Dawood Hercules Chemicals Limited
Profit and Loss Account
For the year ended 31 December 2010

	Note	2010	2009
		Rupees in thousands	
			Restated
Continuing operation			
Sales-net	5	8,715,711	11,040,361
Cost of sales	6	(5,214,376)	(7,080,457)
Gross profit		3,501,335	3,959,904
Distribution expenses	7	(267,724)	(392,030)
Administrative expenses	8	(425,878)	(328,272)
Impairment loss		(2,391)	(3,791,096)
Other operating expenses	9	(115,866)	(159,508)
Other operating income	10	1,189,023	767,762
Results from operating activities		3,878,499	56,760
Finance cost	11	(909,596)	(984,747)
Profit/(loss) before tax		2,968,903	(927,987)
Income tax expenses	12	(820,373)	(853,300)
Profit/(loss) for the year from continuing operation		2,148,530	(1,781,287)
Profit/(loss) attributable to owners of the Company		2,148,530	(1,781,287)
Earnings/(loss) per share - basic and diluted	31	17.86	(14.80)

The annexed notes 1 to 37 form an integral part of these financial statements.

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Karachi

Chief Executive

Director

Dawood Hercules Chemicals Limited
Statement of Comprehensive Income
For the year ended 31 December 2010

	2010	2009
	Rupees in thousands	
		Restated
Profit/(loss) for the year	**2,148,530**	(1,781,287)
Adjustment arising from measurement to fair value of investments	**131,780**	339,463
Total comprehensive income/(loss) for the year	**2,280,310**	(1,441,824)

The annexed notes 1 to 37 form an integral part of these financial statements.

Karachi:

Chief Executive

Director

Dawood Hercules Chemicals Limited

Balance Sheet

As at 31 December 2010.

	Note	2010	2009
		Rupees in thousands	
			Restated
LIABILITIES			
Share capital and reserves			
Authorized capital			
1,000,000,000 ordinary shares of Rs. 10 each		10,000,000	10,000,000
Issued, subscribed and paid up capital	13	1,203,217	1,093,834
Revenue reserves		18,205,346	16,756,870
Fair value reserve		135,765	3,985
		19,544,328	17,854,689
Non-current liabilities			
Long term loans	14	5,042,000	6,302,500
Deferred taxation	15	268,464	169,200
Staff retirement and other service benefits	16	51,590	44,595
		5,362,054	6,516,295
Current liabilities			
Current portion - long term loan	14	660,500	-
Short term financing - secured	17	45,725	1,196,603
Trade and other payables	18	694,717	648,229
Accrued markup		232,983	280,268
Provision for taxation		686,000	858,000
		2,319,925	2,983,100
Contingencies and commitments	19		
		27,226,307	27,354,084

	Note	2010	2009
		Rupees in thousands	
			Restated
ASSETS			
Non-current assets			
Property, plant and equipment	20	1,871,708	1,340,588
Capital work in progress	21	366,514	734,409
		2,238,222	2,074,997
Long term investments	22	19,289,962	19,289,962
Long term loans and advances	23	1,680	2,423
Current assets			
Stores, spares and loose tools	24	1,073,544	1,303,300
Stock in trade	25	216,117	83,285
Trade debts		2,131	10,028
Loans, advances, deposits, prepayments and other receivables	26	89,309	92,722
Advance income tax		625,148	819,908
Short term investments	27	2,439,931	3,399,314
Cash and bank balances	28	1,250,263	278,145
		5,696,443	5,986,702
		27,226,307	27,354,084

The annexed notes 1 to 37 form an integral part of these financial statements.

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Karachi:

Chief Executive

Director

Dawood Hercules Chemicals Limited

Cash Flow Statement

For the year ended 31 December 2010

	Note	2010	2009
		Rupees in thousands	
			Restated
Cash generated from operations	29	**3,142,781**	3,107,852
Finance cost paid		**(956,881)**	(980,327)
Taxes paid		**(698,348)**	(849,759)
Staff retirement and other service benefits paid		**(24,906)**	(16,205)
Decrease / (Increase) in long term loans and advances		**743**	(1,164)
Net cash generated from operating activities		**1,463,389**	1,260,397
Cash flow from investing activities			
Fixed capital expenditure		**(393,117)**	(833,174)
Proceeds from sale of property, plant and equipment		**34,776**	7,897
Proceeds from disposal of available for sale of investments		**1,835,913**	1,145,649
Profit on time deposits		**63,218**	63,670
Investment at fair value through profit or loss		**(560,000)**	(1,929,785)
Investment in associated / subsidiary company		-	(1,623,148)
Dividends received		**867,135**	616,796
Net cash generated from/ (used in) investing activities		**1,847,925**	(2,552,095)
Cash flow from financing activities			
Short term financing		**(1,150,878)**	1,126,464
Long term loans		**(600,000)**	-
Dividends paid		**(588,318)**	(490,559)
Net cash (used in) / generated from financing activities		**(2,339,196)**	635,905
Net Increase / (decrease) in cash and cash equivalents		**972,118**	(655,793)
Cash and cash equivalents at the beginning of year		**278,145**	933,938
Cash and cash equivalents at the end of year	28	**1,250,263**	278,145

The annexed notes 1 to 37 form an integral part of these financial statements.

Karachi:

Chief Executive **Director**

Dawood Hercules Chemicals Limited

Statement of Changes in Equity

For the year ended 31 December 2010

	Share capital	General reserve (Revenue reserves)	Unappropriated profit (Revenue reserves)	Total (Revenue reserves)	Fair value reserve	Total
	----------	----------	Rupees in thousands	----------	----------	----------
Balance as at 31 December 2008 as previously reported	1,093,834	700,000	19,715,396	20,415,396	(4,126,574)	17,382,656
Effect of restatement of Investment in associate (note - 2.2)	-	-	(1,385,014)	(1,385,014)	-	(1,385,014)
Balance as at 31 December 2008 - restated	1,093,834	700,000	18,330,382	19,030,382	(4,126,574)	15,997,642
Total comprehensive loss for the year	-	-	(1,781,287)	(1,781,287)	339,463	(1,441,824)
Impairment on available for sale investment transferred to profit and loss account as permitted under SRO 150(1)/2009	-	-	-	-	3,791,096	3,791,096
Final cash dividend @15% for the year ended 31 December 2008	-	-	(164,075)	(164,075)	-	(164,075)
1st interim cash dividend @ 15% for the year ended 31 December 2009	-	-	(164,075)	(164,075)	-	(164,075)
2nd interim cash dividend @ 15% for the year ended 31 December 2009	-	-	(164,075)	(164,075)	-	(164,075)
	-	-	(492,225)	(492,225)	-	(492,225)
Balance as at 31 December 2009 - restated	**1,093,834**	**700,000**	**16,056,870**	**16,756,870**	**3,985**	**17,854,689**
Balance as on 31 December 2009 as previously reported	1,093,834	700,000	18,084,894	18,784,894	3,985	19,882,713
Effect of restatement of Investment in associate (note-2.2)	-	-	(2,028,024)	(2,028,024)	-	(2,028,024)
Balance as at 01 January 2010 - restated	1,093,834	700,000	16,056,870	16,756,870	3,985	17,854,689
Total 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 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)
	109,382	-	(700,054)	(700,054)	-	(590,671)
Balance as at 31 December 2010	**1,203,217**	**700,000**	**17,505,346**	**18,205,346**	**135,765**	**19,544,328**

The annexed notes 1 to 37 form an integral part of these financial statements.

