2,952
4	EBITDA	Rs. in Million	4,637	5,308	207	4,943
5	Profit Before Taxation	Rs. in Million	3,632	4,191	(928)	3,900
6	Profit After Taxation	Rs. in Million	2,893	3,247	(1,781)	3,063
B) DIVIDEND						
1	Cash Dividend	%	10	40	25	
2	Stock Dividend	%		300	10	10
C) BALANCE SHEET						
1	Fixed capital expenditure	Rs. in Million	2,117	2,238	2,075	1,396
2	Long term investments	Rs. in Million	24,701	22,424	19,290	19,206
3	Current Assets	Rs. in Million	5,145	5,690	5,987	5,027
4	Current Liabilities	Rs. in Million	1,116	2,320	2,983	1,577
5	Paid Up Capital	Rs. in Million	4,813	1,203	1,094	1,094
6	Reserves	Rs. in Million	20,315	21,156	16,761	16,289
7	No. of Ordinary Shares	Million	481.29	120.32	109.38	109.38
D) RATIO ANALYSIS						
1	Gross Profit	%	36%	40%	36%	42%
2	Net Profit to Sales	%	46%	37%	-16%	41%
3	Earnings Per Share	Rs.	6.01	6.75	(14.80)	28.00
4	Inventory Turnover	Time	-	34.83	81.92	9.01
5	Age of Inventory	Days	16.58	10.48	4.46	40.61
6	Debtors Turnover	Time	2,619.73	1,433.6	1,171.4	1,095.4
7	Average Collection Period	Days	0.14	0.25	0.31	0.33
8	Operating Cycle	Days	16.72	10.73	4.77	40.95
9	Total Assets Turnover	Time	0.20	0.32	0.40	0.29
10	Fixed Assets Turnover	%	289.77	404.14	636.09	536.30
11	Break-up Value of Share	Rs.	52.21	185.83	163.23	158.91
12	Dividend Yield	%	2.36	2.52	2.22	1.13
13	Dividend Payout Ratio	%	16.64	28.00	(27.02)	8.93
14	Return on Equity	%	11.51	14.53	(9.98)	17.62
15	Debt Equity Ratio	Time	0.19	0.26	0.35	0.36
16	Current Ratio	Time	4.61	2.46	2.01	3.19
17	Quick Ratio	Time	3.30	1.59	1.24	2.01
18	Operating Profit Margin	%	23.17	36.09	0.52	39.74
19	Total Debt Ratio	Time	0.15	0.21	0.27	0.25
20	Interest Cover Ratio	Time	5.48	4.26	0.06	5.33
21	Dividend Cover Ratio	Time	6.01	3.57	(3.70)	11.20
22	Return on capital employed	%	14.40	17.97	0.23	12.27
23	EBITDA margin	%	73.48	60.89	1.87	66.53
24	Market Value per Share	Rs.	42.39	198.36	179.81	220.30
25	Market Capitalization	Rs. in Million	20,402	23,867	19,668	24,097
26	Price Earning Ratio	Times	7.05	11.11	(12.15)	7.87
E) PRODUCTION						
1	Designed Production (for 12 months)	Thousand M.T.	445.50	445.50	445.50	445.50
2	Actual Production	Thousand M.T.	199.90	456.12	513.32	508.05
3	Capacity Utilization	%	45	102	115	114
4	Sales	Thousand M.T.	207.24	441.51	513.22	527.86
F) OTHERS						
1	Employees	Nos.	572	564	576	478
2	Capital Expenditure	Rs. in Million	92	393.12	833.17	163.26
3	Contribution to the National Exchequer	Rs. in Million	1,422	783	1,003	1,059



For the Year Ended 31st December

2007	2006	2005	2004	2003	2002
5,011	3,882	3,291	2,699	2,983	2,810
1,862	1,312	1,260	818	1,060	1,010
10,551	2,052	2,777	1,176	1,721	1,132
11,551	2,903	3,534	1,663	1,810	1,214
10,674	2,266	3,201	1,464	1,686	1,131
10,134	2,054	2,868	1,240	1,379	793
30	80	85	105	100	95
20	Nil	15	Nil	Nil	50
1,374	1,347	690	530	464	334
16,610	6,292	5,733	2,001	2,758	2,487
11,237	8,510	6,364	9,757	6,180	2,267
3,573	6,672	3,345	4,379	2,994	520
829	829	721	721	721	480
8,444	8,635	7,114	5,645	4,010	
82.87	82.87	72.06	72.06	72.06	48.04
37%	34%	38%	30%	36%	36%
202%	53%	87%	46%	46%	28%
122.30	24.79	34.61	17.21	19.13	11.01
5.70	12.80	17.46	21.90	17.08	14.18
64.04	28.52	20.91	16.71	21.38	25.74
1,383.24	1,221.98	499.03	364.09	475.90	384.43
0.26	0.30	0.73	1.01	0.77	0.95
64.30	28.82	21.64	17.72	22.14	26.69
0.17	0.24	0.26	0.22	0.32	0.55
368.27	381.00	539.10	543.08	748.09	766.02
227.95	111.90	129.83	108.72	88.34	93.47
0.76	2.71	3.32	5.34	5.69	7.09
3.24	32.27	24.56	61.01	52.26	86.29
53.65	22.15	30.66	15.83	21.66	17.67
0.34	Nil	Nil	Nil	Nil	Nil
3.51	1.28	1.90	2.23	2.06	4.36
2.51	1.08	1.54	1.95	1.61	2.99
210.56	52.86	84.39	43.57	57.69	40.29
0.30	0.37	0.18	0.29	0.19	-
15.12	5.08	13.40	18.68	49.27	1,233.31
30.88	3.10	4.07	1.64	1.91	1.16
41.14	21.62	29.41	14.85	26.85	24.78
230.52	74.79	107.40	61.63	60.67	43.21
393.80	295.00	256.00	196.50	175.60	134.00
32,633	24,446	18,447	14,159	12,653	6,437
4.25	11.90	7.40	11.42	9.18	12.17
445.50	445.50	445.50	445.50	445.50	445.50
497.94	446.70	428.78	351.12	430.60	414.62
112	100	96	79	97	93
508.54	437.73	405.67	361.20	436.83	415.31
474	485	472	481	498	525
149.00	740.65	235.84	328.15	189.81	11.00
857	773	665	724	857	767

Horizontal Analysis

Balance Sheet

Rs. in Million						
Particulars	2006	2007	2008	2009 Restated	2010	2011
Share Capital and Reserves						
Issued, subscribed and paid up capital	828.66	828.66	1,093.83	1,093.83	1,203	4,813
Revenue reserves	8,204.37	17,841.62	20,415.40	16,756.87	21,333	20,496
Fair value reserve	240.11	219.05	(4,126.57)	3.98	136	-
Others	-	-	-	-	(312)	(181)
Share holder's equity with FVR	9,273.14	18,889.33	17,382.66	17,854.69	22,359	25,128
Non Current Liabilities	217.89	6,760.55	6,670.36	6,516.30	5,675	5,722
Sub Total	9,491.03	25,649.88	24,053.02	24,370.98	28,034	30,850
Current Liabilities						
Current portion - long term loan			-	-	661	-
Short term financing - secured	5,924.51	2,281.43	70.14	1,196.60	46	-
Trade and other payables	490.45	512.95	538.13	648.23	695	641
Markup payable on secured loans	169.89	249.44	275.85	280.27	233	9
Provision for taxation	86.80	529.00	693.00	858.00	686	466
Sub Total	6,671.65	3,572.82	1,577.12	2,983.10	2,321	1,116
Total	16,162.69	29,222.70	25,630.14	27,354.08	30,355	31,966
Rs. in Million						
Particulars	2006	2007	2008	2009	2010 Restated	2011
Assets						
Fixed capital expenditure	1,347.37	1,374.03	1,396.33	2,075.00	2,238	2,117
Long term investments	6,292.39	16,610.26	19,205.63	19,289.96	22,425	24,702
Long term loans and advances	12.80	1.11	1.26	2.42	2	2
Sub Total	7,652.56	17,985.40	20,603.22	21,367.38	24,665	26,821
Current Assets						
Stores, spares and loose tools	759.95	893.25	1,025.76	1,303.30	1,074	800
Stock in trade	237.30	867.51	89.57	83.28	216	151
Trade debts	2.50	4.74	8.82	10.03	2	3
Loans, advances, deposit, prepayments and other receivables including advance income tax	298.71	491.75	735.40	912.63	708	509
Short term investments	7,155.38	7,882.22	2,233.42	3,399.31	2,440	2,951
Cash and bank balances	56.29	1,097.82	933.94	278.15	1,250	731
Sub Total	8,510.13	11,237.30	5,026.92	5,986.70	5,690	5,145
Total Assets Employed	16,162.69	29,222.70	25,630.14	27,354.08	30,355	31,966



Percentage Change

07 Over 06	08 Over 07	09 Over 08	10 Over 09	11 Over 10
0%	32%	0%	10%	300%
117%	14%	-18%	9%	-4%
-9%	-1984%	-100%	3311%	-42%
-	-	-	-	-
104%	-8%	3%	9%	-100%
3003%	-1%	-2%	-18%	12%
170%	-6%	1%	2%	1%
				-100%
-61%	-97%	1606%	-96%	-100%
5%	5%	20%	7%	-8%
47%	11%	2%	-17%	-96%
509%	31%	24%	-20%	-32%
-46%	-56%	89%	-22%	-52%
81%	-12%	7%	0%	5%
		Percentage Change		
07 Over 06	08 Over 07	09 Over 08	10 Over 09	
2%	2%	49%	8%	
164%	16%	0%	0%	
-91%	14%	92%	-31%	
135%	15%	4%	1%	
18%	15%	27%	-18%	
266%	-90%	-7%	160%	
90%	86%	14%	-79%	
65%	50%	24%	-22%	
10%	-72%	52%	-28%	
1850%	-15%	-70%	349%	
32%	-55%	19%	-5%	
81%	-12%	7%	0%	

Balance Sheet

Rs. in Million						
Particulars	2006	2007	2008	2009 Restated	2010	2011
Share Capital and Reserves						
Issued, subscribed and paid up capital	828.66	828.66	1,093.83	1,093.83	1,203	4,813
Revenue reserves	8,204.37	17,841.62	20,415.40	16,756.87	21,333	20,496
Others	-	-	-	-	(312)	(181)
Fair value reserve	240.11	219.05	(4,126.57)	3.98	135	-
Share holder's Equity with FVR	9,273.14	18,889.33	17,382.66	17,854.69	22,359	25,128
Non Current Liabilities	217.89	6,760.55	6,670.36	6,516.30	5,675	5,722
Sub Total	9,491.03	25,649.88	24,053.02	24,370.98	28,034	30,850
Current Liabilities						
Current Portion - Long Term Loan	-	-	-	-	661	-
Short term financing - secured	5,924.51	2,281.43	70.14	1,196.60	46	-
Trade and other payables	490.45	512.95	538.13	648.23	695	641
Markup payable on secured loans	169.89	249.44	275.85	280.27	233	9
Provision for taxation	86.80	529.00	693.00	858.00	686	466
Sub Total	6,671.65	3,572.82	1,577.12	2,983.10	2,321	1,116
Total	16,162.69	29,222.70	25,630.14	27,354.08	30,355	31,966
Rs. in Million						
Particulars	2006	2007	2008	2009 Restated	2010	2011
Assets						
Fixed capital expenditure	1,347.37	1,374.03	1,396.33	2,075.00	2,238	2,117
Long term investments	6,292.39	16,610.26	19,205.63	19,289.96	22,425	24,702
Long term loans and advances	12.80	1.11	1.26	2.42	2	2
Sub Total	7,652.56	17,985.40	20,603.22	21,367.38	24,665	26,821
Current Assets						
Stores, spares and loose tools	759.95	893.25	1,025.76	1,303.30	1,074	800
Stock in trade	237.30	867.51	89.57	83.28	216	151
Trade debts	2.50	4.74	8.82	10.03	2	3
Loans, advances, deposit, prepayments and other receivables including advance income tax	298.71	491.75	735.40	912.63	708	509
Short term investments	7,155.38	7,882.22	2,233.42	3,399.31	2,440	2,951
Cash and bank balances	56.29	1,097.82	933.94	278.15	1,250	731
Sub Total	8,510.13	11,237.30	5,026.92	5,986.70	5,690	5,145
Total Assets Employed	16,162.69	29,222.70	25,630.14	27,354.08	30,355	31,966



Percentage					
2006	2007	2008	2009	2010	2011
5%	3%	4%	4%	4%	15%
51%	61%	80%	61%	67%	64%
1%	1%	-16%	0%	0%	-1%
57%	65%	68%	65%	72%	0%
1%	23%	26%	24%	20%	79%
59%	88%	94%	89%	91%	18%
0%	0%	0%	0%	2%	0%
37%	8%	0%	4%	0%	0%
3%	2%	2%	2%	3%	2%
1%	1%	1%	1%	1%	0%
1%	2%	3%	3%	3%	1%
41%	12%	6%	11%	9%	3%
100%	100%	100%	100%	100%	100%
Percentage					
2006	2007	2008	2009	2010	2011
8%	5%	5%	8%	8%	7%
39%	57%	75%	71%	71%	77%
0%	0%	0%	0%	0%	0%
47%	62%	80%	78%	79%	84%
5%	3%	4%	5%	4%	3%
1%	3%	0%	0%	1%	0%
0%	0%	0%	0%	0%	0%
2%	2%	3%	3%	3%	1%
44%	27%	9%	12%	9%	9%
0%	4%	4%	1%	5%	2%
53%	38%	20%	22%	21%	16%
100%	100%	100%	100%	100%	100%

Horizontal Analysis

Profit and Loss

----- Rs. in Million -----						
Particulars	2006	2007	2008	2009	2010 Restated	2011
Sales - net	3,881.75	5,011.00	7,428.70	11,040.36	8,716	6,310
Cost of goods sold	2,570.25	3,148.55	4,312.46	7,080.46	5,214	4,044
Gross profit	1,311.50	1,862.45	3,116.24	3,959.90	3,501	2,266
Distribution expenses	(6.20)	(13.07)	(72.28)	(392.03)	(268)	67
Administrative expenses	(229.93)	(277.81)	(317.57)	(328.27)	(432)	418
Impairment loss	-	-	(100.31)	(3,791.09)	(2)	587
Other expenses	(70.51)	(74.37)	(183.93)	(159.51)	(116)	82
Other income	1,047.26	9,053.94	509.59	767.76	462	351
Result from operating activities	2,052.12	10,551.14	2,951.74	56.76	3,145	1,462
Finance cost	555.47	755.84	901.45	984.75	910	811
Share of profit from associate, net of tax	769.76	878.85	1,850.20	-	1,956	2,981
Profit / (Loss) before tax	2,266.41	10,674.15	3,900.49	(927.99)	4,191	3,632
Income tax expenses	(212.20)	(539.70)	(837.80)	(853.30)	(943)	739
Profit / (Loss) after tax	2,054.21	10,134.45	3,062.69	(1,781.29)	3,248	2,893
Earnings / (loss) per share (Rs.)	24.79	92.65	28.00	(14.80)	6.75	6.01

Vertical Analysis

Profit and Loss

----- Rs. in Million -----						
Particulars	2006	2007	2008	2009 Restated	2010	2011
Sales - net	3881.75	5,011.00	7,428.70	11,040.36	8,716	6,310
Cost of goods sold	2,570.25	3,148.55	4,312.46	7,080.46	5,214	4,044
Gross profit	1,311.50	1,862.45	3,116.24	3,959.90	3,501	2,266
Distribution expenses	(6.2)	(13.07)	(72.28)	(392.03)	(268)	67
Administrative expenses	(229.93)	(277.81)	(317.57)	(328.27)	(432)	418
Impairment loss	-	-	(100.31)	(3,791.09)	(2)	587
Other expenses	(70.51)	(74.37)	(183.93)	(159.51)	(116)	82
Other income	1,047.26	9,053.94	509.59	767.76	462	351
Result from operating activities	2,052.12	10,551.14	2,951.74	56.76	3,145	1,462
Finance cost	555.47	755.84	901.45	984.75	910	811
Share of profit from associate, net of tax	769.76	878.85	1,850.20	-	2,236	2,981
Profit / (Loss) before tax	2,266.41	10,674.15	3,900.49	(927.99)	2,968.90	3,632
Income tax expenses	(212.20)	(539.70)	(837.80)	(853.30)	(820.37)	739
Profit / (Loss) after tax	2,054.21	10,134.45	3,062.69	(1,781.29)	2,148.53	2,893
Earnings / (loss) per share (Rs.)	24.79	92.65	28.00	(14.80)	17.86	



For the Year Ended 31st December

Percentage Change				
07 Over 06	08 Over 07	09 Over 08	10 Over 09	11 Over 10
29%	48%	49%	-21%	-28%
22%	37%	64%	-26%	-22%
42%	67%	27%	-12%	-35%
111%	453%	442%	-32%	-75%
21%	14%	3%	30%	-3%
-	-	3679%	-100%	29250%
5%	147%	-13%	-27%	-29%
765%	-94%	51%	55%	-24%
414%	-72%	-98%	6733%	-54%
36%	19%	9%	-8%	-11%
				-71%
14%	111%	-100%		52%
371%	-63%	-124%	-420%	-13%
154%	55%	2%	-4%	-22%
393%	-70%	-158%	-221%	-11%
274%	-70%	-153%	-221%	-11%

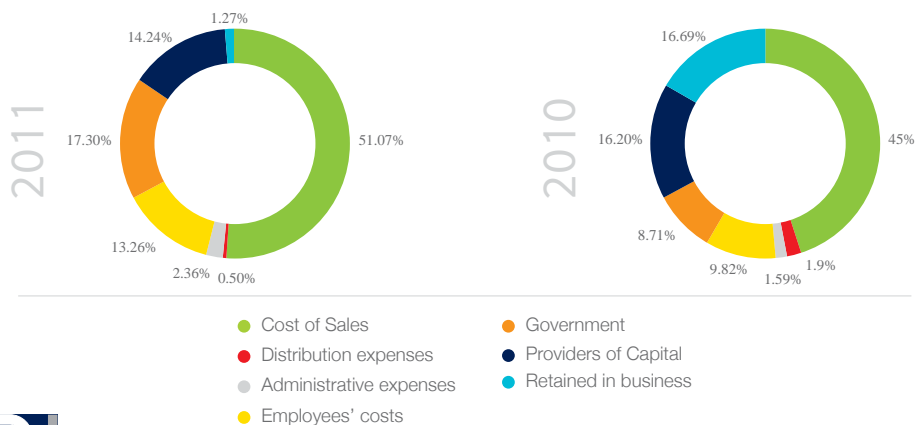
For the Year Ended 31st December

Percentage					
2006	2007	2008	2009	2010	2011
100%	100%	100%	100%	100%	100%
66%	63%	58%	64%	60%	64%
34%	37%	42%	36%	40%	36%
0%	0%	1%	4%	3%	1%
6%	6%	4%	3%	5%	7%
0%	0%	1%	34%	0%	9%
2%	1%	2%	1%	1%	1%
27%	181%	7%	7%	14%	6%
53%	211%	40%	1%	45%	23%
14%	15%	12%	9%	10%	13%
					10%
20%	18%	25%	0%	0%	47%
58%	213%	53%	-8%	34%	58%
5%	11%	11%	8%	9%	12%
53%	202%	41%	-16%	25%	46%

