Engro Polymer & Chemicals Ltd.

Financial Information for the
Quarter and Half Year ended June 30, 2010

CONTENTS

COMPANY INFORMATION

Chairman	Asad Umar
President & Chief Executive	Asif Qadir
Directors	Isar Ahmad Kimihide Ando Shahzada Dawood Shabbir Hashmi Waqar A. Malik Khalid Mansoor Khalid S. Subhani Takashi Yoshida
Company Secretary	Arshaduddin Ahmed
Board Audit Committee	Isar Ahmad Kimihide Ando Shabbir Hashmi Khalid S. Subhani
Bankers / Lenders	Allied Bank Ltd. Arif Habib Bank Ltd. Askari Commercial Bank Ltd. Bank Al Falah Ltd. Bank Al Habib Ltd. Barclays Bank PLC., Pakistan Citibank N.A. Deutsche Bank AG Dubai Islamic Bank Ltd. Samba Bank Ltd. Faysal Bank Ltd. Habib Bank Ltd. Hongkong Shanghai Banking Corporation International Finance Corporation MCB Bank Ltd. Meezan Bank Ltd. National Bank of Pakistan NIB Bank Ltd. Standard Chartered Bank (Pakistan) Ltd. United Bank Ltd.
Auditors	A. F. Ferguson & Co., Chartered Accountants State Life Building No. 1-C, I.I. Chundrigar Road, Karachi.
Registered Office	First Floor, Bahria Complex I, 24 M.T. Khan Road, Karachi - 74000 UAN: 111-411-411
Plant	EZ/1/P-II-1, Eastern Zone, Bin Qasim, Karachi.
Share Registrar	FAMCO Associates (Private) Limited [Formerly Ferguson Associates (Private) Limited] 1st Floor, State Life Building No. 1-A, I.I. Chundrigar Road, Karachi - 74000 Tel: (92-21) 32427012, 32426597, 32425467
Website	www.engropolymer.com

Engro Polymer & Chemicals Ltd.

DIRECTORS' REVIEW &
UNAUDITED CONDENSED INTERIM FINANCIAL INFORMATION
FOR THE QUARTER AND HALF YEAR ENDED JUNE 30, 2010

ENGRO POLYMER & CHEMICALS LIMITED
DIRECTORS' REVIEW TO THE SHAREHOLDERS
ON CONDENSED INTERIM FINANCIAL INFORMATION
FOR THE HALF YEAR ENDED, JUNE 30, 2010

On behalf of the Board of Directors of Engro Polymer & Chemicals Limited, we are pleased to present the unaudited Financial Information of the Company for the six months ended June 30, 2010.

Business Review

Poly Vinyl Chloride (PVC) production during 2Q 2010 was 30 KTons as compared to 35 KTons in 2Q 2009. Production was lower due to limited availability of Vinyl Chloride Monomer (VCM) and operational constraints. PVC production for 1H 2010 was 50 KTons as compared to 61 KTons in 1H 2009.

Domestic PVC sales for 2Q 2010 was 25 KTons as compared to sale of 36 KTons for same period last year. Sales were constrained by low production and several customers had to import their requirements. There were no PVC exports in 1Q 2010. International PVC prices showed a receding trend from a high of US $ 1020 in April to a low US $ 900 in June mainly due to decline in feedstock prices and low demand. International Ethylene prices were under pressure as additional capacities came on stream. Consequently, the prices followed a downward trend throughout the Vinyls chain. International PVC-VCM margin for the quarter was US $ 100 per ton as compared to US $ 146 per ton in 2Q 2009.

Caustic soda plant operated almost at full capacity during the quarter and produced 25 KTons. The Guarantee Test Run was also completed. Total production for 1H 2010 was 44 KTons. 2Q 2010 sales in domestic market were 21 KTons and sales for first six months were 38 KTons. EDC production for 2Q 2010 was 26 KTons. Company exported 9 KTons of EDC during the quarter through its subsidiary. Company also sold 5 KTons of Sodium Hypochlorite during 2Q 2010.

VCM plant was started on April 24, 2010 and produced 12 KTons till June 9, 2010. During June, a planned shutdown was taken for preventive maintenance to clean up exchangers and other equipment that were in intermittent service since June 2009. Post shutdown, VCM plant resumed operations on July 3, 2010. VCM plant is currently operating at 80% capacity. Efforts are underway to ramp up operating load to full capacity to be able to achieve commercial production in 3Q 2010. The Company has hired a VCM Plant Manager with considerable experience in VCM operations and is also in discussion for Technical Support arrangements with other VCM operators.

Power sales to KESC remained suspended in 2Q 2010, post frequency fluctuation at KESC's grid in March 2010. Company has resumed power sale in July 2010 since the issues were largely resolved.

During the period, Company successfully closed a PKR 1,430 million rights issue.

Revenue during 1H 2010 was Rs. 6,810 million, an increase of 37% from same period last year. Company incurred loss of Rs. 269 million for the quarter as compared to profit after tax of Rs. 82 million in 2Q 2009. Loss after tax for six months was Rs. 477 million as against a profit after tax of Rs. 7 million during 1H 2009. Reason for the loss is higher operating costs in the absence of economic benefits arising out of integrated operations caused by delay in VCM start up. The Company continues to be in breach of a couple of loan agreement covenants at the end of 2Q 2010 for which appropriate measures are being taken.

Future Outlook

Demand for PVC and Caustic Soda is expected to continue to be strong during coming quarters. International prices are seen to be stable at current levels due to global demand supply situation. VCM plant capacity is being ramped up. Stable operations of the VCM plant remains key for improved margins. Profitability projections given at the time of announcement of rights issue for the year 2010 will be affected due to 1H 2010 actual results mainly attributable to delay in VCM plant start-up, however, there is no material change in outlook for 2H 2010 and next two years.

Asif Qadir
President & Chief Executive

Kimihide Ando
Director

Karachi
July 23, 2010

A.F.FERGUSON & CO.

A member firm of
PRICEWATERHOUSECOOPERS

A.F.Ferguson & Co.
Chartered Accountants
State Life Building No. 1-C
I.I. Chundrigar Road, P.O. Box 4716
Karachi-74000, Pakistan
Telephone: (021) 32426682-6 / 32426711-5
Facsimile: (021) 32415007 / 32427938

AUDITORS' REPORT TO THE MEMBERS ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION

Introduction

We have reviewed the accompanying condensed interim balance sheet of Engro Polymer & Chemicals Limited as at June 30, 2010 and the related condensed interim profit and loss account, condensed interim statement of comprehensive income, condensed interim statement of changes in equity and condensed interim statement of cash flows together with the notes forming part thereof (here-in-after referred to as the “condensed interim financial information”) for the half year then ended. Management is responsible for the preparation and presentation of this condensed 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 condensed interim financial information based on our review.

The figures of the condensed interim profit and loss account and the condensed interim statement of comprehensive income for the quarters ended June 30, 2009 and 2010 have not been reviewed, as we are required to review only the cumulative figures for the half year ended June 30, 2010.

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 International Standards on Auditing 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 condensed interim financial information as of and for the half year ended June 30, 2010 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

AFFerguson & Co.

Chartered Accountants
Karachi
Date: July 29, 2010

Engagement Partner: Sohail Hasan

Lahore Office: 23-C, Aziz Avenue, Canal Bank, Gulberg V, P.O. Box 39, Lahore, Pakistan Tel: (92-42) 35715864-71 Fax: (92-42) 35715872
Islamabad Office: PIA Building, 3rd Floor, 49 Blue Area, Fazl-ul-Haq Road, P.O. Box 3021, Islamabad-44000, Pakistan Tel: (92-51) 2273457-60 Fax: (92-51) 2277924
Kabul Office: House No. 4, Street No. 3, District 6, Road Karte-3, Kabul, Afghanistan. Tel: (93-799) 315320-203424

(Amounts in thousand)

ENGRO POLYMER & CHEMICALS LIMITED
UNAUDITED CONDENSED INTERIM BALANCE SHEET
AS AT JUNE 30, 2010

	Note	(Unaudited) June 30, 2010	(Audited) December 31, 2009
		Rupees	
ASSETS			
Non-Current Assets			
Property, plant and equipment	5	19,682,872	19,360,686
Intangible assets	6	18,269	11,816
Long term investment		50,000	50,000
Long term loans and advances		52,072	47,475
Deferred taxation	7	75,701	-
		19,878,914	19,469,977
Current Assets			
Stores, spares and loose tools		412,453	192,762
Stock-in-trade	8	2,595,338	1,605,218
Trade debts - considered good		305,530	336,242
Loans, advances, deposits, prepayments and other receivables		246,222	309,224
Taxes recoverable	9	577,149	452,548
Cash and bank balances		124,276	190,064
		4,260,968	3,086,058
TOTAL ASSETS		24,139,882	22,556,035
EQUITY AND LIABILITIES			
Equity			
Share capital	10	6,634,688	5,203,677
Share premium		964,029	975,438
Employees' share compensation reserve	11	9,127	9,313
Hedging reserve		(76,395)	(12,958)
(Accumulated loss) / Unappropriated profit		(292,099)	184,203
		7,239,350	6,359,673
Non-Current Liabilities			
Long term borrowings	12	10,645,299	11,135,163
Derivative financial instruments	13	117,530	19,935
Deferred taxation	7	-	321,520
Retirement and other service benefit obligations		42,024	38,312
		10,804,853	11,514,930
Current Liabilities			
Current portion of long term borrowings		1,295,979	1,016,393
Short term borrowings	14	1,067,506	394,241
Trade and other payables	15	3,461,653	2,998,097
Accrued interest / mark-up		144,720	202,207
Provisions	16	125,821	70,494
		6,095,679	4,681,432
Contingencies and Commitments	17		
TOTAL EQUITY AND LIABILITIES		24,139,882	22,556,035

The annexed notes 1 to 28 form an integral part of this condensed interim financial information.

