Engro Chemical Pakistan Limited,
7th & 8th Floors, The Harbor Front Building,
HC # 3, Marine Drive, Block-4, Clifton, Karachi, Pakistan.
Tel: (92-21) 5297501 (10 Lines) Fax: (92-21) 5810669

www.engro.com

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ENGRO

Half Year 2008 Accounts

Growing With Pride

UNCONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE SECOND QUARTER AND HALF YEAR ENDED JUNE 30, 2008

ENGRO

ENGRO CHEMICAL PAKISTAN LIMITED

HALF YEAR 2008 REPORT TO THE SHAREHOLDERS ENGRO CHEMICAL PAKISTAN LIMITED

On behalf of the Board of Directors of Engro Chemical Pakistan Limited, we are pleased to present the un-audited accounts for the half year ended June 30, 2008.

PAKISTAN FERTILIZER MARKET

The market demand for urea, during the first half 2008 was 2.7 million tons, an increase of 35% over the same period last year (2.0 million tons). The increase is attributable to the rising prices of DAP which has impacted the demand for urea. The increase was also due to pre-buying by dealers owing to the short supply sentiment in the market. Domestic production at 2.5 million tons was 8.6% higher for the half year as compared to the same period last year.

International urea prices remained firm and on average the landed price of imported urea was approximately Rs. 2,100 per bag as against the prevailing average domestic price of Rs. 580 per bag. The fertilizer industry continues to make significant contribution to the agricultural economy and has, by keeping domestic prices substantially lower than international prices, provided a subsidy to farmers of approximately Rs. 50 Billion for the first half 2008.

Industry wide sale of phosphatic fertilizers decreased by 50% to 0.22 million tons as compared to 0.44 million tons for the same period last year. Industry demand was unusually low due to the higher phosphate prices. International phosphate prices moved beyond $1,300 per ton mark, thereby maintaining its increasing trend. High phosphate prices are only partly being offset by subsidy offered by the GOP (Rs. 470 per bag for the period). In June, the government has announced increase in its DAP subsidy from Rs. 470 per bag to Rs. 1000 per bag.

COMPANY OPERATING PERFORMANCE

Urea sales including imported urea were 570,000 tons, up by 46% for the same period last year, due to higher industry demand as well as higher inventory that we carried forward at the end of last year. This resulted in our market share increasing to 21% vs 19% last year. Our plant produced 502,000 tons against 476,000 tons last year during the same period.

The sale of company manufactured blended fertilizers (Zarkhez and Engro NP) was 43,000 tons vs 64,000 tons in the first half of last year. This was due to lower market demand caused by higher product prices.

The Company's sale of imported phosphatic fertilizers, DAP and Zorawar, was 30,000 tons vs 165,000 tons for the same period last year, due to significantly higher product prices in first half of 2008 as against first half 2007.

The net profit for the half year ended June 30, 2008 was Rs. 1,556 million as compared to Rs. 1,103 million for the same period last year. The increase in earnings is mainly attributable to higher urea sales which have been partially offset by higher financial charges.

NEAR TERM OUTLOOK

Urea demand is expected to remain strong in the backdrop of short supply sentiments which are expected to continue in the near term. It is extremely important that the Government expedite import of sufficient quantity of urea to ensure adequate supplies for the Rabi season to avert another crisis in the agriculture sector of the country. The Industry is however carrying sufficient inventories of phosphatic fertilizers.

Our joint venture and subsidiaries are expected to continue to meet shareholders’ expectation.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

Karachi
July 24, 2008

KPMG Taseer Hadi & Co.
Chartered Accountants
First Floor
Sheikh Sultan Trust Building No. 2
Beaumont Road
Karachi 75530 Pakistan

Telephone +92 (21) 568 5847
Fax +92 (21) 568 5095
Internet www.kpmg.com.pk

Independent Auditors' Report on Review of Unconsolidated Condensed Interim Financial Information to the Members

Introduction

We have reviewed the accompanying unconsolidated condensed interim balance sheet of **Engro Chemical Pakistan Limited** ("the Company") as at 30 June 2008 and the related unconsolidated condensed interim profit and loss account, unconsolidated condensed interim cash flow statement and unconsolidated condensed interim statement of changes in equity for the six months period then ended (the interim financial information). Management is responsible for the preparation and presentation of this interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the auditing standards as applicable in Pakistan and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information as at and for the six months period ended 30 June 2008 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

Without qualifying our conclusion, we draw attention to the following:

As more fully explained in note 20.1, the Company has recognized the effect of acquisition of taxable losses of a subsidiary company amounting to Rs. 1,051 thousand relating to tax years 2007 and 2008 as Group Relief under section 59B of Income Tax Ordinance 2001. The tax department has disallowed this treatment mainly on grounds of pending designation from Securities and Exchange Commission of Pakistan as entity entitled for Group Relief under the Income Tax Ordinance, 2001. The Company has filed an appeal and is confident that the issue will be decided in its favour.

Further, as more fully explained in note 6, the Company has proposed some changes in the employees' share option scheme (the Scheme) as approved by the shareholders in their Extraordinary General Meeting held on 23 August 2007 relating to "date of grant". Subsequent to the period ended 30 June 2008, the SECP has cleared these changes subject to the approval of shareholders within 90 days, which is pending. However, the effect of the scheme has been accounted for in this interim financial information in accordance with the proposed changes to the scheme.

The figures for the quarter ended 31 March 2008 and 31 March 2007 in the condensed interim profit and loss account have not been reviewed and we do not express a conclusion thereon.

Date: July 24, 2008
Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants

UNCONSOLIDATED CONDENSED INTERIM BALANCE SHEET (UNAUDITED) AS AT JUNE 30, 2008

(Amounts in thousand)

	Note	Unaudited June 30, 2008	Audited December 31, 2007 (Restated)
		Rupees	
SHARE CAPITAL AND RESERVES			
Authorized share capital			
300,000,000 (2007: 300,000,000) ordinary shares of Rs. 10 each		3,000,000	3,000,000
Issued, subscribed and paid up share capital			
193,469,198 (2007: 193,469,198) ordinary shares of Rs. 10 each		1,934,692	1,934,692
Share premium		3,963,977	3,963,977
Employee share compensation reserve	**6**	272,990	272,990
Hedging reserve	**7**	2,030,522	1,037,386
General reserve		4,429,240	4,429,240
Unappropriated profit		5,078,353	4,102,366
		15,775,082	13,805,959
Advance against issue of share capital	**8**	3,383,014	-
		21,092,788	15,740,651
NON CURRENT LIABILITIES			
Long term finances	**9**	20,230,759	15,422,520
Deferred taxation		2,779,284	1,948,980
Retirement and other service benefits		35,301	38,560
		23,045,344	17,410,060
CURRENT LIABILITIES			
Current portion of :			
- long term finances		401,600	1,300,000
- other service benefits		16,511	18,662
Short term borrowings - secured	**10**	225,134	-
Trade and other payables	**11**	4,430,123	3,752,945
Unclaimed dividends		65,786	193,067
		5,139,154	5,264,674
CONTINGENCIES AND COMMITMENTS	**12**		
		49,277,286	38,415,385

(Amounts in thousand)

	Note	Unaudited June 30, 2008	Audited December 31, 2007 (Restated)
		Rupees	
NON CURRENT ASSETS			
Property, plant and equipment	**13**	21,309,665	13,818,674
Intangible assets		130,964	133,867
Long term investments	**14**	10,226,757	7,764,482
Deferred employee compensation expense		122,010	171,529
Long term loans, advances and other receivables		224,988	841,498
		32,014,384	22,730,050
CURRENT ASSETS			
Stores, spares and loose tools		819,836	740,873
Stock - in - trade	**15**	7,641,253	2,690,153
Trade debts	**16**	790,903	1,408,885
Deferred employee compensation expense		81,340	72,537
Loans, advances, deposits and prepayments		937,234	889,621
Other receivables	**17**	4,254,900	1,568,418
Taxation		59,088	543,376
Short term investments		2,398,097	6,153,948
Cash and bank balances		280,251	1,617,524
		17,262,902	15,685,335
		49,277,286	38,415,385

The annexed notes 1 to 26 form an integral part of these unconsolidated condensed interim financial statements.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

UNCONSOLIDATED CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UNAUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2008

(Amounts in thousand except for earnings per share)

	Note	3 months ended June 30, 2008	3 months ended June 30, 2007	6 months ended June 30, 2008	6 months ended June 30, 2007
		(Rupees)			
Net sales		4,258,634	6,201,474	8,824,245	8,119,538
Less: Cost of sales	**18**	2,525,953	4,886,329	5,440,734	6,101,874
GROSS PROFIT		1,732,681	1,315,145	3,383,511	2,017,664
Less: Selling and distribution expenses	**19**	327,338	399,682	696,359	629,158
		1,405,343	915,463	2,687,152	1,388,506
Add: Other income		14,307	404,021	244,060	546,057
		1,419,650	1,319,484	2,931,212	1,934,563
Less: Financial and other charges		218,043	135,483	391,505	241,195
Workers' Welfare Fund		22,830	23,768	48,254	34,202
Workers' Profit Participation Fund		60,080	59,200	126,985	84,668
		300,953	218,451	566,744	360,065
PROFIT BEFORE TAXATION		1,118,697	1,101,033	2,364,468	1,574,498
Less: Provision for taxation	**20**				
- Current		265,927	309,221	639,860	464,141
- Deferred		115,404	12,250	168,213	7,338
		381,331	321,471	808,073	471,479
PROFIT AFTER TAXATION		737,366	779,562	1,556,395	1,103,019
Earning Per Share			(Restated)		(Restated)
Earnings per share - basic	**21**	3.81	4.35	8.04	6.16
Earnings per share - diluted	**21**	3.66	4.18	7.73	5.92

Appropriations have been reflected in the statement of changes in equity.