Statement of Value Addition

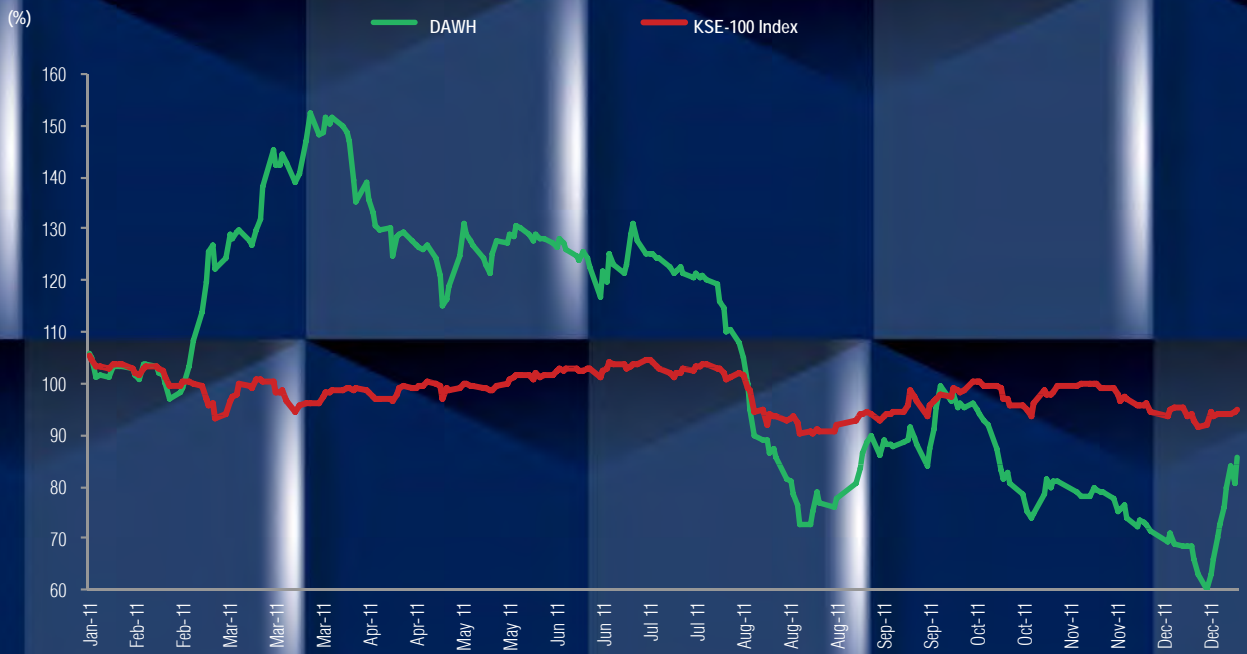
	2011 Rs. in '000	%	2010 Restated Rs. in '000	%
Value Addition				
Gross sales	5,340,294	81.65	8,741,005	88.03
Other income (Including share of profit from associates)	1,200,405	18.35	1,189,023	11.97
	6,540,699	100.00	9,930,028	100.00
Value Distribution				
Cost of sales (excluding employees costs and depreciation)	3,340,466	51.07	4,471,358	45.01
Distribution expenses (excluding employees' costs and depreciation)	32,609	0.50	196,575	1.98
Administrative expenses (including other charges and excluding employees' costs)	154,489	2.36	157,764	1.59
Employees costs				
- Salaries, wages, benefits and staff welfare	807,862	12.35	880,894	8.87
- Workers' profit participation fund	59,163	0.90	94,856	0.95
	867,025	13.26	975,750	9.82
Government				
- Income taxes	466,000	7.12	820,373	8.26
- Sales tax	643,831	9.84	25,294	0.25
- Workers' welfare fund	22,000	0.34	20,000	0.20
	1,131,831	17.30	865,667	8.71
To providers of Capital*****				
- Dividend to Shareholders	120,322	1.84	590,671	5.95
- Bonus shares	-	-	109,383	1.10
- Markup/interest on borrowed money	810,829	12.40	909,596	9.16
	931,151	14.24	1,609,650	16.20
Retained for investment & future growth - Depreciation & retained profit				
	83,128	1.27	1,658,375	16.69
	6,540,699	100.00	9,935,139	100.00

* During the year ended 31 December 2011, the Company issued bonus shares of Rs 3,609.65 million by way of capitalization of accumulated reserves.





DH Corp. Vs KSE 100 (2011)







Adding Dimensions

Notice of Annual General Meeting

Notice is hereby given that the Forty Fourth Annual General Meeting of Dawood Hercules Corporation Limited will be held at Karachi Marriot Hotel, Abdullah Haroon Road, Karachi, on Thursday, 29th March 2012 at 11:00 a.m. to transact the following business:

ORDINARY BUSINESS:

1. To confirm the Minutes of the Extraordinary General Meeting held on Thursday, 28th April 2011.
2. To receive, consider and adopt the Audited Accounts of the Company for the year ended 31st December 2011 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. 1.00 per share (10%) for the year ended 31st December 2011 as recommended by the Board of Directors.
4. To appoint Auditors for the year ending 31st December 2012 and to fix their remuneration.

Karachi
15th February 2012

By Order of the Board

Aftab Ahmed Qaiser
Company Secretary



NOTES:

1. Closure of Share Transfer Books:

The share transfer books of the Company will remain closed from Monday, 19th March 2012 to Thursday, 29th March 2012 (both days inclusive). Transfers received in order at the office of our Shares Registrar, M/s. Corplink (Pvt.) Limited, Wings Arcade, 1-K, Commercial, Model Town, Lahore, by the close of business (1300 hours) on Saturday, 17th March 2012 will be treated in time for the purpose of above entitlement to the transferees.

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.



DAWOOD CENTRE



Adding Dimensions

Directors' Report

The Directors are pleased to present their report and the audited financial statements for the year ended 31 December 2011.

Organizational overview - demerger

During the year, the Company achieved a major milestone as part of its restructuring initiative by the demerger and transfer of its fertilizer operations to its wholly owned subsidiary company DH Fertilizers Limited (DHFL). Consequent to the Scheme of Arrangement under Sections 284 to 288 of the Companies Ordinance 1984, this demerger was approved by the Honorable Lahore High Court on 23rd of July 2011 retrospectively with effect from 1 January 2011. On 12th August 2011 the Company was re-named as Dawood Hercules Corporation Limited (DH Corp) and, in recognition of its new role as an investment holding company, launched its new corporate identity soon thereafter. DH Corp will focus on managing its investments and the new logo of the Company symbolizes this change through its contemporary design while retaining the essentials of its pedigree from its past. The registered office of DH Corp has also been relocated from Lahore to Karachi.

The Company continues to own 38.13% of its associated company Engro Corporation Limited (Engro) via a direct shareholding of 33.25% and an indirect 4.88 % shareholding through its subsidiary DH Fertilizers transferred on demerger. Engro, which is itself a holding company, has investments in fertilizer, petrochemicals, chemical terminal, industrial automation, food, commodities trading and power generation businesses. Engro has successfully pursued a business diversification strategy with many of its fast growing businesses turning to profit during this year. Revenues in 2011 exceeded Rs 100 billion for the first time.

Business overview

Pakistan's economy turned in a weak performance during 2011 with subpar growth, persisting inflation, fiscal constraints and vulnerabilities on the balance of payments front. Problems emanating from power shortages and circular debt spilled over into a full blown energy crisis with extensive electricity outages throughout the country, especially during the peak summer months. In addition, a highly damaging shortage of natural gas particularly in the central and northern parts of the country not only exacerbated the electricity crisis, but also adversely impacted the fertilizer sector supplied via the SNGPL network. According to the IMF, Pakistan's highly constrained and unpredictable energy supply contributes a loss of up to 2% of GDP whilst causing significant social unrest and unemployment.

From the investment perspective, the other negative feature of the economy was its declining savings and investment rate. This is attributed to a combination of factors which include low business confidence due to security issues and economic uncertainty, a banking industry which is increasingly risk averse, government borrowing which has virtually crowded out private sector borrowing, and infrastructure bottlenecks which are exacerbated by cuts in development spending. Although exports grew significantly in monetary terms, they remained narrowly based on textile related products and the momentum has already begun to falter as cotton prices begin their slide downwards on weakening international demand.





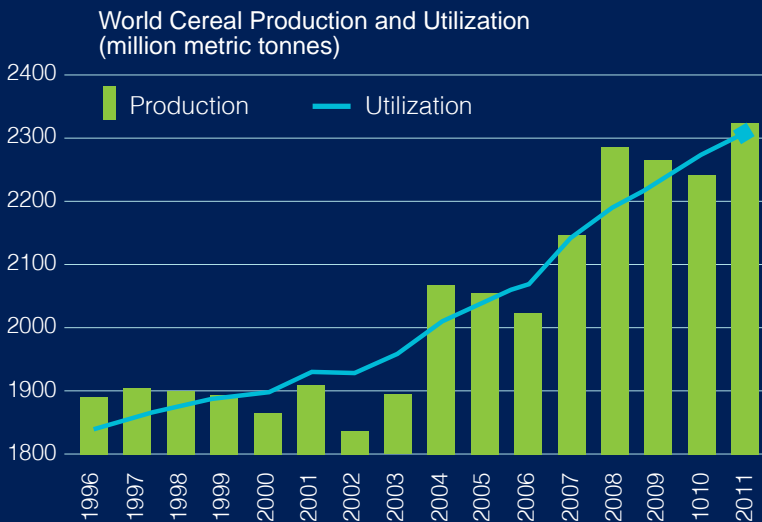
On the international economic front, the global financial crisis which in 2011 fully enveloped a number of European economies has accelerated the shift of global economic weight from advanced to developing and emerging economies. The Euro zone debt crisis has curtailed growth prospects and its indecisive handling was characterized by repeated bail outs and calls for austerity measures rather than relevant reform. The US economy began to show some signs of self sustaining improvement although the housing market remained weak.

Emerging markets share of global consumption is now estimated at 35% compared to 28% with the US. This trend was supported by rising urban middle classes and growing populations resulting in demand for physical and social infrastructure, better quality food and status bestowing branded goods. However, growth is now more subdued to check inflation and spending is increasingly concentrated on domestic consumption, shifting some trading activity away from the developed countries. International investment and capital flows are expected to decline further as economic recession sets in the major western economies.

Global agriculture

Some of the major agricultural regions in the world were affected by adverse weather conditions in 2011 - droughts in northern China, northwestern part of the EU, the US southern states and Mexico; floods in Australia & Thailand; and cool & wet weather in the US corn-belt. However, weather in the northern hemisphere during the winter cereal planting season remained relatively favorable.

In response to tight market conditions and attractive grain prices during 2011, farmers increased the planted area and their crop productivity. According to the Food and Agriculture Organisation (FAO) and the United States Department of Agriculture (USDA), global cereal output grew by 3.5 - 3.7%, establishing a new record projected at some 2.3 billion metric tons. The 2011 wheat crop has been estimated to be the second largest harvest on record, marginally smaller than in 2008. Soybean and rapeseed production was slightly short by 2% as compared to 2010, but this negative impact is expected to be offset by higher production of other oil crops. Sugar and cotton outputs have increased by approximately 4% and 8%, respectively.



Source : FAO

Prices of almost all agricultural commodities (with rice being a notable exception) surged in the second half of 2010 and remained high during the first half of 2011 before contracting in the second half. Current prices are, however, well above those recorded during the pre-food crisis period in 2007/2008



Pakistan agriculture

Along with the rest of the world, Pakistan too is being impacted by climate change and is now considered to be the 16th most vulnerable country to this phenomenon through unpredictable weather patterns, temperature extremes, heavier monsoon flooding and droughts. Along with these uncertainties, agriculture growth in Pakistan has lost significant momentum over the years as it slowed down from 5.4% in the 1980s to 4.4% in the 1990s and 2.7% in the decade of 2000s. Major crops remained the victim of natural calamities as a result of which the agriculture sector in Pakistan recorded modest growth of 1.2 percent in the fiscal year 2010-11. Whilst agricultural incomes in Pakistan have been boosted in the last few years due to the commodity price boom and generous crop support prices, this trend is set to see a reversal beginning in 2012 as international prices retreat and farm inputs like fertilizer, pesticides, diesel and electricity become more expensive.

Availability of irrigation water remains the primary source of agricultural performance in Pakistan. During 2010-11, the availability of water in Kharif 2010 was 20 % less than normal and the previous year's Kharif season. Water availability during the Rabi season (for major crops such as wheat), is however, estimated at 34.6 MAF or 38% higher than the comparative period last year. Despite higher water availability for the Rabi season, a 20% reduction in the wheat cultivable area is expected due to the recent floods in Sindh in addition to a shift in cropping pattern in the northern wheat-

cotton belt and drought conditions in the rain fed areas. These factors may restrict wheat production during 2011-12 to below 20 M tes.

Fertilizer market overview

Global

Due to a strong recovery of nitrogen and phosphate based fertilizers' consumption in 2009-10, global fertilizer demand increased by 6.2% to 173 M tes (Million tonnes).

The strong growth in that year was triggered by the sharp rebound of economic activity and high agricultural commodity prices.

Global Fertilizer Consumption (Mt nutrients)

07/08	100.5	38.4	28.9	167.9
08/09	98.2	33.6	23.4	155.2
09/10	101.9	37.4	23.6	162.9
10/11	104.5	40.7	27.8	173.0
Change	2.6%	8.8%	17.7%	6.2%
11/12	107.7	41.1	29.4	178.2
Change	3.1%	1.0%	5.7%	3.0%
12/13	109.5	42.3	30.4	182.3
Change	1.7%	3.0%	3.3%	2.3%

Source : IFA



As a result, global nutrient production capacity grew by 4% and exceeded aggregate demand while actual urea production at 158.9 M tes was 2% higher than in 2010. The fertilizer industry operated at 83% of installed capacity during the year versus 82% in 2010.

In response to attractive agricultural commodity prices in 2011 and sound agricultural market fundamentals in 1H 2012, world fertilizer demand is forecast to rise by approximately 3% in 2011-12 to a record high of 178.2 M tes. The largest increases in volume are expected in East Asia (1.4 M tes) South Asia (1.4 M tes) and Latin America (1.3 M tes).

Urea and DAP in Pakistan

Total urea production in 2011 was restricted to 4.89 M tes or 68% of demonstrated production capacity. The lower production is attributed primarily to severe gas curtailment on the Sui based network plants that together equate to 41% of total production capacity in the country. In stark contrast, the Mari gas field based plants produced 3.7 M tes (89% of demonstrated capacity) whilst those fed by the SNGPL network just 0.7 M tes (31% of capacity) and the single unit on the SSGC network, 0.4 M tes (67% of capacity). Since total urea demand exceeded aggregate production in the country, not only was the government forced to import 1 M tes of urea, but the price per bag increased from Rs 830 in Dec 2010 to Rs 1,480 in Dec 2011.

For the second consecutive year, urea off take declined in 2011 by 3% to 5.9 M tes mainly due to the high price, reduction in demand due to the floods in Sindh and lower average prices of agricultural produce. The highest off take of urea at 6.5 M tes was recorded in 2009.

Domestic production of DAP was 0.57 M tes (88% of installed capacity) while 0.66 M tes was imported during 2011, which represented a decline of around 15% versus 2010, again mainly due to higher prices in the international market, floods during the Kharif season and reduction in area under wheat cultivation. The highest ever DAP sales volume of 1.8 Mt was achieved in 2009. Around 60% of DAP is consumed in Rabi and 40% in Kharif.

Government policy on gas allocations

Urea prices are intimately connected to the Government's gas allocation to the network based fertilizer industry. To recapitulate, prices rose as a consequence of the Government's reactive response to the unfolding gas crisis in 2011. Firstly, under the influence of politically influential lobbies, the fertilizer industry on the SNGPL network was starved of its basic raw material i.e. natural gas. Prolonged and unplanned gas supply suspension was unprecedented and breached established contractual rights and was operated egregiously against all rational policy, business and commercial norms. Secondly, by intervening directly in making specific and unfair gas allocations to different fertilizer plants on the SNGPL network, the Government stands accused of poor energy governance and opens itself to charges of not providing a level playing field to all its constituents. Thirdly, whilst some companies were subject to gas curtailment and increased prices to forestall economic loss, others continued to receive near normal supplies (those with access to dedicated gas fields) and as is now apparent, made extraordinary windfall gains during the year.

Corporate awards

KSE Top 25 Companies Award

The Company has been ranked amongst the top 25 companies of the Karachi Stock Exchange (KSE) Top Companies Award for the year 2010. The competition is held every year by the KSE to acknowledge the best performing companies and we feel pleased to inform that this award is DH Corp's 12th in the last 16 years.

National Environment Excellence Award 2011

Our subsidiary DH Fertilizers Limited has been awarded the National Environment Excellence Award 2011 by the National Forum for Environment & Health (NFEH) for the third year running after the Company started participating in this event since 2009.





Financial performance

Fertilizer

In this environment of feast and famine, DHFL has been a victim of a manifestly discriminatory and anticompetitive gas allocation by SNGPL in 2011. DHFL's urea production was severely constrained due to suspension of gas supply for a total of 197 days during the year (the highest for any urea plant) compounded by curtailment of gas supply during the rest of the year. As a result, only 199,900 tes of urea was manufactured as compared to 456,120 tes for the similar period last year. Further due to unplanned gas suspension, the DHFL plant, designed for continuous operation, had to be shut down and restarted a number of times during the year resulting in conversion inefficiencies adding considerably to production costs. Frequent gas

stoppages at short notice are also a potential process safety hazard but were handled with due care by DHFL's competent plant operations team. Fertilizer sales volume at 207,239 tes was 53% lower as compared to last year. Very concerted efforts were made to contain fixed costs, reducing these by 31% during the year against the comparable figure in the previous year. The consolidated profits were impacted by impairment in the value of DHFL's investment in SNGPL.

A summary of operating results of the Company for the year 2011 along with comparatives for the year 2010 is as under:

Particulars	2011	2010
	Rupees million	
Sales	6,309	8,715
Gross profit	2,265	3,501
Operating costs	(567)	(816)
Impairment loss	(587)	(2)
Share of profit from associate	2,980	1,956
Profit before taxation	3,632	4,191
Profit after taxation	2,893	3,247

Auditors

The present auditors, KPMG Taseer Hadi & Co., Chartered Accountants are retiring at the conclusion of the forthcoming annual general meeting. The Audit Committee has recommended the appointment of A.F Ferguson & Co., Chartered Accountants, as the statutory auditors of the Company for the year ending 31 December 2012. The Board has endorsed this recommendation.

Pattern of shareholding

The pattern of shareholding of the Company as at 31st December 2011, together with other necessary information, is available at the end to this report along with the proxy form.

Earnings per share

Earnings per share for the year 2011 were Rs. 6.01 per share as compared to Rs.6.75 per share for the year 2010.

Market capitalization and book value

At the close of the year, the market capitalization of the Company was Rs. 20,402 million (2010: Rs. 23,868 million) with a market value of Rs. 42.39 (2010: Rs 49.60) per share and book value of Rs 19,849 million (2010: Rs 19,544 million) or Rs. 41.24 (2010: Rs 40.60) per share.

Appropriations

The Board has recommended a final cash dividend of Rs. 1.00 per share (10%) for approval by the shareholders in the 44th Annual General Meeting.

Contribution to the national exchequer and economy

We are one of the leading contributors to the national exchequer. During the year, in aggregate a sum of Rs. 1,422 million (2010: Rs. 783 million) was paid as taxes and levies. Furthermore, the contribution to the national exchequer as a withholding tax agent under different provisions of Income Tax Ordinance, 2001 amounted to Rs. 135 million (2010: Rs. 159 million).

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 837 million.

Fair value of the assets of the funded defined benefit gratuity plan for management staff was Rs. 101 million as at 31st December 2011.

Based on the actuarial valuation, the value of assets of defined contribution plan for non-management staff was Rs. 38 million as on 30th June 2011.



Board of Directors

Board composition:

The Board comprises of ten Directors.

Changes in the Board

During the year, Messrs. S.M. Asghar and Inam-ur-Rahman retired from the directorship of the Company. The Board would like to place on record its appreciation for the dedication, commitment and valuable contribution made by them as members of the Board.

The Board also welcomes Messrs. M. Aliuddin Ansari and Asad Umar who joined as members in place of the outgoing Directors.

Board meetings

Nine meetings of the Board were held during the year 2011, which were all presided over by the Chairman. The Company Secretary and Chief Financial Officer also attended the meetings as required by the Code of Corporate Governance. Attendance by each Director was as follows:

Name of the Director	Meetings Attended
Mr. Hussain Dawood	9/9
Mr. Shahid Hamid Pracha	8/9
Mr. Isar Ahmad	9/9
Mr. Javed Akbar	8/9
Mr. M. Abdul Aleem	8/9
Mr. M. Aliuddin Ansari	5/6
Mr. A. Samad Dawood	7/9
Mr. Shahzada Dawood	2/9
Mr. Parvez Ghias	6/9
Mr. Asad Umar	4/6
Mr. S. M. Asghar	3/3
Mr. Inam-ur-Rehman	3/3

Statement of Directors' responsibilities

The Directors confirm compliance with the Corporate and Financial Reporting Framework as per the Listing Regulations of the stock exchanges in Pakistan as follows:

1. The financial statements prepared by the management of the Company, present fairly its state of affairs, the result of its operations, cash

flows and change in equity.

