



## Nutrients for Life

Quarterly Accounts  
for the 1st Quarter Ended  
31 March 2009

**dh** DAWOOD  
HERCULES  
CHEMICALS LIMITED

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# Company Information

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## **Board of Directors**

Hussain Dawood  
Chairman

Shahzada Dawood  
Chief Executive

Isar Ahmad

Khawaja Amanullah

S.M. Asghar

Aleem A. Dani

A. Samad Dawood

Abdul Ghafoor Gohar

Haroon Mahenti

Shahid Hamid Pracha

## **Board Audit Committee**

Isar Ahmad

A. Samad Dawood

Haroon Mahenti

Shahid Hamid Pracha

## **Company Secretary**

Aftab Ahmed Qaiser

## **Auditors**

KPMG Taseer Hadi & Company  
(Chartered Accountants)

## **Legal Advisors**

Hassan & Hassan  
Advocates

## **Registered Office**

35-A, Shahrah-e-Abdul  
Hameed Bin Baadees  
(Empress Road), Lahore

## **Plant**

Chichoki Mallian,  
Sheikhupura.

## **Shares Registrar**

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

# Directors' Review

The Board of Directors is pleased to present the un-audited financial statements of the Company for the 1<sup>st</sup> Quarter ended 31<sup>st</sup> March 2009.

## 1) Business Review

During the period under review, the Company sold 93,010 mt of urea as against 125,380 mt for the same period last year. Sales for the 1st quarter are lower because of relatively smaller opening inventory and lesser production during the period.

## 2) Market Review

Country wide off take of urea for the three months was 1.539 million tons as against 1.401 million tons depicting an increase of 10% over the last period. However, the domestic production of 1.146 million tons of Urea was 5% less than the corresponding period last year. In spite of total import of 373 thousand tons of urea as against 126 thousand tons last period, the inventory of urea in the country as of 31<sup>st</sup> March 2009 was only 40 thousand tons, as against 73 thousand tons on the same date last year.

## 3) Plant Performance

The Plant remained shut for a total of 31.91 days during the 1<sup>st</sup> quarter of 2009 due to gas curtailment and Annual Turnaround as against 25.47 days for the comparable period last year. During the period under review the Company was able to partly offset the time loss by operating at record daily levels and produced 90,397 mt of urea as against 98,296 mt for the same period last year. Capacity utilization of the Plant works out to be 81% as against 88% last period.

## 4) Financial Performance

Summary of the financial results for the 1st Quarter is given below:

Particulars	Rupees in Millions	
	2009	2008
Sales	1,281	1,887
Gross Profit	363	563
Profit / (Loss) from Operating Activities	(547)	500
Net Finance Income / (Expense)	(225)	(208)
Share of profit from Associate (Net of Tax)	321	567
Impairment loss on available for sale investments	(812)	-
Profit / (Loss) for the period (with impairment loss)	(505)	704

As reported earlier in our Annual Report 2008 pursuant to SRO 150 (I) 2009 dated 13<sup>th</sup> February 2009 issued by the Securities & Exchange Commission of Pakistan (SECP), the impairment loss amounting to Rs. 4.12 Billion resulting from the valuation of equity securities of Sui Northern Gas Pipelines Limited (SNGPL) held under available for sale category was routed through the equity.

The above SRO directs that the said impairment loss taken to equity, including any adjustment / effect for price movements during the quarter of calendar year 2009 shall be taken to Profit & Loss Account on quarterly basis during the calendar year ending 31<sup>st</sup> December 2009.

Pursuant to the above the Company has charged Rs. 812 Million to the Profit & Loss Account for the quarter under review, being 1/4th of the impairment loss in respect of equity shares of SNGPL, based on the 31<sup>st</sup> March 2009 price.

**5) Earnings / (Loss) Per Share**

Recognition of impairment loss of Rs. 812 million (equivalent to Rs. 7.42 per share) in the Profit and Loss Account, as stated above, has turned the profit from manufacturing activity including the share of income from associate into a Loss of Rs. 4.62 per share for the 1<sup>st</sup> Quarter as compared to Earnings Per Share of Rs. 6.43 for the same period last year.

**6) Investment in Engro Chemical Pakistan Limited (ECPL) Shares**

The Board of ECPL in its meeting held on 21<sup>st</sup> January 2009 decided to issue 40% Right Shares to the shareholders of the Company as on 13<sup>th</sup> February 2009. This rights issue was offered at a price of Rs. 50/- per share (Rs. 10/- per share face value plus a premium of Rs. 40/- per share). By virtue of its holding in ECPL, DHCL became entitled to 32,462,963 ordinary shares of ECPL to be issued as Right Shares. The Directors of DHCL recommended subscription of these shares because the price of Rs. 50/- per share is much below its real worth.