Karachi

Chief Executive | **Director**

1 Legal status and nature of business

Dawood Hercules Chemicals Limited ("the Company") is a public limited company. It was incorporated in Pakistan in 1968 under the Companies, Act 1913 (now the Companies Ordinance, 1984) and is listed on Karachi, Lahore and Islamabad Stock Exchanges. The principal activity of the Company is production, purchase and sale of fertilizer. The registered office of the Company is situated at 35-A, Shahrah-e-Abdul Hameed Bin Baadees,

The Board of Directors in their meeting of 16th 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. In this regard, a wholly owned subsidiary namely DH Fertilizers Limited was incorporated on 2nd August 2010. The division was to be effected through a Scheme of Arrangement under Section 284 to 288 of the Companies Ordinance, 1984 whereby

(a) the fertilizer undertaking would be transferred and vested in DH Fertilizers Limited against the issuance of ordinary shares of DH Fertilizers Limited to the Company;

(b) the retention of the retained undertaking in the Company and the change of the name of the Company to Dawood Hercules Corporation Limited. Dawood Hercules Corporation Limited would then become a Holding Company and oversee the business of new fertilizer subsidiary.

The de-merger required the approval of the Honorable Lahore High Court. After obtaining the requisite approvals from the creditors and the shareholders of the Company, the Lahore High Court approved the Scheme of Arrangement (Scheme) on 27th January 2011, which came into effect on 1st January 2011 (Effective Date). Meanwhile written order from the court is awaited.

In accordance with the Scheme, the fertilizer business including all assets, liabilities, agreements, arrangements and other matters relating to the fertilizer undertaking were automatically transferred to DH Fertilizers Limited on the Effective Date against the issuance of 99,999,994 Ordinary shares of Rs. 10 each, in addition to existing 6, fully paid ordinary shares of Rs. 10 each plus the share premium. Such share premium is to be based on the difference between the net assets value of the fertilizer undertaking less the related fair value reserves/ surplus of the fertilizer undertaking on the effective date over Rs. 1,000,000,000/- being the paid-up face value of DH Fertilizers Limited.

The retained undertaking comprises of specific assets and liabilities as of the aforementioned effective dates as identified in the Scheme, which among other items include long term investments, short term investments in mutual funds and all reserves excluding fair value reserves on certain investments transferred to DH Fertilizers Limited.

2 Basis of preparation

2.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

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2.2 Change in accounting policy

During the year the Company has changed its accounting policy relating to the measurement of investments in associates as required under IAS-28 "Investment in associate" and IAS -27 "Consolidated and separate financial statements". This change has been necessitated because of incorporation of a subsidiary by the Company, DH Fertilizers Limited. IAS-28 requires the investment in associates be measured at cost in the separate financial statements of the holding Company and accordingly the investment in associates is now measured at cost whereas previously, this was measured under equity method of accounting.

The change in accounting policy has been applied retrospectively and comparative information has been restated in accordance with the treatment prescribed by IAS-8 "Accounting policy, change in accounting estimate and errors". The accounting policy has been changed for accounting of investments in associates from equity method to cost method as required under IAS-28, in separate financial statements.

Had there been no change in accounting policy, effects on the financial statements on the current and prior period would be as under.

	2010	2009
	(Increase)/decrease	
	Rupees in thousands	
Profit/loss after tax	(1,099,453)	643,010
Investments	(3,481,734)	(2,253,324)
Deferred tax	(348,136)	(225,300)
Earnings per share	(9.14)	5.3

2.3 New Accounting Standards and IFRIC interpretations that are not yet effective

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

- Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after 01 February, 2010). The IASB amended IAS 32 to allow rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. This interpretation has no impact on the Company's financial statements.

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 01 July, 2010). This interpretation provides guidance on the accounting for debt for equity swaps. This interpretation has no impact on Company's financial statements.

- IAS 24 Related Party Disclosures (revised 2009) – effective for annual periods beginning on or after 01 January, 2011. The revision amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The amendment would result in certain changes in disclosures.

- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 01 January, 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. These amendments result in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense. This amendment is not likely to have any impact on Company's financial statements.

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- Improvements to IFRSs 2010 – In May 2010, the IASB issued improvements to IFRSs 2010, which comprise of 11 amendments to 7 standards. Effective dates, early application and transitional requirements are addressed on a standard by standard basis. The majority of amendments are effective for annual periods beginning on or after 01 January, 2011. The amendments include list of events or transactions that require disclosure in the interim financial statements and fair value of award credits under the customer loyalty programmes to take into account the amount of discounts or incentives that otherwise would be offered to customers that have not earned the award credits. Certain of these amendments will result in increased disclosures in the financial statements.

- Amendments to IAS 12 – deferred tax on investment property (effective for annual periods beginning on or after 01 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 amendment has no impact on financial statements of the Company.

- Amendments to IFRS 7 - Disclosures – Transfers of Financial Assets (effective for annual periods beginning on or after 01 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. These amendments will result in increased disclosures in the financial statements.

3 Basis of measurement

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

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revision to accounting estimates are recognized in the period in which the estimate is revised if the revision affects 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

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.

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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 2010 using the "Projected Unit Credit Method".

The amount recognized in balance sheet represents the present value of the defined benefit obligation as on 31 December 2010 as adjusted for unrecognized actuarial gains and losses.

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

Accumulated Compensated absences

Provisions are made annually to cover the obligation for accumulating compensated absences based on actuarial valuation and are charged to profit and loss. The most recent valuation was carried out on 31 December 2010 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 Company maintains a defined contributory Gratuity Fund for its non-management staff. Monthly contributions are made to the fund by the Company as per agreement with the Union.

Provident Fund

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

4.3 Fixed capital expenditure

Property, plant and equipment

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

The Company provides depreciation under the "straight line method" so as to write off the historical cost of 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 Company assesses at each balance sheet date whether there is any indication that property, plant and equipment may be impaired. If such indication exists, the carrying amounts of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in income currently. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognized, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

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

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

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

Capital work-in-progress

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

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

4.5 **Foreign currencies**

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

4.6 **Taxation**

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

Current

Provision of current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year if enacted after taking into account tax credits, rebates and exemptions, if any. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be 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.