2. Proper books of accounts of the Company have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of the financial statements except for changes resulting on initial application of standards, amendments or interpretations to existing standards and reclassification of capital spares. Accounting estimates are based on reasonable prudent judgment.
4. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of the financial statements and any departures there-from have been adequately disclosed.
5. The system of internal controls is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon the Company's ability to continue as a going concern.
7. There is no material departure from the best practices of corporate governance, as detailed in the Listing Regulations.



Change of Chief Executive Officer

Mr. Isar Ahmad relinquished the charge of Chief Executive Officer of the Company and Mr. Shahid Hamid Pracha assumed these responsibilities with effect from 28th November 2011. The Board, management and employees of the Company wish to place on record their appreciation for the contributions made by Mr. Isar Ahmad as Chief Executive and welcome Mr. Shahid Hamid Pracha as the new CEO who brings with him a diverse background of working in leadership positions.

Related party transactions

In order to comply with the requirements of Listing Regulations, the Company presented all related party transactions before the Audit Committee and the Board for their review and approval, respectively.

Business risks and future outlook

DH Corp has embarked on a new strategic journey as reflected in its new Mission Statement. Whilst it is now set up as an investment holding company, its future profitability has a very strong fertilizer industry orientation and is fundamentally linked to energy and gas supplies. We therefore begin with a review of the gas supply scenario in 2012.

Domestic gas supply and demand

While it is expected that about 150 MMCFD gas will be added into the SNGPL system from some northern fields, with present production of 475 MMCFD going up to 625 MMCFD during 2012, about 100 MMCFD of this addition is likely to be offset by the annual depletion of Sui and Sawan fields in the southern parts of the country. On the other hand, additional demand of around 55 - 60 MMCFD of gas will be created in 2012 on account of new connections and growth in CNG usage. The net shortfall, on average day load basis, is expected to be around 200 - 250 MMCFD, which would mean very little change in the demand/supply deficit from 2011. It is thus imperative for the government to ensure equitable distribution of gas amongst all the affected fertilizer producers and to work collaboratively with the industry to forge a long term solution to this imbroglio. Failure by the Government to recognize that the fertilizer industry makes the greatest value addition (as now confirmed by the

Integrated Energy Model study sponsored by the Asian Development Bank for the Planning Commission) and should be provided a stable and predictable supply of gas in order to make the most efficient and productive use of this depleting resource, will inevitably make our industry hostage to Government patronage.

Urea demand and prices

Urea prices saw the historically largest single year increase during 2011 rising 78% from Rs 830 to Rs 1480 per bag, and, following the imposition of the Gas Development Surcharge on feed gas increasing prices by 193% at the beginning of this year, the current market price has shot up even further to around Rs 1700 per bag. The Government has recently announced an increase in the price of imported urea to Rs 1550 per bag. Farmers have therefore to contend with a higher urea price benchmark for both local and imported product and the lower off take is an indicator of an increasingly stressed agricultural economy. In comparison, urea retails at the equivalent of Rs 500 per bag in India where it is heavily subsidized to benefit farmers in line with policy in most other developing economies.

Hence we foresee a softening of the urea market and further slowdown in the country's agricultural growth momentum, and, unless we see a change in the Government's policy, a threat to long standing efforts to preserve food security due to changing economics of different crop choices. We maintain that high priced imports are not the sustainable solution to the problem and urea prices can be brought down to more affordable levels if all the domestic urea manufacturers are accorded priority as per 2005 Gas Policy and provided gas on a reliable and equitable basis.





DH Fertilizers

In view of the discriminatory treatment in the matter of gas supply to DHFL during 2011, the company has been compelled to opt for legal recourse. It has consequently filed a writ petition in the Honorable Lahore High Court to restrain SNGPL from making any further discriminatory gas supplies to comparably placed fertilizer plants on its network (Pak Arab Fertilizer, Agritech) to the detriment of DHFL and to make up any shortfalls in supply parity during 2011 and to otherwise discharge its contracted supply obligations under the established Natural Gas Allocation and Management Policy, 2005. The Writ Petition was heard on 13th February 2012 and the Court was pleased to grant interim relief by directing that when supplies are resumed, respondents SNGPL and the Ministry of Petroleum & Natural Resources will ensure that gas is provided strictly in accordance with the above policy and without any taint of discrimination.

Whilst the management of DHFL will continue to make hectic efforts to secure gas, we anticipate that urea production in 2012 will again be a

constrained by the amount of gas that is made available to the industry and to that extent the Government has the sole responsibility of acting as the collective and selective arbiter of the fertilizer industry's profits or losses. Other than our urea business, we will continue to explore other opportunities and in particular to retain our position as a relevant player in the DAP market, based on imported product.

Long term investment

Prospects for DH Corp's long term investment in Engro continue to remain bright despite the continued suspension of gas to its new world scale Enven plant. Whilst this is a matter of grave concern as the price of Engro's share dipped to Rs 92.7 per share at the year-end date versus cost to the Company of Rs 128 per share, management remains confident that Engro has a very strong legal and moral case and it will succeed in convincing the Government to provide a viable solution despite the challenging circumstances. As a result of management's assessment of Engro's future cash flows and expected dividend payouts, no impairment

needs to be recognized in the value of this investment at the balance sheet date.

Assuming this to be the case, we fully anticipate our investment to recoup its value and to justify our confidence in holding it as a long term investment. This confidence is underscored by the recovery in the price of Engro's share to over Rs 130 subsequent to the balance sheet date. Engro has built up a strong market share position in its key foods and fertilizer businesses and as its polymers business also turns the corner, we expect, on an overall basis, this provides it considerable scope for reducing its debt burden in the short term.

Acknowledgment

The Board expresses its gratitude to all the shareholders for their confidence. We would like to thank all stakeholders, including but not limited to financial institutions, which have been associated

with us, for their support and cooperation and assure them of our commitment to continue to add value to our relationship. We would also like to thank the management and employees for their sincere contributions in these challenging times.

On behalf of the Board



Hussain Dawood
Chairman



Shahid Hamid Pracha
Chief Executive









Adding Dimensions



Financial
Statements

Statement of Compliance with the Code of Corporate Governance

This statement is being presented to comply with the requirements of the Code of Corporate Governance contained in the listing regulations of Karachi, Lahore and Islamabad Stock Exchanges of Pakistan 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 Company encourages representation of independent non-executive Directors on its Board of Directors. At present the Board comprises of ten Directors, which includes three 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 Development Financial Institution (DFI) or a Non-Banking Financial Institution (NBFI) or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Casual vacancies occurred in the Board during the year 2010 were filled within the statutory period.
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 of Directors has developed a Vision/Mission statement. All significant policies of the Company are revised and updated from time to time as appropriate.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, have been taken by the Board.
8. During the year seven meetings of the Board were held, which were all presided over by the Chairman and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated seven days before the meetings. The minutes of the Board meetings were appropriately recorded, circulated within 14 days from the date of meetings and signed by the Chairman.
9. All material information as required under the relevant rules has been provided to the stock exchanges and to the Securities & Exchange Commission of Pakistan within the prescribed time limit.
10. The Board encourages the participation of its Directors and Executives in the orientation courses to apprise them of their duties and responsibilities.
11. The Board approves appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment as determined by the CEO. However, no new appointment of Chief Financial Officer (CFO), Company Secretary and Head of Internal Audit were made during the year.
12. The Directors' Report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.
13. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board. The half-yearly and annual financial statements were also initialed by the external auditors before presentation to the Board.



14. The Directors, CEO and Executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.
15. The Company has complied with all the corporate and financial reporting requirements of the Code.
16. The Board has formed an audit committee. It comprises of four directors out of which three are independent non-executive Directors.
17. The meetings of the Audit Committee were held at least once in every quarter prior to the approval of interim and final results of the Company, as required by the Code. The terms of reference of the committee have been formed and advised to the Committee for compliance.
18. During the year, Head of Internal Audit function resigned. The Company is considering various options for his replacement.
19. All related party transactions entered during the year were on arm's length basis and these have been placed before the Audit Committee and Board of Directors. These transactions are duly reviewed and approved by the Audit Committee and Board of Directors.
20. 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 and 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 the Institute of Chartered Accountants of Pakistan.
21. 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.
22. We confirm that all other material principles contained in the Code have been complied with.

Karachi
15 February 2012


Hussain Dawood
Chairman


Shahid Hamid Pracha
Chief Executive



KPMG Taseer Hadi & Co.
Chartered Accountants
53 L Gulberg III
Lahore Pakistan

Telephone + 92 (42) 3585 0471-76
Fax + 92 (42) 3585 0477
Internet www.kpmg.com.pk

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 Corporation Limited** ("the Company") (Formerly Dawood Hercules Chemicals Limited) to comply with the Listing Regulations of Karachi, Islamabad and Lahore Stock Exchanges.

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 systems 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.

Further, Sub-Regulation (xiii a) of the Listing Regulation No. 35 (previously Regulation No. 37) notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated 19 January 2009 requires the Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transaction carried out on terms equivalent to those that prevail in arm's length transactions and the transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee.

We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price.

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 as applicable to the Company for the year ended 31 December 2011.

Lahore
Date 15 February 2012

KPMG Taseer Hadi & Co.
KPMG Taseer Hadi & Co.
Chartered Accountants
(Bilal Ali)





KPMG Taseer Hadi & Co.
Chartered Accountants
53 L Gulberg III
Lahore Pakistan

Telephone + 92 (42) 3585 0471-76
Fax + 92 (42) 3585 0477
Internet www.kpmg.com.pk

Auditors' Report to the Members

We have audited the annexed balance sheet of **Dawood Hercules Corporation Limited** ("the Company") (Formerly Dawood Hercules Chemicals Limited) as at 31 December 2011 and the related profit and loss account, statement of comprehensive income, 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 the 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 accounts 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, statement of comprehensive income, 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 2011 and of the profit, its comprehensive income, its cash flows and changes in equity for the year then ended; and
- d) in our opinion Zakat deductible at source under the Zakat an Ushr Ordinance, 1980, (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Lahore
Date 15 February 2012

KPMG Taseer Hadi & Co.
KPMG Taseer Ha di & Co.
Chartered Accountants
(Bilal Ali)



Profit and Loss Account

For the year ended 31 December 2011

	Note	2011 (note 1.2 & 1.3) Rupees in '000	2010
Sales-net		-	8,715,711
Cost of sales		-	(5,214,376)
Gross profit		-	3,501,335
Distribution expenses		-	(267,724)
Administrative expenses	5	(215,434)	(425,878)
Impairment loss on available for sale investments	20.1.2	(5,543)	(2,391)
Other operating expenses	6	(185)	(115,866)
Other operating income	7	118,897	321,889
Dividend income	8	741,080	867,134
Results from operating activities		638,815	3,878,499
Finance cost	9	(17)	(909,596)
Profit before tax		638,798	2,968,903
Income tax expense	10	(78,000)	(820,373)
Profit for the year		560,798	2,148,530
Profit attributable to owners of the Company		560,798	2,148,530
Earnings per share - basic and diluted	24	1.17	Restated 4.46

The annexed notes 1 to 28 form an integral part of these financial statements.

Karachi
15 February 2012


Hussain Dawood
Chairman


Shahid Hamid Pracha
Chief Executive



Statement of Comprehensive Income

For the year ended 31 December 2011

	2011 (note 1.2 & 1.3) Rupees in '000	2010
Profit for the year	560,798	2,148,530
Adjustment arising from measurement to fair value of investment -net	-	131,780
Total comprehensive income for the year	560,798	2,280,310

The annexed notes 1 to 28 form an integral part of these financial statements.

Karachi
15 February 2012


Hussain Dawood
Chairman


Shahid Hamid Pracha
Chief Executive

Balance Sheet

As at 31 December 2011

	Note	2011 (note 1.2 & 1.3) Rupees in '000	2010
EQUITY & LIABILITIES			
Share capital and reserves			
Authorized capital			
1,000,000,000 (2010:1,000,000,000) ordinary shares of Rs. 10 each		10,000,000	10,000,000
Issued, subscribed and paid up capital	11	4,812,871	1,203,218
Revenue reserves		15,036,168	18,205,345
Fair value reserve	1.3	-	135,765
		19,849,039	19,544,328
Non-current liabilities			
Long term loans	12	-	5,042,000
Deferred taxation	13	-	268,464
Staff retirement and other service benefits	14	6,509	51,590
		6,509	5,362,054
Current liabilities			
Current portion - long term loan	1.3	-	660,500
Short term financing - secured	1.3	-	45,725
Trade and other payables	15	33,701	694,717
Accrued markup	1.3	-	232,983
Provision for income tax	10	78,000	686,000
		111,701	2,319,925
Contingencies and commitments	16	-	-
		19,967,249	27,226,307

The annexed notes 1 to 28 form an integral part of these financial statements.

Karachi
15 February 2012



	Note	2011 (note 1.2 & 1.3) Rupees in '000	2010
ASSETS			
Non-current assets			
Property, plant and equipment	17	42,809	1,871,708
Capital work in progress	1.3	-	366,514
		42,809	2,238,222
Long term investments	18	18,435,618	19,289,962
Long term loans and advances	1.3	-	1,680
Current assets			
Stores, spares and loose tools	1.3	-	1,073,544
Stock in trade	1.3	-	216,117
Trade debts	1.3	-	2,131
Loans, advances, deposits, prepayments and other receivables	19	1,941	89,309
Advance income tax		79,618	625,148
Short term investments	20	971,818	2,439,931
Cash and bank balances	21	435,445	1,250,263
		1,488,822	5,696,443
		19,967,249	27,226,307



Hussain Dawood
Chairman



Shahid Hamid Pracha
Chief Executive

Cash Flow Statement

For the year ended 31 December 2011

	Note	2011 (note 1.2 & 1.3) Rupees in '000	2010
Cash generated from operations	22	(191,810)	3,142,781
Finance cost paid		(17)	(956,880)
Taxes paid		(79,618)	(698,348)
Staff retirement and other service benefits paid		(3,430)	(24,906)
Decrease in long term loans and advances		-	743
Net cash (used in)/generated from operating activities		(274,875)	1,463,389
Cash flow from investing activities			
Fixed capital expenditure		(7,165)	(393,117)
Proceeds from sale of property, plant and equipment		3,881	34,776
Proceeds from disposal of short term investments		173,408	1,835,913
Profit on time deposits		12,482	63,218
Investment at fair value through profit or loss		(477,000)	(560,000)
Dividends received		741,080	867,134
Net cash generated from investing activities		446,686	1,847,924
Cash flow from financing activities			
Short term financing		-	(1,150,878)
Long term loans		-	(600,000)
Dividends paid		(120,322)	(588,318)
Net cash used in financing activities		(120,322)	(2,339,196)
Net increase in cash and cash equivalents		51,489	972,118
Cash and cash equivalents at the beginning of year after transfer to Fertilizer Undertaking		383,956	278,145
Cash and cash equivalents at the end of year	21	435,445	1,250,263

The annexed notes 1 to 28 form an integral part of these financial statements.

Karachi
15 February 2012


Hussain Dawood
Chairman


Shahid Hamid Pracha
Chief Executive



Statement of Changes in Equity

For the year ended 31 December 2011

	Share capital	Revenue reserves			Fair value reserve	Total
		General reserve	Unappropriated profit	Total		
----- Rupees in '000 -----						
Balance as at 01 January 2010	1,093,835	700,000	16,056,869	16,756,869	3,985	17,854,689
Comprehensive income for the year	-	-	2,148,530	2,148,530	131,780	2,280,310
Final cash dividend @10% for the year ended 31 December 2009	-	-	(109,383)	(109,383)	-	(109,383)
Final stock dividend @ 10% for the year ended 31 December 2009	109,383	-	(109,383)	(109,383)	-	-
1st interim cash dividend @ 20% for the year ended 31 December 2010	-	-	(240,644)	(240,644)	-	(240,644)
2nd interim cash dividend @ 20% for the year ended 31 December 2010	-	-	(240,644)	(240,644)	-	(240,644)
	109,383	-	(700,054)	(700,054)	-	(590,671)
Balance as at 31 December 2010	1,203,218	700,000	17,505,345	18,205,345	135,765	19,544,328
Balance as at 01 January 2011	1,203,218	700,000	17,505,345	18,205,345	135,765	19,544,328
Transfer of fair value reserve to Fertilizer Undertaking (note 1.4)	-	-	-	-	(135,765)	(135,765)
Comprehensive income for the year	-	-	560,798	560,798	-	560,798
Final cash dividend @ 10% for the year ended 31 December 2010	-	-	(120,322)	(120,322)	-	(120,322)
Final stock dividend @ 300% for the year ended 31 December 2010	3,609,653	-	(3,609,653)	(3,609,653)	-	-
	3,609,653	-	(3,729,975)	(3,729,975)	-	(120,322)
Balance as at 31 December 2011	4,812,871	700,000	14,336,168	15,036,168	-	19,849,039

The annexed notes 1 to 28 form an integral part of these financial statements.

Karachi
15 February 2012


Hussain Dawood
Chairman


Shahid Hamid Pracha
Chief Executive



Notes to the Financial Statements

For the year ended 31 December 2011

1 Legal status and nature of business

1.1 Dawood Hercules Corporation Limited (Formerly Dawood Hercules Chemicals Limited) is a public limited company (the 'Company'). It was incorporated in Pakistan under the Companies Ordinance, 1984 and is listed on Karachi, Lahore and Islamabad Stock Exchanges. The principal activity of the Company, subsequent to the separation of Fertilizer Undertaking (note 1.2), is to manage investments in its subsidiary and associated company. During the year, the registered office of the Company has been changed from the province of Punjab to the province of Sindh in June 2011 and is now situated at Dawood Center, M.T. Khan Road, Karachi.

1.2 The Board of Directors in their meeting on 16 June 2010 decided to divide the Company into two companies by separating its Fertilizer Undertaking from the rest of the undertaking, that is to be retained in the Company (Retained Undertaking). In this regard a wholly owned subsidiary named DH Fertilizers Limited (subsidiary company) was incorporated on 02 August 2010. The division was effected on 01 January 2011 (the Effective Date) through a Scheme of Arrangement (the 'Scheme') under Section 284 to 288 of the Companies Ordinance, 1984, which was approved by the Honourable Lahore High Court on 23 July 2011, whereby:

- (a) the fertilizer undertaking has been transferred and vested in DH Fertilizers Limited against the issuance of ordinary shares of DH Fertilizers Limited, as summarised in note 1.4; and
- (b) the retention of Retained Undertaking in the Company along with the change of name of Company to Dawood Hercules Corporation Limited. Dawood Hercules Corporation Limited henceforth will function as a Holding Company to oversee the business of new fertilizer subsidiary.