The annexed notes 1 to 26 form an integral part of these unconsolidated condensed interim financial statements.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

UNCONSOLIDATED CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2008

(Amounts in thousand)

	Share capital	Share premium	Employee share compensation reserve	Hedging reserve	General reserve	Unappropriated profit	Advance against issue of share capital	Total
				(Rupees)				
Balance as at January 1, 2007	1,682,340	1,068,369	-	-	4,429,240	2,190,148	-	9,370,097
Final dividend for the year ended December 31, 2006 @ Rs. 3.00 per share	-	-	-	-	-	(504,702)	-	(504,702)
Effective portion of changes in fair value of cash flow hedge - net	-	-	-	(37,790)	-	-	-	(37,790)
Net profit and total recognised income and expense for the period ended June 30, 2007	-	-	-	-	-	1,103,019	-	1,103,019
Balance as at June 30, 2007	1,682,340	1,068,369	-	(37,790)	4,429,240	2,788,465	-	9,930,624
Right share issue in the ratio of 1.5 for every 10 shares @ Rs.125 per share (including share premium net of share issue cost)	252,352	2,895,608	-	-	-	-	-	3,147,960
Effective portion of changes in fair value of cash flow hedge - net	-	-	-	1,075,176	-	-	-	1,075,176
Net profit for the six months ended December 31, 2007	-	-	-	-	-	2,051,564	-	2,051,564
Total recognised income and expense for the period	-	-	-	1,075,176	-	2,051,564	-	3,126,740
1st interim dividend 2007 @ Rs. 2.00 per share	-	-	-	-	-	(336,468)	-	(336,468)
2nd Interim dividend 2007 @ Rs. 2.00 per share	-	-	-	-	-	(386,939)	-	(386,939)
Balance as at December 31, 2007 (as previously reported)	1,934,692	3,963,977	-	1,037,386	4,429,240	4,116,622	-	15,481,917
Effect of change in date of grant of share option scheme (Note 6) - net of tax	-	-	272,990	-	-	(14,256)	-	258,734
Balance as at December 31, 2007 / January 1, 2008 (as restated)	1,934,692	3,963,977	272,990	1,037,386	4,429,240	4,102,366	-	15,740,651
Final dividend for the year ended December 31, 2007 @ Rs. 3.00 per share	-	-	-	-	-	(580,408)	-	(580,408)
Effective portion of changes in fair value of cash flow hedges - net	-	-	-	993,136	-	-	-	993,136
Net profit for the six months ended June 30, 2008	-	-	-	-	-	1,556,395	-	1,556,395
Total recognised income and expense for the period	-	-	-	993,136	-	1,556,395	-	2,549,531
Advance against issue of share capital	-	-	-	-	-	-	3,383,014	3,383,014
Balance as at June 30, 2008 (unaudited)	1,934,692	3,963,977	272,990	2,030,522	4,429,240	5,078,353	3,383,014	21,092,788

The annexed notes 1 to 26 form an integral part of these unconsolidated condensed interim financial statements.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

UNCONSOLIDATED CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2008

(Amounts in thousand)

	Note	6 months ended June 30, 2008	6 months ended June 30, 2007
		(Rupees)	
CASH FLOW FROM OPERATING ACTIVITIES			
Cash generated from operations	**22**	(1,442,351)	1,094,107
Retirement and other service benefits paid		(60,484)	(57,269)
Taxes paid		(155,572)	(176,090)
Long term loans and advances (net)		(11,739)	9,960
Net cash (outflow) / inflow from operating activities		(1,670,146)	870,708
CASH FLOW FROM INVESTING ACTIVITIES			
Capital expenditure		(7,800,340)	(4,516,562)
Sale proceeds on disposal of property, plant and equipment		6,273	6,917
Investment in subsidiary companies		(2,462,275)	(1,398,161)
Income on deposits / other financial assets		29,838	60,495
Dividends received		247,896	227,790
Net cash (outflow) from investing activities		(9,978,608)	(5,619,521)
CASH FLOW FROM FINANCING ACTIVITIES			
Repayment of finance lease obligation		-	(1,145)
Repayment of long term finances		(900,800)	(643,750)
Payment of finance cost		(254,668)	(175,636)
Proceeds from long term finances		4,810,639	7,020,843
Advance against issuance of share capital		3,383,014	-
Dividends paid		(707,689)	(536,420)
Net cash inflow from financing activities		6,330,496	5,663,892
Net (decrease) / increase in cash and cash equivalents		(5,318,258)	915,079
Cash and cash equivalents at the beginning of the period		7,771,472	733,797
Cash and cash equivalents at the end of the period	**23**	2,453,214	1,648,876

The annexed notes 1 to 26 form an integral part of these unconsolidated condensed interim financial statements.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

NOTES TO THE UNCONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2008

(Amounts in thousand)

1. STATUS AND NATURE OF BUSINESS

Engro Chemical Pakistan Limited (the Company) is a public listed company incorporated in Pakistan. The principal activity of the Company is manufacturing, purchasing and marketing of fertilizers. The Company has also invested in joint ventures / other entities engaged in chemical related activities, industrial automation, food and energy businesses.

2. BASIS FOR PRESENTATION

These unconsolidated condensed interim financial statements have been presented in condensed form in accordance with the approved accounting standards as applicable in Pakistan for interim financial reporting. They do not include all the information required for annual financial statements and should be read in conjunction with the financial statements of the Company for the year ended December 31, 2007.

These unconsolidated condensed interim financial statements are unaudited and are being submitted to the shareholders as required by Section 245 of the Companies Ordinance, 1984.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted by the Company in the preparation of these unconsolidated condensed interim financial statements are the same as those used for the preceding annual financial statements for the year ended December 31, 2007 except those pertaining to Employee Share Option Scheme adopted during the period described in Note 3.1.

3.1 Employees' share option scheme

The grant date fair value of equity settled share based payments to employees is initially recognized in the balance sheet as deferred employee compensation expense with a consequent credit to equity as deferred employee compensation reserve.

The fair value determined at the grant date of the equity settled share based payments is recognized as an employee compensation expense on a straight line basis over the vesting period.

When an unvested option lapses by virtue of an employee not conforming to the vesting conditions after recognition of an employee compensation expense in profit or loss, employee compensation expense in profit or loss will be reversed equal to the amortized portion with a corresponding effect to deferred employee compensation reserve in the balance sheet.

When a vested option lapses on expiry of the exercise period, employee compensation expense already recognized in the profit or loss is reversed with a corresponding reduction to deferred employee compensation reserve in the balance sheet.

When the options are exercised, deferred employee compensation reserve relating to these options is transferred to share capital and share premium account. An amount equivalent to the face value of related shares is transferred to share capital. Any amount over and above the share capital is transferred to share premium account.

4. ESTIMATES

The preparation of these unconsolidated condensed interim financial statements 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 expenses. Actual results may differ from these estimates.

In preparing these unconsolidated condensed interim financial statements, the significant judgments made by the management in applying accounting policies, key estimates and uncertainty includes:

- Residual value and useful life estimation of fixed assets.
- Taxation.
- Fair valuation of financial assets, liabilities and derivatives.
- Effectiveness of cash flow hedges.

5. The Company's fertilizer business is subject to seasonal fluctuations as a result of two different farming seasons viz, Rabi (from October to March) and Kharif (from April to September). On an average urea and phosphatic fertilizers sales are more tilted towards Rabi season. The Company manages seasonality in the business through appropriate inventory management.

(Amounts in thousand)

6. EMPLOYEES' SHARE COMPENSATION RESERVE

The employees' share option scheme (the Scheme) was originally approved by the shareholders in their Extraordinary General Meeting (EGM) held on August 23, 2007. According to the scheme senior employees, who are critical to the business operations were to be granted options to purchase five million newly issued ordinary shares at an exercise price of Rs. 277 per ordinary share. The number of options granted is calculated in accordance with the criticality of employee to the business and their ability and is subject to approval by the Remuneration Committee. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither right to dividends nor voting rights. Vesting period has started from the date of grant and shall end on December 31, 2010, where after the options can be exercised within a period of two years ending December 31, 2012.

During the period, the Company has proposed certain changes relating to " date of grant " in the originally approved scheme. Subsequent to the period ended June 30, 2008, the Securities and Exchange Commission of Pakistan, through their letter SMD/CIW/ESOS/04/2008 dated July 10, 2008, has cleared these changes subject to the approval of shareholders within 90 days. The effect of grant of share options has been incorporated in these condensed interim financial statements using the proposed changes to the Scheme which defines the grant date as the date of EGM held on 23 August, 2007. However, the approval of the shareholders to the proposed changes to the Scheme is pending to date.

Accordingly, prior year financial statements have been restated. The amounts recognised in profit and loss account and balance sheet are as follows:

	(Rupees)
Employee share option compensation reserve and deferred employee compensation expense recognised on grant date	272,990
Less: Amortisation for the period August 23, 2007 to December 31, 2007	28,924
Closing balance as on December 31, 2007	244,066
Less: amortisation for six months ended June 30, 2008	40,716
Closing balance as on June 30, 2008	203,350

The Company used Black Scholes pricing model to calculate the fair value of share options at the grant date. The fair value of the share options as per the model and underlying assumptions are as follows:

Total number of share options issued	4,145,000
Fair value of the share options at grant date	Rs. 65.86
Share price at grant date	Rs. 220
Exercise price	Rs. 277
Annual Volatility	34.54%
Risk free rate used	10.77%

7. HEDGING RESERVE

	Unaudited June 30, 2008	Audited December 31, 2007
	(Rupees)	
Fair values of:		
- Forward foreign exchange contracts	3,150,452	2,002,572
- Interest rate SWAPs	507,348	-
	3,657,800	2,002,572
Less: Arrangement fee	164,159	164,159
Less: Deferred tax	1,463,119	801,027
	2,030,522	1,037,386

Hedging reserve primarily represents the effective portion of changes in fair values of designated cash flow hedges.

(Amounts in thousand)

7.1 At the period end the Company had forward exchange contracts to purchase Euros 252,120 at various maturity dates matching the anticipated payment dates for commitments with respect to urea expansion project. The fair value of these contracts amounted to Rs. 3,512,621 at the period end.

The Company entered in various USD : PKR Forward Contracts amounting to USD 258,738 to hedge its currency exposure against US dollars relating to the expansion project. The fair value of these contracts is negative and amounted to Rs. 362,169 at the period end.

7.2 During the period the Company entered into two interest rate swap agreements with the following banks:

Citibank N.A. Pakistan

The Company entered into an interest rate swap agreement to hedge its interest rate exposure on floating rate committed borrowing from Islamic Offshore Finance for a notional amount of USD 50,000 amortising upto September 2014. Under the swap agreement, the Company would receive USD-LIBOR from Citibank N.A. Pakistan on notional amount and pay fixed 3.47% which will be settled semi-annually. The fair value of the interest rate swap at the period ended June 30, 2008 amounted to Rs. 297,651.

Standard Chartered Bank

The Company entered into an interest rate swap agreement to hedge its interest rate exposure on floating rate committed borrowing from DFI consortium for a notional amount of USD 85,000 amortising upto April 2016. Under the swap agreement, the Company would receive USD-LIBOR from Standard Chartered Bank on notional amount and pay fixed 3.73% which will be settled semi-annually. The fair value of the interest rate swap at the period ended June 30, 2008 amounted to Rs. 209,697.