Asif Qadir
President & Chief Executive

Kimihide Ando
Director

ENGRO POLYMER & CHEMICALS LIMITED
UNAUDITED CONDENSED INTERIM PROFIT AND LOSS ACCOUNT
FOR THE HALF YEAR ENDED JUNE 30, 2010

(Amounts in thousand except for (loss) / earnings per share)

	Note	Quarter ended		Half year ended	
		June 30, 2010	**June 30, 2009 (Restated)**	**June 30, 2010**	**June 30, 2009 (Restated)**
		Rupees			
Net revenue		3,588,261	2,574,066	6,809,996	4,962,797
Cost of sales	18	(3,302,659)	(2,235,216)	(6,377,492)	(4,530,009)
Gross profit		285,602	338,850	432,504	432,788
Distribution and marketing expenses	19	(160,397)	(102,259)	(279,301)	(181,957)
Administrative expenses	20	(79,146)	(50,634)	(139,925)	(78,138)
Other operating expenses	21	(146,311)	(39,450)	(144,452)	(87,564)
Other operating income		7,901	33,308	10,685	37,731
Operating (loss) / profit		(92,351)	179,815	(120,489)	122,860
Finance costs	22	(367,456)	(60,641)	(644,815)	(119,005)
(Loss) / Profit before taxation		(459,807)	119,174	(765,304)	3,855
Taxation		190,651	(37,162)	288,816	3,200
(Loss) / Profit for the period		(269,156)	82,012	(476,488)	7,055
(Loss) / Earnings per share - basic and diluted		(0.43)	0.15	(0.80)	0.01

The annexed notes 1 to 28 form an integral part of this condensed interim financial information.

Asif Qadir
President & Chief Executive

Kimihide Ando
Director

(Amounts in thousand)

ENGRO POLYMER & CHEMICALS LIMITED
UNAUDITED CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED JUNE 30, 2010

	Quarter ended		Half year ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	Rupees			
(Loss) / Profit for the period	(269,156)	82,012	(476,488)	7,055
Other comprehensive income / (loss):				
Hedging reserve				
Gain / (loss) arising during the period	(68,357)	76,029	(141,438)	46,755
Less:				
- Reclassification adjustments for losses included in profit and loss	24,838	592	39,777	932
- Adjustments for amounts transferred to initial carrying amount of hedged items	-	2,160	4,066	5,012
Income tax relating to hedging reserve	15,231	(27,573)	34,158	(18,445)
Other comprehensive income / (loss) for the period - net of tax	(28,288)	51,208	(63,437)	34,254
Total comprehensive (loss) / income for the period	(297,444)	133,220	(539,925)	41,309

The annexed notes 1 to 28 form an integral part of this condensed interim financial information.

Asif Qadir
President & Chief Executive

Kimihide Ando
Director

(Amounts in thousand)

ENGRO POLYMER & CHEMICALS LIMITED
UNAUDITED CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED JUNE 30, 2010

	Share capital	Share premium	Employees' share compensation reserve	Hedging reserve	(Accumulated loss) / Unappropriated profit	Total
	Rupees					
Balance as at January 1, 2009 (Audited)	5,203,677	975,438	9,858	(39,100)	415,992	6,565,865
Unvested share options lapsed during the period	-	-	(266)	-	-	(266)
Total comprehensive income for the half year ended June 30, 2009	-	-	-	34,254	7,055	41,309
Balance as at June 30, 2009 (Unaudited)	5,203,677	975,438	9,592	(4,846)	423,047	6,606,908
Unvested share options lapsed during the period	-	-	(279)	-	-	(279)
Total comprehensive loss for the half year ended December 31, 2009	-	-	-	(8,112)	(238,844)	(246,956)
Balance as at December 31, 2009 (Audited)	5,203,677	975,438	9,313	(12,958)	184,203	6,359,673
Unvested share options lapsed during the period - note 11	-	-	(186)	-	186	-
Total comprehensive loss for the half year ended June 30, 2010	-	-	-	(63,437)	(476,488)	(539,925)
Share capital issued	1,431,011	-	-	-	-	1,431,011
Share issuance cost, net	-	(11,409)	-	-	-	(11,409)
Balance as at June 30, 2010 (Unaudited)	6,634,688	964,029	9,127	(76,395)	(292,099)	7,239,350

The annexed notes 1 to 28 form an integral part of this condensed interim financial information.

Asif Qadir
President & Chief Executive

Kimihide Ando
Director

(Amounts in thousand)

ENGRO POLYMER & CHEMICALS LIMITED
UNAUDITED CONDENSED INTERIM STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED JUNE 30, 2010

	Note	Half year ended June 30, 2010	Half year ended June 30, 2009
		Rupees	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	23	(10,412)	1,606,540
Finance costs paid		(702,302)	(720,706)
Long term loans and advances		(4,597)	39,602
Retirement benefits paid		(1,769)	-
Income tax paid		(192,704)	(92,450)
Net cash (outflow) / inflow from operating activities		(911,784)	832,986
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of:			
- property, plant and equipment		(757,730)	(1,734,605)
- intangible assets		(8,436)	(1,495)
Proceeds from disposal of operating assets		6,204	3,390
Short term investments		-	(484,073)
Income on short term investments and bank deposits		9,099	29,157
Net cash outflow from investing activities		(750,863)	(2,187,626)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long term borrowings		100,000	3,355,596
Repayments of long term borrowings		(589,864)	(130,000)
Proceeds from issue of share capital		1,431,011	-
Share issuance cost		(17,553)	-
Net cash inflow from financing activities		923,594	3,225,596
Net (decrease) / increase in cash and cash equivalents		(739,053)	1,870,956
Cash and cash equivalents at beginning of the period		(204,177)	(745,295)
Cash and cash equivalents at end of the period	24	(943,230)	1,125,661

The annexed notes 1 to 28 form an integral part of this condensed interim financial information.

Asif Qadir
President & Chief Executive

Kimihide Ando
Director

1. LEGAL STATUS AND OPERATIONS

Engro Polymer & Chemicals Limited (the Company) was incorporated in Pakistan in 1997 under the Companies Ordinance, 1984 as a public unlisted company. The Company is now listed on the Karachi, Lahore and Islamabad Stock Exchanges.

The Company is a subsidiary of Engro Corporation Limited (formerly Engro Chemical Pakistan Limited). The address of its registered office is 1st Floor, Bahria Complex I, M. T. Khan Road, Karachi. The Company's principal activity is to manufacture, market and sell Poly Vinyl Chloride (PVC), PVC compounds, Caustic soda and other related chemicals.

In 2006, the Company commenced work on its expansion and backward integration project comprising setting up of new PVC, Ethylene Di Chloride (EDC), Chlor-alkali, Vinyl Chloride Monomer (VCM) and Power plants. During 2009, the Company commenced commercial operations of new PVC, EDC, Chlor-alkali and Power plants (Gas turbines). However, the VCM plant is in the test production phase. These plants have been set up adjacent to the Company's existing PVC facilities in the Port Qasim Industrial Area. The Company is also engaged in supply of surplus power generated from its Power plants to Karachi Electric Supply Corporation (KESC), under an agreement.

2. BASIS OF PREPARATION

This condensed interim financial information of the Company for the half year ended June 30, 2010 is unaudited and has been prepared in accordance with the requirements of the International Accounting Standard 34 - 'Interim Financial Reporting' and provisions of and directives issued under the Companies Ordinance, 1984 (the Ordinance). In case where requirements differ, the provisions of or directives issued under the Ordinance have been followed. This condensed interim financial information has, however, been subjected to limited scope review by the auditors, as required by the Code of Corporate Governance.

This condensed interim financial information is being submitted to the shareholders in accordance with section 245 of the Ordinance and should be read in conjunction with the audited annual financial statements of the Company for the year ended December 31, 2009.

3. ACCOUNTING POLICIES

3.1 The accounting policies and the methods of computation adopted in the preparation of this condensed interim financial information are the same as those applied in the preparation of audited annual financial statements of the Company for the year ended December 31, 2009.

3.2 The following new standards and amendments and interpretations to existing standards are mandatory for the Company's financial year beginning on or after January 1, 2010, but are either not currently relevant to the Company or do not have any significant impact on the Company's financial information:

- IFRS 2 (Amendment), 'Group cash-settled and share-based payment transactions';
- IFRS 3 (Revised), 'Business Combination';
- IFRS 5 (Amendment), 'Measurement of non-current assets (or disposal groups) classified as held for sale';
- IFRS 8 (Amendment), 'Disclosure of information about segment assets';
- IAS 1 (Amendment), 'Presentation of financial statements';
- IAS 17 (Amendment), 'Classification of leases of land and buildings';
- IAS 27 (Amendment), 'Consolidated and separate financial statements';
- IAS 28 (Amendment), 'Investments in associates';
- IAS 38 (Amendment), 'Intangible assets';
- IAS 39 (Amendment), 'Cash flow hedge accounting';
- IAS 39 (Amendment), 'Treating loan pre-payment penalties as closely related derivatives';
- IFRIC 17 'Distributions of non-cash assets to owners';
- IFRIC 18 'Transfers of assets from customers';
- Number of other amendments in other IFRS and IAS which were part of the International Accounting Standard Board's (IASB's) annual improvement project, published in April 2009.

3.3 The following new standards and amendments and interpretations to existing standards have been issued but are not effective for the financial year beginning January 1, 2010 and have not been early adopted by the Company:

– IFRS 9, 'Financial Instruments' (effective from January 1, 2013). IFRS 9 addresses the classification and measurement of financial assets. The Company is yet to assess the full impact of IFRS 9.

– IAS 24 (Revised), 'Related party disclosures' (effective from January 1, 2011). The revised standard supersedes IAS 24, 'Related party disclosures', issued in 2003. Application of the revised standard will only impact the format and extent of disclosures presented in the Company's financial statements.

– IAS 32 (Amendment), 'Classification of rights issues' (effective for annual periods beginning on or after February 1, 2010). The amendment states that if rights, which are offered for a fixed amount of foreign currency, are issued pro rata to all the entity's existing shareholders in the same class for fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. The Company currently has no rights issues in offering therefore the amendment has no effect on the Company's financial statements.

– IFRIC 14 (Amendments), 'Prepayments to minimum funding requirement' (effective from January 1, 2011). The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognize as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct the problem. The Company's retirement benefit funds are not subject to any minimum funding requirements, hence, these amendments will have no impact on the Company's financial statements.