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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.

During the year, the Company has changed its accounting policy with respect to the measurement of investment in associates as more fully explained in paragraph 2.2 above. 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 amounts of investments are adjusted accordingly. Impairment losses are recognized as an expense. Where impairment losses subsequently reverse, the carrying amounts of the investments are increased to the revised recoverable amounts 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, these are stated at fair values unless fair values can not be measured reliably, with any resulting gains and losses being taken directly to equity until the investment is disposed or impaired. At each reporting date, these investments are remeasured at fair value, unless fair value cannot be reliably measured. At the time of disposal, the respective surplus or deficit is transferred to income currently. Fair value of quoted investments is their bid price on Karachi Stock Exchange at the balance sheet date. Unquoted investments, where active market does not exist, are carried at cost as it is not possible to apply any other valuation methodology.

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

All purchases and sales of investments are recognized on the trade date which is the date that the Company commits to purchase or sell the investment.

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 margin 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. Any resultant increase/(decrease) in fair value is recognized in the profit and loss account for the year.

4.8 **Financial assets and liabilities**

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. All financial assets and liabilities are initially measured at cost, which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value, 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.

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4.9 Offsetting of financial assets and liabilities

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

4.10 Trade debts

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

4.11 Cash and cash equivalents

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

4.12 Trade and other payables

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

4.13 Provisions

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

4.14 Borrowing costs

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 Dividend

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

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	Note	2010	2009
		Rupees in thousands	

5 Sales - net

		2010	2009
Own manufactured		7,357,562	7,369,483
Less: Sales tax		25,294	21,120
		7,332,268	7,348,363
Purchased product		1,383,443	3,691,998
		8,715,711	11,040,361

6 Cost of sales

	Note	2010	2009
Raw and packing materials consumed	*6.1*	1,581,249	1,721,209
Fuel and power		939,352	1,043,771
Catalysts and chemicals		109,294	50,456
Salaries, wages, benefits and staff welfare	*6.2*	560,483	507,908
Stores and spares consumed		470,136	341,251
Repairs and maintenance		167,286	101,020
Travel and conveyance		63,594	56,768
Rent, rates and taxes		1,873	2,216
Insurance		25,215	22,610
Depreciation	*20*	182,535	131,273
Communication, stationery and office supplies		2,836	3,537
Health and safety consultancy charges		25,664	2,021
Other expenses		4,486	8,517
		4,134,003	3,992,557
Add: Opening stock of work-in-process		10,367	8,033
Less: Closing stock of work-in-process	*25*	7,657	10,367
		2,710	(2,334)
Cost of goods manufactured		4,136,713	3,990,223
Add: Opening stock of finished goods		58,218	50,093
Less: Closing stock of finished goods	*25*	198,382	58,218
		(140,164)	(8,125)
Cost of sales - Own manufactured		3,996,549	3,982,098
Purchased product		1,217,827	3,098,359
		5,214,376	7,080,457

6.1 Raw and packing materials consumed

	Note	2010	2009
Opening stock		14,700	31,442
Add: Purchases		1,576,627	1,704,467
		1,591,327	1,735,909
Less: Closing stock	*25*	10,078	14,700
		1,581,249	1,721,209

6.2 Salaries, wages, benefits and staff welfare include Rs. 12.231 million (2009: Rs. 9.650 million) in respect of contribution to gratuity funds and Rs. 19.165 million (2009: Rs. 17.367 million) in respect of provident funds.

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	Note	2010	2009
		Rupees in thousands	
7 Distribution expenses			
Product transportation and handling cost		**132,320**	328,664
Salaries, wages, benefits and staff welfare	7.1	**67,114**	43,844
Communication, stationery and office supplies		**2,257**	1,796
Rent, rates and taxes		**4,617**	3,441
Travel and conveyance		**1,795**	2,837
Insurance		**406**	467
Depreciation		**4,035**	2,779
Repairs and maintenance		**1,605**	1,282
Sales promotion, advertising and market development		**53,542**	6,887
Other expenses		**33**	33
		267,724	392,030

7.1 Salaries, wages, benefits and staff welfare include Rs. 0.437 million (2009: Nil) in respect of gratuity funds and Rs. 0.412 million (2009: Rs. 0.710) in respect of provident funds.

	Note	2010	2009
		Rupees in thousands	
8 Administrative expenses			
Salaries, wages, benefits and staff welfare	8.1	**253,297**	178,015
Communication, stationery and office supplies		**45,459**	37,794
Rent, rates and taxes		**30,190**	24,870
Travel and conveyance		**22,996**	22,491
Repairs and maintenance		**23,920**	24,913
Depreciation	20	**20,938**	15,732
Legal and professional charges		**14,086**	11,529
Insurance		**1,708**	1,567
Donations		**1,574**	868
Other expenses		**11,710**	10,493
		425,878	328,272

8.1 Salaries, wages, benefits and staff welfare include Rs. 6.258 million (2009: Rs. 4.318 million) in respect of contribution to staff gratuity funds and Rs. 9.315 million (2009: Rs. 7.649 million) in respect of provident funds.

8.2 None of the Directors of the Company or any of their spouses have any interest in or are otherwise associated with any of the recipients of donations made by the Company during the year.

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		Note	2010	2009
			Rupees in thousands	
9	**Other operating expenses** 94856334			
	Workers' profits participation fund 99	18.3	94,856	112,702
	Workers' welfare fund	9.1	20,000	46,000
	Auditors' remuneration:			
	Audit fee		750	600
	Half year review and other certifications		175	150
	Out of pocket expenses		85	56
			115,866	159,508

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.