At the Annual General Meeting (AGM) of the Company held on 16th April 2009 the shareholders have given their approval u/s 208 of the Companies Ordinance, 1984 for this investment.

**7) Future Prospects**

The plant is currently producing 1,570 M.Tons urea per day and is operating smoothly. It is hoped that the Company will be able to sell its production for the year.

Country wide urea inventory as on 31<sup>st</sup> March 2009 was 40 thousand tons only. The Government will have to arrange import of urea to meet the shortfall.

**8) General**

Format of the financial statements has been revised to comply with the changes made in the international accounting standards. Comparative figures have also been adjusted accordingly.

On behalf of the Board

Lahore  
29<sup>th</sup> April 2009

Shahzada Dawood  
Chief Executive

**PROFIT & LOSS ACCOUNT (Un-Audited)**  
**For the First Quarter Ended March 31, 2009**

	31-Mar-09	31-Mar-08
	(Rupees in thousands)	
Continuing Operation		
Sales - net	1,281,333	1,887,192
Cost of sales	(918,437)	(1,323,699)
<b>Gross profit</b>	362,896	563,493
Other income	7,341	38,210
Distribution expenses	(33,976)	(3,074)
Administrative expenses	(68,711)	(74,991)
Other expenses	(2,552)	(23,375)
Impairment on available for sale investments	(811,675)	-
<b>Profit /(loss) from operating activities</b>	(546,677)	500,263
Finance income	7,373	13,192
Finance expense	(232,780)	(221,307)
Net finance expense	(225,407)	(208,115)
<b>Share of profit from associate (net of income tax)</b>	321,025	567,004
<b>Profit / (loss) before income tax</b>	(451,059)	859,152
Income tax expenses	(54,300)	(155,600)
Profit / (loss) for the period	(505,359)	703,552
Basic & diluted earnings/(loss) per share	(4.62)	6.43
Profit / (loss) for the period	(505,359)	703,552
Other comprehensive income		
Adjustment arising from measurement to fair value of available for sale financial assets (net of tax)	1,691,801	240,416
<b>Total comprehensive income for the period</b>	1,186,442	943,968

Appropriations have been reflected in statement of changes in equity.

The annexed notes 1 to 14 form an integral part of these financial statements. The parameters used for determination of the value of equity securities held as available for sale and the information about impairment loss is disclosed in note 11.1

Lahore  
April 29, 2009

Shahzada Dawood  
Chief Executive

A.G. Gohar  
Director

**BALANCE SHEET (Un-Audited)**  
as at 31 March 2009

**LIABILITIES**

SHARE CAPITAL AND RESERVES

**Authorized capital**

1,000,000,000 ordinary shares of Rs 10 each

**Note**      **31-Mar-09**    **31-Dec-08**  
**(Rupees in thousands)**

		10,000,000	10,000,000
Issued, subscribed and paid up capital	5	1,093,834	1,093,834
Revenue reserves		19,910,036	20,415,395
Fair value reserve on short term investments		(2,434,773)	(4,126,574)
		18,569,097	17,382,655
<b>NON CURRENT LIABILITIES</b>			
Long Term Loans	6	6,302,500	6,302,500
Deferred taxation		340,000	327,700
Staff retirement and other service benefits		39,265	40,163
		6,681,765	6,670,363
<b>CURRENT LIABILITIES</b>			
Short term financing - secured	7	65,162	70,139
Trade and other payables		804,366	538,134
Markup payable on secured loans		33,420	275,849
Provision for taxation		42,000	693,000
		944,948	1,577,122
<b>CONTINGENCIES AND COMMITMENTS</b>			
	8	26,195,810	25,630,140
<b>ASSETS</b>			
<b>FIXED CAPITAL EXPENDITURE</b>			
Property, plant and equipment	9	1,327,469	1,328,780
Capital work in progress		465,428	67,554
		1,792,897	1,396,334
<b>INVESTMENT IN ASSOCIATE</b>	10	19,364,338	19,205,628
<b>LONG TERM LOANS AND ADVANCES</b>		8,232	1,260
<b>CURRENT ASSETS</b>			
Stores, spares and loose tools		1,016,274	1,025,766
Stock in trade		67,165	89,568
Trade debts		7,321	8,821
Loans, advances, deposits, prepayments and other receivables		101,531	72,251
Advance income tax		107,693	663,149
Short term investments	11	3,299,975	2,233,425
Cash and bank balances		430,384	933,938
		5,030,343	5,026,918
		26,195,810	25,630,140