– IFRIC 19, 'Extinguishing financial liabilities with equity instruments' (effective for annual periods beginning on or after July 1, 2010). The interpretation clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The Company has not renegotiated the terms of a financial liability and offered any of its shares to its creditors, therefore, this interpretation will have no impact on the Company's financial statements.

4. ACCOUNTING ESTIMATES

The preparation of this condensed interim financial information in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

During the preparation of this condensed interim financial information, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation and uncertainty were the same as those that apply to annual audited financial statements for the year ended December 31, 2009.

(Amounts in thousand)

	(Unaudited) June 30, 2010	(Audited) December 31, 2009
	Rupees	
5. PROPERTY, PLANT AND EQUIPMENT		
Operating assets, at net book value - notes 5.1 & 5.2	13,710,328	14,112,080
Capital work-in-progress - note 5.3	5,972,544	5,248,606
	19,682,872	19,360,686

5.1 Additions to operating assets during the period / year were as follows:		
Building on leasehold land	300	168,221
Plant and machinery	1,831	12,076,638
Pipelines	-	357,309
Furniture, fixtures and office equipment	6,326	16,820
Vehicles	33,435	29,811
	41,892	12,648,799

5.2 During the period, assets costing Rs. 15,183 (December 31, 2009: Rs. 13,591), having net book value of Rs. 6,091 (December 31, 2009: Rs. 4,560) were disposed off for Rs. 6,204 (December 31, 2009: Rs. 6,179)

	(Unaudited) June 30, 2010	(Audited) December 31, 2009
	Rupees	
5.3 Capital work-in-progress mainly relates to the VCM plant and comprises of:		
Plant and machinery	4,245,805	3,744,783
Building on leasehold land	35,055	33,010
Ethylene pipeline and power cables	292	292
Water and gas pipelines	4,560	2,793
Furniture, fixtures and equipment	1,692	5,479
Advances for vehicles	-	8,315
Other ancillary costs - note 5.3.1	1,685,140	1,453,934
	5,972,544	5,248,606

(Amounts in thousand)

	(Unaudited) June 30, 2010	(Audited) December 31, 2009
	Rupees	
5.3.1 The ancillary costs, directly attributable to the VCM plant, comprise:		
Salaries, wages and benefits	266,192	213,879
Training and travelling	46,102	45,051
Borrowing costs, being capitalized at a rate of 10.14% (December 31, 2009: 12.08%) - net	673,922	591,810
Legal and professional	55,746	31,860
Storage and handling	555,799	481,667
Depreciation	15,053	15,053
Others	72,326	74,614
	1,685,140	1,453,934

6. INTANGIBLE ASSETS - Computer Software

Additions made during the period amounted to Rs. 8,436 (December 31, 2009: Rs. 6,255).

7. DEFERRED TAXATION

	(Unaudited) June 30, 2010	(Audited) December 31, 2009
	Rupees	
Credit balances arising due to:		
- accelerated tax depreciation	(2,910,847)	(3,061,376)
- net borrowing costs capitalized	(235,873)	(207,133)
	(3,146,720)	(3,268,509)
Debit balances arising due to:		
- recoupable carried forward tax losses - note 7.1	2,843,354	2,725,269
- recoupable minimum turnover tax	174,306	108,789
- unrealized foreign exchange losses, unpaid liabilities and provision for retirement and other service benefits	80,901	46,581
- provision against custom duty	22,984	6,454
- provision for slow moving stores and spares	2,030	1,353
- fair value of hedging instruments	41,136	6,977
- share issuance cost, net to equity	57,710	51,566
	3,222,421	2,946,989
	75,701	(321,520)

7.1 The aggregate tax losses available for carry-forward at June 30, 2010 amount to Rs. 8,123,866 (December 31, 2009: Rs. 7,786,483), on which deferred tax asset has been recognized.

(Amounts in thousand)

	(Unaudited) June 30, 2010	(Audited) December 31, 2009
	Rupees	
8. STOCK-IN-TRADE		
Raw and packing materials - note 8.1	1,786,963	1,168,171
Work-in-progress	15,576	17,579
Finished goods		
- own manufactured product - note 8.1 and 8.2	792,799	410,653
- purchased product	-	8,815
	792,799	419,468
	2,595,338	1,605,218

8.1 This includes stock-in-transit amounting to Rs. 336,098 (December 31, 2009: Rs. 248,065) and stocks held at the storage facilities of the following related parties:

	(Unaudited) June 30, 2010	(Audited) December 31, 2009
	Rupees	
- Engro Vopak Terminal Limited	614,386	595,104
- Dawood Hercules Chemicals Limited	3,869	1,635
	618,255	596,739

8.2 This represents carrying value of PVC resin and EDC, net of realizable value reduction of Rs. 36,312 (December 31, 2009: Rs. 21,084) and Rs. 19,018 (December 31, 2009: Nil), respectively.

9. TAXES RECOVERABLE

9.1 During the period, the Company received a Notice of Demand of Rs. 213,172 in respect of Tax Year 2008. The Deputy Commissioner Inland Revenue has made various additions to the returned income amounting to Rs. 207,370 and has not considered the brought forward losses amounting to Rs. 974,770 resulting in the aforementioned tax demand. The additions to income are mainly on account of trading liabilities and financial costs in relation to the expansion Project.

The Company has filed an appeal against the aforementioned demand with the Commissioner Inland Revenue (Appeals), which is currently pending. While the appeal proceedings were pending, the Officer Inland Revenue (OIR) adjusted a sum of Rs. 125,072 in the above demand against the Company's assessed refunds. Although the Company has sufficient tax refunds and recoupable minimum taxes to have the remaining demand of Rs. 88,100 adjusted, the OIR only gave a further credit, subject to further verification, of Rs. 55,696. Consequently, the Company has paid the balance amount of Rs. 32,404 'under protest'. The Company also applied for a stay order to the Commissioner Inland Revenue (Appeals) for the remaining outstanding demand as the credit of Rs. 55,696 has also been given by the OIR subject to verification of taxes paid, which was granted up to June 26, 2010. Application for extension in stay order has also been filed and the management is confident that the stay will be extended.

The management of the Company is confident that the ultimate outcome of the aforementioned matter would be favourable and consequently has not recognized the effects for the same in the condensed interim financial information.

9.2 While finalizing the assessment for the assessment year 2000-2001, the Taxation Officer had disallowed a claim of First Year Allowance (FYA) by the Company on the grounds that it had not met the criteria for claiming this allowance as required under the repealed Income Tax Ordinance, 1979. The Company had filed an appeal against this disallowance which was pending with the Income Tax Appellate Tribunal (ITAT). A similar disallowance had also been made for the assessment year 2001-2002 by the Taxation Officer in 2003. However, upon appeal, this matter was ultimately decided in Company's favour in 2005 by the Income Tax Appellate Tribunal (ITAT).

(Amounts in thousand)

During the period, the ITAT for assessment year 2000-2001, decided the aforementioned matter against the Company by departing from the previous order for the assessment year 2001-2002. The disallowance of FYA amounts to Rs. 1,884,359.

This disallowance results in a tax deductible timing difference, the effects of which have been recognized in the condensed interim financial information after taking into account the consequential effects of the ITAT Order in the years subsequent to 2000-2001.

10. SHARE CAPITAL

10.1 During the period, the Company issued 143,101,111 ordinary shares of Rs. 10 each at par as rights shares to the existing shareholders, ranking pari passu in all respects with the existing shares of the Company. Transaction costs, incurred during the period amounting to Rs. 11,409, net of tax, directly attributable to the issue of new shares have been recognized as a deduction from share premium.

10.2 As at June 30, 2010, Engro Corporation Limited (formerly Engro Chemical Pakistan Limited) holds 372,809,989 ordinary shares of Rs. 10 each (December 31, 2009: 292,399,992 ordinary shares of Rs. 10 each).

	(Unaudited) June 30, 2010	(Audited) December 31, 2009
	Rupees	
11. EMPLOYEES' SHARE COMPENSATION RESERVE		
Balance at beginning of the period / year	9,313	9,858
Less: Options lapsed due to employee resignation	(186)	(545)
Balance at end of the period / year	9,127	9,313

During the period, the Company has adjusted the exercise price of the share options from Rs. 22 per share to Rs. 19.41 per share and has increased the total entitlement from 5,300,000 shares to 6,757,500 shares consequent to the issue of rights shares, which has been duly approved by the Securities and Exchange Commission of Pakistan. The aforementioned reduction in exercise price has no effect on the fair value of share options recognized in the condensed interim financial information.

12. LONG TERM BORROWINGS, Secured

12.1 During the period, the Company has entered into a Master Istisna Agreement for a facility of Rs. 100,000, for a period of three years. The entire amount of the facility has been drawn down by the Company. The facility carries mark-up at the rate of 1.5% over six months KIBOR. All amounts due under the Agreement are payable in tranches by way of a series of Istisna transactions, each Istisna transaction being treated as a separate agreement. Since the management's intention is to roll over each Istisna transaction on repayment date to the expiry date of the facility, the above mentioned financing has been included in long term borrowings of the Company. The facility is secured by a joint pari passu equitable mortgage over land and buildings and a pari passu hypothecation charge over plant and machinery, stocks and receivables amounting to Rs. 134,000.

12.2 During the period, the Company has repaid an amount of Rs. 51,744 representing the first installment against a facility obtained in 2009 under a Syndicate Finance Agreement with a consortium of local banks. Further, the Company has repaid an amount of Rs. 341,640 representing the first installment against loan agreement / facility with International Finance Corporation.