8. ADVANCE AGAINST ISSUE OF RIGHT SHARES

The amount represents the receipts against the issue of right shares at a total price of Rs. 175 each including a premium of Rs. 165 each. The shares were allotted subsequent to the period ended June 30, 2008

9. LONG TERM FINANCES

	Unaudited June 30, 2008	Audited December 31, 2007
	(Rupees)	
Opening balance	16,722,520	2,887,500
Add: Loans availed during the period-net of transaction cost	4,810,639	14,922,520
	21,533,159	17,810,020
Less: Repayments during the period	900,800	1,087,500
	20,632,359	16,722,520
Less: Current portion shown under current liability	401,600	1,300,000
Closing balance	20,230,759	15,422,520

During the six months ended 2008, the Company issued Privately Placed TFCs amounting to Rs. 4,000,000 (PPTFC Issue I) and Rs. 2,000,000 (PPTFC Issue II) respectively instead of the previously planned sub-ordinated Listed TFC of Rs 6,000,000. The PPTFCs are perpetual in nature with a five year call and ten year put option. The PPTFC I issue has mark-up of six months KIBOR plus 1.7% and the PPTFC II issue has mark-up of six months KIBOR plus 1.25%. The Company has begun drawdown of the USD 150,000 Islamic Offshore Finance (2007: Nil).

The maturity of these facilities range from 7 to 9 years and mark-up is 1.00% to 1.80% over six month KIBOR for Rupee facility and 2.57% to 2.60% over six month LIBOR for USD facilities. These facilities excluding the PPTFCs are secured by equitable mortgage upon immovable assets located at Daharki and hypothecation charge on fixed assets of the Company. The PPTFCs are secured by a subordinated floating charge over all present and future fixed assets excluding land and buildings.

10. SHORT TERM BORROWINGS

The facility for short term finance available from various banks amounts to Rs. 4,800,000 (2007: Rs. 3,000,000). The rates of mark-up ranges from 10.67% to 13.56% (2007: 10.50% to 11.00%) and the facilities are secured by floating charge upon all current and future moveable property of the Company.

(Amounts in thousand)

11. TRADE AND OTHER PAYABLES	Unaudited June 30, 2008	Audited December 31, 2007
	(Rupees)	(Rupees)
Creditors (note 11.1)	1,696,500	1,650,988
Payable to Engro Foods Limited (a subsidiary company) for taxable losses acquired (note 20)	622,103	622,103
Accrued liabilities	218,841	434,762
Payable to employee benefit funds	14,199	8,703
Advances from customers	701,598	435,008
Fair value of forward exchange contracts	362,169	-
Financial charges accrued on secured		
- long term finances	494,678	378,139
- short term borrowings	20,174	7,821
Deposits from dealers refundable on termination of dealership	10,618	10,543
Contractors' deposits and retentions	24,396	15,420
Workers' profit participation fund	126,731	3,747
Workers' welfare fund	135,178	86,924
Sales tax payable	-	91,502
Others	2,938	7,285
	4,430,123	3,752,945

11.1 This includes payable of Rs.1,048,163 (2007: Rs. 1,192,935) to Engro Eximp (Private) Limited (a wholly owned subsidiary) on account of purchased products.

12. CONTINGENCIES AND COMMITMENTS

Contingencies

12.1 Claims, including pending lawsuits, against the Company not acknowledged as debts amounted to Rs. 27,911 (2007 : Rs. 27,911).

12.2 Corporate guarantees of Rs. 445,500 (2007 : Rs. 341,750) have been issued in favour of subsidiary companies.

12.3 Bank guarantees of Rs. 138,626 (2007 : Rs. 105,290) have been issued in favour of third parties.

12.4 The Company is contesting the penalty of Rs. 99,936 (2007 : Rs. 99,936) , paid and expensed in 1997, imposed by the State Bank of Pakistan (SBP) for alleged late payment of foreign exchange risk cover fee on long term loans and has filed a suit in the High Court of Sindh. A partial refund of Rs. 62,618 (2007 : Rs. 62,618) was however, recovered in 1999 from SBP and the recovery of the balance amount is dependent on Court's decision.

12.5 The Company had commenced two separate arbitration proceedings against the Government of Pakistan for non-payment of marketing incidentals relating to the years 1983-84 and 1985-86. The sole arbitrator in the second case has awarded the Company Rs. 47,800 (2007:Rs. 47,800) and it is hoped that the award for the earlier years will be announced shortly. The award for the second arbitration has not been recognized due to inherent uncertainties arising from its challenge in the High Court.

12.6 *Commitments*	Unaudited June 30, 2008	Audited December 31, 2007
	(Rupees)	(Rupees)
Plant and machinery	29,605,152	37,186,937
Forward exchange contracts	18,085,728	-
Employee housing subsidy scheme	425,000	-

12.7 The Company announced a mid term employee retention scheme (Employee Housing Subsidy Scheme) for its employees who are not entitled for Employee Share Option Scheme. Under this scheme the Company has announced to disburse Rs. 540,000 which would be amortized over 2.5 years of service.

(Amounts in thousand)

13. PROPERTY PLANT AND EQUIPMENT

13.1 Additions to fixed assets and capital work in progress during the period amounted to Rs. 7,816,903 (2007: Rs. 7,875,168) and deletions at cost there from were Rs. 10,435 (2007: Rs. 80,269).

13.2 Capital work in progress includes Rs. 12,202,371 (2007: Rs. 5,731,734) and Rs. 2,494,010 (2007: Rs. 1,779,678) with respect to urea expansion project for plant and machinery and building and civil works respectively. The planned expansion project will cost an approximate USD 1,000,000 and will have a capacity of 1.3 million tons of urea per annum.

13.3 The Collector of Customs had disallowed exemption from custom duty and sales tax amounting to Rs. 48,236 in prior years in respect of the first catalyst and other items being part and parcel of the expansion plant on the contention that these items do not fall under the definition of "plant and machinery" which is exempt under the relevant SRO.

The Company challenged the Department's contention through a constitutional petition in the High Court of Sindh which stayed the recovery of the amount claimed and in December 1994 decided the petition in favour of the Company. The Department filed an appeal in the Supreme Court. During the year ended December 31, 2005, the Supreme Court of Pakistan dismissed the appeal and upheld the Sindh High Court judgment in Company's favour.

Payments totalling Rs. 22,207 made to the Department during the pendency of the petition in the High Court of Sindh on their contention that the stay order had expired, are now refundable to the Company, for which an application has been filed with the Department.

14. LONG TERM INVESTMENTS

	Equity% held	Unaudited June 30, 2008	Audited December 31, 2007
		(Rupees)	
Subsidiaries - at cost			
Engro Eximp (Private) Limited	100%	100	100
Engro Management Services (Private) Limited	100%	2,500	2,500
Avanceon Limited (formerly Engro Innovative Automation (Private) Limited)	62.67%	381,957	381,957
Engro Foods Limited	100%		
- Paid-up share capital		2,400,000	2,200,000
- Advance against issue of share capital		1,100,000	200,000
Engro Energy (Private) Limited	100%		
- Paid-up share capital		1,653,000	1,652,725
- Advance against issue of share capital		1,387,000	25,000
Engro Polymer & Chemicals Limited (formerly Engro Asahi Polymer & Chemicals Limited)	56.19%	2,847,200	2,847,200
		9,771,757	7,309,482
Joint Ventures - at cost			
Engro Vopak Terminal Limited	50%	450,000	450,000
Others - at cost			
Arabian Sea Country Club Limited		5,000	5,000
Agrimall (Private) Limited (note 14.1)		-	-
		10,226,757	7,764,482

14.1 This represents the Company's share in the paid-up share capital of Agrimall (Private) Limited transferred free of cost to the Company under a joint venture agreement.

(Amounts in thousand)

15. STOCK-IN-TRADE

	Unaudited June 30, 2008	Audited December 31, 2007
	(Rupees)	
Raw materials	2,582,576	586,251
Packing materials	54,642	21,534
	2,637,218	607,785
Work-in-process	14,024	7,952
Finished goods		
- own manufactured product	443,775	397,129
- purchased product	4,546,236	1,677,287
	4,990,011	2,074,416
	7,641,253	2,690,153

16. TRADE DEBTS

Considered good		
- Secured	757,623	1,372,804
- Unsecured	33,280	36,081
	790,903	1,408,885
Considered doubtful	8,059	8,159
	798,962	1,417,044
Less: Provision for doubtful debts	8,059	8,159
	790,903	1,408,885

17. OTHER RECEIVABLES

17.1 Other receivables include Rs. 4,019,969 (2007: Rs. 1,210,495) as fair value of forward exchange contracts and interest rate Swaps.

17.2 Other receivables also include Rs. 164,359 (2007: Rs. 151,222) on account of compensation for mandatory reduction in sales price by the Government of Pakistan on phosphatic and potassic fertilizer inventory.

(Amounts in thousand)

18. COST OF SALES

	3 months ended June 30, 2008	3 months ended June 30, 2007	6 months ended June 30, 2008	6 months ended June 30, 2007
	(Rupees)			
Raw materials consumed	911,648	581,261	1,918,221	1,269,342
Salaries, wages and staff welfare	151,122	151,076	322,723	310,764
Fuel and power	549,239	496,210	1,071,841	1,019,086
Repairs and maintenance	89,729	79,795	205,424	122,759
Depreciation / amortization	149,198	151,752	301,454	303,639
Consumable stores	49,635	28,608	75,437	51,458
Staff recruitment, training, safety and other expenses	17,219	13,367	27,910	25,396
Purchased services	42,658	27,569	72,855	55,720
Travel	20,566	10,384	27,451	14,268
Communication, stationery and other office expenses	8,109	5,998	12,887	11,354
Insurance	14,552	18,714	29,287	37,779
Rent, rates and taxes	12,561	3,025	13,439	5,171
Other expenses	5,765	15,190	13,558	24,073
Manufacturing cost	2,022,001	1,582,949	4,092,487	3,250,809
Work-in-process				
Add: Opening stock	4,767	960	7,952	3,644
Less: Closing stock	14,024	2,271	14,024	2,271
	(9,257)	(1,311)	(6,072)	1,373
Cost of goods manufactured	2,012,744	1,581,638	4,086,415	3,252,182
Finished goods manufactured				
Add: Opening stock	330,585	646,945	397,129	163,202
Less: Closing stock	443,775	554,962	443,775	554,962
	(113,190)	91,983	(46,646)	(391,760)
Cost of goods sold				
- own manufactured product	1,899,554	1,673,621	4,039,769	2,860,422
- purchased product	626,399	3,212,708	1,400,965	3,241,452
	2,525,953	4,886,329	5,440,734	6,101,874

19. SELLING AND DISTRIBUTION EXPENSES

	3 months ended June 30, 2008	3 months ended June 30, 2007	6 months ended June 30, 2008	6 months ended June 30, 2007
Salaries, wages and staff welfare	62,960	53,733	127,935	111,001
Staff recruitment, training, safety and other expenses	19,583	12,321	25,629	16,755
Product transportation and handling	145,759	260,184	356,843	375,653
Repairs and maintenance	15,411	1,222	48,220	3,614
Advertising and sales promotion	11,928	17,758	16,173	28,620
Rent, rates and taxes	22,745	21,771	43,002	35,489
Communication, stationery and other office expenses	6,508	4,494	10,016	9,231
Travel	15,266	8,686	21,214	13,059
Depreciation / amortization	8,270	6,719	15,366	12,219
Purchased services	3,261	1,912	3,807	2,851
Other expenses	15,647	10,882	28,154	20,666
	327,338	399,682	696,359	629,158

(Amounts in thousand)

20. TAXATION

20.1 The Company in its tax return for tax year 2007 claimed the benefit of Group Relief under section 59 B of Income Tax Ordinance, 2001 (the Ordinance) on losses acquired for an equivalent cash consideration from Engro Foods Limited (EFL), a wholly owned subsidiary company, amounting to Rs. 428,744.