The annexed notes 1 to 14 form an integral part of these financial statements. The parameters used for determination of the value of equity securities held as available for sale and the information about impairment loss is disclosed in note 11.1

Lahore  
April 29, 2009

Shahzada Dawood  
Chief Executive

A.G. Gohar  
Director

**CASH FLOW STATEMENT (UN-AUDITED)**  
**For the First Quarter Ended March 31, 2009**

	<b>31-Mar-09</b>	<b>31-Mar-08</b>
	<b>( Rupees in thousands)</b>	
<b>Cash flow from operating activities</b>		
Profit/(loss) before income tax	(451,059)	859,152
Adjustment for non cash expenses and other items:		
Depreciation charged to profit and loss account	32,310	37,025
Finance expense	232,780	221,307
Profit on sale of fixed assets	-	(95)
Profit on sale of short term investments	(2,052)	(18,168)
Un-realized gain on investment held for trading	(1,251)	(19,279)
Impairment loss on available for sale investments	811,675	-
Share of profit from associate (net of tax)	(321,025)	(567,004)
Provision for staff retirement and other service benefits	2,976	2,372
Finance income	(7,373)	(13,192)
	<u>748,040</u>	<u>(357,034)</u>
<b>Cash flow from operations before working capital changes</b>	<u>296,981</u>	<u>502,118</u>
<b>Working capital changes</b>		
(Increase)/decrease in current assets:		
Stocks, stores and spares	31,895	645,361
Trade debts	1,500	(1,470)
Loans, advances, deposits, prepayments and other receivables	(29,279)	(80,684)
(Decrease)/increase in current liabilities:		
Trade and other payables	358,265	148,144
	<u>362,381</u>	<u>711,351</u>
<b>Cash generated from operations</b>	<u>659,362</u>	<u>1,213,469</u>
Finance expenses paid	(475,209)	(423,912)
Taxes paid	(229,544)	(86,226)
Staff retirement and other service benefits paid	(3,908)	(3,809)
Decrease/(increase) in long term loans and advances	(6,973)	81
<b>Net cash inflow/(outflow) from operating activities</b>	<u>(56,272)</u>	<u>699,603</u>
<b>Cash flow from investing activities</b>		
Fixed capital expenditure	(428,872)	(57,395)
Proceeds from sale of fixed assets	-	100
Finance income	7,373	13,192
Proceeds from disposal of short term investments	235,804	953,771
Short term investments	(418,925)	(1,175,304)
Dividends received	162,315	221,338
<b>Net cash (outflow) from investing activities</b>	<u>(442,305)</u>	<u>(44,298)</u>
<b>Cash flow from financing activities</b>		
Short term financing	(4,977)	(1,058,956)
Dividends paid	-	(121,237)
<b>Net cash (outflow) from financing activities</b>	<u>(4,977)</u>	<u>(1,180,193)</u>
<b>Net (decrease) in cash and cash equivalents</b>	<u>(503,554)</u>	<u>(524,888)</u>
<b>Cash and cash equivalents at the beginning of period</b>	<u>933,938</u>	<u>1,097,824</u>
<b>Cash and cash equivalents at the end of period</b>	<u><u>430,384</u></u>	<u><u>572,936</u></u>

The annexed notes 1 to 14 form an integral part of these financial statements.

Lahore  
 April 29, 2009

Shahzada Dawood  
 Chief Executive

A.G. Gohar  
 Director



**STATEMENT OF CHANGES IN EQUITY**  
**For the First Quarter Ended March 31, 2009**

	Share Capital	Revenue Reserves			Available for sale financial assets	Total
		General reserve	Unappropriated Profit	Total		
(Rupees in thousands)						
Balance as at 01 January 2008	828,662	700,000	17,141,619	17,841,619	219,051	18,889,332
Total comprehensive income for the period	-	-	703,552	703,552	240,416	943,968
	828,662	700,000	17,845,171	18,545,171	459,467	19,833,300
Final dividend for the year ended 31 December 2007 @ 15%	-	-	(124,299)	(124,299)	-	(124,299)
Final stock dividend @ 20% 2007	165,732	-	(165,732)	(165,732)	-	-
	165,732	-	(290,031)	(290,031)	-	(124,299)
Balance as at 31 March 2008	994,394	700,000	17,555,140	18,255,140	459,467	19,709,001
Balance as at 01 January 2009	1,093,834	700,000	19,715,395	20,415,395	(4,126,574)	17,382,655
Total comprehensive income for the period	-	-	(505,359)	(505,359)	1,691,801	1,186,442
Balance as at 31 March 2009	1,093,834	700,000	19,210,036	19,910,036	(2,434,773)	18,569,097

The annexed notes 1 to 14 form an integral part of these financial statements.