1.3 Bifurcated Balance Sheet as at 01 January 2011

In order to determine the net assets of the Retained Undertaking and the Fertilizer Undertaking for the aforementioned transfer/demerger of the Company, the assets and liabilities of the Company, as at 01 January 2011 were bifurcated, as per the Scheme, between the Fertilizer Undertaking and the Retained Undertaking. The bifurcated balance sheet as at 01 January 2011, duly audited by the external auditors, is summarised below:



	Note	Retained Undertaking (DHCL)	Fertilizer Undertaking (DH Fertilizers Limited)	Total
-----Rupees in '000-----				
ASSETS				
Fixed capital expenditure				
Property, plant and equipment	17.1	45,037	1,826,671	1,871,708
Capital work-in-progress	4.3.2	-	366,514	366,514
		45,037	2,193,185	2,238,222
Long term investments	18.2	16,820,499	2,469,463	19,289,962
Long term loans and advances		-	1,680	1,680
Current assets				
Stores, spares and loose tools	4.4	-	1,073,544	1,073,544
Stock-in-trade	4.4	-	216,117	216,117
Trade debts	4.1	-	2,131	2,131
Loans, advances, deposits, prepayments and other receivables	19.2	9,298	80,011	89,309
Advance income tax		-	625,148	625,148
Short term investments	20.1.1	568,609	1,871,322	2,439,931
Cash and bank balances	21.2	383,956	866,307	1,250,263
		961,863	4,734,580	5,696,443
		17,827,399	9,398,908	27,226,307
EQUITY AND LIABILITIES				
Share capital and reserves				
Share capital	11	1,203,217	-	1,203,217
Revenue reserves		18,205,346	-	18,205,346
Fair value reserve on short term investments	1.4	-	135,765	135,765
		19,408,563	135,765	19,544,328
Long term loan	12	-	5,042,000	5,042,000
Deferred taxation	13	-	268,464	268,464
Staff retirement and other service benefits	14.2.1	3,321	48,269	51,590
		3,321	5,358,733	5,362,054
Current liabilities				
Current portion - long term loan		-	660,500	660,500
Short term financing - secured		-	45,725	45,725
Trade and other payables	15.1	30,634	664,083	694,717
Accrued mark-up		-	232,983	232,983
Provision for taxation		-	686,000	686,000
		30,634	2,289,291	2,319,925
		19,442,518	7,783,789	27,226,307
Adjustment relating to Fertilizer Undertaking (note 1.4)		(1,615,119)	1,615,119	-
		17,827,399	9,398,908	27,226,307



Notes to the Financial Statements

For the year ended 31 December 2011

1.4 Transfer to Fertilizer Undertaking

The net assets of the Fertilizer Undertaking transferred to DH Fertilizers Limited as at 01 January 2011 amounting to Rs 1,615,119 thousand are summarized below:

	Note	1 January 2011 Rupees in '000
Total Assets	1.3	9,398,908
Less: Total liabilities	1.3	7,648,024
Net assets transferred to Fertilizer Undertaking		1,750,884
Less: fair value reserve	1.4.1	135,765
		1,615,119

DH Fertilizer Limited in return issued 99,999,994, in addition to existing 06, fully paid ordinary shares of Rs.10 each plus share premium to the Company against the above net adjustment as follows:

	Rupees in '000
Share's par value	1,000,000
Share premium	615,119
	1,615,119

1.4.1 Fair value reserve

As per the 'Scheme', the fair value reserve as at 01 January 2011 is to be transferred to the Fertilizer Undertaking and is to be deducted from the net assets so transferred to determine the share premium amount over and above Rs. 1,000,000,000 share capital.

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 (IFRSs) 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 New standards, amendments and interpretations issued but are effective for annual periods beginning on or after 01 January 2012 and not early adopted

- Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after 1 January 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. The amendment has no impact on financial statements of the Company.



- IAS 27 Separate Financial Statements (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 27 (2011) supersedes IAS 27 (2008). Three new standards IFRS 10 - Consolidated Financial Statements, IFRS 11- Joint Arrangements and IFRS 12- Disclosure of Interest in Other Entities dealing with IAS 27 would be applicable effective 01 January 2013. IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments have no impact on financial statements of the Company.
- IAS 28 Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. The amendments have no impact on financial statements of the Company.
- IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after 1 January 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation.
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after 1 July 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The amendments have no impact on financial statements of the Company.
- Disclosures – Transfers of Financial Assets (Amendments to IFRS 7) - (effective for annual periods beginning on or after 1 July 2011). The amendments introduce new disclosure requirements about transfers of financial assets, including disclosures for financial assets that are not derecognised in their entirety; and financial assets that are derecognised in their entirety but for which the entity retains continuing involvement. The amendments have no impact on financial statements of the Company.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after 1 January 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of ‘currently has a legally enforceable right of set-off’; and that some gross settlement systems may be considered equivalent to net settlement.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) – (effective for annual periods beginning on or after 1 January 2013). The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting agreement or similar arrangement.
- IFRIC 20 - Stripping cost in the production phase of a surface mining (effective for annual periods beginning on or after 01 January 2013). The interpretation requires production stripping cost in a surface mine to be capitalized if certain criteria are met. The amendments have no impact on financial statements of the Company.



Notes to the Financial Statements

For the year ended 31 December 2011

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

3 Basis of measurement

3.1 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.

3.2 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:

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

4 Significant accounting policies

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated. Further, certain policies may not be applicable to the current year financial statements consequent to the demerger of the Fertilizer Undertaking (note 1.2) but have been presented for the purposes of comparative information.

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.

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 2011 using the "Projected Unit Credit Method".

The amount recognized in balance sheet represents the present value of the defined benefit obligation on fair value of plan assets as on 31 December 2011 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

The Company provides annually for the expected cost of accumulated absences. All the employees are entitled to earned leaves and unavailed leaves in a year are accumulated and encashed, subject to a maximum cap on the number of days that can be encashed, at the time of cessation of employment either due to retirement, death in service, withdrawal or early retirement.

Provisions are made annually to cover the obligation for accumulating compensated absences based on actuarial valuation and are charged to profit and loss. The most recent valuation was carried out on 31 December 2011 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 income immediately in the period when these occur.

Other benefits

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

Effective from 01 January 2011, liabilities for staff retirement benefits relating to the Fertilizer Undertaking have been transferred to DH Fertilizers Limited under the Scheme of Arrangement (notes 1.2 & 1.3).

4.3 Operating Fixed Assets

4.3.1 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 the asset over its estimated useful life at the following rates:



Notes to the Financial Statements

For the year ended 31 December 2011

	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 values¹ and useful lives¹ 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 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.

Effective 01 January 2011, cost and accumulated depreciation of assets relating to Fertilizer Undertaking has been transferred to DH Fertilizers Limited as per the Scheme of Arrangement (note 1.2 & 1.3)

4.3.2 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. Cost also includes applicable borrowing costs. Transfers are made to relevant property, plant and equipment category as and when assets are available for use.

Effective 01 January 2011, capital work in progress balance has been transferred to DH Fertilizers Limited as per the Scheme of Arrangement (note 1.2 & 1.3)



4.4 Inventories

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

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

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

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

Effective from 01 January 2011, inventories balance has been transferred to DH Fertilizers Limited as per the Scheme of Arrangement (note 1.2 & 1.3)

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.

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 laws 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.



Notes to the Financial Statements

For the year ended 31 December 2011

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 taxable income. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred tax assets and liabilities are calculated at the rates that are expected to apply to the period when the asset is realized or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the profit & loss account, 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

Associates are those entities in which the Company has significant influence and which is neither a subsidiary nor a joint venture of the Company.

Investment in associates where significant influence can be established are initially recognized at cost. At subsequent reporting dates, the recoverable amounts are estimated to determine the extent of impairment losses, if any, and carrying amount of investments is adjusted accordingly. Impairment losses are recognized as an expense. Where impairment losses subsequently reverse, the carrying amounts of investments are increased to the revised recoverable amount but limited to the extent of initial cost of investments. A reversal of impairment loss is recognized in the profit and loss account.

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 and at each reporting date, 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 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.



Investments at fair value through profit or loss

Investments which are acquired principally for the purpose of generating profits from short term fluctuations in price or dealer margins are classified as “Investments at fair value through profit and loss” 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 account 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 or NAV declared by the respective investee company and publicly available. Any resultant increase/(decrease) in fair value is recognized in the profit and loss account for the year.

Effective from 01 January 2011, certain investments have been transferred to DH Fertilizers Limited under the Scheme of Arrangement (notes 1.2 & 1.3).

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, amortized 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.

Effective from 01 January 2011, trade debts balance has been transferred to DH Fertilizers Limited as per the Scheme of Arrangement (note 1.2 & 1.3)

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, deposit and saving accounts.



Notes to the Financial Statements

For the year ended 31 December 2011

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.

These are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not they are presented as non-current liabilities.

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

Mark-up, interest and other charges on borrowings are capitalized up to the date of commissioning of the related property, plant and equipment acquired out of the proceeds of such borrowings. All other mark-up, interest and other charges are charged to income in the period in which they are 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 recognized 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 Earnings per Share

The Company presents basic and diluted earning per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shares outstanding, for the effects of all dilutive potential ordinary shares.

4.18 Dividend distribution

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



	Note	2011 Rupees in '000	2010
5 Administrative expenses			
Salaries, wages, benefits and staff welfare	5.1	130,691	253,297
Communication, stationery and office supplies		14,465	45,459
Rent, rates and taxes		11,441	30,190
Subscription & periodicals		24,137	-
Travel and conveyance		10,106	22,996
Repairs and maintenance		6,570	23,920
Depreciation	17.2	6,662	20,938
Legal and professional charges		4,794	14,086
Insurance		1,883	1,708
Donations	5.2 & 5.3	1,283	1,574
Other expenses		2,402	11,710
		215,434	425,878

5.1 Salaries, wages, benefits and staff welfare include Rs. 2.29 million (2010: Rs. 6.26 million) in respect of contribution to staff gratuity funds and Rs. 4.90 million (2010: Rs. 9.32 million) in respect of staff provident funds.

5.2 Donation includes Rs. 0.83 million given to Pakistan Centre for Philanthropy and Rs. 0.45 million given to Karachi Centre for Dispute Resolution.

5.3 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 except for the Pakistan Center of Philanthropy of which Mr. Hussain Dawood is a board member.

	Note	2011 Rupees in '000	2010
6 Other operating expenses			
Workers' profits participation fund	6.1	-	94,856
Workers' welfare fund		-	20,000
Auditors' remuneration:			
Audit fee		50	750
Half year review and other certifications		100	175
Out of pocket expenses		35	85
		185	115,866

6.1 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.



Notes to the Financial Statements

For the year ended 31 December 2011

	Note	2011 Rupees in '000	2010
7			
Other operating income			
Income from financial assets:			
Realized gain on disposal of short term investments available for sale		-	179,413
Realized gain on disposal of investments at fair value through profit or loss		10,750	4,049
Unrealized gain due to fair value adjustment of investment at fair value through profit or loss		94,414	3,681
Profit on bank deposits and others	7.1	12,482	63,218
		117,646	250,361
Income from non-financial assets:			
Sale of scrap		-	12,376
Profit on sale of property, plant and equipment	17.4	1,150	12,392
Liabilities no longer payable written back		-	7,657
Insurance claim		-	16,347
Other income		101	22,756
		1,251	71,528
		118,897	321,889

7.1 This includes interest amounting to Rs. 0.76 million received from DH Fertilizers Limited with respect to its incorporation expenses paid on its behalf.

		2011 Rupees in '000	2010
8			
Dividend income			
Related parties			
Engro Corporation Limited (ECL)		741,080	727,170
Sui Northern Gas Pipelines Limited (SNGPL)		-	139,964
		741,080	867,134
9			
Finance cost			
Mark-up:			
Short term borrowings		-	68,803
Long term loans		-	840,340
Interest on workers' profits participation fund		-	453
Bank Charges		17	-
		17	909,596



	2011 Rupees in '000	2010
10 Income tax expense		
Current - for the year	78,000	686,000
- prior year	-	35,109
Deferred	-	99,264
	78,000	820,373

	2011 %	2010 %
10.1 Reconciliation of tax charge for the year		
Applicable tax rate	35.00	35.00
Tax effect of amounts that are not deductible for tax purposes	7.00	2.14
Tax effect of amounts exempt from tax	(1.00)	(2.21)
Tax effect of amount taxed at lower rate	(29.00)	(7.30)
	12.00	27.63

11 Issued, subscribed and paid up capital

2011 Number of shares	2010 Number of shares		2011 Rupees in '000	2010 Rupees in '000
13,900,000	13,900,000	Ordinary shares of Rs.10 each fully paid up in cash	139,000	139,000
467,387,116	106,421,779	Ordinary shares of Rs.10 each issued as bonus shares	4,673,871	1,064,218
481,287,116	120,321,779		4,812,871	1,203,218

	2011 Number of shares	2010 Number of shares
11.1 Reconciliation of Issued, subscribed and paid up capital		
Outstanding as at 01 January	120,321,779	109,383,436
Bonus shares issued during the year	360,965,337	10,938,343
Closing as at 31 December	481,287,116	120,321,779



Notes to the Financial Statements

For the year ended 31 December 2011

		2011	2010
		Number of shares	
11.2	Shares held by related parties		
	Dawood Lawrencepur Limited	77,931,896	19,482,974
	Percentage of equity held 16.19% (2010: 16.19%)		
	Dawood Corporation (Private) Limited	101,844	25,461
	Percentage of equity held 0.02% (2010: 0.02%)		
	The Dawood Foundation	18,911,988	4,752,997
	Percentage of equity held 3.93% (2010: 3.95%)		
	Cyan Limited (Formerly Central Insurance Company Limited)	8,780,760	3,574,940
	Percentage of equity held 1.82% (2010: 2.97%)		
	Patek (Private) Limited	155,284	38,821
	Percentage of equity held 0.032% (2010: 0.032%)		
	Sach International (Private) Limited	6,996	1,749
	Percentage of equity held 0.001% (2010: 0.001%)		
	Note	2011	2010
		Rupees in '000	
12	Long term loans		
	Participatory redeemable capital		
	Opening balance	5,702,500	6,302,500
	Redemption during the year under call option	-	(600,000)
	Transferred to Fertilizer Undertaking	(5,702,500)	-
	Closing balance	-	5,702,500
	Transfer to current portion	-	(660,500)
		-	5,042,000
13	Deferred taxation		
	Deferred liability arising due to accelerated depreciation allowance	-	286,520
	Deferred (asset) arising in respect of provision for compensated absences	-	(18,056)
		-	268,464

13.1 The taxable business income of the Company comprises of capital gain and dividend income and is taxed as separate block of income at lower rates under the Income Tax Ordinance, 2001, while the Company is under taxable losses in respect of other sources of income. Taxable profit will not be available in the foreseeable future, accordingly deferred tax asset has not been recognized in respect of tax losses.



	Note	2011 Rupees in '000	2010
14			
Staff retirement and other service benefits			
Defined benefit plan funded- for management staff	14.1	1,288	-
Compensated absences	14.2	5,221	51,590
		6,509	51,590
14.1			
Defined benefit plan funded - for management staff			
Amounts recognized in the balance sheet are as follows:			
Present value of defined benefit obligation	14.1.1	7,593	143,455
Fair value of plan assets	14.1.2	(2,711)	(107,904)
Unrecognized actuarial losses		(3,594)	(35,551)
Liability as at 31 December		1,288	-
Net liability as at 01 January		-	198
Charge to profit and loss account	14.1.3	3,579	16,502
Contribution made by the Company		(2,291)	(16,700)
Liability as at 31 December		1,288	-
14.1.1			
Movement in liability for defined benefit obligation			
Present value of defined benefit obligation as at 01 January		143,455	148,767
Transferred to Fertilizer Undertaking	1.3	(112,104)	-
		31,351	148,767
Current service cost		2,054	16,323
Interest cost		4,075	17,852
Benefits paid during the year		(25,920)	(40,280)
Actuarial gain on present value of defined benefit obligation		(3,967)	793
Present value of defined benefit obligation as at 31 December		7,593	143,455



Notes to the Financial Statements

For the year ended 31 December 2011

	Note	2011 Rupees in '000	2010
14.1.2 Movement in fair value of plan assets			
Fair value of plan assets as at 01 January		107,904	106,171
Plan asset transferred to Fertilizer Undertaking	1.3	(84,323)	-
		23,581	106,171
Expected return on plan assets		3,066	12,740
Funds receivable from Workers Gratuity Fund		-	7,990
Contributions made during the year		2,291	16,700
Benefits paid during the year		(25,920)	(40,280)
Actuarial (loss) / gain on plan assets		(307)	4,583
Fair value of plan assets as at 31 December		2,711	107,904
Plan assets consist of the following:			
Funds placed under mark up arrangements with banks		100,525	88,334
Investment company		-	11,580
Open ended mutual funds			
Funds receivable from Workers Gratuity Fund		613	7,990
Funds payable to DHFL Gratuity fund	1.3	(98,427)	-
		2,711	107,904
14.1.3 Charge to profit and loss account			
Current service cost		2,054	16,323
Interest cost		4,075	17,852
Expected return on plan assets		(3,066)	(12,741)
Actuarial losses recognised during the year		516	(7,990)
Past service cost charge		-	3,058
		3,579	16,502

14.1.4 Actual return on plan assets of funded gratuity scheme was Rs. 2.76 million (2010: Rs. 17.3 million).

14.1.5 Historical information

	2011	2010	2009	2008	2007
	-----Rupees in '000-----				
Present value of defined benefit obligation	7,593	143,455	148,767	112,044	101,938
Fair value of plan assets	(2,711)	(107,904)	(106,171)	(92,608)	(72,006)
Deficit in the plan	4,882	35,551	42,596	19,436	29,932
Experience adjustment arising on plan liabilities	(3,967)	793	16,877	2,113	11,129
Experience adjustment arising on plan assets	(307)	4,583	(7,821)	10,857	(8,848)



14.1.6 The Company expects to pay Rs 2.30 million (2010: Rs. 20.91 million) as contribution to defined benefit plan in 2012.

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

	2011 % per annum	2010 % per annum
Discount rate	13	13
Expected rate of return on plan assets	13	12
Expected rate of increase in salary	12	12

Average expected remaining working life time of management employees is 10 years (2010: 9 years).

	Note	2011 Rupees in '000	2010
14.2 Compensated absences			
Balance as at 01 January		3,321	44,397
Expenses recognized during the year	14.2.3	3,039	12,972
Payments made during the year	14.2.1	(1,139)	(5,779)
Balance as at 31 December		5,221	51,590
14.2.1 Movement in liability for defined benefit obligation			
Present value of defined benefit obligation as at 01 January		51,590	44,397
Transferred to Fertilizer Undertaking	1.3	(48,269)	-
		3,321	44,397
Current service cost		1,333	4,921
Interest cost		431	5,328
Benefits paid during the year		(1,139)	(5,779)
Actuarial loss on present value of defined benefit obligation		1,275	2,723
Present value of defined benefit obligation as at 31 December		5,221	51,590
14.2.2 Balance Sheet liability as on 31st December 2011			
Present value of defined benefit obligations as on 31 December 2011		5,221	51,590

DH Notes to the Financial Statements

For the year ended 31 December 2011

	Note	2011 Rupees in '000	2010
14.2.3			
Charge to profit and loss account			
Current service cost		1,333	4,921
Interest cost		431	5,328
Actuarial loss charged		1,275	2,723
		3,039	12,972

		2011 % per annum	2010 % per annum
14.2.4			
Assumptions used for valuation are as under:			
Discount rate		13	13
Expected rate of eligible salary increase in future years		12	12
15			
Trade and other payables			
Trade creditors			
Related parties		-	177,657
Others		-	18,722
		-	196,379
Advances from customers		-	20,486
Unclaimed dividends		19,383	20,130
Accrued expenses		14,232	253,743
Sales tax payable		-	1,215
Deposits		-	25,609
Workers' profits participation fund	15.2	-	95,309
Workers' welfare fund		-	70,251
Others		86	11,595
		33,701	694,717

15.1 The corresponding amounts of trade and other payables include Rs. 664.083 million transferred to the Fertilizer Undertaking (note 1.2 & 1.3).



	Note	2011 Rupees in '000	2010
15.2 Workers' profits participation fund			
Balance at the beginning of the year		95,309	112,963
Transferred to Fertilizer Undertaking	1.3	(95,309)	-
		-	-
Add: Allocation for the year	6	-	94,856
Interest on funds used in the Company's business		-	453
		-	208,272
Less: Amount paid to the fund		-	112,963
		-	95,309

16 Contingencies and Commitments

16.1 Contingencies

All contingencies were transferred to the Fertilizer Undertaking as at 01 January 2011 under the Scheme of Arrangement (note 1.3) and there are no material contingencies as at the reporting date.

16.2 Commitments

During the year, the Company (the Guarantor) issued a Corporate Guarantee to a syndicate of financial institutions through Meezan Bank Limited (Investment Agent) to guarantee the liabilities of DH Fertilizers Limited - a subsidiary company with respect to the Islamic Finance Facility (Diminishing Musharika) amounting to Rs 4,800 million. The Guarantee issued shall in no event exceed an aggregate amount of Rs 6,400 million. The Facility is for a period of 05 years.