During the period ended June 30, 2008, an audit was conducted by the tax department for tax year 2007 and an assessment order was issued challenging the claiming of benefit of Group Relief by the Company and certain other issues. Consequently, Company filed an appeal against issues raised by the tax department. Gross demand amounting to Rs. 476,479 was raised out of which Company paid an amount of Rs. 70,000. Stay was granted for payment of balance amount till 30 November, 2008 or the decision of the learned ITAT whichever is earlier. Company is reasonably confident that the issue of Group Relief will be decided in its favour.

Further, the Company has also agreed to acquire current year's losses of EFL and accordingly has recognised a liability of Rs. 622,103 (Note 11) in the financial statements being the equivalent tax effect of the losses to be acquired. These losses will be accounted for in the income tax return of the Company due to be filed with income tax department on September 30, 2008.

20.2 The Company has filed tax returns up to income year 2006. All assessments up to income year 2002 have been finalized by the Department and appealed against. For income years June 1995 and June 1996, assessments were set-aside by the Commissioner (Appeals) which was maintained by the Income Tax Appellate Tribunal (ITAT). Department is currently conducting hearings on this set-aside.

The appeals for income years ended June 1997, December 1997 and December 1998 have been decided in favour of the Company by the appellate authorities. For June 1997 and December 1997 the Company has filed an appeal before ITAT on grounds of error in calculation of depreciation which it believes to be an error of fact and should be rectified. For December 1998, the Company has received favourable decision from the Commissioner (Appeals) on the issue of incorporating correct turnover numbers in the assessment.

For income years December 1999 to December 2002, the Company is in appeal with ITAT on all these years on the most important contentious issue of apportionment of gross profit and selling and distribution expenses. The Company has also filed reference with Alternative Dispute Resolution Committee (ADRC) of Federal Board of Revenue (FBR) on the issue of apportionment of gross profit and selling and distribution expenses for these four years. A favourable decision in this respect has been received. For these four years, the department has also filed appeals with ITAT on certain issues which had already been decided in favour of the Company by the Commissioner (Appeals).

For income years December 2003, December 2004, December 2005 and December 2006, income tax returns have been filed under self assessment schemes.

The Company is confident that all pending issues will be ultimately resolved without any additional liability.

21. EARNINGS PER SHARE

	3 months ended June 30, 2008	3 months ended June 30, 2007	6 months ended June 30, 2008	6 months ended June 30, 2007
	(Rupees)			
Profit after taxation	737,366	779,562	1,556,395	1,103,019
Basic Earning Per Share				
		(Restated)		(Restated)
Weighted average number of Ordinary Shares (In thousand)	193,469	179,145	193,469	179,145

The shares issued under Employee Share Option Scheme and element of bonus included in the right shares under issue have a potential dilutive impact on basic earnings per share in future periods.

Diluted Earning Per Share				
		(Restated)		(Restated)
Weighted average number of Ordinary Shares (In thousand)	201,422	186,333	201,422	186,333

(Amounts in thousand)

22. CASH GENERATED FROM OPERATIONS

	6 months ended June 30, 2008	6 months ended June 30, 2007
	(Rupees)	
Profit before taxation	2,364,468	1,574,498
Adjustment for non-cash charges and other items:		
Depreciation / amortization	316,820	315,858
Profit on disposal of property, plant and equipments	(1,001)	(1,043)
Provision for retirement and other service benefits	60,570	53,250
Income on deposits / other financial assets	(276)	(67,946)
Employee share compensation expense	30,875	-
Dividend Income	(225,396)	(461,201)
Financial Charges	383,560	240,538
Working Capital changes (note 22.1)	(4,371,971)	(559,847)
	(1,442,351)	1,094,107

22.1 Working Capital changes

(Increase) / decrease in current assets		
Stores, spares and loose tools	(78,963)	(26,933)
Stock-in-trade	(4,951,100)	(1,284,426)
Trade Debts	617,982	(650,694)
Loans, advances, deposits and prepayments	(47,613)	22,773
Other receivables (net)	(92,899)	329,970
	(4,552,593)	(1,609,310)
Increase / (decrease) in current liabilities		
Trade and other payable including other service benefits (net)	180,622	1,049,463
	(4,371,971)	(559,847)

23. CASH AND CASH EQUIVALENTS

Cash and bank balances	280,251	3,536,821
Short term investments	2,398,097	886,128
Short term borrowings	(225,134)	(2,774,073)
	2,453,214	1,648,876

(Amounts in thousand)

24. TRANSACTIONS WITH RELATED PARTIES

24.1 Related party comprise subsidiaries, joint venture companies, other companies with common directors, retirement benefit funds, directors and key management personnel. Details of transactions with related parties during the period, other than those which have been disclosed elsewhere in these financial statements, are as follows:

	6 months ended June 30, 2008	6 months ended June 30, 2007
	(Rupees)	
Associates		
Purchases and services	2,395,253	761,443
Services rendered	-	967
Retirement benefits	50,982	44,117
Dividends paid	242,339	210,729
Advance received against issue of share capital	1,413,643	-
Joint Ventures		
Services rendered	550	531
Purchases and services	29,398	-
Dividend received	90,000	67,500
Subsidiaries		
Services rendered	14,340	16,297
Purchases and services	3,519,000	4,197,696
Dividends received	157,896	464,040
Long term investments made	2,462,275	1,468,500
Mark-up from a subsidiary	10,816	10,450
Others		
Remuneration paid to key management personnel / directors	76,998	35,612
Dividends paid	5,024	2,184
Advance received against issue of share capital	26,889	-

	Unaudited June 30, 2008	Audited December 31, 2007
Balances due from	(Rupees)	
- Joint Ventures (This includes dividend receivable amounting to Rs. 67,500 from Engro Vopak Terminal Limited)	69,956	88,931
- Subsidiaries (including subordinated loan of Rs. 190,000 to Engro Eximp (Private) Limited, wholly owned subsidiary).	213,949	194,133

25. NON-ADJUSTING EVENT AFTER BALANCE SHEET DATE

The Board of Directors in its meeting held on July 24, 2008 has declared an interim cash dividend of Rs. 2.00 per share (December 31, 2007: Rs. 3.00 per share final cash dividend). The condensed interim financial statements for the period ended June 30, 2008 do not include the effect of the above dividend which will be accounted for in the subsequent financial statements.

26. DATE OF AUTHORIZATION FOR ISSUE

These condensed interim financial statements were authorized for issue on July 24, 2008 by the Board of Directors of the Company.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE SECOND QUARTER AND HALF YEAR ENDED JUNE 30, 2008

ENGRO

ENGRO CHEMICAL PAKISTAN LIMITED
AND ITS SUBSIDIARY COMPANIES

HALF YEAR 2008 REPORT TO THE SHAREHOLDERS ENGRO CHEMICAL PAKISTAN LIMITED AND ITS SUBSIDIARY COMPANIES

On behalf of the Board of Directors of Engro Chemical Pakistan Limited, we are pleased to present the un-audited group consolidated accounts for the half year ended June 30, 2008 comprising of:

Holding Company

Engro Chemical Pakistan Limited

Subsidiary companies, i.e., each of those companies in which the Holding Company owns over 50% of voting rights.

Engro Eximp (Private) Limited (100% equity held);
Engro Management Services (Private) Limited (100% equity held);
Engro Foods Limited (100% equity held);
Engro Energy (Private) Limited (100% equity held);
Engro Polymer and Chemicals Limited [Formerly Engro Asahi Polymer & Chemicals Limited] (56.19% equity held);
Avanceon Limited [formerly Engro Innovative Automation (Private) Limited] (62.67% equity held); and
Engro Powergen (Private) Limited

The un-audited group consolidated results also accounts for our share of profit in Engro Vopak Terminal Limited, a 50% owned joint venture.

The consolidated net profit for the half year ended June 30, 2008 was Rs. 2,351 million as compared to Rs. 860 million for the same period last year. The primary reason for variation is higher urea sales and increased profitability of Polymer business partly offset by losses at Engro Foods.

Engro Chemical Pakistan Limited recorded net profit of Rs. 1,556 million for the first half 2008 compared to Rs. 1,103 million in the corresponding period last year. The increase in earnings is mainly attributable to higher urea sales partially offset by higher financial charges. Our share of earnings at Engro Vopak for the first half year ended June 30, 2008 was Rs. 100 million. Comparative share for the same period last year was Rs. 116 million.

The financial impact of the following seven subsidiary companies on the consolidated earning for the first half 2008 is as follows:

Engro Polymer & Chemicals Limited (Formerly Engro Asahi Polymer & Chemicals Limited) revenue during the first half of 2008 was Rs. 4,369 million as against Rs. 3,023 million for the same period last year. It posted a net profit of Rs. 428 million versus Rs. 181 million in the same period last year, an increase of 133%. Our share in Engro Polymer was 56.19% as at June 30, 2008 as compared to 80% at the same time last year.

Engro Eximp (Private) Limited is a wholly owned subsidiary of Engro Chemical Pakistan Limited. During the first half 2008, it posted net profit of Rs. 1,663 million as compared to Rs. 471 million for the same period last year.