Lahore  
 April 29, 2009

Shahzada Dawood  
 Chief Executive

A.G. Gohar  
 Director

**NOTES TO THE FINANCIAL STATEMENTS (UN-AUDITED)**  
**For the First Quarter Ended March 31, 2009**

- 1 Dawood Hercules Chemicals Limited is a public limited company. It was incorporated in Pakistan in 1968 under the Companies Act 1913 (now Companies Ordinance 1984) and is listed on Karachi & Lahore Stock Exchanges. The principal activity of the Company is production and sale of urea fertilizer.
- 2 The un-audited financial statements for the period ended 31 March 2009 have been prepared in compliance with IAS 34 and are being submitted to the shareholders as required by the Securities & Exchange Commission of Pakistan u/s 245 of the Companies Ordinance, 1984.
- 3 The accounting policies adopted for the preparation of these financial statements are the same as those applied in the preparation of financial statements for the preceding year ended 31 December 2008.
- 4 The preparation of condensed interim financial statement requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. The significant judgments made by the management in applying the Company's accounting policies and the key sources of estimation were same as those applied to the financial statements for the year ended 31 December 2008.

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.

**5 ISSUED, SUBSCRIBED AND PAID UP CAPITAL**

31-Mar-09	31-Dec-08		31-Mar-09	31-Dec-08
No. of Shares			(Rupees in thousands)	
13,900,000	13,900,000	Ordinary shares of Rs. 10 each fully paid in cash	139,000	139,000
95,483,436	95,483,436	Ordinary shares of Rs. 10 each issued as fully bonus shares	954,834	954,834
<u>109,383,436</u>	<u>109,383,436</u>		<u>1,093,834</u>	<u>1,093,834</u>

**6 LONG TERM LOANS**

This represents Diminishing Musharika - Plant and Machinery under Musharika arrangement (Sukuk Issue) from joint lead advisors and arrangers M/s Habib Bank Limited (HBL) and Meezan Bank Limited (MBL) for a period of 5 years from the date of drawdown and carry rental payments based on average six months KIBOR plus a margin of 120 bps p.a. payable semi - annually in arrears subject to a minimum of 3.5% p.a. and a maximum of 25% p.a.

Sukuk units equivalent to the value of at least Rs. 1.3 billion will be purchased by the Company during the period starting after expiry of 12 months from the Musharika commencement date and ending 12 months before the Musharika end date. Remaining Sukuk units will be purchased in 2 equal installments within the last 12 months of the Musharika end date.

The Musharika facility is secured by a first charge on specific moveable fixed assets of the Company ranking paripassu inter se the finances.

**7 SHORT TERM FINANCING - SECURED**

**7.1 Running Finance Facility**

This represents utilized portion of short term running finance facility available from Habib Bank Limited under markup arrangements amounting to Rs. 398 million and carrying markup based 1 month KIBOR plus 200 bps p.a. This facility is secured against pledge of shares held as investments.

**8 CONTINGENCIES & COMMITMENT**

There is no material change in contingencies since the last audited published accounts.

Commitments of the Company as at 31 March 2009 were Rs. 186 million (2008: Rs 115 million).

**9 PROPERTY, PLANT AND EQUIPMENT**

The following additions/( Deletions) to fixed assets have been made during the three months ended 31 March 2009.

	<b>Addition</b>	<b>Deletion</b>
	<b>(Rupees in thousands)</b>	
Furniture, fittings and equipments	860	-
Data processing equipment	2,165	-
Motor vehicles	27,975	-
	<u>31,000</u>	<u>-</u>

**10 INVESTMENT IN ASSOCIATE**

**Note**    **31-Mar-09**    **31-Dce-08**  
**(Rupees in thousands)**

**ENGRO CHEMICAL PAKISTAN LIMITED (ECPL)**

81,157,408 (2008: 73,779,462) ordinary shares of Rs. 10 each

Carrying value at the beginning of the period    10.1    19,205,628    16,610,256

Percentage of equity held - 38.13% (2008: 38.13%)

Cost of Nil (2008: 7,377,946) right shares acquired during the period    -    1,291,140

Share of post acquisition profits    321,025    1,850,200

Less: Dividends received during the period    (162,315)    (545,968)

Carrying value at the end of the period    19,364,338    19,205,628

**10.1**    Financial results of ECPL for the period from 1st October 2008 to 31 December 2008 have been used for the purpose of application of equity method due to non availability of financial statements for the three months ended 31 March 2009.