	Note	2011 Rupees in '000	2010
17.2			
The depreciation charge for the year has been allocated as follows:			
Cost of sales		-	182,535
Distribution expenses		-	4,035
Administrative expenses	5	6,662	20,938
		6,662	207,508

17.3 Property, plant and equipment that are fully depreciated amounts to Rs. 25.15 million (2010: Rs.1,076.19 million).

17.4 Disposal of property, plant and equipment

Type of property, plant and equipment	Sold to	Original cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal
-----Rupees in '000-----						
Motor vehicles	Employees					
Toyota Camry	Mr. Isar Ahmad	4,150	2,351	1,799	2,390	As per Company policy
Toyota Corolla	Mr. Humayun Javed Khan	1,430	690	740	1,019	As per Company policy
Honda Civic	Mr. Anis Dayala	1,070	1,058	12	267	As per Company policy
Data Processing Equipment						
Panasonic Copier-FP7830	Shirazi Trading	345	341	4	14	Negotiation
Notebook Toshiba Portage	O&A Business Machines	190	15	175	190	Trade in
Aggregate of other items of property, plant and equipment with individual book values not exceeding Rupees 50,000		66	65	1	1	Negotiation
		7,251	4,520	2,731	3,881	

	Note	2011 Rupees in '000	2010
18			
Long term investments			
Investment in subsidiary company	18.1	1,615,119	-
Investment in associate	18.2	16,820,499	19,289,962
		18,435,618	19,289,962
18.1			
Investment in subsidiary company			
DH Fertilizers Limited - Unquoted			
100,000,000 ordinary shares of Rs.10 each			
Percentage of equity held 100%	1.4	1,615,119	-

Notes to the Financial Statements

For the year ended 31 December 2011

	Note	2011 Rupees in '000	2010
18.2			
Investment in associate			
Engro Corporation Limited - Quoted			
130,778,890 (2010: 113,620,371) ordinary shares of Rs. 10 each		19,289,962	19,289,962
Transferred to Fertilizer Undertaking	1.3	(2,469,463)	-
Percentage of equity held - 33.25% (2010: 38.13%)		16,820,499	19,289,962

18.2.1 Under the Scheme of Arrangement, 16 million ordinary shares of Engro Corporation Limited were transferred to DH Fertilizers Limited and the balance 108,982,408 shares were retained herein with the Company as referred to in note 1.2. Subsequent to 01 January 2011, the Company received 21,796,482 bonus shares from Engro Corporation Limited.

18.2.2 Market value of investments in associate as at 31 December 2011 was Rs. 12,123 million (2010: Rs. 24,223 million).

	Note	2011 Rupees in '000	2010
19			
Loans, advances, deposits, prepayments and other receivables			
These are unsecured and considered good:			
Advances to suppliers for goods and services		-	26,220
Advances and loans:			
Executives	19.1	368	6,718
Employees		-	9,510
Prepayments		681	3,143
Deposits		892	2,109
Due from subsidiary company - DH Fertilizers Limited		-	6,121
Insurance claim receivable		-	16,347
Others		-	19,141
		1,941	89,309

19.1 Chief Executive and directors have not taken any loan/advance from the Company (2010: Rs. Nil).

19.2 Corresponding amount of loans, advances, deposits, prepayments and other receivables include Rs. 80.01 million transferred to the Fertilizer Undertaking (notes 1.2 & 1.3)



	Note	2011 Rupees in '000	2010
20 Short term investments			
Available for sale	20.1	2,536	1,879,401
Financial assets at fair value through profit or loss	20.2	969,282	560,530
		971,818	2,439,931
20.1 Available for sale - Quoted			
Sui Northern Gas Pipelines Limited - Related party	20.1.1	-	1,871,322
Southern Electric Power Company Limited - Others	20.1.2	2,536	8,079
		2,536	1,879,401

20.1.1 Sui Northern Gas Pipelines Limited

69,982,155 shares of Sui Northern Gas Pipelines Limited having carrying value of Rs. 1,871.322 thousand were transferred to the Fertilizer Undertaking (note 1.3).

	Note	2011 Rupees in '000	2010
20.1.2 Southern Electric Power Company Limited			
3,622,900 (2010: 3,622,900) ordinary shares of Rs.10 each - at cost		68,431	68,431
Percentage of equity held: 2.65% (2010: 2.65%)			
Less: Cumulative Impairment loss		65,895	60,352
		2,536	8,079
20.2 Financial assets at fair value through profit or loss			
ABL Income Fund			
18,242,324 (2010: 2,917,016) units of Rs. 10 each		166,198	27,870
Adjustment arising from measurement to fair value		16,561	1,328
		182,759	29,198
Meezan Cash Fund-Growth Units			
4,163,996 (2010: 4,199,685) units of Rs. 50 each		187,966	208,979
Adjustment arising from measurement to fair value		20,817	1,174
		208,783	210,153
UBL Liquidity Plus Fund-Class C			
2,960,961 (2010: 800,447) units of Rs. 100 each		270,202	80,000
Adjustment arising from measurement to fair value		27,329	202
		297,531	80,202
ABL Cash Fund			
27,952,179 (2010: 24,075,792) units of Rs. 10 each		250,502	240,000
Adjustment arising from measurement to fair value		29,707	977
		280,209	240,977
		969,282	560,530



Notes to the Financial Statements

For the year ended 31 December 2011

	Note	2011 Rupees in '000	2010
21			
Cash and bank balances			
With banks:			
On current accounts		-	3,605
In deposit account			
-local currency		435,195	1,245,327
-foreign currency		-	686
	21.1	435,195	1,246,013
Cash in hand		250	645
		435,445	1,250,263

21.1 These carry mark up at the rate ranging from 5% to 11 % per annum (2010: 5% to 10.5%).

21.2 The corresponding amount of cash and bank balances include Rs. 866.31 million transferred to the Fertilizer Undertaking (note 1.3).

	Note	2011 Rupees in '000	2010
22			
Cash flow from operating activities			
Profit before tax		638,798	2,968,903
Adjustment for non cash expenses and other items:			
Depreciation		6,662	207,508
Finance cost		17	909,596
Profit on sale of property, plant and equipment	7	(1,150)	(12,392)
Profit on sale of short term investments		(10,750)	(183,462)
Unrealized (gain) due to fair value adjustment of investment at fair value through profit or loss		(94,414)	(3,681)
Impairment loss on available for sale investments		5,543	2,391
Dividend income		(741,080)	(867,134)
Provision for staff retirement and other service benefits		6,618	31,901
Profit on time deposits		(12,482)	(63,218)
		(841,036)	21,509
Cash flow from operations before working capital changes		(202,238)	2,990,412
Working capital changes			
Decrease in current assets:			
Stocks, stores and spares		-	96,924
Trade debtors		-	7,897
Loans, advances, prepayments and other receivables		7,357	3,413
Increase in current liabilities:			
Trade and other payables		3,071	44,135
		10,428	152,369
Cash generated from operations		(191,810)	3,142,781



23 Remuneration of Chief Executive, Directors and Executives

	2011			2010		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
	-----Rupees in '000-----			-----Rupees in '000-----		
Managerial remuneration	19,182	52,542	38,474	8,470	31,955	173,283
Retirement benefits including ex-gratia	182	2,696	2,561	30,585	24,617	19,731
Rent and utilities	1,104	969	3,959	3,760	18,525	56,677
Leave fare assistance	-	-	-	-	298	-
Medical	919	524	1,543	24	1,417	6,646
	21,387	56,731	46,537	42,839	76,812	256,337
Number of employees (including those who worked part of the year).	2	2	19	1	6	98

Two Chief Executives (2010: two), 02 Directors (2010: six) and some of the Executives of the Company are provided with cars owned and maintained by the Company.

Meeting fees amounting to Rs. 5 million (2010: Rs. 2.60 million) were paid to six Directors (2010: five Directors).

	Note	2011	2010 Restated
24 Earnings per share			
24.1 Basic and diluted			
Profit after taxation	Rupees in thousand	560,798	2,148,530
Weighted average number of ordinary shares	No. of shares	481,287,116	481,287,116
Earnings per share- basic	Rupees	1.17	4.46



Notes to the Financial Statements

For the year ended 31 December 2011

25 Financial instruments

The Company has exposure to the following risks from its use of financial instruments.:

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors have the overall responsibility for the establishment and oversight of Company's risk management framework. The Board is also responsible for developing and monitoring the Company's risk management policies.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk and the Company's management of capital.

The Company's risk management policies are established to identify and analyse the risks faced by the Company to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to react to changes in market conditions and the Company's activities.

25.1 Credit risk

Credit risk is the risk of accounting loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from banks financial institution on account of return on deposits and due from related parties.

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each of the party. To manage exposure to credit risk in respect of receivables, management reviews credit ratings, total deposits worthiness, and maturities of the investments made, past experience and other factors.

Concentration of credit risk arises when a number of counter parties are engaged in similar business activities or have similar economic features that would cause their abilities to meet contractual obligation to be similarly effected by the changes in economic, political or other conditions.

The maximum exposure to credit risk at the reporting date is:

	Note	2011 Rupees in '000	2010
Available for sale financial assets		2,536	1,879,401
Financial assets at fair value through profit and loss		969,282	560,530
Long term loans, advances and deposits and other receiveables		-	31,914
Trade debts		-	2,131
Bank balances		435,195	1,249,618
		1,407,013	3,723,594

The Company believes that it is not exposed to major concentration of credit risk.



Available for sale financial assets comprise of ordinary shares of Southern Electric Power Company Limited listed on the Stock Exchanges.

Financial assets at fair value through profit and loss comprise of investments in Open End money market Mutual Funds.

The credit rating of the financial assets can be assessed with reference to their historical performance with no or negligible defaults in recent history, however, no losses were incurred. The credit quality of the Company's liquidity can be assessed with reference to external credit ratings as follows:

Bank	Rating agency	Rating	
		Short term	Long term
Bank Al- Habib Limited	PACRA	A1+	AA+
Barclays Bank PLC - Pakistan	Standard & Poors	A1+	AA-

Open End Mutual Funds	Rating agency	Rating	
		Short term	Long term
ABL income fund	JCR-VIS	-	A+
ABL cash fund	JCR-VIS	-	AA+
Meezan cash fund	JCR-VIS	-	AM2
UBL liquidity plus fund	JCR-VIS	-	AA+

25.2 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. For this purpose the Company has sufficient liquid funds available to meet its liquidity requirements. Further liquidity position of the Company is closely monitored through budgets, cash flow projections and comparison with actual results by the Board.

Following is the maturity analysis of financial liabilities:

	Carrying Amount	Contractual Cash Flows	Six months or less	Six to twelve months	One to two years	Two to five years
-----Rupees in '000-----						
Non derivative financial liabilities						
Trade and other payables	14,318	14,318	14,318	-	-	-
2011	14,318	14,318	14,318	-	-	-



Notes to the Financial Statements

For the year ended 31 December 2011

	Carrying Amount	Contractual Cash Flows	Six months or less	Six to twelve months	One to two years	Two to five years
-----Rupees in '000-----						
Non derivative financial liabilities						
Short term financing - secured	45,725	47,257	47,257	-	-	-
Long term Loan	5,702,500	6,808,779	162,270	1,070,831	5,575,678	-
Trade and other payables	481,847	481,847	481,847	-	-	-
Accrued markup	232,983	232,983	232,983	-	-	-
2010	6,463,055	7,570,866	924,357	1,070,831	5,575,678	-

25.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The financial instruments carrying market risks in respect of foreign currency fluctuations and interest rates fluctuations have been transferred to the Fertilizer Undertaking (note 1.2 & 1.3).

25.3.1 Equity price risk

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). Equity price risk arises from available-for-sale equity securities held. Material investments within the portfolio are managed on an individual basis and all buy and sell decisions are approved by the Board. The primary goal of the Company's investment strategy is to maximise investment returns.

Sensitivity analysis:

A 10% increase/decrease in share prices at year end would have decreased / increased the surplus on re-measurement of investments (fair value reserve) on 'available for sale' investments as follows:

	Note	2011 Rupees in '000	2010
Effect on Equity		-	187,132
Effect on profit and loss account		254	808

A 10% increase/decrease in share prices at year end does not affect equity (fair value reserve) because in both cases fluctuation in share prices is significantly below cost of purchase and would have been charged to profit and loss account as impairment.



25.4 Fair value of financial instruments

The carrying values of all other financial assets and financial liabilities reported in the balance sheet approximate their fair values. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The Company measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observation inputs, either directly (i.e.as prices) or indirectly (i.e derived from prices)
- Level 3: Valuation techniques using significant un-observable inputs.

Investments in ordinary shares of listed companies is valued using quoted prices in active market, hence, fair value of such investments fall within level 1 in fair value hierarchy as mentioned above, whereas the investments in mutual funds fall within level 2.

25.5 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.



Notes to the Financial Statements

For the year ended 31 December 2011

The debt-to-equity ratios as at 31 December 2011 and at 31 December 2010 were as follows:

	Note	2011 Rupees in '000	2010
Total debt		-	5,748,225
Less: Cash and Cash equivalents		(435,445)	(1,250,263)
Net Debt		(435,445)	4,497,962
Total equity		19,849,039	19,544,328
Debt -to -equity ratio		0%	23%

All the debts of the Company were pertaining to the Fertilizer business and accordingly have been transferred to the Fertilizer Undertaking under the Scheme of Arrangement (note 1.2 & 1.3).

26 Related party transactions

The related parties comprise subsidiary company, 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:

	Note	2011 Rupees in '000	2010
Subsidiary Company			
Reimbursement of expenses made by the company		52,262	-
Reimbursement of expenses made to the company		5,211	6,121
Associated company			
Sale of goods and services		-	14,400
Purchase of goods and services		12,358	2,348,821
Dividend Income		741,080	867,134
Dividend Income		-	16,347
Reimbursement of expenses from related party		948	4,757
Reimbursement of expenses to related party		81	4,582
Other related parties			
Gratuity funds		2,291	18,930
Provident funds		4,902	28,892
Key management personnel			
Sale of fixed assets		3,676	-



27 Post balance sheet events

The Board of Directors at its meeting held on 15 February 2012 has proposed a final cash dividend @ Rs.1/- per share amounting to Rs. 481,287,116 for the year ended 31 December 2011 for approval of the members at the Annual General Meeting to be held on 29 March 2012. These financial statements do not reflect this proposed dividend.

28 General

28.1 These financial statements have been authorized for issue by the Board of Directors of the Company on 15 February 2012.

28.2 Figures have been reclassified, where necessary for better presentation.

28.3 Figures have been rounded off to the nearest thousand rupee.

Karachi
15 February 2012



Hussain Dawood
Chairman



Shahid Hamid Pracha
Chief Executive



Consolidated
Financial
Statements



KPMG Taseer Hadi & Co.
Chartered Accountants
53 L Gulberg III
Lahore Pakistan

Telephone + 92 (42) 3585 0471-76
Fax + 92 (42) 3585 0477
Internet www.kpmg.com.pk

Auditors' Report to the Members

We have audited the annexed consolidated financial statements of **Dawood Hercules Corporation Limited** (formerly Dawood Hercules Chemicals Limited) ("the Holding Company") and its Subsidiary Company **DH Fertilizers Limited** (herein after referred as "the Group") comprising consolidated balance sheet as at 31 December 2011 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated cash flow statement and consolidated statement of changes in equity, together with the notes forming part thereof, for the year then ended. We have also expressed separate opinion on the standalone financial statements of the holding company and its subsidiary company.

These consolidated financial statements are the responsibility of the Holding Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards requires 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 the 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.

In our opinion the consolidated financial statements present fairly the consolidated financial position of the Group as at 31 December 2011 and the consolidated results of their operations, their consolidated statement of comprehensive income, their consolidated cash flows statement and consolidated statement of changes in equity for the year then ended in accordance with the approved accounting standards as applicable in Pakistan.

Lahore
Date: 15 February 2012

KPMG Taseer Hadi & Co.

KPMG Taseer Hadi & Co.
Chartered Accountants
(Bilal Ali)

Consolidated Profit and Loss Account

For the year ended 31 December 2011

	Note	2011 Rupees in '000	2010
Continuing operations			
Sales-net	5	6,309,624	8,715,711
Cost of sales	6	(4,043,873)	(5,214,376)
Gross profit		2,265,751	3,501,335
Distribution expenses	7	(67,291)	(267,724)
Administrative expenses	8	(418,109)	(431,999)
Impairment loss		(586,710)	(2,391)
Other operating expenses	9	(82,302)	(115,866)
Other operating income	10	350,525	461,853
Results from operating activities		1,461,864	3,145,208
Finance costs	11	(810,829)	(909,596)
Profit before share of associate and tax		651,035	2,235,612
Share of profit from associate, net of tax		2,980,632	1,955,580
Profit before tax		3,631,667	4,191,192
Income tax expenses	12	(738,598)	(943,209)
Profit for the year from continuing operations		2,893,069	3,247,983
Profit attributable to owners of the Company		2,893,069	3,247,983
			Restated
Earnings per share - basic and diluted	31	6.01	6.75

The annexed notes 1 to 38 form an integral part of these consolidated financial statements.

Karachi
15 February 2012


Hussain Dawood
Chairman


Shahid Hamid Pracha
Chief Executive



Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	2011 Rupees in '000	2010 Restated
Profit for the year	2,893,069	3,247,983
Other comprehensive (loss) / income		
Adjustment arising from measurement to fair value of investments	(135,765)	131,780
Share of other comprehensive income / (loss) of associate - net	131,495	(86,190)
Other comprehensive (loss) / income for the year	(4,270)	45,590
Total comprehensive income for the year	2,888,799	3,293,573

The annexed notes 1 to 38 form an integral part of these consolidated financial statements.

Karachi
15 February 2012



Hussain Dawood
Chairman



Shahid Hamid Pracha
Chief Executive



Consolidated Balance Sheet

As at 31 December 2011

	Note	2011 Rupees in '000	2010 Restated
EQUITY & LIABILITIES			
Share capital and reserves			
Authorized capital			
1,000,000,000 ordinary shares of Rs. 10 each		10,000,000	10,000,000
<hr/>			
Issued, subscribed and paid up capital	13	4,812,871	1,203,217
Revenue reserves		20,495,916	21,332,823
Others		(180,731)	(312,226)
Fair value reserve		-	135,765
		25,128,056	22,359,579
Non-current liabilities			
Long term loans	14	4,800,000	5,042,000
Deferred taxation	15	869,117	581,908
Staff retirement and other service benefits	16	53,059	51,590
		5,722,176	5,675,498
Current liabilities			
Current portion - long term loan	14	-	660,500
Short term financing - secured	17	-	45,725
Trade and other payables	18	641,025	694,717
Accrued markup		8,614	232,983
Provision for taxation		466,000	686,000
		1,115,639	2,319,925
Contingencies and commitments	19	-	-
		31,965,871	30,355,002

The annexed notes 1 to 38 form an integral part of these consolidated financial statements.

Karachi
15 February 2012



	Note	2011 Rupees in '000	2010 Restated
ASSETS			
Non-current assets			
Property, plant and equipment	20	2,093,015	1,871,708
Capital work in progress	21	23,619	366,514
		2,116,634	2,238,222
Investment in associate	22	24,701,636	22,424,778
Long term loans and advances	23	2,200	1,680
Current assets			
Stores, spares and loose tools	24	800,608	1,073,544
Stock in trade	25	151,267	216,117
Trade debts		2,686	2,131
Loans, advances, deposits, prepayments and other receivables	26	71,682	83,188
Advance income tax		437,322	625,148
Short term investments	27	2,951,088	2,439,931
Cash and bank balances	28	730,748	1,250,263
		5,145,401	5,690,322
		31,965,871	30,355,002



Hussain Dawood
Chairman



Shahid Hamid Pracha
Chief Executive

Consolidated Cash Flow Statement

For the year ended 31 December 2011

	Note	2011 Rupees in '000	2010
Cash generated from operations	29	2,260,038	3,142,781
Finance costs paid		(1,034,452)	(956,880)
Taxes paid		(498,175)	(698,348)
Staff retirement and other service benefits paid		(25,621)	(24,906)
Decrease / (Increase) in long term loans and advances		(520)	743
Net cash generated from operating activities		701,270	1,463,390
Cash flow from investing activities			
Fixed capital expenditure		(91,643)	(393,117)
Proceeds from sale of property, plant and equipment		13,986	34,776
Proceeds from disposal of short term investments		173,408	1,835,913
Profit on time deposits		109,415	63,218
Investment at fair value through profit or loss		(1,277,266)	(560,000)
Dividends received		919,862	867,134
Net cash (used in) / generated from investing activities		(152,238)	1,847,924
Cash flows from financing activities			
Short term financing		(45,725)	(1,150,878)
Proceeds from Diminishing Musharaka		4,800,000	-
Repayment of long term loans - Musharaka Arrangement		(5,702,500)	(600,000)
Dividends paid		(120,322)	(588,318)
Net cash used in financing activities		(1,068,547)	(2,339,196)
Net (decrease) / increase in cash and cash equivalents		(519,515)	972,118
Cash and cash equivalents at the beginning of year		1,250,263	278,145
Cash and cash equivalents at the end of year	28	730,748	1,250,263

The annexed notes 1 to 38 form an integral part of these consolidated financial statements.