Engro Management Services (Private) Limited is a wholly owned subsidiary of Engro Chemical Pakistan Limited. There were no business transactions for the period.

Engro Foods Limited turnover during the first half of 2008 was Rs. 3,508 million versus Rs. 1,448 million in the same period of last year, an increase of 142%. Engro Foods Limited incurred a loss of Rs. 394 million in the first half of 2008 due to its planned expansion and market development activities.

Engro Energy (Private) Limited is a wholly owned subsidiary of Engro Chemical Pakistan Limited. Pre-operating losses amounted to Rs. 3.5 million.

Avanceon Limited (formerly Engro Innovative Automation (Private) Limited) increased its revenue by 21% to Rs. 761 million during the first half of 2008. It incurred net losses of Rs. 36 million as against 80 million, showing reduction in losses by 55%. The revenue and loss number includes the acquired US Company Advanced Automation.

Engro Powergen (Private) Limited was incorporated during the period ended June 30, 2008.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

Karachi
July 24, 2008

CONSOLIDATED CONDENSED INTERIM BALANCE SHEET (UNAUDITED) AS AT JUNE 30, 2008

(Amounts in thousand)

	Note	Unaudited June 30, 2008	Audited December 31, 2007 (Restated)
		(Rupees)	
SHARE CAPITAL AND RESERVES			
Share Capital			
Authorised			
300,000,000 (2007: 300,000,000) Ordinary shares of Rs. 10 each		3,000,000	3,000,000
Issued, subscribed and paid-up			
193,469,198 (2007: 193,469,198) Ordinary shares of Rs. 10 each		1,934,692	1,934,692
Share premium		3,963,977	3,963,977
Employee share compensation reserve	**6**	272,990	272,990
Hedging reserve	**7**	2,055,687	1,037,386
Revaluation reserve on business combination		130,217	135,304
General reserves		4,429,240	4,429,240
Unappropriated profit		5,266,373	3,496,089
		16,118,484	13,334,986
		18,053,176	15,269,678
MINORITY INTEREST		3,096,978	2,995,746
		21,150,154	18,265,424
Advance against issue of share capital	**8**	3,383,014	-
NON CURRENT LIABILITIES			
Long term finances	**9**	24,679,406	18,284,262
Liabilities against assets subject to finance lease		35,652	30,028
Retention money against project payments		242,709	-
Deferred taxation		3,831,621	2,977,586
Retirement and other service benefits		41,805	70,239
		28,831,193	21,362,115
CURRENT LIABILITIES			
Current portion of			
- long term finances		686,845	1,432,509
- liabilities against assets subject to finance lease		25,533	17,007
- other service benefits		17,941	20,339
Short term borrowings	**10**	768,397	901,953
Trade and other payables	**11**	5,744,969	7,039,958
Unclaimed dividends		65,786	193,067
		7,309,471	9,604,833
CONTINGENCIES AND COMMITMENTS	**12**		
		60,673,832	49,232,372

(Amounts in thousand)

	Note	Unaudited June 30, 2008	Audited December 31, 2007 (Restated)
		(Rupees)	
NON CURRENT ASSETS			
Property, plant and equipment	**13**	36,570,795	23,477,979
Biological assets		65,457	10,065
Intangible assets		601,622	565,691
Long term investments		526,019	493,517
Deferred employee compensation expense		122,010	171,529
Long term loans, advances and other receivables		302,515	946,013
		38,188,418	25,664,794
CURRENT ASSETS			
Stores, spares and loose tools		1,093,691	915,384
Stock-in-trade	**14**	9,809,943	3,782,295
Trade debts	**15**	1,287,888	1,852,844
Deferred employee compensation expense		81,340	72,537
Loans, advances, deposits and prepayments		1,568,597	1,087,294
Other receivables and other assets	**16**	4,344,341	2,801,456
Taxation		56,779	599,949
Short term investments		3,472,790	10,322,832
Cash and bank balances		770,045	2,132,987
		22,485,414	23,567,578
		60,673,832	49,232,372

The annexed notes 1 to 26 are an integral part of these financial statements.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

CONSOLIDATED CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UNAUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2008

(Amounts in thousand except for earnings per share)

	Note	3 months ended June 30, 2008	3 months ended June 30, 2007	6 months ended June 30, 2008	6 months ended June 30, 2007
			(Rupees)		
Net sales		9,074,592	9,030,553	17,461,988	13,220,451
Less: Cost of sales	**17**	6,097,304	6,819,122	12,025,101	9,971,916
GROSS PROFIT		2,977,288	2,211,431	5,436,887	3,248,535
Less: Selling and distribution expenses	**18**	1,004,348	980,983	1,966,521	1,576,605
		1,972,940	1,230,448	3,470,366	1,671,930
Other income		321,718	14,583	724,191	82,092
		2,294,658	1,245,031	4,194,557	1,754,022
Less: Finance cost & other operating charges		329,988	209,232	573,115	373,109
Workers' Welfare Fund		36,453	27,289	61,877	39,575
Workers' Profit Participation Fund		94,139	68,465	161,044	98,807
		460,580	304,986	796,036	511,491
Add: Share in income from Joint Ventures		55,528	57,143	100,002	116,200
PROFIT BEFORE TAXATION		1,889,606	997,188	3,498,523	1,358,731
Less: Provision for taxation	**19**				
- Current		362,125	379,761	777,885	550,525
- Deferred		87,985	(32,511)	198,921	(44,723)
		450,110	347,250	976,806	505,802
PROFIT AFTER TAXATION		1,439,496	649,938	2,521,717	852,929
Attributable to					
- Equity holders of Holding Company		1,324,561	650,394	2,350,692	859,890
- Minority interest		114,935	(456)	171,025	(6,961)
		1,439,496	649,938	2,521,717	852,929
			(Restated)		(Restated)
Earnings per share - basic	**20**	6.85	3.63	12.15	4.80
Earnings per share - diluted	**20**	6.58	3.49	11.67	4.61

Appropriations have been reflected in the statement of changes in equity.

The annexed notes 1 to 26 are an integral part of these financial statements.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

CONSOLIDATED CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2008

(Amounts in thousand)

	Share Capital	Share Premium	Hedging reserve	Employee share compensation reserve	Revaluation reserve on business combination	General reserve	Unappro-priated Profit	Advance against issue of share capital	Sub total	Minority interest	Total
						(Rupees)					
Balance as at January 1, 2007 as previously stated	1,682,340	1,068,369	-	-	197,316	4,429,240	1,861,933	-	9,239,198	556,973	9,796,171
Final Dividend for the year ended December 31, 2006 @ Rs. 3.00 per share	-	-	-	-	-	-	(504,702)	-	(504,702)	-	(504,702)
Net profit and total recognised income and expense for the half year ended June 30, 2007	-	-	-	-	-	-	859,890	-	859,890	(6,961)	852,929
Dividend pertaining to minority interest	-	-	-	-	-	-	-	-	-	(74,760)	(74,760)
Addition to minority interest due to change in holding percentage of EPCL & EIAL	-	-	-	-	-	-	-	-	-	55,883	55,883
Effective portion of changes in fair value of cash flow hedge	-	-	(37,790)	-	-	-	-	-	(37,790)	-	(37,790)
Advance against issue of right shares by a subsidiary company	-	-	-	-	-	-	-	-	-	214,000	214,000
Amortization of revaluation surplus arising on acquisition of a subsidiary company	-	-	-	-	(56,938)	-	-	-	(56,938)	(22,775)	(79,713)
Balance as at June 30, 2007	1,682,340	1,068,369	(37,790)	-	140,378	4,429,240	2,217,121	-	9,499,658	722,360	10,222,018
Right shares issued during the year in the ratio of 1.5 for every 10 shares @ Rs. 125 per share (including share premium net of share issue cost)	252,352	2,895,608	-	-	-	-	-	-	3,147,960	-	3,147,960
Effective portion of changes in the fair value of cash flow hedge - net	-	-	1,075,176	-	-	-	-	-	1,075,176	-	1,075,176
Amortization of revaluation surplus arising on acquisition of a subsidiary company	-	-	-	-	(5,074)	-	-	-	(5,074)	(2,030)	(7,104)
Net income/ expenses directly recognised in equity	-	-	1,075,176	-	(5,074)	-	-	-	1,070,102	(2,030)	1,068,072
Net profit and total recognised income and expense for six months period ended December 31, 2007	-	-	-	-	-	-	2,016,630	-	2,016,630	(35,771)	1,980,859
Interim dividend 2007											
1st @ Rs. 2.00 per share	-	-	-	-	-	-	(336,468)	-	(336,468)	-	(336,468)
2nd @ Rs. 2.00 per share	-	-	-	-	-	-	(386,938)	-	(386,938)	-	(386,938)
Addition to minority interest due to change in holding percentage of EPCL & EIAL	-	-	-	-	-	-	-	-	-	1,470,834	1,470,834
Advance against issue of share capital of subsidiary company - minority interest	-	-	-	-	-	-	-	-	-	840,353	840,353
Balance as at December 31, 2007 (Audited)	1,934,692	3,963,977	1,037,386	-	135,304	4,429,240	3,510,345	-	15,010,944	2,995,746	18,006,690
Effect of change in date of grant of share option scheme (Note 6)- net of tax	-	-	-	272,990	-	-	(14,256)	-	258,734	-	258,734
Balance as at December 31, 2007 / January 1, 2008 (as restated)	1,934,692	3,963,977	1,037,386	272,990	135,304	4,429,240	3,496,089	-	15,269,678	2,995,746	18,265,424
Final Dividend for the year ended December 31, 2007 @ Rs. 3.00 per share	-	-	-	-	-	-	(580,408)	-	(580,408)	-	(580,408)
Effective portion of changes in the fair value of cash flow hedge - net	-	-	1,018,301	-	-	-	-	-	1,018,301	3,942	1,022,243
Amortization of revaluation surplus arising on acquisition of a subsidiary company	-	-	-	-	(5,087)	-	-	-	(5,087)	(2,035)	(7,122)
Net income/ expenses directly recognised in equity	-	-	1,018,301	-	(5,087)	-	-	-	1,013,214	1,907	1,015,121
Net profit and total recognised income and expense for the half year ended June 30, 2008	-	-	-	-	-	-	2,350,692	-	2,350,692	171,025	2,521,717
Dividend pertaining to minority interest	-	-	-		-	-	-	-	-	(95,000)	(95,000)
Addition to minority interest due to change in holding percentage of EPCL	-	-	-	-	-	-	-	-	-	23,300	23,300
Advance against issue of share capital	-	-	-	-	-	-	-	3,383,014	3,383,014	-	3,383,014
Balance as at June 30, 2008 (Unaudited)	1,934,692	3,963,977	2,055,687	272,990	130,217	4,429,240	5,266,373	3,383,014	21,436,190	3,096,978	24,533,168