		2010	2009
		Rupees in thousands	
9.1	Expense For the period	60,000	46,000
	Reversal of prior year excess provision	(40,000)	-
		20,000	46,000

		Note	2010	2009
			Rupees in thousands	
10	**Other operating income**			Restated
	Income from financial assets:			
	Realized gain on disposal of short term investments available for sale		179,413	4,194
	Realized gain on disposal of investments at fair value through profit or loss		4,049	23,273
	Unrealized gain due to fair value adjustment of investment at fair value through profit or loss		3,681	14,822
	Profit on bank deposits and others		63,218	63,670
			250,361	105,959
	Income from related parties:			
	Dividend income from			
	Sui Northern Gas Pipelines Limited		139,964	-
	Engro Corporation Limited		727,170	616,796
			867,134	616,796.00
	Income from non-financial assets:			
	Sale of scrap		12,376	8,976
	Profit on sale of property, plant and equipment		12,392	3,170
	Liabilities no longer payable written back		7,657	1,472
	Insurance claim - related party		16,347	-
	Other income		22,756	31,389
			71,528	45,007
			1,189,023	767,762
11	**Finance cost**			
	Mark-up:			
	Short term borrowings		68,803	100,314
	Long term loans		840,340	884,172
	Interest on workers' profits participation fund	18.3	453	261
			909,596	984,747
12	**Income tax expenses**			
	Current - for the year		686,000	858,000
	- prior year		35,109	-
	Deferred		99,264	(4,700)
			820,373	853,300

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		2010	2009
		%	%
			Restated
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	**2.14**	-
	Tax effect of amounts exempt from tax	**(2.21)**	-
	Tax effect of amount taxed at lower rate	**(7.30)**	-
		27.63	

In view of accounting loss in 2009, tax reconciliation has not been presented for the previous year.

13 Issued, subscribed and paid up capital

2010 Number of shares	2009 Number of shares		**2010**	2009
			Rupees in thousands	
13,900,000	13,900,000	Ordinary shares of Rs. 10 each fully paid in cash	**139,000**	139,000
106,421,779	95,483,436	Ordinary shares of Rs. 10 each issued as bonus shares	**1,064,218**	954,834
120,321,779	109,383,436		**1,203,218**	1,093,834

13.1 Reconciliation of Issued, subscribed and paid up capital

	2010 Number of shares	2009 Number of shares
Outstanding as at 01 January	**109,383,436**	109,383,436
Bonus shares issued during the year	**10,938,343**	-
Closing as at 31 December	**120,321,779**	**109,383,436**

13.2 Shares held by related parties

Dawood Lawrencepur Limited Percentage of equity held 16.19% (2009: 16.19%)	**19,482,974**	17,711,795
Dawood Corporation (Private) Limited Percentage of equity held 0.02% (2009: 0.02%)	**25,461**	23,147
The Dawood Foundation Percentage of equity held 3.95% (2009: 3.95%)	**4,752,997**	4,320,907
Central Insurance Company Limited Percentage of equity held 2.97% (2009: 2.97%)	**3,574,940**	3,249,946
Patek (Private) Limited Percentage of equity held 0.032% (2009: 0.032%)	**38,821**	35,292
Sach International (Private) Limited Percentage of equity held 0.001% (2009: 0.001%)	**1,749**	1,590

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14 Long term loans

Participatory redeemable capital - secured

14.1 Long term loans

	2010	2009
	Rupees in thousand	
Opening balance	6,302,500	6,302,500
Redemption during the year under call option	(600,000)	-
Closing balance	5,702,500	6,302,500
Transfer to current portion	(660,500)	-
Closing balance	5,042,000	6,302,500

14.2 Participatory

	2010		2009	
	Number of Sukuk Certificates	Face value of consolidated Sukuk Certificates	Number of Sukuk Certificates	Face value of consolidated Sukuk Certificates
	Rupees in thousands		Rupees in thousands	
Banks/Financial Institutions				
Habib Bank Limited	54	2,714,286	60	3,000,000
Meezan Bank Limited	18	904,762	20	1,000,000
Allied Bank Limited	18	904,762	20	1,000,000
United Bank Limited	11	542,857	12	600,000
MCB Bank Limited	13	633,333	14	700,000
Meezan Tahaffuz Pension Fund	0	2,500	-	2,500
Total	114	5,702,500	126	6,302,500

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

Trustee

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

Term of payment

The principal amount is repayable according to the following schedule:

Payment	2010	2009
	Rupees in thousands	
First tranche due on 18 September 2011	661	1,103
Second tranche due on 18 March 2012	2,521	2,600
Third tranche due on 18 September 2012	2,521	2,600
	5,703	6,303

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

Face value of each Sukuk certificate is Rs. 50,000 which consist of 13 Sukuk units.

Call option

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

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	Note	2010	2009
		Rupees in thousands	
			Restated

15 Deferred taxation

Deferred liability arising due to accelerated depreciation allowance		**286,520**	184,700
Deferred (asset) arising in respect of provision for compensated absences		**(18,056)**	(15,500)
		268,464	169,200

16 Staff retirement and other service benefits

	Note		
Defined benefit plan funded for management staff	*16.1*	-	198
Compensated absences	*16.2*	**51,590**	44,397
		51,590	44,595

16.1 Defined benefit plan funded - for management staff

Amounts recognized in the balance sheet are as follows:

	Note		
Present value of defined benefit obligation	*16.1.1*	**143,455**	148,767
Fair value of plan assets	*16.1.2*	**(107,904)**	(106,171)
Unrecognized actuarial losses		**(35,551)**	(42,398)
Liability as at 31 December		-	198

	Note		
Net liability as at 01 January		**197**	586
Charge to profit and loss account	*16.1.3*	**16,503**	11,637
Contribution made by the Company		**(16,700)**	(12,026)
Liability as at 31 December		-	197

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	2010	2009
	Rupees in thousands	
		Restated

16.1.1 Movement in liability for defined benefit obligation

	2010	2009
Present value of defined benefit obligation as at 01 January	148,767	112,044
Current service cost	16,323	12,808
Interest cost	17,852	16,807
Benefits paid during the year	(40,280)	(9,469)
Actuarial loss on present value of defined benefit obligation	793	16,577
Present value of defined benefit obligation as at 31 December	143,455	148,767

16.1.2 Movement in fair value of plan assets

	2010	2009
Fair value of plan assets as at 01 January	106,171	92,608
Expected return on plan assets	12,740	13,891
Funds receivable from Workers Gratuity Fund	7,990	4,936
Contributions made during the year	16,700	12,026
Benefits paid during the year	(40,280)	(9,469)
Actuarial / (loss) gain on plan assets	4,583	(7,821)
Fair value of plan assets as at 31 December	107,904	106,171

Plan assets consist of the following:

	2010	2009
Funds placed under mark up arrangements with banks	88,333	81,235
Investment company	11,580	10,000
Open ended mutual funds	-	10,000
Funds receivable from Workers Gratuity Fund	7,990	4,936
	107,903	106,171

16.1.3 Charge to profit and loss account

	2010	2009
Current service cost	16,323	12,808
Interest cost	17,852	16,807
Expected return on plan assets	(12,740)	(13,891)
Contributions receivable from workers gratuity fund	(7,990)	(4,936)
Actuarial loss recognized during the year	3,058	849
	16,503	11,637

16.1.4 Actual return on plan assets of funded gratuity scheme was Rs. 17.323 million (2009: Rs. 6.070 million).

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16.1.5 **Historical information**