(Amounts in thousand)

13. DERIVATIVE FINANCIAL INSTRUMENTS

The Company has outstanding interest rate swap agreements for notional amounts aggregating US$ 37,332, with banks to hedge its interest rate exposure on floating rate foreign currency borrowings from International Finance Corporation (IFC). Under the swap agreements, the Company would receive six month USD-LIBOR on respective notional amounts and will pay fix rates, which will be settled semi annually. Details of the swap agreements are as follows:

Notional Amounts US $	Effective Date	Termination Date	Fixed Rate %	(Unaudited) Fair value as at June 30, 2010	(Audited) Fair value as at December 31, 2009
				Rupees	
14,000	December 15, 2008	June 15, 2017	3.385	59,084	23,770
4,666	June 15, 2009	June 15, 2017	3.005	14,153	1,838
14,000	June 15, 2009	June 15, 2017	2.795	33,277	(4,570)
4,666	June 15, 2009	June 15, 2017	2.800	11,016	(1,103)
37,332				**117,530**	**19,935**

14. SHORT TERM BORROWINGS

The aggregate facilities for running finance available from various banks, representing the sales price of all mark-up arrangements, amounts to Rs. 2,000,000 (December 31, 2009: Rs. 2,000,000). The corresponding purchase price is payable on various dates during the ensuing year. Mark-up is chargeable at rates net of prompt payment rebate, ranging from relevant period KIBOR plus 1% to plus 2% (December 31, 2009: relevant period KIBOR plus 0.9% to plus 3%). During the period, the mark-up rates, net of prompt payment rebate, ranged from 12.93% to 14.42% per annum (December 31, 2009: 12.39% to 17.37% per annum). The facilities are secured by a floating charge over stocks and book debts of the Company.

	(Unaudited) June 30, 2010	(Audited) December 31, 2009
	Rupees	
15. TRADE AND OTHER PAYABLES		
Includes amounts due to the following related parties		
- Engro Corporation Limited	12,462	-
- Mitsubishi Corporation	2,017,727	1,150,769
- Engro Vopak Terminal Limited	84,372	77,045
	2,114,561	1,227,814

16. PROVISIONS

16.1 Provision for SED on import of plant and machinery

As at June 30, 2010, the Company had paid Rs. 94,611 (December 31, 2009: Rs. 94,611) on account of Special Excise Duty (SED) on import of plant and machinery for the Project. Of this amount the Company had adjusted Rs. 57,924 (December 31, 2009: Rs. 57,924) in the monthly sales tax returns against SED on goods produced and sold by the Company. The Company had approached the Federal Board of Revenue to obtain a clarification in respect of the adjustment in the monthly sales tax returns.

Pending clarification the Company based on prudence had made a provision for the amount adjusted of Rs. 57,924 and also for the remaining balance of Rs. 36,687 included in loans, advances, deposits, prepayments and other receivables. However, in 2009, the Company received show cause notices from the Additional Collector (Adjudication) - Federal Board of Revenue, stating that the Company, by adjusting the SED, has violated the provisions of the Federal Excise Act, 2005 and the Federal Excise Rules, 2005 read with SRO 655(1)/2007 and that the amount adjusted was recoverable from the Company under the Federal Excise Act, 2005 along with default surcharge and penalty. During the period, the Company was granted a stay order from the Honourable High Court of Sindh against the recovery notice issued by the Additional Commissioner in respect of the demand. The Company filed an appeal with Commissioner Inland Revenue (Appeals) against the Order issued by the Additional Commissioner. Subsequent to the end of the current period, the appeal has been decided against the Company and the management intends to file an appeal with the Income Tax Appellate Tribunal against the decision of Commissioner Inland Revenue (Appeals). The Company is confident that the ultimate outcome of the matter will be in its favour, but, based on prudence is retaining the provision. Further, a provision for surcharge and penalty thereon amounting to Rs. 20,670 (December 31, 2009: Rs. 12,570) has also been made.

(Amounts in thousand)

16.2 **Provision for duty on import of raw material**

The Company in 2009 received a letter from the Assistant Collector (Survey) Large Taxpayers Unit regarding the utilization of raw materials imported under SRO 565(I)/2006 on a concessionary basis for customs duty. The letter alleged that the Company had violated the provisions of the SRO by utilizing the concessionary imports in manufacturing and selling the intermediary product Ethylene Di Chloride (EDC) rather than its utilization in the production of the final product Poly Vinyl Chloride (PVC). The Company responded to the letter explaining its view that imports under the said SRO were allowable for 'PVC Manufacturing Industry' as a whole, which includes manufacturing of intermediary products. During the period, the Department has disagreed with the Company's view and has demanded further information, to which the Company has responded. Although, no formal Order creating a demand has yet been received by the Company, based on prudence, a provision amounting to Rs. 47,227 (December 31, 2009: Nil) in respect of duty on such raw materials has been made.

17. CONTINGENCIES AND COMMITMENTS

Commitments

- Capital expenditure for the Project, under the contracts signed as at June 30, 2010 but not yet incurred amounts to Rs. 163,160 (December 31, 2009: Rs. 721,859).

- Performance guarantees issued by banks on behalf of the Company as at June 30, 2010 amount to Rs. 430,450 (December 31, 2009: Rs. 405,450)

18. COST OF SALES

	Unaudited			
	Quarter ended		Half year ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	Rupees			
Opening stock of work-in-progress	-	31,810	17,579	21,293
Raw and packing materials consumed	2,484,282	1,934,633	4,641,461	3,326,793
Salaries, wages and staff welfare	95,547	43,504	188,107	86,803
Fuel, power and gas	366,902	71,567	742,845	175,831
Repairs and maintenance	64,200	(2,137)	105,053	21,443
Depreciation	222,942	69,701	432,076	139,489
Consumable stores	78,949	13,781	132,730	19,651
Purchased services	24,706	5,313	43,525	10,018
Storage and handling	237,785	44,308	392,587	87,127
Training and travelling	5,958	1,001	8,596	1,728
Communication, stationery and other office expenses	1,907	613	3,503	856
Insurance	18,534	8,377	35,011	20,430
Other expenses	1,093	3,340	8,174	4,918
	3,602,805	2,194,001	6,733,668	3,895,087
Closing stock of work-in-progress	(15,576)	(18,780)	(15,576)	(18,780)
Cost of goods manufactured	3,587,229	2,207,031	6,735,671	3,897,600
Opening stock of finished goods	484,262	206,131	410,653	810,355
Closing stock of finished goods	(792,799)	(177,946)	(792,799)	(177,946)
	(308,537)	28,185	(382,146)	632,409
Cost of sales - own manufactured product	3,278,692	2,235,216	6,353,525	4,530,009
- purchased product	23,967	-	23,967	-
	3,302,659	2,235,216	6,377,492	4,530,009

(Amounts in thousand)

	Unaudited			
	Quarter ended		Half year ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	Rupees			
19. DISTRIBUTION AND MARKETING EXPENSES				
Salaries, wages and staff welfare	13,564	13,751	28,973	26,473
Advertising, sales promotion and entertainment	14,246	11,176	26,911	20,817
Product transportation and handling	122,790	73,621	209,103	124,382
Rent rates and taxes	3,048	444	3,735	1,874
Purchased services	803	(985)	1,091	790
Insurance	335	282	558	552
Depreciation	982	849	1,878	1,907
Training and travelling	2,029	1,827	3,201	2,885
Communication, stationery and other office expenses	437	472	1,088	965
Others	2,163	822	2,763	1,312
	160,397	102,259	279,301	181,957
20. ADMINISTRATIVE EXPENSES				
Salaries, wages and staff welfare	33,369	25,557	62,930	32,790
Rent, rates and taxes	5,043	4,493	8,778	7,748
Purchased services	10,567	4,130	16,809	8,508
Insurance	79	107	195	208
Depreciation	2,786	1,205	3,599	2,550
Amortization	1,303	429	1,983	739
Training and travelling	15,038	9,819	26,502	15,832
Communication, stationery and other office expenses	8,824	2,140	15,392	5,358
Others	2,137	2,754	3,737	4,405
	79,146	50,634	139,925	78,138
21. OTHER OPERATING EXPENSES				
Legal and professional charges	4,781	1,378	9,136	2,305
Auditors’ remuneration	241	267	530	267
Donations	3,242	1,467	5,787	1,375
Workers’ profits participation fund	-	206	-	206
Workers’ welfare fund	-	78	-	78
Foreign exchange loss - net	137,953	35,905	128,905	82,793
Others	94	149	94	540
	146,311	39,450	144,452	87,564

(Amounts in thousand)

22. FINANCE COSTS

	Unaudited Quarter ended June 30, 2010	Unaudited Quarter ended June 30, 2009	Unaudited Half year ended June 30, 2010	Unaudited Half year ended June 30, 2009
	Rupees			
Interest / Mark-up-on:				
- long term borrowings	345,241	52,748	605,286	97,988
- short term borrowings	17,073	4,570	30,003	16,698
Guarantee commission	1,056	316	2,129	625
Interest on Workers' Profits Participation Fund	761	-	1,672	-
Bank charges and others	3,325	3,007	5,725	3,694
	367,456	60,641	644,815	119,005

23. CASH GENERATED FROM OPERATIONS

	Unaudited Half year ended June 30, 2010	Unaudited Half year ended June 30, 2009
	Rupees	
(Loss) / Profit before taxation	(765,304)	3,855
Adjustments for non-cash charges and other items:		
Provision for staff retirement and other service benefits	5,481	539
Provision against concessionary duty on import of raw material / Special Excise Duty	47,227	10,968
Provision for slow moving stores and spares	1,933	-
Depreciation	437,553	143,946
Amortization	1,983	739
Income on deposits	(9,099)	(45,666)
Amortization of deferred employee compensation expense	-	1,984
Realized gain on short term investments	-	(1,977)
Unrealized fair value gain on short term investments	-	(4,629)
Finance costs	644,815	119,005
Profit on disposal of operating assets	(113)	(886)
Working capital changes - note 23.1	(374,888)	1,378,662
	(10,412)	1,606,540

(Amounts in thousand)

	Unaudited Half year ended June 30, 2010	Unaudited Half year ended June 30, 2009
	Rupees	
23.1 Working capital changes		
(Increase) / Decrease in current assets:		
Stores, spares and loose tools	(221,624)	(31,665)
Stock-in-trade	(990,120)	83,349
Trade debts	30,712	(85,715)
Loans, advances, deposits, prepayments and other receivables (net)	63,002	115,592
	(1,118,030)	81,561
Increase in current liabilities:		
Trade and other payables	463,556	1,049,557
Current portion of long term borrowings	279,586	247,544
	(374,888)	1,378,662

24. CASH AND CASH EQUIVALENTS

	June 30, 2010	June 30, 2009
Cash and bank balances	124,276	1,161,306
Short term borrowings	(1,067,506)	(35,645)
	(943,230)	1,125,661

(Amounts in thousand)

25. SEGMENT INFORMATION

25.1 The basis of segmentation and reportable segments presented in this condensed interim financial information are same as disclosed in the annual financial statements of the Company for the year ended December 31, 2009.