Karachi
15 February 2012



Hussain Dawood
Chairman



Shahid Hamid Pracha
Chief Executive



Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Share capital	Revenue reserves			Others*	Fair value reserve	Total
		General reserve	Unappropriated profit	Sub total			
----- Rupees in '000 -----							
Balance as at 01 January 2010 - as reported	1,093,834	700,000	18,084,894	18,784,894	-	3,985	19,882,713
Share of other comprehensive loss of associate - net	-	-	-	-	(226,036)	-	(226,036)
Balance as at 01 January 2010 - restated	1,093,834	700,000	18,084,894	18,784,894	(226,036)	3,985	19,656,677
Total comprehensive income for the year	-	-	3,247,983	3,247,983	-	131,780	3,379,763
Share of other comprehensive loss of associate - net	-	-	-	-	(86,190)	-	(86,190)
Total comprehensive income / (loss) for the year	-	-	3,247,983	3,247,983	(86,190)	131,780	3,293,573
	1,093,834	700,000	21,332,877	22,032,877	(312,226)	135,765	22,950,250
Final cash dividend @10% for the year ended 31 December 2009	-	-	(109,383)	(109,383)	-	-	(109,383)
Final stock dividend @10% for the year ended 31 December 2009	109,383	-	(109,383)	(109,383)	-	-	-
1st interim cash dividend @ 20% for the year ended 31 December 2010	-	-	(240,644)	(240,644)	-	-	(240,644)
2nd interim cash dividend @ 20% for the year ended 31 December 2010	-	-	(240,644)	(240,644)	-	-	(240,644)
	109,383	-	(700,054)	(700,054)	-	-	(590,671)
Balance as at 31 December 2010	1,203,217	700,000	20,632,823	21,332,823	(312,226)	135,765	22,359,579
Balance as at 01 January 2011	1,203,217	700,000	20,632,823	21,332,823	(312,226)	135,765	22,359,579
Total comprehensive income / (loss) for the year	-	-	2,893,069	2,893,069	131,495	(135,765)	2,888,799
	1,203,217	700,000	23,525,892	24,225,892	(180,731)	-	25,248,378
Final cash dividend @ 10% for the year ended 31 December 2010	-	-	(120,322)	(120,322)	-	-	(120,322)
Final stock dividend @ 300% for the year ended 31 December 2010	3,609,654	-	(3,609,654)	(3,609,654)	-	-	-
	3,609,654	-	(3,729,976)	(3,729,976)	-	-	(120,322)
Balance as at 31 December 2011	4,812,871	700,000	19,795,916	20,495,916	(180,731)	-	25,128,056

* This represent various reserves maintained by the associated undertaking

The annexed notes 1 to 38 form an integral part of these consolidated financial statements.

Karachi
15 February 2012


Hussain Dawood
Chairman


Shahid Hamid Pracha
Chief Executive

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

1 Legal status and nature of business

1.1 Dawood Hercules Corporation Limited (Formerly Dawood Hercules Chemicals Limited) is a public limited company. It was incorporated in Pakistan under the Companies Ordinance, 1984 and is listed on Karachi, Lahore and Islamabad Stock Exchanges. The principal activity of the Holding Company, consequent to the demerger (note 1.2), is to manage investments in associated company and subsidiary company which is engaged in the production, purchase and sale of fertilizers. The registered office of the Company has been changed from the province of Punjab to the province of Sindh in September 2011 and is situated at 11 Floor, Dawood Center, M.T. Khan Road, Karachi.

1.2 The Board of Directors in their meeting on 16 June 2010 decided to divide the Company into two companies by separating its Fertilizer Undertaking from the rest of the undertaking, that is to be retained in the Holding Company (Retained Undertaking). In this regard a wholly owned subsidiary named DH Fertilizers Limited (subsidiary company) was incorporated on 02 August 2010. The division was effected on 01 January 2011 (the Effective Date) through a Scheme of Arrangement (the 'Scheme') under Section 284 to 288 of the Companies Ordinance, 1984, which was approved by the Honorable Lahore High Court on 23 July 2011, whereby:

- (a) the fertilizer undertaking has been transferred and vested in DH Fertilizers Limited against the issuance of ordinary shares of DH Fertilizers Limited; and
- (b) the retention of Retained Undertaking in the Company along with the change of name of Company to Dawood Hercules Corporation Limited. Dawood Hercules Corporation Limited henceforth will function as a Holding Company to oversee the business of new fertilizer subsidiary.

1.3 The Group consists of :

Holding Company: Dawood Hercules Corporation Limited (Formerly Dawood Hercules Chemicals Limited).

Subsidiary Company: DH Fertilizers Limited (the Company) is a public unlisted company incorporated on 2 August 2010 in Pakistan under the Companies Ordinance, 1984, as a wholly owned subsidiary of the Holding Company. The Company is engaged in the business of production, purchase and sale of fertilizers. The registered office of the Company is situated at 35-A, Shakrahe-Abdul-Hameed-Bin-Badees (Empress Road), Lahore.

2 Basis of preparation

2.1 Statement of compliance

These consolidated 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 New standards, amendments and interpretations issued but are effective for annual periods beginning on or after 1 January 2012 and not early adopted

The following standards, amendments and interpretations of approved accounting standards are effective from the dates specified below and are either not relevant to the Group's operations or are not expected to have significant impact on the consolidated financial statements other than certain increased disclosures:

- Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after 1 January 2012). The 2010 amendment provides an exception to the measurement principle in respect of investment property measured using the fair value model in accordance with IAS 40 Investment Property. The measurement of deferred tax assets and liabilities, in this limited circumstance, is based on a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The presumption can be rebutted only if the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. The amendment has no impact on financial statements of the Group.
- IAS 27 Separate Financial Statements (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 27 (2011) supersedes IAS 27 (2008). Three new standards IFRS 10 - Consolidated Financial Statements, IFRS 11- Joint Arrangements and IFRS 12- Disclosure of Interest in Other Entities dealing with IAS 27 would be applicable effective 01 January 2013. IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments have no impact on financial statements of the Group.
- IAS 28 Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. The amendments have no impact on financial statements of the Group.
- IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after 1 January 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognized immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on plan assets recognized in profit or loss is calculated based on the rate used to discount the defined benefit obligation.
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) - (effective for annual periods beginning on or after 1 July 2012). The amendments require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard. The amendments have no impact on financial statements of the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

- Disclosures – Transfers of Financial Assets (Amendments to IFRS 7) - (effective for annual periods beginning on or after 1 July 2011). The amendments introduce new disclosure requirements about transfers of financial assets, including disclosures for financial assets that are not derecognized in their entirety; and financial assets that are derecognized in their entirety but for which the entity retains continuing involvement. The amendments have no impact on financial statements of the Group.

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after 1 January 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of ‘currently has a legally enforceable right of set-off’; and that some gross settlement systems may be considered equivalent to net settlement.

Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) – (effective for annual periods beginning on or after 1 January 2013). The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting agreement or similar arrangement.

IFRIC 20 - Stripping cost in the production phase of a surface mining (effective for annual periods beginning on or after 01 January 2013). The interpretation requires production stripping cost in a surface mine to be capitalized if certain criteria are met. The amendments have no impact on financial statements of the Group.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

3 Basis of measurement

3.1 These consolidated 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.

3.2 The preparation of consolidated 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 affect 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 consolidated financial statements or where judgments were exercised in application of accounting policies are:



		Note
-	retirement and other benefits	4.3
-	residual value and useful life of depreciable assets	4.4
-	provision for taxation	4.7
-	provisions and contingencies	4.14

4 Significant accounting policies

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

4.1 Basis of Consolidation

These consolidated financial statements include the financial statements of DHCL and its wholly owned subsidiary DH Fertilizers Limited (DHFL), referred to as "the Group".

Subsidiary

Subsidiaries are those enterprises in which parent company directly or indirectly controls, beneficially owns or holds more than 50% of the voting securities or otherwise has power to elect and appoint more than 50% of its directors. The financial statements of the subsidiary are included in the consolidated financial statements from the date control commences until the date that control ceases.

The assets and liabilities of subsidiary company have been consolidated on a line by line basis and the carrying value of investment held by the parent company is eliminated against parent company's share in paid up capital of the subsidiary.

Material intra-group balances and transactions have been eliminated.

4.2 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 Group 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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

4.3 Retirement and other benefits

Defined benefit plan- Gratuity

The Group 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 Group financial statements to cover obligations on the basis of actuarial valuations carried out annually. The most recent valuation was carried out on 31 December 2011 using the "Projected Unit Credit Method".

The amount recognized in balance sheet represents the present value of the defined benefit obligation net off fair value of plan assets as on 31 December 2011 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 Group 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 and loss. The most recent valuation was carried out on 31 December 2011 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 income immediately in the period when these occur.

Other benefits

Defined contribution plan

The Subsidiary Company maintains a defined contributory Gratuity Fund for its non-management staff. Monthly contributions are made to the fund by the Subsidiary Company as per agreement with the Union.

Provident Fund

The Group also operates approved contributory provident funds for all employees. Equal contribution is made both by employees and the Group. The funds are administrated by the Trustees.

4.4 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 Group provides depreciation under the "straight line method" so as to write off the historical cost of the 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 of disposal.

The Group 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 Group 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. Cost also includes applicable borrowing costs. Transfers are made to relevant property, plant and equipment category as and when assets are available for use.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

4.5 Inventories

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

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

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

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

4.6 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.

4.7 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 utilized.

Deferred tax assets and liabilities are calculated at the rates that are expected to apply to the period when the asset is realized or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except in the case of items credited or charged to equity in which case it is included in equity.

4.8 Investments

Investment in associate

Associates are those entities in which the Group has significant influence and which is neither a subsidiary nor a joint venture of the Group.

The consolidated financial statements of the Group include the group'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 Group from the date when significant influence is established until the date when that significant influence ceases. When the Group'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 Group has an obligation or has made payments on behalf of the investee.

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

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 and at each reporting date, 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 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

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 Group commits to purchase or sell the investment.

Investments at fair value through profit or loss

Investments which are acquired principally for the purpose of generating profits from short term fluctuations in price or dealer margins are classified as "Investments at fair value through profit and loss" these are initially recognized on trade date at cost being the fair value of the consideration given and derecognized by the Group on the date it commits to sell them off. Transaction costs are charged to profit and loss account 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 or NAV declared by the respective investee company and publicly available. Any resultant increase/(decrease) in fair value is recognized in the profit and loss account for the year.

4.9 Financial assets and liabilities

Financial assets and liabilities are recognized when the Group 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, amortized 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 Group derecognizes the financial asset and financial liability when it ceases to be a party to such contractual provisions of the instrument.

4.10 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 Group 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.

4.11 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 Group will not be able to collect all amounts due according to the original terms of receivables. Bad debts are written off when identified.

4.12 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand and cash with banks in current and saving accounts.



4.13 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.

4.14 Provisions

Provisions are recognized when the Group 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.

4.15 Borrowing costs

Mark-up, interest and other charges on borrowings are capitalized up to the date of commissioning of the related property, plant and equipment acquired out of the proceeds of such borrowings. All other mark-up, interest and other charges are charged to income in the period in which they are incurred.

4.16 Impairment

The Group 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 recognized in income currently. The recoverable amount is higher of an asset's fair value less costs to sell and value in use.

4.17 Earnings per Share

The Company presents basic and diluted earning per share (EPS) for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shares outstanding, for the effects of all dilutive potential ordinary shares.

4.18 Dividend

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

D Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

	Note	2011 Rupees in '000	2010
5 Sales - net			
Own manufactured		5,340,294	7,357,562
Less: Sales tax		643,831	25,294
		4,696,463	7,332,268
Purchased product		1,871,266	1,383,443
Less: Sales tax		258,105	-
		1,613,161	1,383,443
		6,309,624	8,715,711
6 Cost of sales			
Raw and packing materials consumed	6.1	679,015	1,581,249
Fuel and power		468,726	939,352
Catalysts and chemicals		53,546	109,294
Salaries, wages, benefits and staff welfare	6.2	529,738	560,483
Stores and spares consumed		380,524	470,136
Repairs and maintenance		38,719	167,286
Travel and conveyance		63,905	63,594
Rent, rates and taxes		260	1,873
Insurance		15,822	25,215
Depreciation	20.1	173,669	182,535
Communication, stationery and office supplies		3,576	2,836
Health and safety consultancy charges		24,921	25,664
Other expenses		5,768	4,486
		2,438,189	4,134,003
Add: Opening stock of work-in-process		7,657	10,367
Less: Closing stock of work-in-process	25	(9,612)	(7,657)
Cost of goods manufactured		2,436,234	4,136,713
Add: Opening stock of finished goods		198,382	58,218
Less: Closing stock of finished goods	25	(122,140)	(198,382)
Cost of sales - Own manufactured		2,512,476	3,996,549
Purchased product		1,531,397	1,217,827
		4,043,873	5,214,376
6.1 Raw and packing materials consumed			
Opening stock		10,078	14,700
Add: Purchases		687,294	1,576,627
		697,372	1,591,327
Less: Closing stock	25	18,357	10,078
		679,015	1,581,249



6.2 Salaries, wages, benefits and staff welfare include Rs. 15.09 million (2010: Rs. 12.23 million) in respect of contribution to gratuity funds and Rs. 19.58 million (2010: Rs. 19.16 million) in respect of provident funds.

	Note	2011 Rupees in '000	2010
7			
Distribution expenses			
Product transportation and handling cost		24,525	132,320
Salaries, wages, benefits and staff welfare	7.1	31,494	67,114
Communication, stationery and office supplies		1,087	2,257
Rent, rates and taxes		1,391	4,617
Travel and conveyance		1,019	1,795
Repairs and maintenance		386	1,605
Depreciation	20	3,188	4,035
Insurance		241	406
Sales promotion, advertising and market development		3,689	53,542
Legal and professional charges		20	-
Other expenses		251	33
		67,291	267,724

7.1 Salaries, wages, benefits and staff welfare include Rs. 0.99 million (2010: Rs. 0.44 million) in respect of gratuity funds and Rs. 1.48 million (2010: Rs. 0.41 million) in respect of provident funds.

	Note	2011 Rupees in '000	2010
8			
Administrative expenses			
Salaries, wages, benefits and staff welfare	8.1	246,630	253,297
Communication, stationery and office supplies		51,652	45,459
Rent, rates and taxes		30,024	30,190
Travel and conveyance		21,525	22,996
Repairs and maintenance		24,683	23,920
Depreciation	20	16,990	20,938
Legal and professional charges		11,898	20,207
Insurance		2,433	1,708
Donations	8.2	1,433	1,574
Other expenses		10,841	11,710
		418,109	431,999

8.1 Salaries, wages, benefits and staff welfare include Rs. 6.01 million (2010: Rs. 6.26 million) in respect of contribution to staff gratuity funds and Rs. 9.64 million (2010: Rs. 9.32 million) in respect of provident funds.

DH Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

8.2 None of the Directors of the Group or any of their spouses have any interest in or are otherwise associated with any of the recipients of donations made by the Group during the year except for the Pakistan Centre for Philanthropy of which Mr. Hussain Dawood is a Board member.

	Note	2011 Rupees in '000	2010
9			
Other operating expenses			
Workers' profits participation fund	18.3	59,163	94,856
Workers' welfare fund		22,000	20,000
Auditors' remuneration:			
Audit fee		800	750
Half year review and other certifications		250	175
Out of pocket expenses		89	85
		82,302	115,866

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 per legal advise.

		2011 Rupees in '000	2010
10			
Other operating income			
Income from financial assets:			
Realized gain on disposal of short term available for sale investments		-	179,413
Realized gain on disposal of investments at fair value through profit or loss		10,750	4,049
Unrealized gain due to fair value adjustment of investment at fair value through profit or loss		119,028	3,681
Profit on bank deposits and others		109,415	63,218
		239,193	250,361
Income from related parties:			
Dividend income from Sui Northern Gas Pipelines Limited (SNGPL)		69,982	139,964
Income from non-financial assets:			
Sale of scrap		14,334	12,376
Profit on sale of property, plant and equipment		3,089	12,392
Liabilities no longer payable written back		-	7,657
Insurance claim - related party		-	16,347
Other income		23,927	22,756
		41,350	71,528
		350,525	461,853



	Note	2011 Rupees in '000	2010
11			
Finance cost			
Mark-up:			
Short term borrowings		19	68,803
Long term loans		810,047	840,340
Workers' profits participation fund	18.3	746	453
Bank charges		17	-
		810,829	909,596
12			
Income tax expenses			
Current - for the year		466,000	686,000
- prior year		-	35,109
Deferred		272,598	222,100
		738,598	943,209
		2011 %	2010 %
12.1			
Reconciliation of tax charge for the year			
Applicable tax rate		35.00	35.00
Tax effect of amounts that are not deductible for tax purposes		7.58	1.55
Tax effect of amounts exempt from tax		(1.25)	(1.56)
Tax effect of amount taxed at lower rate		(0.48)	(0.83)
Tax effect of associate		(20.52)	(11.66)
		20.33	22.50
13			
Issued, subscribed and paid up capital			
		2011 Number of shares	2010
			2011 Rupees in '000
		13,900,000	13,900,000
			139,000
		467,387,116	106,421,779
			4,673,871
		481,287,116	120,321,779
			4,812,871

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

		2011 Number of shares	2010 Number of shares
13.1	Reconciliation of Issued, subscribed and paid up capital		
	Outstanding as at 01 January	120,321,779	109,383,436
	Bonus shares issued during the year	360,965,337	10,938,343
	Closing as at 31 December	481,287,116	120,321,779
13.2	Shares held by related parties		
	Dawood Lawrencepur Limited	77,931,896	19,482,974
	Percentage of equity held 16.19% (2010: 16.19%)		
	Dawood Corporation (Private) Limited	101,844	25,461
	Percentage of equity held 0.02% (2010: 0.02%)		
	The Dawood Foundation	18,911,988	4,752,997
	Percentage of equity held 3.93% (2010: 3.95%)		
	Cyan Limited (Formerly Central Insurance Company Limited)	8,780,760	3,574,940
	Percentage of equity held 1.82% (2010: 2.97%)	155,284	38,821
	Patek (Private) Limited	6,996	1,749
	Percentage of equity held 0.032% (2010: 0.032%)		
	Sach International (Private) Limited		
	Percentage of equity held 0.001% (2010: 0.001%)		

	Note	2011 Rupees in '000	2010 Rupees in '000	
14	Long term loans			
	Participatory redeemable capital - secured			
	Diminishing Musharaka	14.1	4,800,000	-
	Musharaka arrangement			
	- Long term portion	5,042,000	6,302,500	
	- Current portion	660,500	(660,500)	
		5,702,500	5,642,000	
	Less: Redemption during the year	14.2	(5,702,500)	(600,000)
		-	5,042,000	
		4,800,000	5,042,000	

14.1 During the year the Group through Meezan Bank Limited acting as an Investment Agent on behalf of participating banks entered into a Musharaka Agreement for a long term financial facility of Rs. 4,800 million based on Diminishing Musharaka. The facility was utilized towards redemption of existing