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

CONSOLIDATED CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2008

(Amounts in thousand)

	Note	6 months ended June 30, 2008	6 months ended June 30, 2007
		(Rupees)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	**21**	(2,286,609)	1,271,065
Retirement and other service benefits paid		(95,560)	(83,722)
Finance cost		(378,340)	(223,633)
Taxes paid		(234,714)	(218,213)
Long term loans and advances (net)		15,249	(5,893)
Net cash (outflow) / inflow from operating activities		(2,979,974)	739,604
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure		(13,815,353)	(7,181,863)
Sale proceeds on disposal of fixed assets		6,313	9,762
Income on deposits / other financial assets		37,922	73,717
Retention money against project payments		242,709	-
Acquisition of subsidiary-net of cash		-	(226,896)
Dividends received		90,000	90,000
Net cash (outflow) from investing activities		(13,438,409)	(7,235,280)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long term finances (net)		5,649,480	8,300,415
Liability against assets subject to finance lease-net		14,150	9,451
Advance against issue of share capital		3,383,014	-
Received from minority interest against share issuance		-	214,000
Dividends paid		(707,689)	(611,180)
Net cash inflow from financing activities		8,338,955	7,912,686
Net (decrease) / increase in cash and cash equivalents		(8,079,428)	1,417,010
Cash and cash equivalents at the beginning of the year		11,553,866	656,131
Cash and cash equivalents at the end of the period	**22**	3,474,438	2,073,141

The annexed notes 1 to 26 are an integral part of these financial statements.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED) FOR THE HALF YEAR ENDED JUNE 30, 2008

(Amounts in thousand)

1. STATUS AND NATURE OF BUSINESS

Engro Chemical Pakistan Limited (the Holding Company) is a public listed company incorporated in Pakistan. The principal activity of the Holding Company is manufacturing, purchasing and marketing of fertilizers. The Holding Company has also invested in joint ventures / other entities engaged in chemical related activities, industrial automation, food and energy businesses. During the period ended June 30, 2008, the Holding Company has incorporated a subsidiary by the name of Engro Powergen (Private) Limited.

These consolidated condensed interim financial statements include the financial statements of the Holding Company and each of those companies in which it owns over 50% of voting rights; [Engro Eximp (Private) Limited, Engro Management Services (Private) Limited, Engro Foods Limited, Engro Energy (Private) Limited, Engro Polymer & Chemicals Limited, Avanceon Limited (formerly Engro Innovative Automation (Private) Limited) and Engro Powergen (Private) Limited - "the Group"].

Engro Eximp (Private) Limited, Engro Management Services (Private) Limited, Engro Foods Limited, Engro Energy (Private) Limited and Engro Powergen (Private) Limited are wholly owned subsidiaries of the Holding Company while the controlling interest in Engro Polymer & Chemicals Limited is 56.19% and Avanceon Limited (formerly Engro Innovative Automation (Private) Limited) is 62.67%.

The financial statements of the subsidiary companies have been consolidated on a line by line basis. The carrying value of investments held by the Holding Company is eliminated against the subsidiaries shareholders' equity in the consolidated financial statements.

Minority Interest are presented as a separate item in these consolidated condensed interim financial statements. All material intercompany balances and transactions have been eliminated.

The Group's interest in jointly controlled entity, Engro Vopak Terminal Limited has been accounted for using Equity Method.

2. BASIS FOR PRESENTATION

These consolidated condensed interim financial statements have been presented in condensed form in accordance with the approved accounting standards as applicable in Pakistan for interim financial reporting. They do not include all the information required for annual financial statements and should be read in conjunction with the financial statements of the Holding Company for the year ended December 31, 2007.

These consolidated condensed interim financial statements are unaudited and are being submitted to the shareholders as required by Section 245 of the Companies Ordinance, 1984.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted by the Holding Company in the preparation of these consolidated condensed interim financial statements are the same as those used for the preceding annual financial statements for the year ended December 31, 2007 except those pertaining to Employee Share Option Scheme adopted during the period described in Note 3.1.

3.1. Employees' share option scheme

The grant date fair value of equity settled share based payments to employees is initially recognized in the balance sheet as deferred employee compensation expense with a consequent credit to equity as deferred employee compensation reserve.

The fair value determined at the grant date of the equity settled share based payments is recognized as an employee compensation expense on a straight line basis over the vesting period.

When an unvested option lapses by virtue of an employee not conforming to the vesting conditions after recognition of an employee compensation expense in profit or loss, employee compensation expense in profit or loss will be reversed equal to the amortized portion with a corresponding effect to deferred employee compensation reserve in the balance sheet.

When a vested option lapses on expiry of the exercise period, employee compensation expense already recognized in the profit or loss is reversed with a corresponding reduction to deferred employee compensation reserve in the balance sheet.

When the options are exercised, deferred employee compensation reserve relating to these options is transferred to share capital and share premium account. An amount equivalent to the face value of related shares is transferred to share capital. Any amount over and above the share capital is transferred to share premium account.

(Amounts in thousand)

4. ESTIMATES

The preparation of these consolidated condensed interim financial statements 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 expenses. Actual results may differ from these estimates.

In preparing these consolidated condensed interim financial statements, the significant judgments made by the management in applying accounting policies, key estimates and uncertainty includes:

- Residual value and useful life estimation of fixed assets.
- Taxation.
- Fair valuation of financial assets, liabilities and derivatives.
- Effectiveness of cash flow hedges.

5. The Holding Company's fertilizer business is subject to seasonal fluctuations as a result of two different farming seasons viz, Rabi (from October to March) and Kharif (from April to September). On an average urea and phosphatic fertilizers sales are more tilted towards Rabi season. The Holding Company manages seasonality in the business through appropriate inventory management.

6. EMPLOYEES SHARE COMPENSATION RESERVE

The employees' share option scheme (the Scheme) was originally approved by the shareholders in their Extraordinary General Meeting (EGM) held on August 23, 2007. According to the scheme senior employees who are critical to the business operations were to be granted options to purchase five million newly issued ordinary shares at an exercise price of Rs. 277 per ordinary share. The number of options granted is calculated in accordance with the criticality of employee to the business and their ability and is subject to approval by the Remuneration Committee. No amounts are paid or payable by the recipient on receipt of the option. The options carry neither right to dividends nor voting rights. Vesting period has started from the date of grant and shall end on December 31, 2010, where after the options can be exercised within a period of two years ending December 31, 2012.

During the period, the Holding Company has proposed certain changes relating to " date of grant " in the originally approved scheme. Subsequent to the period ended June 30, 2008, the Securities and Exchange Commission of Pakistan, through their letter SMD/CIW/ESOS/04/2008 dated July 10, 2008, has cleared these changes subject to the approval of shareholders within 90 days. The effect of grant of share options has been incorporated in these condensed interim financial statements using the proposed changes to the Scheme which defines the grant date as the date of EGM held on 23 August 2007. However, the approval of the shareholders to the proposed changes to the Scheme is pending to date.

Accordingly, prior year financial statements have been restated. The amounts recognised in profit and loss account and balance sheet are as follows:

	(Rupees)
Employee share option compensation reserve and deferred employee compensation expense recognised on grant date	272,990
Less: Amortisation for the period August 23, 2007 to December 31, 2007	28,924
Closing balance as on December 31, 2007	244,066
Less: amortisation for six months ended June 30, 2008	40,716
Closing balance as on June 30, 2008	203,350

The Holding Company used Black Scholes pricing model to calculate the fair value of share options at the grant date. The fair value of the share options as per the model and underlying assumptions are as follows:

Total number of share options issued	4,145,000
Fair value of the share options at grant date	Rs. 65.86
Share price at grant date	Rs. 220
Exercise price	Rs. 277
Annual volatility	34.54%
Risk free rate used	10.77%

(Amounts in thousand)

7. HEDGING RESERVE

	Unaudited June 30, 2008	Audited December 31, 2007
	(Rupees)	
Fair values of:		
- Forward foreign exchange contracts	3,185,316	2,002,572
- Interest rate SWAPs	507,348	-
	3,692,664	2,002,572
Less: Arrangement fee	164,159	164,159
Deferred tax	1,468,876	801,027
Minority interest	3,942	-
	2,055,687	1,037,386

Hedging reserve primarily represents the effective portion of changes in fair values of designated cash flow hedges.

7.1 The Group entered in various forward contracts to hedge its foreign currency exposure. At period end the Group had forward exchange contracts amounting to Euros 256,609 and USD 282,367 relating to the expansion projects. The fair value of these contracts is Rs. 3,546,365 and Rs. (339,459) respectively at the period end.

7.2 During the period the Holding Company entered into two interest rate swap agreements with the following banks:

Citibank N.A. Pakistan

The Holding Company entered into an interest rate swap agreement to hedge its interest rate exposure on floating rate committed borrowing from Islamic Offshore Finance for a notional amount of USD 50,000 amortising upto September 2014. Under the swap agreement, the Holding Company would receive USD-LIBOR from Citibank N.A. Pakistan on notional amount and pay fixed 3.47% which will be settled semi-annually. The fair value of the interest rate swap at the period ended June 30, 2008 amounted to Rs. 297,651.

Standard Chartered Bank

The Holding Company entered into an interest rate swap agreement to hedge its interest rate exposure on floating rate committed borrowing from DFI consortium for a notional amount of USD 85,000 amortising upto April 2016. Under the swap agreement, the Holding Company would receive USD-LIBOR from Standard Chartered Bank on notional amount and pay fixed 3.73% which will be settled semi-annually. The fair value of the interest rate swap at the period ended June 30, 2008 amounted to Rs. 209,697.

8. ADVANCE AGAINST ISSUE OF RIGHT SHARES

The amount represents the receipts against the issue of right shares at a total price of Rs 175 each including a premium of Rs. 165 each. The shares were allotted subsequent to the period ended June 30, 2008

9. LONG TERM FINANCES

9.1 During the six months period, the Holding Company issued Privately Placed TFCs amounting to Rs. 4,000,000 (PPTFC Issue I) and Rs. 2,000,000 (PPTFC Issue II) respectively instead of the previously planned sub-ordinated Listed TFC of Rs 6,000,000. The PPTFCs are perpetual in nature with a five year call and ten year put option. The PPTFC I issue has markup of six months KIBOR plus 1.7% and the PPTFC II issue has markup of six months KIBOR plus 1.25%. The Holding Company has begun drawdown of the USD 150,000 Islamic Facility (2007: Nil)

The maturity of these facilities range from 7 to 9 years and markup is 1.00% to 1.80% over six months KIBOR for rupee facility and 2.57% to 2.60% over six months LIBOR for USD facilities. These facilities excluding the PPTFCs are secured by equitable mortgage upon immovable assets located at Daharki and hypothecation charge on fixed assets of the Company. The PPTFCs are secured by a subordinated floating charge over all present and future fixed assets excluding land and buildings.