	Unaudited June 30, 2010			
	Poly Vinyl Chloride and Allied Chemicals	Caustic soda and Allied Chemicals	Power Supply	Total
	Rupees			
Revenue	**5,374,526**	**1,341,170**	**94,300**	**6,809,996**
Profit / (loss) before unallocated expenses	**(129,331)**	**279,790**	**2,744**	**153,203**
Unallocated expenses				
Administrative expenses				(139,925)
Other operating expenses				(144,452)
Other operating income				10,685
Finance costs				(644,815)
Taxation				288,816
Loss after taxation				**(476,488)**

	Unaudited June 30, 2010				Audited December 31, 2009			
	Poly Vinyl Chloride and Allied Chemicals	Caustic soda and Allied Chemicals	Power Supply	Total	Poly Vinyl Chloride and Allied Chemicals	Caustic soda and Allied Chemicals	Power Supply	Total
	Rupees							
Total segment assets	14,327,973	6,285,855	113,172	20,727,000	13,190,511	6,368,873	132,333	19,691,717
Unallocated assets				3,412,882				2,864,318
Total assets				**24,139,882**				**22,556,035**

25.2 Segment assets consist primarily of property, plant and equipment, stock in trade and trade debts.

(Amounts in thousand)

26. TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties other than those which have been disclosed elsewhere in this financial information are as follows:

		Unaudited	
		Half year ended	
		June 30, 2010	June 30, 2009 (Restated)
		Rupees	
Nature of relationship	**Nature of transactions**		
Holding company	Purchase of services	14,323	15,475
	Sale of services	-	2,559
	Supply of steam and electricity	-	24,749
	Use of operating assets	1,574	1,232
	Pension fund contribution	1,908	1,619
	Provident fund contribution	1,389	1,434
Subsidiary company	Sale of goods	749,143	436,958
	Sale of services	113	173
Associated companies	Purchase of goods	4,257,734	3,694,215
Related parties by virtue of common directorship	Purchase of goods	4,467	6,465
	Purchase of services	522,398	398,921
	Sale of goods	1,816	-
	Sale of services	2,654	631
	Supply of steam and electricity	26,413	-
	Insurance expense	3,514	-
	Use of operating assets	1,639	-
Key management personnel	Managerial remuneration	35,442	32,184
	Retirement benefits	2,340	1,464
	Other benefits	5,658	7,148
Contribution to staff retirement benefits	Pension fund	3,130	2,865
	Provident fund	9,458	8,634
	Gratuity fund	1,722	873
Directors fee		1,000	45

27. DATE OF AUTHORIZATION FOR ISSUE

This condensed interim financial information was authorized for issue on July 23, 2010 by the Board of Directors of the Company.

(Amounts in thousand)

28. CORRESPONDING FIGURES

28.1 In order to comply with the requirements of International Accounting Standard 34 - 'Interim Financial Reporting', corresponding figures in the condensed interim balance sheet comprise of balances as per the annual audited financial statements of the Company for the year ended December 31, 2009 and the corresponding figures in the condensed interim profit and loss account, condensed interim statement of comprehensive income, condensed interim statement of changes in equity and condensed interim statement of cash flows comprise of balances of comparable period as per the condensed interim financial information of the Company for the half year ended June 30, 2009.

28.2 For better presentation, the following major reclassification in the corresponding figures has been made:

Description	Head of account of the financial information for the six months ended June 30, 2009	Head of account of the financial information for the six months ended June 30, 2010	Rupees
Supply of electricity	Other operating income	Net revenue	17,390

The effect of other reclassifications is not material.

Asif Qadir
President & Chief Executive

Kimihide Ando
Director

Engro Polymer & Chemicals Ltd.

AND ITS SUBSIDIARY COMPANY

DIRECTORS' REVIEW AND
UNAUDITED CONSOLIDATED CONDENSED
INTERIM FINANCIAL INFORMATION
FOR THE QUARTER AND HALF YEAR ENDED JUNE 30, 2010

ENGRO POLYMER & CHEMICALS LIMITED AND ITS SUBSIDIARY COMPANY
DIRECTORS' REVIEW TO THE SHAREHOLDERS
ON UNAUDITED CONSOLIDATED CONDENSED INTERIM FINANCIAL INFORMATION
FOR THE HALF YEAR ENDED, JUNE 30, 2010

On behalf of the Board of Directors of Engro Polymer & Chemicals Limited, we are pleased to present the unaudited Financial Information of the Company for the six months ended June 30, 2010.

Business Review

Poly Vinyl Chloride (PVC) production during 2Q 2010 was 30 KTons as compared to 35 KTons in 2Q 2009. Production was lower due to limited availability of Vinyl Chloride Monomer (VCM) and operational constraints. PVC Production for 1H 2010 was 50 KTons as compared to 61 KTons in 1H 2009.

Domestic PVC sales for 2Q 2010 was 25 KTons as compared to sale of 36 KTons for same period last year. Sales were constrained by low production and several customers had to import their requirements. There were no PVC exports in 1Q 2010. International PVC prices showed a receding trend from a high of US $ 1020 in April to a low US $ 900 in June mainly due to decline in feedstock prices and low demand. International Ethylene prices were under pressure as additional capacities came on stream. Consequently, the prices followed a downward trend throughout the Vinyls chain. International PVC-VCM margin for the quarter was US $ 100 per ton as compared to US $ 146 per ton in 2Q 2009.

Caustic soda plant operated almost at full capacity during the quarter and produced 25 KTons. The Guarantee Test Run was also completed. Total production for 1H 2010 was 44 KTons. 2Q 2010 sales in domestic market were 21 KTons and sales for first six months were 38 KTons. EDC production for 2Q 2010 was 26 KTons. EDC exports for the quarter were 9 KTons. Company also sold 5 KTons of Sodium Hypochlorite during 2Q 2010.

VCM plant was started on April 24, 2010 and produced 12 KTons till June 9, 2010. During June, a planned shutdown was taken for preventive maintenance to clean up exchangers and other equipment that were in intermittent service since June 2009. Post shutdown, VCM plant resumed operations on July 3, 2010. VCM plant is currently operating at 80% capacity. Efforts are underway to ramp up operating load to full capacity to be able to achieve commercial production in 3Q 2010. The Company has hired a VCM Plant Manager with considerable experience in VCM operations and is also in discussion for Technical Support arrangements with other VCM operators.

Power sales to KESC remained suspended in 2Q 2010, post frequency fluctuation at KESC's grid in March 2010. Company has resumed power sale in July 2010 since the issues were largely resolved.

During the period, Company successfully closed a PKR 1,430 million rights issue.

Revenue during 1H 2010 was Rs. 6,854 million, an increase of 38% from same period last year. Company incurred loss of Rs. 295 million for the quarter as compared to profit after tax of Rs. 82 million in 2Q 2009. Loss after tax for six months was Rs. 449 million as against a profit after tax of Rs. 13 million during 1H 2009. Reason for the loss is higher operating costs in the absence of economic benefits arising out of integrated operations caused by delay in VCM start up. The Company continues to be in breach of a couple of loan agreement covenants at the end of 2Q 2010 for which appropriate measures are being taken.

Future Outlook

Demand for PVC and Caustic Soda is expected to continue to be strong during coming quarters. International prices are seen to be stable at current levels due to global demand supply situation. VCM plant capacity is being ramped up. Stable operations of the VCM plant remains key for improved margins. Profitability projections given at the time of announcement of rights issue for the year 2010 will be affected due to 1H 2010 actual results mainly attributable to delay in VCM plant start-up, however, there is no material change in outlook for 2H 2010 and next two years.

Asif Qadir
President & Chief Executive

Kimihide Ando
Director

Karachi
July 23, 2010

A.F.FERGUSON & CO.

A member firm of PRICEWATERHOUSECOOPERS

A.F.Ferguson & Co.
Chartered Accountants
State Life Building No. 1-C
I.I. Chundrigar Road, P.O. Box 4716
Karachi-74000, Pakistan
Telephone: (021) 32426682-6 / 32426711-5
Facsimile: (021) 32415007 / 32427938

AUDITORS' REPORT TO THE MEMBERS ON REVIEW OF CONSOLIDATED CONDENSED INTERIM FINANCIAL INFORMATION

Introduction

We have reviewed the accompanying consolidated condensed interim balance sheet of Engro Polymer & Chemicals Limited and its subsidiary company, Engro Polymer Trading (Private) Limited as at June 30, 2010 and the related consolidated condensed interim profit and loss account, consolidated condensed interim statement of comprehensive income, consolidated condensed interim statement of changes in equity and consolidated condensed interim statement of cash flows together with the notes forming part thereof (here-in-after referred to as the “consolidated condensed interim financial information”) for the half year then ended. Management is responsible for the preparation and presentation of this consolidated condensed 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 consolidated condensed interim financial information based on our review.

The figures of the consolidated condensed interim profit and loss account and the consolidated condensed interim statement of comprehensive income for the quarters ended June 30, 2009 and 2010 have not been reviewed, as we are required to review only the cumulative figures for the half year ended June 30, 2010.

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 International Standards on Auditing 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 consolidated condensed interim financial information as of and for the half year ended June 30, 2010 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan.

A.F.Ferguson & Co.