Musharaka Arrangement under participatory redeemable capital (Islamic Sukuks). The participating banks along with their share is given below:

Name of bank	No. of units	Face value of consolidated units. Rs '000
Meezan Bank Limited	21,000	2,100,000
Allied Bank Limited	5,000	500,000
Al Baraka Bank (Pakistan) Limited	5,000	500,000
Bank Islami (Pakistan) Limited	7,000	700,000
United Bank Limited	5,000	500,000
Burj Bank Limited	5,000	500,000
Total	48,000	4,800,000

- 14.1.1 The finance facility (Diminishing Musharaka) is for a period of 05 years inclusive of grace period of 02 years starting from the date of first drawdown i.e. 27 December 2011. The musharaka investment share of the financiers will be purchased by the Company in six equal semi annual installments in arrears. The first musharaka buyout will be due at the end of 30th month from the date of first drawdown. The facility is secured by a first charge equal to financiers musharaka share plus 25% margin on specific movable assets of the Subsidiary Company, ranking pari passu inter se the financiers and a corporate guarantee of Dawood Hercules Corporation Limited (Holding Company). The profit is payable semi annually in arrears at six month asked side KIBOR plus 110 bps. First profit payment will fall due and payable at the end of six months from the date of first drawdown. The repayment schedule is given below:

Months from 1st Musharaka Contribution Date	No. of units to be purchased by investment agent	Buy-out payment amount (Rupees)	Balance units of Investment Agent
30 month due on 27 June 2014	8,000	800,000,000	40,000
36 months due on 27 December 2014	8,000	800,000,000	32,000
42 month due on 27 June 2015	8,000	800,000,000	24,000
48 months due on 27 December 2015	8,000	800,000,000	16,000
54 month due on 27 June 2016	8,000	800,000,000	8,000
60 month due on 27 December 2016	8,000	800,000,000	-

- 14.1.2 Under the terms of agreement, the Group carries a right to exercise call option to purchase all or any musharaka units at the applicable buyout price anytime after the expiry of two years from the first drawdown. Call option can be exercised by the Group after giving a prior notice of at least thirty days of its intention to purchase all or any number of units having face value of Rs. 100,000 per unit.
- 14.2 These have been fully redeemed during the year at face value of the units outstanding by exercising the call option available.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

	Note	2011 Rupees in '000	2010
15	Deferred taxation		
	Deferred liability arising due to accelerated depreciation allowance	344,279	286,520
	Deferred liability arising due to unrealized profits from associate	541,130	313,444
	Deferred (asset) arising in respect of provision for compensated absences	(16,292)	(18,056)
		869,117	581,908
16	Staff retirement and other service benefits		
	Defined benefit plan funded for management staff	16.1 1,288	-
	Compensated absences	16.2 51,771	51,590
		53,059	51,590
16.1	Defined benefit plan funded - for management staff		
	Amounts recognized in the balance sheet are as follows:		
	Present value of defined benefit obligation	16.1.1 134,144	143,455
	Fair value of plan assets	16.1.2 (101,138)	(107,904)
	Unrecognized actuarial losses	(31,718)	(35,551)
	Liability as at 31 December	1,288	-
	Net liability as at 01 January	-	198
	Charge to profit and loss account	16.1.3 20,727	16,502
	Contribution made by the Group	19,439	(16,700)
	Liability as at 31 December	40,166	-
16.1.1	Movement in liability for defined benefit obligation		
	Present value of defined benefit obligation as at 01 January	143,455	148,767
	Current service cost	13,749	16,323
	Interest cost	18,649	17,852
	Benefits paid during the year	(38,829)	(40,280)
	Actuarial loss on present value of defined benefit obligation	(2,880)	793
	Present value of defined benefit obligation as at 31 December	134,144	143,455



	2011	2010
	Rupees in '000	
16.1.2 Movement in fair value of plan assets		
Fair value of plan assets as at 01 January	107,904	106,171
Expected return on plan assets	14,028	12,740
Funds receivable from Workers Gratuity Fund	-	7,990
Contributions made during the year	19,439	16,700
Benefits paid during the year	(38,829)	(40,280)
Actuarial (loss)/ gain on plan assets	(1,404)	4,583
Fair value of plan assets as at 31 December	101,138	107,904
Plan assets consist of the following:		
Funds placed under mark up arrangements with banks	100,525	88,334
Investment company	-	11,580
Funds receivable from Workers Gratuity Fund	613	7,990
	101,138	107,904
16.1.3 Charge to profit and loss account		
Current service cost	13,749	16,323
Interest cost	18,649	17,852
Expected return on plan assets	(14,028)	(12,741)
Contributions receivable from workers gratuity fund	-	(7,990)
Actuarial loss recognized during the year	2,357	3,058
	20,727	16,502

16.1.4 Actual return on plan assets of funded gratuity scheme was Rs. 12.625 million (2010: Rs. 17.323 million).

16.1.5 Historical information

	2011	2010	2009	2008	2007
	-----Rupees in '000-----				
Present value of defined benefit obligation	134,144	143,455	148,767	112,044	101,938
Fair value of plan assets	(101,138)	(107,904)	(106,171)	(92,608)	(72,006)
Deficit in the plan	33,006	35,551	42,596	19,436	29,932
Experience adjustment arising on plan liabilities	(2,880)	793	16,577	2,113	11,129
Experience adjustment arising on plan assets	(1,404)	4,583	(7,821)	10,857	(8,848)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

16.1.6 The Group expects to pay Rs. 20.344 million as contribution to defined benefit plan in 2012.

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

	2011 % per annum	2010 % per annum
Discount rate	12.5	13.0
Expected rate of return on plan assets	12.5	12.0
Expected rate of increase in salary	11.5	12.0

Average expected remaining working life time of management employees is 10 years .

	Note	2011 Rupees in '000	2010
16.2			
Defined Contributory gratuity funded for non-management staff			
Balance as at 01 January		-	-
Expenses recognized during the year		2,652	2,428
Payments made during the year		(2,652)	(2,428)
Balance as at 31 December		-	-
16.3			
Compensated absences			
Balance as at 01 January		51,590	44,397
Expenses recognized during the year	16.3.3	3,711	12,972
Payments made during the year		(3,530)	(5,779)
Balance as at 31 December	16.3.1	51,771	51,590
16.3.1			
Movement in liability for defined benefit obligation			
Present value of defined benefit obligation as at 01 January		51,590	44,397
Current service cost		4,623	4,921
Interest cost		6,705	5,328
Benefits paid during the year		(3,530)	(5,779)
Actuarial loss on present value of defined benefit obligation		(7,617)	2,723
Present value of defined benefit obligation as at 31 December		51,771	51,590



	Note	2011 Rupees in '000	2010
16.3.2	Balance Sheet liability as on 31st December		
	Present value of defined benefit obligations as on 31 December	51,771	51,590
16.3.3	Charge to profit and loss account		
	Current service cost	4,623	4,921
	Interest cost	6,705	5,328
	Actuarial loss / (gains) charge	(7,617)	2,723
		3,711	12,972

		2011 % per annum	2010 % per annum
16.3.4	Assumptions used for valuation are as under:		
	Discount rate	12.5	13.0
	Expected rate of eligible salary increase in future years	11.5	12.0

		2011 Rupees in '000	2010
17	Short term financing - secured		
	Running finance	17.1	-
			45,725

17.1 This represents short term running finance facility available from Habib Bank Limited (2010: Habib Bank Limited and Habib Metropolitan Bank Limited) under mark-up arrangement aggregating to Rs. 398 million (2010: Rs. 1,148 million) expiring on 30 April 2012 and carries mark-up at the rate of one month KIBOR plus 100 bps (2010: 1 month KIBOR plus 150 bps and 3 months KIBOR plus 75 bps respectively). This facility has been arranged to meet working capital requirements and secured by pledge of 20 million shares of SNGPL (2010: 20 million shares of SNGPL and 14.1 million shares of ECL respectively) held as investments by the Group. The market value of pledged shares as at 31 December 2011 was Rs. 314 million (2010: 1,658 million).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

	Note	2011 Rupees in '000	2010
18 Trade and other payables			
Trade creditors			
Related parties	18.1	16,112	177,657
Others		18,618	18,722
		34,730	196,379
Advances from customers		235,935	20,486
Unclaimed dividends		19,383	20,130
Accrued expenses		159,661	253,743
Sales tax payable		65,902	1,215
Deposits	18.2	10,263	25,609
Workers' profits participation fund	18.3	59,909	95,309
Workers' welfare fund		40,911	70,251
Others		14,331	11,595
		641,025	694,717

18.1 This includes amount payable to SNGPL against purchase of sui gas amounting to Rs.15.20 million (2010: Rs. 177.61 million), M/s. Avanceon Limited Rs. 0.50 million (2010: Rs. 0.44 million) and M/s. Javed Akbar Associates Rs. 0.41 million (2010: Nil). The maximum amount due to related parties at the end of any month during the year was Rs. 178.06 million (2010: Rs. 248.037 million).

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

	Note	2011 Rupees in '000	2010
18.3 Workers' profits participation fund			
Balance at the beginning of the year		95,309	112,963
Add: Allocation for the year	10	59,163	94,856
Interest on funds used	11	746	453
		155,218	208,272
Less: Amount paid to the fund		95,309	112,963
		59,909	95,309



	2011 Rupees in '000	2010
19	Contingent liabilities and commitments	
19.1	Contingent liabilities	
	There are no material contingencies as at the reporting date.	
19.2	Commitments	
	Commitments in respect of contracts for capital expenditure	
	-	57,500
	Commitments in respect of store purchases	
	246	54,355

In addition to the commitment mentioned above, during the year, the Holding Company (the Guarantor) issued a Corporate Guarantee to a syndicate of financial institution through Meezan Bank Limited (Investment Agent) to guarantee the liabilities of DH Fertilizers Limited - a subsidiary company with respect to Islamic Finance Facility (Diminishing Musharaka) amounting to Rs. 4,800 million. The guarantee issued shall in no event exceed an aggregate amount of Rs. 6,400 million. The facility is for a period of 5 years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

20 Property, plant and equipment

Particulars	Cost			Depreciation rate (% per annum)	Accumulated depreciation			Net book value as at 31 December 2011
	As at 01 January 2011	Additions	Disposals/adjustment		As at 31 December 2011	For the period	Disposals/adjustment	
	-----Rupees in '000-----							
Freehold land	250,657	-	-	250,657	-	-	-	250,657
Buildings on freehold land	114,636	-	-	114,636	5.0	3,841	88,961	25,675
Railway siding	2,314	-	-	2,314	5.0	-	2,291	23
Plant and machinery	3,472,084	318,264	*(10,446)	3,779,902	7.5	141,114	*(1,959)	1,599,924
Catalysts	216,213	87,062	-	303,275	10 - 50	10,845	-	107,169
Furniture, fittings and equipment	75,155	1,679	(66)	76,768	10 - 12.5	4,500	(65)	25,438
Data processing equipment	118,143	2,753	(535)	120,361	33.3	7,711	(356)	9,213
Motor vehicles	171,028	24,780	(19,797)	176,011	20.0	25,836	(9,080)	74,916
2011	4,420,230	434,538	(30,844)	4,823,924		193,847	(11,460)	2,730,909

Particulars	Cost			Depreciation rate (% per annum)	Accumulated depreciation			Net book value as at 31 December 2010
	As at 01 January 2010	Additions	Disposals		As at 31 December 2010	For the period	Disposals	
	-----Rupees in '000-----							
Freehold land	250,657	-	-	250,657	-	-	-	250,657
Buildings on freehold land	114,636	-	-	114,636	5.0	3,678	85,120	29,516
Railway siding	2,314	-	-	2,314	5.0	-	2,291	23
Plant and machinery	2,767,056	705,028	-	3,472,084	7.5	135,134	-	1,431,261
Catalysts	216,213	-	-	216,213	10 - 50	26,254	-	30,952
Furniture, fittings and equipment	65,706	9,524	(75)	75,155	10 - 12.5	3,972	(12)	28,260
Data processing equipment	109,507	9,090	(455)	118,142	33.3	6,797	(416)	14,349
Motor vehicles	183,798	37,370	(50,139)	171,029	20.0	31,673	(27,857)	86,690
2010	3,709,887	761,012	(50,669)	4,420,230		207,508	(28,285)	1,871,708

20.1 The depreciation charge for the year has been allocated as follows:

	2011	2010
	-----Rupees in '000-----	
Cost of sales - (Note 6)	173,669	182,535
Distribution expenses - (Note 7)	3,188	4,035
Administrative expenses - (Note 8)	16,990	20,938
	193,847	207,508

20.2 Property, plant and equipment that are fully depreciated amounts to Rs. 1,824 million (2010: Rs. 1,076 million).

20.3 Disposal of property, plant and equipment

Type of property, plant and equipment	Sold to	Original cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal
-----Rupees in '000-----						
Vehicles						
Toyota Corolla Xli (LE-11-9083)	Qazi M. Tariq	1,383	277	1,106	1,277	As per Company Policy
Toyota Corolla Gii (LEE-08-2059)	Imtiaz H.Chughtai	1,035	656	379	750	As per Company Policy
Suzuki Cultus VXR (LED-10-6396)	Iftikhar Ahmad	894	119	775	808	As per Company Policy
Toyota Corolla Gii (LE-10-5338)	Abdul Sattar	1,457	170	1,287	1,330	As per Company Policy
Toyota Corolla 1300 CC Xli (ART-428)	A.Z. Kamal	1,306	544	762	898	As per Company Policy
Suzuki Cultus VXR-CNG (LEA-09-8391)	Fazal ur Rehman	889	326	563	644	As per Company Policy
Toyota Corolla 1300 CC Xli (LEA-09-8367)	Iftikhar Ahmad	1,296	475	821	940	As per Company Policy
Toyota Corolla 1300 CC Xli (LEA-09-8370)	M. Saleem Ch.	1,296	475	821	940	As per Company Policy
Toyota Corolla 1300 CC Xli (LEA-09-8372)	Nazeer Ahmed	1,296	475	821	940	As per Company Policy
Toyota Corolla 1300 CC Xli (LEA-09-8377)	Dabeer ul Hassan	1,296	475	821	940	As per Company Policy
Toyota Camry 2400 CC (ARW-272)	Isar Ahmad	4,150	2,351	1,799	2,390	As per Company Policy
Toyota Corolla 1300 CC Gii (ARQ-629)	Humayun Javed Khan	1,430	690	740	1,019	As per Company Policy
Office Equipment						
Notebook Toshiba Portage	O&A Business Machines	190	15	175	190	Trade in
Aggregate of other items of property, plant and equipment with individual book values not exceeding Rupees 50,000		2,480	2,453	27	920	As per Company Policy
		20,398	9,501	10,897	13,986	

	Note	2011 Rupees in '000	2010
21 Capital work in progress			
Plant and machinery		23,619	366,514
22 Investment in associate		24,701,636	22,424,778
Engro Corporation Limited 124,982,408 (2010: 113,620,371) ordinary shares of Rs. 10 each		22,424,778	21,292,135
Share of post acquisition profits		2,980,632	1,955,580
Share of other comprehensive income		146,106	(95,767)
Less: Dividend received during the year		(849,880)	(727,170)
		2,276,858	1,132,643
149,978,890 (2010: 124,982,408) ordinary shares of Rs. 10 each	22.2	24,701,636	22,424,778

Percentage of equity held - 38.13% (2010: 38.13%)

22.1 Market value of investments in associate Rs. 13,903 million (2010: Rs. 24,223 million).

22.2 During the year the Group has received 24,996,482 (2010: 11,362,037) bonus shares from Engro Corporation Limited.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

22.3 The financial year end of Engro Corporation Limited (ECL) is 31 December, however, due to non-availability of the financial statements of ECL at the time of preparation of these financial statements, the financial results as of 30 September have been used for the purpose of application of equity method.

	Note	2011	2010
Rupees in '000			
22.4	Summarized financial information of ECL is as follows:		
	Total assets as at 30 September	180,487,952	158,605,768
	Total liabilities as at 30 September	140,378,532	126,345,289
	Revenue (12 months period from 01 October to 30 September)	105,230,487	71,160,915
	Profit after taxation (12 months period from 01 October to 30 September)	7,816,003	5,128,045
23	Long term loans and advances - unsecured considered good		
	Loan to employees - considered good		
	- Executives	23.1 & 23.4	11,251
	- Others	23.2	7,649
			21,447
			32,698
	Less: Receivable within one year		14,931
	- Executives		9,921
	- Others		6,718
			20,577
			30,498
			13,251
			2,200
			1,680

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

23.2 These represent interest free loans given to both supervisors and workers as temporary financial assistance. These are repayable in 18 and 24 equal monthly installments respectively. Loans to workers are provided under agreement with Workers Union.

		2011	2010
Rupees in '000			
23.3	Reconciliation of carrying amounts of loans to executives		
	Balance as at 01 January	7,649	9,875
	Disbursement during the year	12,610	6,163
	Promotion of non-executive employees as executives	2,383	2,476
	Loan recovered during the year	(11,391)	(10,865)
	Balance as at 31 December	11,251	7,649
	Less: Current portion shown under current assets	9,921	6,718
		1,330	931



23.4 None of the loans are outstanding for periods exceeding three years and the maximum amount due from executives at any month end during the year was Rs.12.38 million (2010: Rs 10.11 million).

	2011	2010
	Rupees in '000	
24 Stores, spares and loose tools		
Stores	245,283	417,934
Spares	755,653	838,685
Stores and spares in transit	35,337	52,590
	1,036,273	1,309,209
Less: Provision for obsolete items	235,665	235,665
	800,608	1,073,544

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

	2011	2010
	Rupees in '000	
25 Stock in trade		
Raw and packing materials	18,357	10,078
Material in process	9,612	7,657
Finished goods		
- Own manufactured	122,140	198,382
- Purchased product - DAP	1,158	-
	123,298	198,382
	151,267	216,117

26 Loans, advances, deposits, prepayments and other receivables		
These receivables are all unsecured and considered good:		
Loans to employee - considered good	30,498	13,251
Advances to suppliers for goods and services		
Advances - considered good		
- to employee	1,420	2,577
- to suppliers	20,187	26,620
	21,607	29,197
Prepayments	3,034	3,143
Deposits	2,181	2,109
Insurance claim receivable	-	16,347
Others	14,362	19,141
	71,682	83,188

26.1 Chief Executive and directors have not taken any loan/advance from the Group (2010: Rs. Nil).



Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

	Note	2011 Rupees in '000	2010
27			
Short term investments			
Available for sale	27.1	1,156,926	1,879,401
Financial assets at fair value through profit or loss	27.2	1,794,162	560,530
		2,951,088	2,439,931
27.1			
Available for sale			
Related parties - Quoted			
Sui Northern Gas Pipelines Limited			
Cost of 69,982,155 shares of Rs. 10 each			
Percentage of equity held: 12.75% (2010: 18.29%)		4,376,964	6,282,067
Cost of shares disposed off during the year (2010: 30,460,195)		-	(1,905,103)
Cost of 73,481,262 (2010: 69,982,155) shares of Rs. 10 each - at cost	27.1.1	4,376,964	4,376,964
Percentage of equity held: 12.75% (2010: 12.75%)			
Less: Cumulative Impairment loss		(3,222,574)	(2,641,407)
		1,154,390	1,735,557
Fair value adjustment		-	135,765
		1,154,390	1,871,322
Others - Quoted			
Southern Electric Power Company Limited			
3,622,900 (2010: 3,622,900) ordinary shares of Rs.10 each - at cost		68,431	68,431
Percentage of equity held: 2.65% (2010: 2.65%)			
Less: Cumulative Impairment loss		(65,895)	(60,352)
		2,536	8,079
		1,156,926	1,879,401

27.1.1 During the year the Group has received 3,499,107 (2010: Nil) bonus shares from Sui Northern Gas Pipelines Limited (SNGPL).