**11 SHORT TERM INVESTMENTS AVAILABLE FOR SALE**

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

	Note	31-Mar-09 ( Rupees in thousands)	31-Dec-08 ( Rupees in thousands)
<b>Related parties - Quoted</b>			
<b>Sui Northern Gas Pipelines Limited</b>			
Cost of 100,442,350 (2008: 108,672,850) ordinary shares of Rs. 10 each		6,282,067	6,796,835
Cost of Nil (2008: 8,230,500) Shares disposed during the period Percentage of equity held 18.29% (2008: 18.29%)		-	(514,768)
		6,282,067	6,282,067
Adjustment arising from measurement at fair value:	11.1		
Impairment loss shown under Equity		(2,435,024)	(4,126,574)
Impairment loss charged to Profit and Loss Account		(811,675)	-
		(3,246,699)	(4,126,574)
		3,035,368	2,155,493
<b>Others - Quoted</b>			
<b>Southern Electric Power Company Limited</b>			
Cost of 6,270,000 (2008: 6,270,000) ordinary shares of Rs. 10 each Percentage of equity held below 10% (2008: below 10%)		118,431	118,431
Adjustment arising from measurement to fair value		251	-
Impairment loss		(100,311)	(100,311)
		18,371	18,120
		3,053,739	2,173,613
Financial assets at fair value through profit and loss account classified as held for trading			
<b>Un-quoted</b>			
<b>KASB</b>			
Nil (2008: 640,247) units of Rs. 100 each		-	63,704
Adjustment arising from measurement to fair value		-	(3,892)
		-	59,812
<b>ABL Income Fund</b>			
24,587,661 (2008: Nil) units of Rs. 10 each		244,985	-
Adjustment arising from measurement to fair value		1,251	-
		246,236	-
		246,236	59,812
		<u>3,299,975</u>	<u>2,233,425</u>

**11.1** SECP vide SRO 150(1)/2009 dated 13 February, 2009 has allowed that the impairment loss, if any, recognized as on 31 December 2008 due to valuation of listed equity investments held as "Available for Sale" to quoted market prices of 31 December 2008 may be shown under the equity. The amount taken to

equity including any adjustment/effect for price movements in 2009 shall be taken to Profit and Loss account on quarterly basis during the calendar year ending on 31 December 2009. The amount taken to equity at 31 December 2008 shall, however be treated as a charge to Profit and Loss Account for the purposes of distribution as dividend.

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

As reported in the 2008 annual accounts, the company had opted to show the impairment loss on SNGPL shares through Equity, as permitted by the above SRO. Accordingly, one fourth (1/4) of the impairment loss on the basis of 31 March 09 share prices has been taken to the profit and loss in these quarterly accounts as detailed below:

	<b>31-Mar-09</b>
	<b>Rupees in thousands</b>
Impairment loss recognized in Equity as at 31 December 2008	(4,126,574)
Price adjustment during the quarter ended 31 March 2009	879,875
Impairment loss as at 31 March 2009	<u>(3,246,699)</u>
Impairment loss charged to Profit and Loss Account	(811,675)
Impairment loss recognized in Equity as at 31 March 2009	<u>(2,435,024)</u>

## 12 RELATED PARTY TRANSACTION

The Company in the normal course of business carries out transactions with various associated undertakings and related parties. Significant transactions during the period were as follows:

	<b>31-Mar-09</b>	<b>31-Mar-08</b>
	<b>(Rupees in thousands)</b>	
Purchase of goods and services	<u>477,652</u>	<u>443,262</u>
Sales of goods and services inclusive of sales tax	<u>-</u>	<u>1,994,469</u>
Dividend income	<u>162,315</u>	<u>221,338</u>

All transactions with related parties have been carried out on commercial terms and conditions, in accordance with accounting policy. No buying and selling commission has been paid to any related party.

13 The accounts have been authorized for issue by the Board of Directors of the Company on April 29, 2009.

## 14 GENERAL

14.1 Comparative figures have been rearranged and regrouped to comply with the requirements of revised IAS 1 "Presentation of Financial Statements".

14.2 Figures have been rounded off to the nearest thousand of rupees.

Lahore  
April 29, 2009

Shahzada Dawood  
Chief Executive

A.G. Gohar  
Director



**DAWOOD HERCULES CHEMICALS LIMITED**  
Manufacturers of Bubber Sher Urea

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