Chartered Accountants
Karachi
Date: July 29, 2010

Engagement Partner: Sohail Hasan

(Amounts in thousand)

ENGRO POLYMER & CHEMICALS LIMITED AND ITS SUBSIDIARY COMPANY
UNAUDITED CONSOLIDATED CONDENSED INTERIM BALANCE SHEET
AS AT JUNE 30, 2010

	Note	(Unaudited) June 30, 2010	(Audited) December 31, 2009
		Rupees	
ASSETS			
Non-Current Assets			
Property, plant and equipment	5	19,682,872	19,360,686
Intangible assets	6	18,269	11,816
Long term loans and advances		52,072	47,475
Deferred taxation	7	75,701	-
		19,828,914	19,419,977
Current Assets			
Stores, spares and loose tools		412,453	192,762
Stock-in-trade	8	2,595,372	1,605,438
Trade debts - considered good		453,344	439,905
Loans, advances, deposits, prepayments and other receivables		347,847	410,881
Taxes recoverable	9	576,531	451,603
Short term investment		-	61,398
Cash and bank balances		198,313	217,531
		4,583,860	3,379,518
TOTAL ASSETS		24,412,774	22,799,495
EQUITY AND LIABILITIES			
Equity			
Share capital	10	6,634,688	5,203,677
Share premium		964,029	975,438
Employees' share compensation reserve	11	9,127	9,313
Hedging reserve		(76,395)	(12,958)
(Accumulated loss) / Unappropriated profit		(229,025)	220,173
		7,302,424	6,395,643
Non-Current Liabilities			
Long term borrowings	12	10,645,299	11,135,163
Derivative financial instruments	13	117,530	19,935
Deferred taxation	7	-	321,520
Retirement and other service benefit obligations		42,024	38,312
		10,804,853	11,514,930
Current Liabilities			
Current portion of long term borrowings		1,295,979	1,016,393
Short term borrowings	14	1,267,506	594,241
Trade and other payables	15	3,463,533	3,002,022
Accrued interest / mark-up		152,658	205,772
Provisions	16	125,821	70,494
		6,305,497	4,888,922
Contingencies and Commitments	17		
TOTAL EQUITY AND LIABILITIES		24,412,774	22,799,495

The annexed notes 1 to 28 form an integral part of this consolidated condensed interim financial information.

Asif Qadir
President & Chief Executive

Kimihide Ando
Director

ENGRO POLYMER & CHEMICALS LIMITED AND ITS SUBSIDIARY COMPANY
UNAUDITED CONSOLIDATED CONDENSED INTERIM PROFIT AND LOSS ACCOUNT
FOR THE HALF YEAR ENDED JUNE 30, 2010

(Amounts in thousand except for (loss) / earnings per share)

		Quarter ended		Half year ended	
		June 30, 2010	June 30, 2009 (Restated)	June 30, 2010	June 30, 2009 (Restated)
	Note	Rupees			
Net revenue		3,570,715	2,574,066	6,854,469	4,982,024
Export rebate		102	73	102	667
		3,570,817	2,574,139	6,854,571	4,982,691
Cost of sales	18	(3,303,021)	(2,235,216)	(6,377,854)	(4,530,009)
Gross profit		267,796	338,923	476,717	452,682
Distribution and marketing expenses	19	(162,114)	(102,259)	(282,827)	(194,754)
Administrative expenses	20	(81,584)	(50,634)	(142,363)	(78,138)
Other operating expenses	21	(141,548)	(39,500)	(141,211)	(87,614)
Other operating income		10,140	33,358	16,461	43,437
Operating (loss) / profit		(107,310)	179,888	(73,223)	135,613
Finance costs	22	(374,665)	(60,653)	(657,040)	(120,963)
(Loss) / profit before taxation		(481,975)	119,235	(730,263)	14,650
Taxation		186,968	(37,162)	280,879	(1,399)
(Loss) / profit for the period		(295,007)	82,073	(449,384)	13,251
(Loss) / Earnings per share - basic and diluted		(0.47)	0.15	(0.75)	0.02

The annexed notes 1 to 28 form an integral part of this consolidated condensed interim financial information.

Asif Qadir
President & Chief Executive

Kimihide Ando
Director

(Amounts in thousand)

ENGRO POLYMER & CHEMICALS LIMITED AND ITS SUBSIDIARY COMPANY
UNAUDITED CONSOLIDATED CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED JUNE 30, 2010

	Quarter ended		Half year ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	Rupees			
(Loss) / Profit for the period	(295,007)	82,073	(449,384)	13,251
Other comprehensive income / (loss):				
Hedging reserve				
Gain / (loss) arising during the period	(68,357)	76,029	(141,438)	46,755
Less:				
- Reclassification adjustments for losses included in profit and loss	24,838	592	39,777	932
- Adjustments for amounts transferred to initial carrying amount of hedged items	-	2,160	4,066	5,012
Income tax relating to hedging reserve	15,231	(27,573)	34,158	(18,445)
Other comprehensive income / (loss) for the period - net of tax	(28,288)	51,208	(63,437)	34,254
Total comprehensive (loss) / income for the period	(323,295)	133,281	(512,821)	47,505

The annexed notes 1 to 28 form an integral part of this consolidated condensed interim financial information.

Asif Qadir
President & Chief Executive

Kimihide Ando
Director

(Amounts in thousand)

ENGRO POLYMER & CHEMICALS LIMITED AND ITS SUBSIDIARY COMPANY
UNAUDITED CONSOLIDATED CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED JUNE 30, 2010

	Share capital	Share premium	Employees' share compensation reserve	Hedging reserve	(Accumulated loss) / Unappropriated profit	Total
	Rupees					
Balance as at January 1, 2009 (Audited)	5,203,677	975,438	9,858	(39,100)	413,869	6,563,742
Unvested share options lapsed during the period	-	-	(266)	-	-	(266)
Total comprehensive income for the half year ended June 30, 2009	-	-	-	34,254	13,251	47,505
Balance as at June 30, 2009 (Unaudited)	5,203,677	975,438	9,592	(4,846)	427,120	6,610,981
Unvested share options lapsed during the period	-	-	(279)	-	-	(279)
Total comprehensive loss for the half year ended December 31, 2009	-	-	-	(8,112)	(206,947)	(215,059)
Balance as at December 31, 2009 (Audited)	5,203,677	975,438	9,313	(12,958)	220,173	6,395,643
Unvested share options lapsed during the period - note 11	-	-	(186)	-	186	-
Total comprehensive loss for the half year ended June 30, 2010	-	-	-	(63,437)	(449,384)	(512,821)
Share capital issued	1,431,011	-	-	-	-	1,431,011
Share issuance cost, net	-	(11,409)	-	-	-	(11,409)
Balance as at June 30, 2010 (Unaudited)	6,634,688	964,029	9,127	(76,395)	(229,025)	7,302,424

The annexed notes 1 to 28 form an integral part of this consolidated condensed interim financial information.

Asif Qadir
President & Chief Executive

Kimihide Ando
Director

(Amounts in thousand)

ENGRO POLYMER & CHEMICALS LIMITED AND ITS SUBSIDIARY COMPANY
UNAUDITED CONSOLIDATED CONDENSED INTERIM STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED JUNE 30, 2010

	Note	Half year ended June 30, 2010	Half year ended June 30, 2009
		Rupees	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	23	(23,581)	1,570,400
Finance costs paid		(710,154)	(722,664)
Long term loans and advances		(4,597)	39,602
Retirement benefits paid		(1,769)	-
Income tax paid		(200,968)	(97,135)
Net cash (outflow) / inflow from operating activities		(941,069)	790,203
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of:			
- property, plant and equipment		(757,730)	(1,734,605)
- intangible assets		(8,436)	(1,495)
Proceeds from disposal of operating assets		6,204	3,390
Short term investments		-	(484,073)
Proceeds from sale of short term investments		66,650	43,648
Income on short term investments and bank deposits		18,304	29,157
Net cash outflow from investing activities		(675,008)	(2,143,978)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long term borrowings		100,000	3,355,596
Repayments of long term borrowings		(589,864)	(130,000)
Proceeds from issue of share capital		1,431,011	-
Share issuance cost		(17,553)	-
Net cash inflow from financing activities		923,594	3,225,596
Net (decrease) / increase in cash and cash equivalents		(692,483)	1,871,821
Cash and cash equivalents at beginning of the period		(376,710)	(743,183)
Cash and cash equivalents at end of the period	24	(1,069,193)	1,128,638

The annexed notes 1 to 28 form an integral part of this consolidated condensed interim financial information.

Asif Qadir
President & Chief Executive

Kimihide Ando
Director

1. LEGAL STATUS AND OPERATIONS

The Group consists of Engro Polymer and Chemicals Limited (the Company) and its wholly owned subsidiary company, Engro Polymer Trading (Private) Limited.

The Company was incorporated in Pakistan in 1997 under the Companies Ordinance, 1984 as a public unlisted company. The Company is now listed on the Karachi, Lahore and Islamabad Stock Exchanges.

The Company is a subsidiary of Engro Corporation Limited (formerly Engro Chemical Pakistan Limited). The address of its registered office is 1st floor, Bahria Complex I, M. T. Khan Road, Karachi. The Company's principal activity is to manufacture, market and sell Poly Vinyl Chloride (PVC), PVC compounds, Caustic soda and other related chemicals.

In 2006, the Company commenced work on its expansion and backward integration project comprising setting up of new PVC, Ethylene Di Chloride (EDC), Chlor-alkali, Vinyl Chloride Monomer (VCM) and Power plants. During 2009, the Company commenced commercial operations of new PVC, EDC, Chlor-alkali and Power plants (Gas turbines). However, the VCM plant is in the test production phase. These plants have been set up adjacent to the Company's existing PVC facilities in the Port Qasim Industrial Area. The Company is also engaged in supply of surplus power generated from its Power plants to Karachi Electric Supply Corporation (KESC), under an agreement.

2. BASIS OF PREPARATION

This consolidated condensed interim financial information of the Company for the half year ended June 30, 2010 is unaudited and has been prepared in accordance with the requirements of the International Accounting Standard 34 - 'Interim Financial Reporting' and provisions of and directives issued under the Companies Ordinance, 1984 (the Ordinance). In case where requirements differ, the provisions of or directives issued under the Ordinance have been followed. This consolidated condensed interim financial information has, however, been subjected to limited scope review by the auditors, as required by the Code of Corporate Governance.