	2010	2009	2008	2007	2006
			Rupees in thousands		
Present value of defined benefit obligation	143,455	148,767	112,044	101,938	86,625
Fair value of plan assets	(107,904)	(106,171)	(92,608)	(72,006)	(76,476)
Deficit in the plan	35,551	42,596	19,436	29,932	10,149
Experience adjustment arising on plan liabilities	793	16,577	2,113	11,129	3,139
Experience adjustment arising on plan assets	4,583	(7,821)	10,857	(8,848)	(2,147)

16.1.6 The Company expects to pay Rs. 20.907 million as contribution to defined benefit plan in 2011.

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

	2010 % per annum	2009 % per annum
Discount rate	13	12
Expected rate of return on plan assets	12	15
Expected rate of increase in salary	12	11

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

	Note	2010	2009
		Rupees in thousands	
16.2 Defined Contributory gratuity funded for non-management staff			
Balance as at 01 January		-	485
Expenses recognized during the year		2,428	2,332
Payments made during the year		(2,428)	(2,817)
Balance as at 31 December		-	-
16.3 Compensated absences			
Balance as at 01 January		44,397	39,091
Expenses recognized during the year	*16.3.3*	12,972	6,669
Payments made during the year		(5,779)	(1,363)
Balance as at 31 December	*16.3.1*	51,590	44,397

	2010	2009
	Rupees in thousands	

16.3.1 *Movement in liability for defined benefit obligation*

	2010	2009
Present value of defined benefit obligation as at 01 January	44,397	39,091
Current service cost	4,921	2,138
Interest cost	5,328	5,864
Benefits paid during the year	(5,779)	(1,363)
Actuarial loss on present value of defined benefit obligation	2,723	(1,333)
Present value of defined benefit obligation as at 31 December	51,590	44,397

16.3.2 ***Balance Sheet liability as on 31st December 2010***

	2010	2009
Present value of defined benefit obligations as on 31 December 2010	51,590	44,397

16.3.3 *Charge to profit and loss account*

	2010	2009
Current service cost	4,921	2,138
Interest cost	5,328	5,864
Actuarial loss / (gains) charge	2,723	(1,333)
	12,972	6,669

16.3.4 Assumptions used for valuation are as under:

	2010 % per annum	2009 % per annum
Discount rate	13	12
Expected rate of eligible salary increase in future years	12	11

retention

	Note	2010	2009
		Rupees in thousands	

17 Short term financing - secured

	Note	2010	2009
Running finance	17.1	45,725	122,324
Murabaha finance	17.2	-	400,000
Murabaha finance	17.2	-	674,279
		45,725	1,196,603

17.1 This represents utilized portion of short term running finance facilities available from Habib Bank Limited and Habib Metropolitan Bank Limited under mark-up arrangements. This facility aggregates Rs. 1,148 million (2009: Rs. 398 million) and expires on various dates latest by 30 April 2011, carries mark-up at the rate of one month KIBOR plus 150 bps (2009: one month KIBOR plus 150 bps) and 3 months KIBOR plus 75 bps per annum (2009: Nil) respectively. These facilities are secured by pledge of shares held as investments. The market value of these investments as at 31 December 2010 was Rs. 1,658 million (2009: Rs. 595 million).

17.2 These finances have been repaid during the year.

18 Trade and other payables

	Note	2010	2009
		Rupees in thousands	
Trade creditors			
Related parties	18.1	177,657	228,400
Others		18,722	37,664
		196,379	266,064
Advances from customers		20,486	10,402
Unclaimed dividends		20,130	17,777
Accrued expenses		253,743	117,935
Sales tax payable		1,215	908
Deposits	18.2	25,609	11,423
Workers' profits participation fund	18.3	95,309	112,963
Workers' welfare fund	9	70,251	96,994
Others		11,595	13,763
		694,717	648,229

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18.1 This includes amount payable to M/s SNGPL against purchase of Natural Gas amounting to Rs. 177.61 million (2009: Rs. 228.111 million) and amount payable to M/s Avanceon Limited against purchase of plant spare parts amounting Rs. 044 million (2009 : Nil).The maximum aggregate amount due to related parties at the end of any month during the year was Rs. 248.037 million (2009: Rs. 240.538 million).

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

			Note	2010	2009
				Rupees in thousands	
18.3	**Workers' profits participation fund**				
	Balance at the beginning of the year			112,963	91,479
	Add:	Allocation for the year	10	94,856	112,702
		Interest on funds used in the Company's business	11	453	261
				208,272	204,442
	Less:	Amount paid to the fund		112,963	91,479
				95,309	112,963

19 Contingent liabilities and commitments

19.1 Contingent liabilities

The Company is contingently liable for:

	2010	2009
Counter guarantees given to the bank	2,171	2,171
Indemnity bonds/guarantees given to Customs authorities equivalent to duties chargeable on import of machinery payable if matter is decided by the FBR against the Company regarding the eligibility of certain machinery and equipment for duty free import under BMR program (contingent liability of capital nature)	2,960	2,960
Indemnity bonds given to Customs authorities equivalent to duties chargeable on import of machinery which shall be released on production of installation certificate from competent authority (contingent liability of capital nature)	1,651	1,651
Pending law suits	120	120

19.2 Commitments

	2010	2009
Commitments in respect of contracts for capital expenditure	57,500	253,604
Commitments in respect of store purchases	54,355	158,916

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20 Property, plant and equipment

Particulars	Net book value as at 1 Jan 2010	Additions	Disposals (at NBV)	Depreciation charge	Net book value as at 31 Dec 2010	Cost as at 31 Dec 2010	Accumulated depreciation as at 31 Dec 2010	Net book value as at 31 Dec 2010	Depreciation rate (% per annum)
	Reconciliation of net carrying value					Reconciliation of gross carrying value			
	(Rupees in thousand)					(Rupees in thousand)			
Freehold land	250,657	-	-	-	250,657	250,657	-	250,657	-
Buildings on freehold land	33,194	-	-	3,678	29,516	114,636	85,119	29,517	5.0
Railway siding	23	-	-	-	23	2,314	2,291	23	5.0
Plant and machinery	861,367	705,028	-	135,134	1,431,261	3,472,085	2,040,823	1,431,262	7.5
Catalysts	57,206	-	-	26,254	30,952	216,213	185,261	30,952	10 - 50
Furniture, fittings and equipment	22,772	9,524	63	3,972	28,261	75,155	46,895	28,260	10 - 12.5
Data processing equipment	12,094	9,091	38	6,797	14,350	118,143	103,793	14,350	33.3
Motor vehicles	103,275	37,370	22,283	31,673	86,689	171,029	84,339	86,690	20.0
2010	1,340,588	761,013	22,384	207,508	1,871,709	4,420,232	2,548,521	1,871,711	