	Note	2011 Rupees in '000	2010
27.2			
Financial assets at fair value through profit or loss			
ABL Income Fund			
18,242,324 (2010 2,917,016) units of Rs. 10 each		166,198	27,870
Adjustment arising from measurement to fair value		16,561	1,328
		182,759	29,198
Meezan Cash Fund-Growth Units			
4,163,996 (2010: 4,199,685) units of Rs. 50 each		187,966	208,979
Adjustment arising from measurement to fair value		20,817	1,174
		208,783	210,153
UBL Liquidity Plus Fund-Class C			
6,039,840 (2010: 800,447) units of Rs. 100 each		570,234	80,000
Adjustment arising from measurement to fair value		36,678	202
		606,912	80,202
ABL Cash Fund			
58,847,709 (2010: 24,075,792) units of Rs. 10 each		550,724	240,000
Adjustment arising from measurement to fair value		39,021	977
		589,745	240,977
HBL Money Market Fund			
1,996,129 (2010: Nil) units of Rs. 10 each		200,012	-
Adjustment arising from measurement to fair value		5,951	-
		205,963	-
		1,794,162	560,530

27.2.1 These represents investments in various money market funds which are valued at their respective Net Assets Value at balance sheet date.

28 Cash and bank balances

With banks:			
On current accounts		5,420	3,605
On saving accounts			
-local		723,634	1,245,327
-foreign		753	686
	28.1	724,387	1,246,013
Cash in hand		941	645
		730,748	1,250,263

28.1 These carry mark up at the rate ranging from 5% to 11% per annum (2010: 5% to 10.5%).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

	2011	2010
	Rupees in '000	
29 Cash flow from operating activities		
Profit before taxation	3,631,667	4,191,192
Adjustment for non cash expenses and other items:		
Depreciation	193,847	207,508
Finance costs	810,829	909,881
Profit on sale of property, plant and equipment	(3,089)	(12,392)
Profit on sale of short term investments	(10,750)	(183,462)
Unrealized gain on investment at fair value through profit or loss	(119,028)	(3,681)
Impairment loss on available for sale investments	586,710	2,391
Share of profit from associate	(2,980,632)	(1,955,580)
Dividend income	(69,982)	(139,964)
Provision for staff retirement and other service benefits	27,090	31,901
Profit on time deposits	(109,415)	(63,218)
Other non-cash items	8,488	-
	(1,665,932)	(1,206,901)
Cash flow from operations before working capital changes	1,965,735	2,984,291
Working capital changes		
Decrease / (increase) in current assets:		
Stocks, stores and spares	337,786	96,924
Trade debtors	(555)	7,897
Loans, advances, prepayments and other receivables	11,506	9,534
(Decrease) / increase in current liabilities:		
Trade and other payables	(54,434)	44,135
	294,303	158,490
Cash generated from operations	2,260,038	3,142,781

30 Remuneration of Chief Executive, Directors and Executives

	2011			2010		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
	-----Rupees in '000-----			-----Rupees in '000-----		
Managerial remuneration	19,182	66,082	200,313	8,470	31,955	173,283
Retirement benefits including ex-gratia	182	2,696	23,461	30,585	24,617	19,731
Rent and utilities	1,104	5,636	57,542	3,760	18,525	56,677
Leave fare assistance	-	-	-	-	298	-
Medical	919	1,203	7,509	24	1,417	6,646
	21,387	75,617	288,825	42,839	76,812	256,337
Number of employees (including those who worked part of the year).	2	4	117	2	6	98

Two Chief Executives (2010: two), four Directors (2010: six) and some of the Executives of the Group are provided with cars owned and maintained by the Group.

Meeting fees amounting to Rs. 5.5 million (2010: 2.6 million) were paid to six directors (2010: 5 directors).



		2011	2010 Restated
31	Earnings per share		
	Basic and diluted		
	Profit after taxation	Rupees in thousands	
		2,893,069	3,247,983
	Weighted average number of ordinary shares	No. of shares	
		481,287,116	481,287,116
	Earnings/(loss) per share- basic	Rupees	
		6.01	6.75

32 Prior period adjustments

Group's share of other comprehensive income of associate was not accounted for in the consolidated financial statements of the Group for the year ended 31 December 2010. Accordingly, as per International Accounting Standard 8 (IAS 8) "Accounting Policies, Changes in Accounting Estimates and Errors", the above mentioned adjustment has been made retrospectively. Consequently, for the year ended 31 December 2010, the carrying value of "Investment in associate" has decreased by Rs. 346.918 million, the balance of Deferred tax has decreased by Rs. 34.69 million, the balance of "Other reserve" has decreased by Rs. 312.22 million, "Other Comprehensive Income" for the ended 31 December 2010 decreased by Rs. 86.19 million and the reserves as at 01 January 2010 have been restated by Rs. 226.036 million. There was no impact on profit and earnings per share due to the said restatements.

33 Financial Instruments

The Group has exposures to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board is also responsible for developing and monitoring the Group's risk management policies.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk and the Group's management of capital.

The Group's risk management policies are established to identify and analyse the risks faced by the Group to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to react to changes in market conditions and the Group's activities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

33.1 Credit risk

Credit risk is the risk of accounting loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from trade receivables and investment in debt securities, receivables from banks and financial institutions on account of return on deposits and due from related parties. Out of the total financial assets of Rs.3,756 million (2010: Rs. 3,724 million), the financial assets which are subject to credit risk amounted to Rs. 3,755 million (2010: Rs. 3,723 million).

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each of the party. To manage exposure to credit risk in respect of trade receivables, management reviews credit ratings, total deposits worthiness, and maturities of the investments made, past experience and other factors. Furthermore, the Subsidiary Company deals its customers receipt against sale on advance basis. The management has set a maximum credit period of one month in respect of its fertilizer sales to reduce the credit risk.

All investing transactions are settled / paid for upon delivery as per the advice of investment committee. The Group's policy is to enter into financial instrument contract by following internal guidelines such as approving counterparties and approving credits.

Concentration of credit risk arises when a number of counter parties are engaged in similar business activities or have similar economic features that would cause their abilities to meet contractual obligation to be similarly effected by the changes in economic, political or other conditions.

	2011	2010
	Rupees in '000	
The maximum exposure to credit risk at the reporting date is:		
Available for sale financial assets	1,156,926	1,879,401
Financial assets at fair value through profit and loss	1,794,162	560,530
Loans, advances and deposits and other receivables	71,682	31,914
Trade debts	2,686	2,131
Bank balances	729,807	1,249,618
	3,755,263	3,723,594

The Group believes that it is not exposed to major concentration of credit risk.

Available for sale investment comprise of ordinary shares of Sui Northern Gas Pipelines Limited (SNGPL) and Southern Electric Power Company Limited (SEPCO) listed on Stock Exchanges. Financial assets at fair value through profit or loss comprise of investments in Open End Mutual Funds.



The credit rating of the financial assets can be assessed with reference to their historical performance with no or negligible defaults in recent history, however, no losses were incurred. The credit quality of the Group's liquidity can be assessed with reference to external credit ratings as follows:

Bank	Rating agency	Rating	
		Short term	Long term
Bank Al- Habib Limited	PACRA	A1+	AA+
Barclays Bank PLC - Pakistan	Standard & Poors	A1+	AA-
Habib Metropolitan Bank Limited	PACRA	A1+	AA+
Habib Bank Limited	JCR-VIS	A1+	AA+

Open End Mutual Funds	Rating agency	Rating	
		Short term	Long term
ABL income fund	JCR-VIS	-	A+
ABL cash fund	JCR-VIS	-	AA+
Meezan cash fund	JCR-VIS	-	AM2
UBL liquidity plus fund	JCR-VIS	-	AA+
HBL Money Market Fund	JCR-VIS	-	AA

The trade debts as at the balance sheet date are classified as follows:

	2011	2010
	Rupees in '000	
Domestic	2,686	2,131

The maximum exposure to credit risk before any credit enhancements for trade receivables at the reporting date by type of customer is:

	2011	2010
	Rupees in '000	
Trade receivables	2,686	2,131
The aging of trade receivables at the reporting date is:		
Past due 1-30 days	1,148	215
Past due 30-150 days	911	17
Past due 150 days	627	1,899
	2,686	2,131

Based on past experience the management believes that no impairment allowance is necessary in respect of trade receivables past due as some receivables have been recovered subsequent to the year end and for other receivables there are reasonable grounds to believe that the amounts will be recovered in short course of time.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

33.2 Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions. For this purpose the Group has sufficient running finance facilities available from various commercial banks to meet its liquidity requirements. Further liquidity position of the Group is closely monitored through budgets, cash flow projections and comparison with actual results by the Board.

The following are the contractual maturities of the financial liabilities, including estimated interest payments:

	Carrying Amount	Contractual Cash Flows	Six months or less	Six to twelve months	One to two years	Two to five years
-----Rupees in '000-----						
2011						
Financial Liabilities						
Long term finances	4,800,000	7,159,866	315,261	315,261	628,800	5,900,544
Trade and other payables	228,105	228,105	228,105	-	-	-
Accrued markup	8,614	8,614	8,614	-	-	-
	5,036,719	7,396,585	551,980	315,261	628,800	5,900,544
2010						
Financial Liabilities						
Short term financing - secured	45,725	47,257	47,257	-	-	-
Long term finances	5,702,500	6,808,779	162,270	1,070,831	5,575,678	-
Trade and other payables	481,847	481,847	481,847	-	-	-
Accrued markup	232,983	232,983	232,983	-	-	-
	6,463,055	7,570,866	924,357	1,070,831	5,575,678	-

33.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

33.3.1 Currency risk

The Group is exposed to currency risk on import of raw materials and stores and spares mainly denominated in US dollars and on foreign currency bank accounts. The Group's exposure to foreign currency risk for US Dollars is as follows:

	2011	2010
Rupees in '000		
Foreign currency bank account	753	686
Outstanding letters of credit	(246)	(54,355)
Net exposure	507	(53,669)



The following significant exchange rate has been applied:

Average rate Reporting date rate

	Average rate		Reporting date rate	
	2011 Rupees	2010 Rupees	2011 Rupees	2010 Rupees
USD to PKR	86.5	85.35	89.70	85.90

Sensitivity analysis

At reporting date, if the PKR had strengthened by 10% against the US Dollar with all other variables held constant, post-tax profit for the year would have been higher by the amount shown below.

	2011 Rupees in '000	2010
Effect on profit or loss		
USD	(51)	5,367

The weakening of the PKR against US Dollar would have had an equal but opposite impact on the post tax loss / profits.

The sensitivity analysis prepared is not necessarily indicative of the effects on profit/(loss) for the year and assets / liabilities of the Group.

33.3.2 Interest rate risk

At the reporting date the interest rate profile of the Group's significant interest bearing financial instruments was as follows:

	Effective rate		Carrying amount	
	2011 %	2010 %	2011 Rupees in '000	2010
Financial assets				
Financial liabilities				
Variable rate instruments				
Long term loan	13.10 to 14.94	13.64 to 14.10	4,800,000	5,702,500

Fair value sensitivity analysis for fixed rate instruments

The group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit and loss account.

DH Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have decreased / (increased) loss for the year by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis as 2010.

	Profit and loss 100 bps	
	Increase Rupees in '000	Decrease
As at 31 Dec 2011		
Cash flow sensitivity-Variable rate financial liabilities	(48,000)	48,000
As at 31 Dec 2010		
Cash flow sensitivity-Variable rate financial liabilities	(57,482)	57,482

The sensitivity analysis prepared is not necessarily indicative of the effects on profit/ (loss) for the year and assets / liabilities of the Group.

33.3.3 Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). Other price risk arises from the Group's investment in ordinary shares of listed companies. To manage its price risk arising from aforesaid investments, the Group actively monitors the key factors that affect stock price movement.

A 10% increase/decrease in share prices at year end would have decreased/increased the surplus on re-measurement of investments in 'available for sale' investments as follows:

	2011 Rupees in '000	2010
Effect on equity	115,693	187,132

33.4 Fair value of financial instruments

The carrying values of other financial assets and financial liabilities reported in balance sheet approximate their fair values.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Valuation techniques using significant un-observable inputs.



Investments in ordinary shares of listed companies is valued using quoted prices in active market, hence, fair value of such investments fall within level 1 in fair value hierarchy as mentioned above, whereas the investments in mutual funds fall within level 2.

33.5 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 Group defines as operating income divided by total capital employed. The board of Directors also monitors the level of dividends to ordinary shareholders.

The Group'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 Group 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 Group may, for example, adjust the amount of dividends paid to shareholders, issue new shares, or sell assets to reduce debt.

The Group 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 Dec 2011 and at 31 Dec 2010 were as follows:

	2011 Rupees in '000	2010 Restated
Total debt	4,800,000	5,748,225
Less: Cash and Cash equivalents	(730,748)	(1,250,263)
Net Debt	4,069,252	4,497,962
Total equity	25,128,056	22,359,579
Debt-to-equity ratio	14%	17%

The decrease in the debt-to-equity ratio in 2011 resulted primarily due to repayment of long term borrowings and less reliance on short term borrowings

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

34. Operating Segments

The financial information has been prepared on the basis of a single reportable segment.

34.1 Sales from fertilizer products represent 100% (2010: 100%) of total revenue of the Subsidiary Company.

34.2 All sales are made by the Subsidiary Company in Pakistan.

35. Related party transactions

The related parties comprise associated companies, related group companies, directors of the Group, companies where directors also hold directorship, and key management employees. The Group 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:

	2011	2010
	Rupees in '000	
Associated company		
Sale of goods and services	16,242	14,400
Purchase of goods and services	1,203,337	2,348,821
Dividend Income	919,862	867,134
Insurance claim receivable	-	16,347
Loan and markup - Meezan Bank Limited	2,227,299	133,334
Reimbursement of expenses from related party	2,616	4,757
Reimbursement of expenses to related party	1,057	4,582
Other related parties		
Gratuity funds	22,091	18,930
Provident funds	30,701	28,892
Key management personnel		
Sale of fixed assets	13,781	-

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

36. Production capacity

As against the annual production capacity of 445,500 tons (2010: 445,500 tons) of urea fertilizer, the plant produced 199,900 tons (2010: 456,120 tons) which was 44.87 % (2010: 102.38%) of designed capacity. This shortfall in production was due to non-availability of gas.



37 Post balance sheet events

The Board of Directors at its meeting held on 15 February 2012 has proposed a final cash dividend @ Rs. 1/- per share amounting to Rs. 481,287,116 for the year ended 31 December 2011 for approval of the members at the Annual General Meeting to be held on 29 March 2012. These financial statements do not reflect this proposed dividend.

38. General

38.1 These financial statements have been authorized for issue by the Board of Directors of the Group on 15 February 2012.

38.2 Corresponding figures have been re-classified and re-arranged, where necessary for better presentation as per reporting framework.

38.3 All financial information is presented in Pak Rupee and has been rounded to the nearest thousand.

Karachi
15 February 2012



Hussain Dawood
Chairman



Shahid Hamid Pracha
Chief Executive



Pattern of Shareholding

As at 31 December 2011

Disclosure Requirement under the Code of Corporate Governance

Details of holding on 31.12.2011

1	Associated Companies, Undertakings and Related Parties	
	Dawood Lawrencepur Limited	77,931,896
	Dawood Foundation	18,991,988
	Cyan Limited	8,780,760
	Patek (Pvt.) Ltd.	155,284
	Dawood Corporation (Pvt.) Ltd.	101,844
	Sach International (Pvt.) Ltd.	6,996
2	NIT & ICP	
	National Bank of Pakistan, Trustee Department	2,120,896
	IDBP (ICP UNIT)	766
	National Investment Trust Limited	12,132
	Investment Corporation of Pakistan	50
3	Directors & CEO (including holding of their spouses & minor children)	
	Mr. Hussain Dawood - Chairman	38,273,516
	Mr. Shahzada Dawood	5,111,616
	Mr. A. Samad Dawood	5,111,616
	Mr. Isar Ahmad	10,000
4	Executives	540
5	Public Sector Companies and Corporations	-
6	Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas & Mutual Funds	34,646,385
7	Shareholders holding ten percent or more shares	
	Faisal Private Bank (Switzerland) SA	66,653,068
	Dawood Lawrencepur Limited	77,931,896



Pattern of Shareholding

As at 31 December 2011

Category-Wise

Categories of Shareholders	Number of Shareholders	Total Shares Held	Percentage
Individuals	4,666	78,651,892	16.35
Joint Stock Companies	48	279,977,223	58.17
Financial Institutions	13	19,437,310	4.04
Insurance Companies	5	14,827,980	3.08
Investment Companies	6	66,689,468	13.86
Educational/Charitable Institutions	6	19,122,348	3.97
Modarabas	1	12,020	-
Mutual Funds	9	2,504,103	0.52
Leasing Companies	1	4,180	-
The Administrator, Abandoned Properties, Government of Pakistan	1	60,580	0.01
Securities & Exchange Commission of Pakistan	1	12	-
Total:	4,757	481,287,116	100.00



Pattern of Shareholding

As at 31 December 2011

Shareholding Range		Number of Shareholders	Total Shares Held
From	To		
1	100	529	26,618
101	500	949	315,172
501	1,000	577	486,124
1,001	5,000	2,004	4,442,205
5,001	10,000	337	2,466,781
10,001	15,000	125	1,552,694
15,001	20,000	52	918,244
20,001	25,000	36	815,273
25,001	30,000	18	504,586
30,001	35,000	18	599,774
35,001	40,000	13	504,958
40,001	45,000	8	343,332
45,001	50,000	6	288,288
50,001	55,000	3	155,563
55,001	60,000	6	348,951
60,001	65,000	6	377,832
65,001	70,000	6	407,850
70,001	75,000	2	143,864
75,001	80,000	1	76,922
80,001	85,000	1	82,500
95,001	100,000	8	788,377
100,001	105,000	5	510,004
105,001	110,000	2	216,224
110,001	115,000	1	113,632
115,001	120,000	4	474,540
120,001	125,000	1	120,596
130,001	135,000	2	269,948
135,001	140,000	1	140,000
140,001	145,000	2	313,534
170,001	175,000	1	173,116
190,001	195,000	1	191,200
195,001	200,000	2	397,352
215,001	220,000	1	218,532
220,001	225,000	1	224,200
235,001	240,000	1	240,000
315,001	320,000	2	637,216
350,001	355,000	1	353,996
395,001	400,000	1	400,000
715,001	720,000	1	715,600
760,001	765,000	1	760,888
810,001	815,000	1	811,064
1,505,001	1,510,000	1	1,506,592
2,120,001	2,125,000	1	2,120,896
5,110,001	5,115,000	4	20,446,460
7,655,001	7,660,000	1	7,655,328
8,780,001	8,785,000	1	8,780,760
9,995,001	10,000,000	1	10,000,000
11,275,001	11,280,000	1	11,279,450
12,200,001	12,205,000	1	12,204,788
18,990,001	18,995,000	1	18,991,988
28,270,001	28,275,000	1	28,273,516
36,240,001	36,245,000	2	72,481,592
38,375,001	38,380,000	2	76,752,016
43,280,001	43,285,000	1	43,281,216
66,650,001	66,655,000	1	66,653,068
77,930,001	77,935,000	1	77,931,896
		4,757	481,287,116





FORM OF PROXY

Dawood Hercules

I/We _____
of _____ being a member of Dawood Hercules Corporation Limited and holder of
_____ Ordinary Shares, as per:

Share Register Folio No. _____ and/or
CDC Participant ID No. _____ Sub A/c No. _____

hereby appoint Mr./Ms. _____ of
_____ another member of the Company* (or failing him

Mr./Ms. _____ of _____, another member of the
Company*) as my/our proxy to attend, speak and vote for me/us and on my/our behalf,
at the Forty Fourth Annual General Meeting of the Company to be held on Thursday, 29th March 2012
at Karachi Marriot Hotel, Abdullah Haroon Road, Karachi, and at any adjournment thereof.

Signed this _____ day of _____ 2012.

WITNESSES:

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

Signature on
Revenue Stamps
of Rupees Five

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

Signature should agree
with the specimen
signature with the
Company.

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

IMPORTANT:

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

AFFIX
CORRECT
POSTAGE

The Company Secretary
Dawood Hercules Corporation Limited
formerly Dawood Hercules Chemicals Limited
Dawood Center, M.T. Khan Road, Karachi - 75530
Tel: +92-21-35686001 Fax: +92-21-35693416
www.dawoodhercules.com



www.dawoodhercules.com



Dawood Hercules



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(formerly Dawood Hercules Chemicals Limited)

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