This consolidated condensed interim financial information is being submitted to the shareholders in accordance with section 245 of the Ordinance and should be read in conjunction with the audited annual financial statements of the Company for the year ended December 31, 2009.

3. ACCOUNTING POLICIES

3.1 The accounting policies and the methods of computation adopted in the preparation of this consolidated condensed interim financial information are the same as those applied in the preparation of audited annual financial statements of the Company for the year ended December 31, 2009.

3.2 The following new standards and amendments & interpretations to existing standards are mandatory for the Company's financial year beginning on or after January 1, 2010, but are either not currently relevant to the Company or do not have any significant impact on the Company's financial information:

- IFRS 2 (Amendment), 'Group cash-settled and share-based payment transactions';
- IFRS 3 (Revised), 'Business Combination';
- IFRS 5 (Amendment), 'Measurement of non-current assets (or disposal groups) classified as held for sale';
- IFRS 8 (Amendment), 'Disclosure of information about segment assets';
- IAS 1 (Amendment), 'Presentation of financial statements';
- IAS 17 (Amendment), 'Classification of leases of land and buildings';
- IAS 27 (Amendment), 'Consolidated and separate financial statements';
- IAS 28 (Amendment), 'Investments in associates';
- IAS 38 (Amendment), 'Intangible assets';
- IAS 39 (Amendment), 'Cash flow hedge accounting';
- IAS 39 (Amendment), 'Treating loan pre-payment penalties as closely related derivatives';
- IFRIC 17 'Distributions of non-cash assets to owners';
- IFRIC 18 'Transfers of assets from customers';
- Number of other amendments in other IFRS and IAS which were part of the International Accounting Standard Board's (IASB's) annual improvement project, published in April 2009.

3.3 The following new standards and amendments & interpretations to existing standards have been issued but are not effective for the financial year beginning January 1, 2010 and have not been early adopted by the Company:

- IFRS 9, 'Financial Instruments' (effective from January 1, 2013). IFRS 9 addresses the classification and measurement of financial assets. The Company is yet to assess the full impact of IFRS 9.

- IAS 24 (Revised), 'Related party disclosures' (effective from January 1, 2011). The revised standard supersedes IAS 24, 'Related party disclosures', issued in 2003. Application of the revised standard will only impact the format and extent of disclosures presented in the Company's financial statements.

- IAS 32 (Amendment), 'Classification of rights issues' (effective for annual periods beginning on or after February 1, 2010). The amendment states that if rights, which are offered for a fixed amount of foreign currency, are issued pro rata to all the entity's existing shareholders in the same class for fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. The Company currently has no rights issues in offering therefore the amendment has no effect on the Company's financial statements.

- IFRIC 14 (Amendments), 'Prepayments to minimum funding requirement' (effective from January 1, 2011). The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognize as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct the problem. The Company's retirement benefit funds are not subject to any minimum funding requirements, hence, these amendments will have no impact on the Company's financial statements.

- IFRIC 19, 'Extinguishing financial liabilities with equity instruments' (effective for annual periods beginning on or after July 1, 2010). The interpretation clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The Company has not renegotiated the terms of a financial liability and offered any of its shares to its creditors, therefore, this interpretation will have no impact on the Company's financial statements.

4. ACCOUNTING ESTIMATES

The preparation of this consolidated condensed interim financial information in conformity with the approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

During the preparation of this consolidated condensed interim financial information, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation and uncertainty were the same as those that apply to annual audited financial statements for the year ended December 31, 2009.

(Amounts in thousand)

	(Unaudited) June 30, 2010	(Audited) December 31, 2009
	Rupees	
5. PROPERTY, PLANT AND EQUIPMENT		
Operating assets, at net book value - notes 5.1 & 5.2	13,710,328	14,112,080
Capital work-in-progress - note 5.3	5,972,544	5,248,606
	19,682,872	19,360,686

	(Unaudited) June 30, 2010	(Audited) December 31, 2009
5.1 Additions to operating assets during the period / year were as follows:		
Building on leasehold land	300	168,221
Plant and machinery	1,831	12,076,638
Pipelines	-	357,309
Furniture, fixtures and office equipment	6,326	16,820
Vehicles	33,435	29,811
	41,892	12,648,799

5.2 During the period, assets costing Rs. 15,183 (December 31, 2009: Rs. 13,591), having net book value of Rs. 6,091 (December 31, 2009: Rs. 4,560) were disposed off for Rs. 6,204 (December 31, 2009: Rs. 6,179).

	(Unaudited) June 30, 2010	(Audited) December 31, 2009
	Rupees	
5.3 Capital work-in-progress mainly relates to the VCM plant and comprises of:		
Plant and machinery	4,245,805	3,744,783
Building on leasehold land	35,055	33,010
Ethylene pipeline and power cables	292	292
Water and gas pipelines	4,560	2,793
Furniture, fixtures and equipment	1,692	5,479
Advances for vehicles	-	8,315
Other ancillary costs - note 5.3.1	1,685,140	1,453,934
	5,972,544	5,248,606

(Amounts in thousand)

	(Unaudited) June 30, 2010	(Audited) December 31, 2009
	Rupees	
5.3.1 The ancillary costs, directly attributable to the VCM plant, comprise:		
Salaries, wages and benefits	266,192	213,879
Training and travelling	46,102	45,051
Borrowing costs, being capitalized at a rate of 10.14% (December 31, 2009: 12.08%) - net	673,922	591,810
Legal and professional	55,746	31,860
Storage and handling	555,799	481,667
Depreciation	15,053	15,053
Others	72,326	74,614
	1,685,140	1,453,934

6. INTANGIBLE ASSETS - Computer Software

Additions made during the period amounted to Rs. 8,436 (December 31, 2009: Rs. 6,255).

	(Unaudited) June 30, 2010	(Audited) December 31, 2009
	Rupees	
7. DEFERRED TAXATION		
Credit balances arising due to:		
- accelerated tax depreciation	(2,910,847)	(3,061,376)
- net borrowing costs capitalized	(235,873)	(207,133)
	(3,146,720)	(3,268,509)
Debit balances arising due to:		
- recoupable carried forward tax losses - note 7.1	2,843,354	2,725,269
- recoupable minimum turnover tax	174,306	108,789
- unrealized foreign exchange losses, unpaid liabilities and provision for retirement and other service benefits	80,901	46,581
- provision against custom duty	22,984	6,454
- provision for slow moving stores and spares	2,030	1,353
- fair value of hedging instruments	41,136	6,977
- share issuance cost, net to equity	57,710	51,566
	3,222,421	2,946,989
	75,701	(321,520)

7.1 The aggregate tax losses available for carry-forward at June 30, 2010 amount to Rs. 8,123,866 (December 31, 2009: Rs. 7,786,483), on which deferred tax asset has been recognized.

(Amounts in thousand)

	(Unaudited) June 30, 2010	(Audited) December 31, 2009
	Rupees	
8. STOCK-IN-TRADE		
Raw and packing materials - note 8.1	1,786,963	1,168,171
Work-in-progress	15,576	17,579
Finished goods		
- own manufactured product - note 8.1 and 8.2	792,799	410,653
- purchased product	34	9,035
	792,833	419,688
	2,595,372	1,605,438

8.1 This includes stock-in-transit amounting to Rs. 336,098 (December 31, 2009: Rs. 248,065) and stocks held at the storage facilities of the following related parties:

	(Unaudited) June 30, 2010	(Audited) December 31, 2009
	Rupees	
- Engro Vopak Terminal Limited	614,386	595,104
- Dawood Hercules Chemicals Limited	3,869	1,635
	618,255	596,739

8.2 This represents carrying value of PVC resin and EDC, net of realizable value reduction of Rs. 36,312 (December 31, 2009: Rs. 21,084) and Rs. 19,018 (December 31, 2009: Nil), respectively.

9. TAXES RECOVERABLE

9.1 During the period, the Company received a Notice of Demand of Rs. 213,172 in respect of Tax Year 2008. The Deputy Commissioner Inland Revenue has made various additions to the returned income amounting to Rs. 207,370 and has not considered the brought forward losses amounting to Rs. 974,770 resulting in the aforementioned tax demand. The additions to income are mainly on account of trading liabilities and financial costs in relation to the expansion Project.

The Company has filed an appeal against the aforementioned demand with the Commissioner Inland Revenue (Appeals), which is currently pending. While the appeal proceedings were pending, the Officer Inland Revenue (OIR) adjusted a sum of Rs. 125,072 in the above demand against the Company's assessed refunds. Although the Company has sufficient tax refunds and recoupable minimum taxes to have the remaining demand of Rs. 88,100 adjusted, the OIR only gave a further credit, subject to further verification, of Rs. 55,696. Consequently, the Company has paid the balance amount of Rs. 32,404 'under protest'. The Company also applied for a stay order to the Commissioner Inland Revenue (Appeals) for the remaining outstanding demand as the credit of Rs. 55,696 has also been given by the OIR subject to verification of taxes paid, which was granted up to June 26, 2010. Application for extension in stay order has also been filed and the management is confident that the stay will be extended.

The management of the Company is confident that the ultimate outcome of the aforementioned matter would be favourable and consequently has not recognized the effects for the same in the consolidated condensed interim financial information.

9.2 While finalizing the assessment for the assessment year 2000-2001, the Taxation Officer had disallowed a claim of First Year Allowance (FYA) by the Company on the grounds that it had not met the criteria for claiming this allowance as required under the repealed Income Tax Ordinance, 1979. The Company had filed an appeal against this disallowance which was pending with the Income Tax Appellate Tribunal (ITAT). A similar disallowance had also been made for the assessment year 2001-2002 by the Taxation Officer in 2003. However, upon appeal, this matter was ultimately decided in Company's favour in 2005 by the Income Tax Appellate Tribunal (ITAT).

(Amounts in thousand)

During the period, the ITAT for assessment year 2000-2001, decided the aforementioned matter against the Company by departing from the previous order for the assessment year 2001-2002. The disallowance of FYA amounts to Rs. 1,884,359.

This disallowance results in a tax deductible timing difference, the effects of which have been recognized in the consolidated condensed interim financial information after taking into account the consequential effects of the ITAT Order in the years subsequent to 2000-2001.