Particulars	Net book value as at 1 Jan 2009	Additions	Disposals (at NBV)	Depreciation charge	Net book value as at 31 Dec 2009	Cost as at 31 Dec 2009	Accumulated depreciation as at 31 Dec 2009	Net book value as at 31 Dec 2009	Depreciation rate (% per annum)
	Reconciliation of net carrying value					Reconciliation of gross carrying value			
	(Rupees in thousand)					(Rupees in thousand)			
Freehold land	250,657	-	-	-	250,657	250,657	-	250,657	-
Buildings on freehold land	37,074	-	-	3,880	33,194	114,636	81,442	33,194	5.0
Railway siding	23	-	-	-	23	2,314	2,291	23	5.0
Plant and machinery	885,695	61,153	-	85,481	861,367	2,767,056	1,905,689	861,367	7.5
Catalysts	87,453	-	-	30,247	57,206	216,213	159,007	57,206	10 - 50
Furniture, fittings and equipment	9,060	15,576	-	1,864	22,772	65,706	42,935	22,771	10 - 12.5
Data processing equipment	5,771	11,673		5,349	12,095	109,506	97,412	12,094	33.3
Motor vehicles	53,048	77,918	4,728	22,963	103,275	183,798	80,523	103,275	20.0
2009	1,328,781	166,320	4,728	149,784	1,340,589	3,709,886	2,369,299	1,340,587	

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

	2010	2009
	Rupees in thousands	
Cost of sales - (Note 6)	182,535	131,273
Distribution expenses - (Note 7)	4,035	2,779
Administrative expenses - (Note 8)	20,938	15,732
	207,508	149,784

- Property, plant and equipment that are fully depreciated amounts to Rs. 1,076,187,708 (2009: Rs. 819,521,689)

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20.1 Disposal of property, plant and equipment

Type of property, plant and equipment	Sold to	Original cost	Accumulated depreciation	Written down value	Sale proceeds	Mode of disposal
		(----------Rupees in thousand			----------)	
Motor vehicles	*Employees*					
Parado Jeep	Mr. Shahzada Dawood	10,759	3,048	7,711	8,473	As per Company Policy
Honda Civic VTI Oriel PT	Mr. Nabiel Sawaiz	1,914	64	1,850	1,877	As per Company Policy
Honda Civic VTI Oriel PT	Mr. Farrukh S. Bashir	1,911	191	1,720	1,768	As per Company Policy
Honda Civic	Khawaja Amanullah	1,892	410	1,482	1,584	As per Company Policy
Toyota Corolla GLI	Khawaja Ahmed Arsalan	1,383	184	1,199	1,245	As per Company Policy
Honda Civic	Mr. Akhlaq Mazhar	1,790	597	1,193	1,342	As per Company Policy
Toyota Corolla GLI	Mr. S.M.Amin Saleem	1,393	209	1,184	1,304	As per Company Policy
Toyota Corolla GLI	Ch. Abdul Mughani	1,383	207	1,176	1,228	As per Company Policy
Toyota Corolla GLI	Mr. Imran Bashir	1,383	231	1,152	1,285	As per Company Policy
Suzuki Cultus	Mr. Khalid Pervaiz Qureshi	855	199	656	705	As per Company Policy
Toyota Corolla XLI	Ch. Abdul Mughani	933	327	606	688	As per Company Policy
Honda Civic VTI Oriel PT	Mr. Abdul Ghafoor Gohar	1,501	900	601	825	As per Company Policy
Toyota Corolla GLI	Mr. Shahid Riaz	1,000	617	383	568	As per Company Policy
Suzuki Cultus	Mr. Ashraf Hussain	613	429	184	363	As per Company Policy
Suzuki Alto	Mr. Muhammad Arshad	510	348	162	269	As per Company Policy
Toyota Corolla GLI	Mr. Arshad Mahmood	1,005	871	134	407	As per Company Policy
Toyota Corolla GLI	Mr. Nabiel Sawaiz	1,005	871	134	407	As per Company Policy
Suzuki Cultus	Mr. Iftikhar Ahmad	613	480	133	333	As per Company Policy
Suzuki Cultus	Mr.Tayyab Ahmad	606	475	131	333	As per Company Policy
Hyundai Santro	Mr. Abdul Razzaq	661	540	121	430	As per Company Policy
Toyota Corolla XLI	Mr. Farrukh S. Bashir	906	785	121	317	As per Company Policy
Toyota Corolla GLI	Mr. Abdul Sattar	1,005	904	101	455	As per Company Policy
Aggregate of other items of property, plant and equipment with individual book values not exceeding Rupees 50,000		15,648	15,398	250	8,570	As per Company Policy
		50,669	28,285	22,384	34,776	

21 Capital work in progress

	2010	2009
	Rupees in thousands	
Plant and machinery	366,514	734,409

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26

1,385,013,902.

	Note	2010	2009
		Rupees in thousands	Restated
22 Long term investments			
Investment in subsidiary company	22.1	-	-
Investment in associate 19,289,962,259.	22.2	19,289,962	19,289,962
		19,289,962	19,289,962

22.1 Investment in subsidiary company

DH Fertilizers Limited- unquoted

6 (2009: Nil) ordinary shares of Rs.10 each			
Percentage of equity held 100% (2009: Nil)		-	-

DH Fertilizers Limited has been incorporated on 2 August, 2010 as a public unlisted Company under the Companies Ordinance, 1984 for the transfer and vesting of fertilizer business, as referred in note 1. As at 31 December, 2010, the issued share capital comprise 6 ordinary shares of Rs. 10 each, held by six directors of the Company as nominees thereof.

	Note	2010	2009
		Rupees in thousands	Restated
22.2 Investment in associate			
Engro Corporation Limited			
113,620,371 (2009: 81,157,408) ordinary shares of Rs. 10 each		19,289,962	17,666,814
Add: Cost of Nil (2009: 32,462,963) right shares acquired during the year		-	1,623,148
124,982,408 (2009 : 113,620,371) ordinary shares of Rs. 10 each Percentage of equity held - 38.13% (2009: 38.13%)	22.2.2	19,289,962	19,289,962

22.2.1 Market value of investments in associate Rs. 24,223 million (2009: Rs. 20,823 million).

22.2.2 During the year the Company has received 11,362,037 (2009:Nil) bonus shares from Engro Corporation Limited

	Note	2010	2009
		Rupees in thousands	
23 Long term loans and advances - unsecured considered good			
Executives	23.1 & 23.3	931	1,852
Other employees	23.2	749	571
		1,680	2,423