9.2 During the period, Engro Foods Limited (EFL) has arranged a Syndicated Term Finance Facility (STFF) amounting to Rs. 1,500,000 with a syndicate of banks led by Bank Al-Habib Limited (the Bank). The related STFF agreement has been signed by all the participating banks on June 25, 2008 and the first drawdown is expected on July 15, 2008 subject to compliance of certain conditions.

EFL, pending finalization of the Syndicate Term Finance Agreements as referred to above, arranged two bridge financing facilities amounting to Rs. 500,000 each from the Bank at the rate of three months KIBOR plus 1.00% and six months KIBOR plus 0.69%, respectively. Such bridge financing facilities would be converted/merged with the Syndicated Term Finance and as such have been classified as long term.

The above finances are secured by a registered sub-ordinate floating charge over present and future fixed assets of EFL.

(Amounts in thousand)

9.3 Engro Polymer & Chemicals Limited (EPCL) has entered into a Syndicated Term Finance Agreement on October 12, 2007 for Rs. 5,700,000. The facility is repayable in seventeen semi-annual installments commencing 30 months after May 9, 2008, inclusive of mark-up at the rate of 2.25% over six months KIBOR and monitoring fee of Rs. 700 per annum with a commitment fee at the rate of 0.15% per annum on that part of the loan that has not been disbursed. During the period, Company has drawn down amount of Rs. 2,000,000 from such facility. Transaction costs amounting to Rs. 53,960 has been netted off against the finance.

During the period, on February 15, 2008, the Company has repaid the bridge finance facility amounting to Rs.1,240,000. This finance was arranged to meet the intermediate funding requirements of the Project.

10. SHORT TERM BORROWINGS

10.1 The facility to Holding Company for short term finance available from various banks amounts to Rs. 4,800,000 (2007: Rs. 3,000,000). The rates of markup ranges from 10.67% to 13.56% (2007: 10.50 % to 11.00%) and the facilities are secured by floating charge upon all current and future moveable property of the Holding Company.

10.2 The facility to EFL for short term running finance available from various banks amounts to Rs. 1,200,000 (2007: Rs. 900,000). The rates of mark-up range from 14.10% to 14.60% (2007: 10.65% to 10.89%) and the facilities are secured by floating charge upon all the present and future current assets of EFL.

11. TRADE AND OTHER PAYABLES

	Unaudited June 30, 2008	Audited December 31, 2007
	(Rupees)	
Creditors	1,890,479	4,131,909
Accrued liabilities	900,650	1,185,214
Payable to employee benefit fund	23,622	17,272
Fair value of forward exchange contracts	362,169	-
Advances from customers	1,084,875	616,858
Finance cost accrued on secured:		
- redeemable capital and long term loans	628,118	465,148
- short term borrowings	38,116	25,838
Deposits from dealers refundable on termination of dealership	13,618	13,988
Contractors' deposits and retentions	125,702	138,888
Workers' Profits Participation Fund	160,790	3,747
Workers' Welfare Fund	148,801	99,879
Sales tax payable	70,754	91,502
Provision for infrastructure fee	190,882	178,599
Others	106,393	71,116
	5,744,969	7,039,958

12. CONTINGENCIES AND COMMITMENTS

Contingencies

12.1 Claims, including pending lawsuits, against the Group not acknowledged as debts amounted to Rs. 27,911 (2007: Rs. 27,911).

12.2 Corporate guarantees of Rs. 963,860 (2007 : Rs. 665,568) have been issued on behalf of the Group.

12.3 The Group is contesting the penalty of Rs. 99,936 (2007: Rs. 99,936) paid and expensed in 1997, imposed by the State Bank of Pakistan (SBP) for alleged late payment of foreign exchange risk cover fee on long term loans and has filed a suit in the High Court of Sindh. A partial refund of Rs. 62,618 (2007: Rs. 62,618) was, however, recovered in 1999 from SBP and the recovery of the balance amount is dependent on the Court's decision.

12.4 The Group had commenced two separate arbitration proceedings against the Government of Pakistan for non-payment of marketing incidentals relating to the years 1983-84 and 1985-86 respectively. The sole arbitrator in the second case has awarded the Group Rs. 47,800 (2007: Rs. 47,800) and it is hoped that the award for the earlier years will be announced shortly. The award for the second arbitration has not been recognised due to inherent uncertainties arising from its challenge in the High Court.

(Amounts in thousand)

		Unaudited June 30, 2008	Audited December 31, 2007
		(Rupees)	
12.5	**Commitments**		
	Plant and machinery	44,223,124	53,152,926
	Forward exchange contracts	18,085,728	-
	Employee Housing Subsidy Scheme	425,000	-
	Biological assets	121,141	-
	Stock in trade / spare parts	277,831	-

12.6 The Holding Company announced a mid term employee retention scheme (Employee Housing Subsidy Scheme) for its employees who are not entitled for Employee Share Option Scheme. Under this scheme the Holding Company has announced to disburse Rs. 540,000 which would be waived off after completion of 2.5 years of service.

13. PROPERTY PLANT AND EQUIPMENT

13.1 Additions to fixed assets, biological assets and capital work in progress during the period amounted to Rs. 13,609,364 (2007: Rs. 13,972,020) and deletions at cost therefrom were Rs. 15,058 (2007: Rs. 199,486).

13.2 Capital work in progress includes Rs. 12,202,371 (2007: Rs. 5,731,734) and Rs. 2,494,010 (2007: Rs. 1,799,678) with respect to urea expansion project for plant and machinery and building and civil works respectively. The planned expansion project will cost an approximate USD 1,000,000 and will have a capacity of 1.3 million tons of urea per annum.

13.3 The Collector of Customs had disallowed exemption from custom duty and sales tax amounting to Rs. 48,236 (2007: Rs. 48,236) in prior years in respect of first catalyst and other items being part and parcel of the expansion plant on the contention that these items do not fall under the definition of "plant and machinery" which is exempt under the relevant SRO. The Holding Company challenged the Department's contention through a constitutional petition in the High Court of Sindh which stayed the recovery of the amount claimed and in December 1994 and decided the petition in favour of the Holding Company. The Department filed an appeal in the Supreme Court. During the year ended December 31, 2005, the Supreme Court of Pakistan dismissed the appeal and upheld the Sindh High Court judgement in the Holding Company's favour. Payments totaling Rs. 22,207 (2007: Rs. 22,207) made to the Department during the pendency of the petition in the High Court of Sindh on their contention that the stay order had expired, are now refundable to the Holding Company, for which an application has been filed with the Department.

		Unaudited June 30, 2008	Audited December 31, 2007
14.	**STOCK-IN-TRADE**	(Rupees)	
	Raw materials (including packing material)	3,462,633	1,110,088
	Work-in-process	48,535	45,297
	Finished goods - own manufactured product	898,371	1,194,921
	- purchased product	5,400,404	1,431,989
		6,298,775	2,626,910
		9,809,943	3,782,295

15.	**TRADE DEBTS**		
	Considered good		
	- Secured	937,983	1,551,276
	- Unsecured	349,905	301,568
		1,287,888	1,852,844
	Considered doubtful	9,735	17,202
		1,297,623	1,870,046
	Less: Provision for doubtful debts	9,735	17,202
		1,287,888	1,852,844

(Amounts in thousand)

16. OTHER RECEIVABLES AND OTHER ASSETS

16.1 Other receivables include Rs. 4,044,872 (2007: Rs. 1,210,495) as fair value of forward exchange contracts and interest rate Swaps.

16.2 The other receivables include Rs. 164,359 (2007: Rs. 1,046,779) on account of compensation for mandatory reduction in sales price by the Government of Pakistan on phosphatic and potassic fertilizer inventory.

17. COST OF SALES

	3 months ended June 30, 2008	3 months ended June 30, 2007	6 months ended June 30, 2008	6 months ended June 30, 2007
	(Rupees)			
Raw materials consumed	3,457,528	2,176,478	7,327,042	4,202,837
Salaries, wages and staff welfare	227,156	309,781	467,310	581,178
Fuel and power	619,593	551,589	1,214,116	1,124,202
Repairs and maintenance	197,521	96,269	334,146	166,136
Depreciation / amortization	259,240	227,585	512,328	447,838
Consumable stores	56,613	66,049	84,277	94,058
Staff recruitment, training, safety and other expenses	15,751	22,120	27,910	35,869
Purchased services	163,437	45,035	272,984	132,223
Travel	35,389	28,751	47,714	39,419
Communication, stationery and other office expenses	27,895	11,087	40,910	22,153
Insurance	20,611	25,773	41,179	49,099
Rent, rates and taxes	16,968	1,414	21,556	6,199
Other expenses	3,195	15,373	15,929	29,732
Manufacturing cost	5,100,897	3,577,304	10,407,401	6,930,943
Add: Opening stock of work-in-progress	31,049	18,203	45,297	23,382
Less: Closing stock of work-in-progress	48,535	18,393	48,535	18,393
	(17,486)	(190)	(3,238)	4,989
Cost of goods manufactured	5,083,411	3,577,114	10,404,163	6,935,932
Add: Opening stock of finished goods manufactured	1,340,839	1,307,622	1,194,921	956,457
Less: Closing stock of finished goods manufactured	898,371	891,287	898,371	891,287
	442,468	416,335	296,550	65,170
Cost of goods sold - own manufactured product	5,525,879	3,993,449	10,700,713	7,001,102
- purchased product	268,675	2,723,898	891,848	2,764,402
- others	302,750	101,775	432,540	206,412
	6,097,304	6,819,122	12,025,101	9,971,916

18. SELLING AND DISTRIBUTION EXPENSES

Salaries, wages and staff welfare	268,438	203,420	479,102	375,776
Staff recruitment, training, safety and other expenses	17,474	37,861	25,629	42,295
Product transportation and handling	141,809	327,431	455,374	511,648
Repairs and maintenance	50,201	2,677	84,760	6,473
Advertising and sales promotion	194,675	285,112	440,039	387,637
Rent, rates and taxes	43,926	34,457	76,964	58,662
Communication, stationery and other office expenses	55,113	17,924	85,755	42,391
Travel	54,550	27,972	81,722	53,364
Depreciation / amortization	22,670	15,308	43,976	29,599
Purchased services	140,928	5,578	151,357	14,894
Other expenses	14,564	23,243	41,843	53,866
	1,004,348	980,983	1,966,521	1,576,605

(Amounts in thousand)

19. TAXATION

19.1 The Holding Company in its tax return for tax year 2007 claimed the benefit of Group Relief under section 59 B of Income Tax Ordinance, 2001 (the Ordinance) on losses acquired for an equivalent cash consideration from Engro Foods Limited (EFL), a wholly owned subsidiary company, amounting to Rs. 428,744.