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

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

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		2010	2009
		Rupees in thousands	
23.3	**Reconciliation of carrying amounts of loans to executives**		
	Balance as at 01 January	9,875	5,943
	Disbursement during the year	6,163	11,549
	Promotion of non-executive employees as executives	2,476	864
	Loan recovered during the year	(10,865)	(8,481)
	Balance as at 31 December	7,649	9,875
	Less: Current portion shown under current assets	6,718	8,023
		931	1,852

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

23.5 The maximum amount due from executives at any month end during the year was Rs. 10.109 million (2009: Rs. 9.875 million)

		2010	2009
		Rupees in thousands	
24	**Stores, spares and loose tools**		
	Stores	417,934	433,462
	Spares	823,971	793,661
	Loose tools	14,714	13,061
	Stores and spares in transit	52,590	298,781
		1,309,209	1,538,965
	Less: Provision for obsolete items	235,665	235,665
		1,073,544	1,303,300

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

		2010	2009
		Rupees in thousands	
25	**Stock in trade**		
	Raw and packing materials	10,078	14,700
	Material in process	7,657	10,367
	Finished goods - own manufactured	198,382	58,218
		216,117	83,285
26	**Loans, advances, deposits, prepayments and other receivables**		
	These receivables are all unsecured and considered good:		
	Advances to suppliers for goods and services	26,220	40,118
	Advances and loans:		
	Executives	6,718	8,023
	Employees	9,510	20,677
	Prepayments	3,143	2,956
	Deposits	2,109	2,109
	Due from subsidiary Company - DH Fertilizers Limited	6,121	-
	Insurance claim receivable	16,347	-
	Others	19,141	18,839
		89,309	92,722

26.1 Chief Executive and directors have not taken any loan/advance from the Company (2009: Rs. Nil).

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	Note	2010	2009
		Rupees in thousands	

27 Short term investments

	Note	2010	2009
Available for sale	27.1	1,879,401	2,505,426
Financial assets at fair value through profit or loss	27.2	560,530	893,888
		2,439,931	3,399,314

27.1 Available for sale

Related parties - Quoted

Sui Northern Gas Pipelines Limited

	2010	2009
100,442,350 (2009: 100,442,350) ordinary shares of Rs. 10 each - at cost	6,282,067	6,282,067
Cost of 30,460,195 (2009: Nil) shares disposed off during the year	(1,905,103)	-
Cost of 69,982,155 shares of Rs. 10 each - at cost	4,376,964	6,282,067
Percentage of equity held: 12.75% (2009: 18.29%)		
Less: Cumulative Impairment loss	2,641,407	3,791,096
	1,735,557	2,490,971
Fair value adjustment	135,765	-
	1,871,322	2,490,971

Others - Quoted

Southern Electric Power Company Limited

	2010	2009
3,622,900 (2009: 6,270,000) ordinary shares of Rs.10 each - at cost	68,431	118,431
Cost of Nil (2009: 2,647,100) shares disposed off during the year	-	(50,000)
Cost of 3,622,900 shares of Rs. 10 each	68,431	68,431
Percentage of equity held: 2.65% (2009: 2.65%)		
Less: Cumulative Impairment loss	60,352	57,961
	8,079	10,470
Fair value adjustment	-	3,985
	8,079	14,455
	1,879,401	2,505,426

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	2010	2009
	Rupees in thousands	
27.2 Financial assets at fair value through profit or loss		
ABL Income Fund		
2,917,015.8612 (2009: 29,611,770.2888) units of Rs. 10 each	27,870	288,458
Adjustment arising from measurement to fair value	1,328	7,935
	29,198	296,393
Meezan Cash Fund-Growth Units		
4,199,685.3632 (2009: 5,655,874.2274) units of Rs. 50 each	208,979	293,808
Adjustment arising from measurement to fair value	1,174	3,013
	210,153	296,821
UBL Liquidity Plus Fund-Class C		
800,447.0736 (2009: 2,929,825.0073) units of Rs. 100 each	80,000	296,800
Adjustment arising from measurement to fair value	202	3,874
	80,202	300,674
ABL Cash Fund		
24,075,792.1313 (2009: Nil) units of Rs. 10 each	240,000	-
Adjustment arising from measurement to fair value	977	-
	240,977	-
	560,530	893,888

	Note	2010	2009
		Rupees in thousands	

28 Cash and bank balances

	Note	2010	2009
With banks:			
On current accounts		3,605	163,371
On saving accounts			
-local		1,245,327	113,808
-foreign		686	686
	28.1	1,246,013	114,494
Cash in hand		645	280
		1,250,263	278,145

28.1 These carry mark up at the rate ranging from 5% to 10.5% per annum (2009: 5% to 11%).

29 Cash flow from operating activities

	2010	2009
	Rupees in thousands	
Profit / (loss) before taxation	2,968,903	(927,987)
Adjustment for non cash expenses and other items:		
Depreciation	207,508	149,784
Finance cost	909,596	984,747
Profit on sale of property, plant and equipment	(12,392)	(3,170)
Profit on sale of short term investments available for sale	(183,462)	(27,467)
Unrealized gain on investment at fair value through profit or loss	(3,681)	(14,822)
Impairment loss on available for sale investments	2,391	3,791,096
Dividend income	(867,134)	(616,796)
Provision for staff retirement and other service benefits	31,901	20,638
Profit on time deposits	(63,218)	(63,670)
	21,509	4,220,340
Cash flow from operations before working capital changes	2,990,412	3,292,353
Working capital changes		
Decrease/(Increase) in current assets:		
Stocks, stores and spares	96,924	(271,250)
Trade debtors	7,897	(1,207)
Loans, advances, prepayments and other receivables	3,413	(20,472)
Increase in current liabilities:		
Trade and other payables	44,135	108,428
	152,369	(184,501)
Cash generated from operations	3,142,781	3,107,852

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30 Remuneration of Chief Executive, Directors & Executives

	2010			2009		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
	(Rupees in thousand)			(Rupees in thousand)		
Managerial remuneration	8,470	31,955	173,283	7,190	39,604	132,227
Retirement benefits including ex-gratia	30,585	24,617	19,731	1,170	3,281	25,780
Rent and utilities	3,760	18,525	56,677	3,762	14,438	46,741
Leave fair assistance	-	298	-	-	596	-
Medical	24	1,417	6,646	-	2,216	7,007
	42,839	76,812	256,337	12,122	60,135	211,755
Number of employees	2	6	98	1	6	89

(Including those who worked part of the year).

Chief Executive, 6 directors (2009: 6) and some of the executives of the Company (2009: 89) are provided with cars owned and maintained by the Company.

During the year Mr. Shahzada Dawood resigned as chief executive of the Company w.e.f 30 June 2010 and Mr. Isar Ahmad joined as Chief Executive w.e.f 1 July 2010.

Meeting fees amounting to Rs. 2,602,000 (2009: 22,000) were paid to 5 directors (2009: 10 directors including Chief Executive).