During the period ended June 30, 2008, an audit was conducted by the tax department for tax year 2007 and an assesment order was issued challenging the claiming of benefit of Group Relief by the Holding Company and certain other issues. Consequently, Holding Company filed an appeal against issues raised by the tax department. Gross demand amounting to Rs. 476,479 was raised out of which Holding Company paid an amount of Rs. 70,000. Stay for payment of balance amount has been granted till 30th November, 2008 or the decision of the learned ITAT whichever is earlier. Holding Company is reasonably confident that the issue of Group Relief will be decided in its favour.

Further, the Holding Company has also agreed to acquire tax year 2008's losses of EFL in the financial statements being the equivalent tax effect of the losses to be acquired. These losses will be accounted for in the income tax return of the Holding Company due to be filed with income tax department on September 30, 2008.

19.2 The Holding Company has filed tax returns up to income year 2006. All assessments up to income year 2002 have been finalized by the Department and appealed against. For income years June 1995 and June 1996, assessments were set-aside by the Commissioner (Appeals) which was maintained by the Income Tax Appellate Tribunal (ITAT). Department is currently conducting hearings on this set-aside.

The appeals for income years ended June 1997, December 1997 and December 1998 have been decided in favor of the Holding Company by the appellate authorities. For June 1997 and December 1997 the Holding Company has filed an appeal before ITAT on grounds of error in calculation of depreciation which it believes to be an error of fact and should be rectified. For December 1998, the Holding Company has received favorable decision from the Commissioner (Appeals) on the issue of incorporating correct turnover numbers in the assessment.

For income years December 1999 to December 2002, the Holding Company is in appeal with ITAT on all these years on the most important contentious issue of apportionment of gross profit and selling and distribution expenses. The Holding Company has also filed reference with Alternative Dispute Resolution Committee (ADRC) of Federal Board of Revenue (FBR) on the issue of apportionment of gross profit and selling and distribution expenses for these four years. A favourable decision in this respect has been received.

For these four years, the Department has also filed appeals with ITAT on certain issues which were decided in favor of the Holding Company by the Commissioner (Appeals). For income years December 2003, December 2004, December 2005 and December 2006, income tax returns have been filed under self assessment schemes. The Holding Company is confident that all pending issues will be ultimately resolved without any additional liability.

20. EARNINGS PER SHARE - BASIC AND DILUTED

	3 months ended June 30, 2008	3 months ended June 30, 2007	6 months ended June 30, 2008	6 months ended June 30, 2007
	(Rupees)			
Profit after taxation (attributable to the shareholders of Holding Company)	1,324,561	650,394	2,350,692	859,890
Basic Earning Per Share		(Restated)		(Restated)
Weighted average number of Ordinary shares (In thousand)	193,469	179,145	193,469	179,145

The shares issued by Holding Company under Employee Share Option Scheme and element of bonus included in the right shares under issue have a potential dilutive impact on basic earnings per share in future periods.

Diluted Earning Per Share		(Restated)		(Restated)
Weighted average number of Ordinary shares (In thousand)	201,422	186,333	201,422	186,333

(Amounts in thousand)

21. CASH GENERATED FROM OPERATIONS

	6 months ended June 30, 2008	6 months ended June 30, 2007
	(Rupees)	
Profit before taxation	3,498,523	1,358,731
Adjustment for non-cash charges and other items:		
- Depreciation and amortization	556,304	477,437
- (Profit) / loss on disposal of fixed assets	(1,411)	(953)
- Provision for retirement and other service benefits	71,078	69,754
- Depreciation on revaluation surplus arising on business combination	3,052	34,162
- Employee share compensation expense	30,875	-
- Income on deposits / other financial assets	(8,360)	(81,579)
- Share of income from joint venture company	(100,002)	(116,200)
- Financial charges	553,588	339,202
- Working capital changes (note 21.1)	(6,890,256)	(809,489)
	(2,286,609)	1,271,065

21.1 Working capital changes

(Increase) / decrease in current assets		
- Stores, spares and loose tools	(178,307)	(37,330)
- Stock-in-trade	(6,027,648)	(716,482)
- Trade debts	564,956	(721,534)
- Loans, advances, deposits and prepayments	(481,303)	(283,059)
- Other receivables and other assets	1,070,802	108,951
	(5,051,500)	(1,649,454)
Increase / (decrease) in current liabilities		
- Trade and other payables including other service benefits (net)	(1,838,756)	839,965
	(6,890,256)	(809,489)

22. CASH AND CASH EQUIVALENTS

Cash and bank balances	770,045	5,834,292
Short term investments	3,472,790	1,487,366
Short-term borrowings	(768,397)	(5,248,517)
	3,474,438	2,073,141

(Amounts in thousand)

23. SEGMENT REPORTING

A business segment is a group of assets and operations engaged in providing products that are subject to risk and returns that are different from those of other business segments.

Type of segments	Nature of business
Fertilizer	Manufacture, purchase and market fertilizers.
Polymer	Manufacture, market and sell Poly Vinyl Chloride (PVC), PVC compounds and related chemicals.
Food	Manufacture, process and sell dairy food products.
Other operations	Includes Independent Power Projects (IPP) & engineering and automation businesses.

	Fertilizer				Polymer				Food			
	6 months ended June 30,		3 months ended June 30,		6 months ended June 30,		3 months ended June 30,		6 months ended June 30,		3 months ended June 30,	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Revenue	8,824,245	8,119,538	4,258,634	6,201,474	4,368,754	3,022,588	2,473,419	1,704,713	3,507,765	1,448,388	1,851,903	744,407
Profit / (Loss) after tax	2,369,269	1,519,147	1,347,820	1,194,214	428,458	180,600	232,177	121,476	(394,133)	(287,762)	(201,465)	(222,168)

	Other operations				Elimination - net				Consolidated			
	6 months ended June 30,		3 months ended June 30,		6 months ended June 30,		3 months ended June 30,		6 months ended June 30,		3 months ended June 30,	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Revenue	761,224	629,937	490,636	379,959	-	-	-	-	17,461,988	13,220,451	9,074,592	9,030,553
Profit / (Loss) after tax	(39,598)	(141,170)	27,179	(113,988)	157,721	(417,886)	33,785	(329,596)	2,521,717	852,929	1,439,496	649,938

	Fertilizer		Polymer		Food		Other operations		Elimination - net		Consolidated	
	Unaudited June 30, 2008	Audited December 31, 2007	Unaudited June 30, 2008	Audited December 31, 2007	Unaudited June 30, 2008	Audited December 31, 2007	Unaudited June 30, 2008	Audited December 31, 2007	Unaudited June 30, 2008	Audited December 31, 2007	Unaudited June 30, 2008	Audited December 31, 2007
Assets	49,902,879	40,442,179	11,267,648	9,464,191	5,623,340	4,329,423	4,177,765	2,810,017	(10,297,800)	(7,813,438)	60,673,832	49,232,372

24. TRANSACTIONS WITH RELATED PARTIES

	6 months ended June 30, 2008	6 months ended June 30, 2007
	(Rupees)	
Associates		
Purchases and services	5,323,310	2,936,224
Sale of goods / services rendered	36,417	1,498
Retirement benefits	50,982	59,650
Dividend received	90,000	67,500
Dividend paid	242,339	262,077
Advance received against issue of share capital	1,413,643	-
Others		
Dividend paid	5,024	2,184
Remuneration paid to key management personnel / directors	224,173	95,969
Advance received against issue of share capital	26,889	-

	Unaudited June 30, 2008	Audited December 31, 2007
	(Rupees)	
Balance due from Joint Venture (This includes dividend receivable amounting to Rs. 67,500 from Engro Vopak Terminal Limited)	69,956	88,931

25. NON-ADJUSTING EVENT AFTER BALANCE SHEET DATE

The Board of Directors of the Holding Compnay in its meeting held on July 24, 2008 has declared an interim cash dividend of Rs. 2.00 per share (December 31, 2007: Rs. 3.00 per share final cash dividend). The condensed interim financial statements for the period ended June 30, 2008 do not include the effect of the above dividend which will be accounted for in the subsequent financial statements.

26. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on July 24, 2008 by the Board of Directors of the Holding Company.

Hussain Dawood
Chairman

Asad Umar
President and Chief Executive

Company Information

Board of Directors
Hussain Dawood, Chairman
Asad Umar, President and Chief Executive
Arshad Nasar
Isar Ahmad
Shahzada Dawood
Shabbir Hashmi
Asif Qadir
Khalid Mansoor
Khalid Siraj Subhani
Ruhail Mohammed

Company Secretary
Andalib Alavi

Chief Financial Officer
Ruhail Mohammed

Members of Audit Committee
Shabbir Hashmi, Chairman
Isar Ahmad
Shahzada Dawood
Arshad Nasar

The secretary of committee is Naveed A. Hashmi, Corporate Audit Manager.

Auditors
KPMG Taseer Hadi & Co.
Chartered Accountants

Share Registrar
M/s. FAMCO Associates (Private) Limited
(Formerly Ferguson Associates (Private) Limited)
Fourth Floor, State Life Buliding 2-A, I.I. Chundrigar Road, Karachi - 74000.

Bankers
ABN AMRO Bank N.V.
Allied Bank of Pakistan Limited
Askari Commercial Bank Limited
Bank Al-Falah Limited
Bank Al-Habib Limited
Citibank N.A.
Crescent Commercial Bank Ltd.
Dubai Islamic Bank
Faysal Bank Limited
Habib Bank Limited
Habib Metropolitan Bank Limited
JS Bank Limited
MCB Bank Limited
Meezan Bank Limited
National Bank of Pakistan
Standard Chartered Bank (Pakistan) Limited
The Bank of Tokyo - Mitsubishi UFJ Limited
The Hongkong and Shanghai Banking Corporation Limited
United Bank Limited

Registered Office
7th & 8th Floors, The Harbor Front Building, HC # 3, Marine Drive, Block-4, Clifton, Karachi, Pakistan.