31 Earnings/(Loss) per share

31.1 Basic and diluted

		2010	2009 Restated
Profit/(loss) after taxation	*Rupees "000"*	2,148,530	(1,781,287)
Weighted average number of ordinary shares	*No. of shares*	120,321,779	120,321,779
Earnings/(loss) per share- basic	*Rupees*	17.86	(14.80)

There is no dilution effect on the basic earnings per share of the Company.

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32 Financial Instruments

The Company 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 Company's risk management framework. The Board is also responsible for developing and monitoring the Company's risk management policies.

32.1 Credit risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties fail completely to perform as contracted and arises principally from trade receivables and investment in debt securities. Out of the total financial assets of Rs. 3,723.59 million (2009: Rs. 3,734.819 million), the financial assets which are subject to credit risk amounted to Rs. 3,723.59 million (2009: Rs.3,734.819 million).

To manage exposure to credit risk in respect of trade receivables, management performs credit reviews taking into account the customer's financial position, past experience and other factors, furthermore, the 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 Company'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.

The carrying amount of financial assets represents the maximum credit exposure before any credit enhancements. The maximum exposure to credit risk at the reporting date is:

	2010	2009
	Rupees in thousands	
Available for sale financial assets	1,879,401	2,505,426
Financial assets at fair value through profit and loss	560,530	893,888
Loans, advances and deposits and other receivables	31,914	47,612
Trade debts	2,131	10,028
Bank balances	1,249,618	277,865
	3,723,594	3,734,819

The Company 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 and Southern Electric Power Company Limited listed on Stock Exchanges. Financial assets at fair value through profit or loss comprise of investments in Open End Mutual Funds .

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

	2010	2009
	Rupees in thousands	
Domestic	2,131	10,028

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

	2010	2009
	Rupees in thousands	
Trade receivables	2,131	10,028
The aging of trade receivables at the reporting date is:		
Past due 1-30 days	215	9,350
Past due 30-150 days	17	37
Past due 150 days	1,899	641
	2,131	10,028

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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.

32.2 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 running finance facilities available from various commercial banks 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.

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 thousands					
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	-
2009						
Financial Liabilities						
Short term financing - secured	1,196,603	1,226,100	1,226,100	-	-	-
Long term finances	6,302,500	8,255,609	182,015	1,033,363	804,053	6,236,178
Trade and other payables	415,539	415,539	415,539	-	-	-
Accrued markup	280,268	280,268	280,268	-	-	-
	8,194,910	10,177,516	2,103,922	1,033,363	804,053	6,236,178

32.3 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.

32.3.1 Currency risk

The Company 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 Company's exposure to foreign currency risk for US Dollars is as follows:

	2010	2009
	Rupees in thousands	
Foreign currency bank account	686	686
Outstanding letters of credit	(54,355)	(158,916)
Net exposure	(53,669)	(158,230)

The following significant exchange rate has been applied:

Average rate Reporting date rate

	Average rate		Reporting date rate	
	2010	2009	2010	2009
	Rupees	Rupees	Rupees	Rupees
USD to PKR	85.35	81.90	85.90	84.30

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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.

	2010	2009
	Rupees in thousands	
Effect on profit or loss		
USD	5,367	15,823
Effect on balance sheet		
USD	-	-

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 Company.

32.3.2 **Interest rate risk**

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

	Effective rate		Carrying amount	
	2010	2009	2010	2009
Financial assets	%	%	Rupees in thousands	
Financial liabilities				
Variable rate instruments				
Long term loan	13.64 to 14.10	13.64 to 15.19	5,702,500	6,302,500
Short term running finance	12.79 to 14.84	13.07 to 14.67	45,725	1,196,603

Fair value sensitivity analysis for fixed rate instruments

The Company 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.

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 for 2009.

	Profit and loss 100 bp	
	Increase	Decrease
	Rupees in thousands	
As at 31 Dec 2010		
Cash flow sensitivity-Variable rate financial liabilities	(57,482)	57,482
As at 31 Dec 2009		
Cash flow sensitivity-Variable rate financial liabilities	(70,329)	70,329

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

32.3.3 **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 Company's investment in ordinary shares of listed companies. To manage its price risk arising from aforesaid investments, the Company actively monitors the key factors that affect stock price movement.

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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:

	2010	2009
	Rupees in thousands	
Effect on equity	187,132	1,446
Effect on profit and loss account	808	249,097

32.4 **Fair value of financial instruments**

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

The 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 observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: Valuation techniques using significant un-observable inputs.

Investment 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.

32.5 **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 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 2010 and at 31 Dec 2009 were as follows:

	2010	2009
	Rupees in thousands	
Total debt	5,748,225	7,499,103
Less: Cash and Cash equivalents	(1,250,263)	(278,145)
Net Debt	4,497,962	7,220,958
Total equity	19,584,328	17,894,689
Debt-to-equity ratio	23%	40%

The decrease in the debt-to-equity ratio in 2010 resulted primarily due to repayment of long term borrowings and less reliance on short term borrowings.

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

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33. **Operating Segments**

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

33.1 Sales from fertilizer products represent 100% (2009: 100%) of total revenue of the Company.

33.2 All sales are made by the Company in Pakistan.

34. **Related party transactions**

The related parties comprise subsidiary and 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:

	2010	2009
	Rupees in thousands	
Subsidiary Company		
Expenses incurred on behalf of subsidiary	**6,121**	-
Associated company		
Sale of goods and services	**14,400**	5,745
Purchase of goods and services	**2,348,821**	2,575,550
Right issue	-	1,623,148
Dividend Income	**867,134**	616,796
Insurance claim receivable	**16,347**	-
Reimbursement of expenses from related party	**4,757**	2,770
Reimbursement of expenses to related party	**4,582**	1,404
Other related parties		
Gratuity funds	**18,930**	13,969
Provident funds	**28,892**	25,726

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

35. **Production capacity**

As against the annual production capacity of 445,500 tons (2009: 445,500 tons) of urea fertilizer the plant produced 456,120 tons (2009: 513,315 tons) which was 102.38 % (2009: 115.22%) of designed capacity.

36 **Post balance sheet events**

The Board of Directors at its meeting held on ___ 2011 has proposed a final cash dividend @ Rs.___ per share amounting to Rs.____ and ___% stock dividend for the year ended 31 December 2010 for approval of the members at the Annual General Meeting to be held on ____ 2011. These financial statements do not reflect this proposed dividend.

37. **General**

37.1 These financial statements have been authorized for issue by the Board of Directors of the Company on _____ 2011.

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

37.3 All financial information's are presented in Pak Rupee has been rounded to the nearest thousand.

Karachi

Karachi: **Chief Executive** **Director**