10. SHARE CAPITAL

10.1 During the period, the Company issued 143,101,111 ordinary shares of Rs. 10 each at par as rights shares to the existing shareholders, ranking pari passu in all respects with the existing shares of the Company. Transaction costs, incurred during the period amounting to Rs. 11,409, net of tax, directly attributable to the issue of new shares have been recognized as a deduction from share premium.

10.2 As at June 30, 2010, Engro Corporation Limited (formerly Engro Chemical Pakistan Limited) holds 372,809,989 ordinary shares of Rs. 10 each (December 31, 2009: 292,399,992 ordinary shares of Rs. 10 each).

	(Unaudited) June 30, 2010	(Audited) December 31, 2009
	Rupees	
11. EMPLOYEES' SHARE COMPENSATION RESERVE		
Balance at beginning of the period / year	9,313	9,858
Less: Options lapsed due to employee resignation	(186)	(545)
Balance at end of the period / year	9,127	9,313

During the period, the Company has adjusted the exercise price of the share options from Rs. 22 per share to Rs. 19.41 per share and has increased the total entitlement from 5,300,000 shares to 6,757,500 shares consequent to the issue of rights shares, which has been duly approved by the Securities and Exchange Commission of Pakistan. The aforementioned reduction in exercise price has no effect on the fair value of share options recognized in the consolidated condensed interim financial information.

12. LONG TERM BORROWINGS, Secured

12.1 During the period, the Company has entered into a Master Istisna Agreement for a facility of Rs. 100,000, for a period of three years. The entire amount of the facility has been drawn down by the Company. The facility carries mark-up at the rate of 1.5% over six months KIBOR. All amounts due under the Agreement are payable in tranches by way of a series of Istisna transactions, each Istisna transaction being treated as a separate agreement. Since the management's intention is to roll over each Istisna transaction on repayment date to the expiry date of the facility, the above mentioned financing has been included in long term borrowings of the Company. The facility is secured by a joint pari passu equitable mortgage over land and buildings and a pari passu hypothecation charge over plant and machinery, stocks and receivables amounting to Rs. 134,000.

12.2 During the period, the Company has repaid an amount of Rs. 51,744 representing the first installment against a facility obtained in 2009 under a Syndicate Finance Agreement with a consortium of local banks. Further, the Company has repaid an amount of Rs. 341,640 representing the first installment against loan agreement / facility with International Finance Corporation.

(Amounts in thousand)

13. DERIVATIVE FINANCIAL INSTRUMENTS

The Company has outstanding interest rate swap agreements for notional amounts aggregating US $ 37,332, with banks to hedge its interest rate exposure on floating rate foreign currency borrowings from International Finance Corporation (IFC). Under the swap agreements, the Company would receive six month USD-LIBOR on respective notional amounts and will pay fix rates, which will be settled semi annually. Details of the swap agreements are as follows:

Notional Amounts US $	Effective Date	Termination Date	Fixed Rate %	(Unaudited) Fair value as at June 30, 2010	(Audited) Fair value as at December 31, 2009
				Rupees	
14,000	December 15, 2008	June 15, 2017	3.385	59,084	23,770
4,666	June 15, 2009	June 15, 2017	3.005	14,153	1,838
14,000	June 15, 2009	June 15, 2017	2.795	33,277	(4,570)
4,666	June 15, 2009	June 15, 2017	2.800	11,016	(1,103)
37,332				**117,530**	**19,935**

14. SHORT TERM BORROWINGS

14.1 During the year, the short term financing agreement under the Export Refinance Scheme amounting to Rs. 200,000 has been extended upto August 31, 2010.

14.2 The aggregate facilities for running finance available from various banks, representing the sales price of all mark-up arrangements, amounts to Rs. 2,000,000 (December 31, 2009: Rs. 2,000,000). The corresponding purchase price is payable on various dates during the ensuing year. Mark-up is chargeable at rates net of prompt payment rebate, ranging from relevant period KIBOR plus 1% to plus 2% (December 31, 2009: relevant period KIBOR plus 0.9% to plus 3%). During the period, the mark-up rates, net of prompt payment rebate, ranged from 12.93% to 14.42% per annum (December 31, 2009: 12.39% to 17.37% per annum). The facilities are secured by a floating charge over stocks and book debts of the Company.

	(Unaudited) June 30, 2010	(Audited) December 31, 2009
	Rupees	
15. TRADE AND OTHER PAYABLES		
Includes amounts due to the following related parties		
- Engro Corporation Limited	12,462	-
- Mitsubishi Corporation	2,019,537	1,152,402
- Engro Vopak Terminal Limited	84,372	77,045
	2,116,371	1,229,447

16. PROVISIONS

16.1 Provision for SED on import of plant and machinery

As at June 30, 2010, the Company had paid Rs. 94,611 (December 31, 2009: Rs. 94,611) on account of Special Excise Duty (SED) on import of plant and machinery for the Project. Of this amount the Company had adjusted Rs. 57,924 (December 31, 2009: Rs. 57,924) in the monthly sales tax returns against SED on goods produced and sold by the Company. The Company had approached the Federal Board of Revenue to obtain a clarification in respect of the adjustment in the monthly sales tax returns.

Pending clarification the Company based on prudence had made a provision for the amount adjusted of Rs. 57,924 and also for the remaining balance of Rs. 36,687 included in loans, advances, deposits, prepayments and other receivables. However, in 2009, the Company received show cause notices from the Additional Collector (Adjudication) - Federal Board of Revenue, stating that the Company, by adjusting the SED, has violated the provisions of the Federal Excise Act, 2005 and the Federal Excise Rules, 2005 read with SRO 655(1)/2007 and that the amount adjusted was recoverable from the Company under the Federal Excise Act, 2005 along with default surcharge and penalty. During the period, the Company was granted a stay order from the Honourable High Court of Sindh against the recovery notice issued by the Additional Commissioner in respect of the demand. The Company filed an appeal with Commissioner Inland Revenue (Appeals) against the Order issued by the Additional Commissioner. Subsequent to the end of the current period, the appeal has been decided against the Company and the management intends to file an appeal with the Income Tax Appellate Tribunal against the decision of Commissioner Inland Revenue (Appeals). The Company is confident that the ultimate outcome of the matter will be in its favour, but, based on prudence is retaining the provision. Further, a provision for surcharge and penalty thereon amounting to Rs. 20,670 (December 31, 2009: Rs. 12,570) has also been made.

(Amounts in thousand)

16.2 **Provision for duty on import of raw material**

The Company in 2009 received a letter from the Assistant Collector (Survey) Large Taxpayers Unit regarding the utilization of raw materials imported under SRO 565(I)/2006 on a concessionary basis for customs duty. The letter alleged that the Company had violated the provisions of the SRO by utilizing the concessionary imports in manufacturing and selling the intermediary product Ethylene Di Chloride (EDC) rather than its utilization in the production of the final product Poly Vinyl Chloride (PVC). The Company responded to the letter explaining its view that imports under the said SRO were allowable for 'PVC Manufacturing Industry' as a whole, which includes manufacturing of intermediary products. During the period, the Department has disagreed with the Company's view and has demanded further information, to which the Company has responded. Although, no formal Order creating a demand has yet been received by the Company, based on prudence, a provision amounting to Rs. 47,227 (December 31, 2009: Nil) in respect of duty on such raw materials has been made.

17. CONTINGENCIES AND COMMITMENTS

Commitments

- Capital expenditure for the Project, under the contracts signed as at June 30, 2010 but not yet incurred amounts to Rs. 163,160 (December 31, 2009: Rs. 721,859).

- Performance guarantees issued by banks on behalf of the Company as at June 30, 2010 amount to Rs. 729,060 (December 31, 2009: Rs. 581,111).

18. COST OF SALES

	Unaudited			
	Quarter ended		Half Year ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	Rupees			
Opening stock of work-in-progress	-	31,810	17,579	21,293
Raw and packing materials consumed	2,484,282	1,934,633	4,641,461	3,326,793
Salaries, wages and staff welfare	95,547	43,504	188,107	86,803
Fuel, power and gas	366,902	71,567	742,845	175,831
Repairs and maintenance	64,200	(2,137)	105,053	21,443
Depreciation	222,942	69,701	432,076	139,489
Consumable stores	78,949	13,781	132,730	19,651
Purchased services	24,706	5,313	43,525	10,018
Storage and handling	237,785	44,308	392,587	87,127
Training and travelling	5,958	1,001	8,596	1,728
Communication, stationery and other office expenses	1,907	613	3,503	856
Insurance	18,534	8,377	35,011	20,430
Other expenses	1,093	3,340	8,174	4,918
	3,602,805	2,194,001	6,733,668	3,895,087
Closing stock of work-in-progress	(15,576)	(18,780)	(15,576)	(18,780)
Cost of goods manufactured	3,587,229	2,207,031	6,735,671	3,897,600
Opening stock of finished goods	484,262	206,131	410,653	810,355
Closing stock of finished goods	(792,799)	(177,946)	(792,799)	(177,946)
	(308,537)	28,185	(382,146)	632,409
Cost of sales - own manufactured product	3,278,692	2,235,216	6,353,525	4,530,009
- purchased product	24,329	-	24,329	-
	3,303,021	2,235,216	6,377,854	4,530,009

(Amounts in thousand)

	Unaudited			
	Quarter ended		Half Year ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
	Rupees			
19. DISTRIBUTION AND MARKETING EXPENSES				
Salaries, wages and staff welfare	13,564	13,751	28,973	26,473
Advertising, sales promotion and entertainment	14,246	11,176	26,911	20,817
Product transportation and handling	124,507	73,621	212,629	137,179
Rent rates and taxes	3,048	444	3,735	1,874
Purchased services	803	(985)	1,091	790
Insurance	335	282	558	552
Depreciation	982	849	1,878	1,907
Training and travelling	2,029	1,827	3,201	2,885
Communication, stationery and other office expenses	437	472	1,088	965
Others	2,163	822	2,763	1,312
	162,114	102,259	282,827	194,754
20. ADMINISTRATIVE EXPENSES				
Salaries, wages and staff welfare	33,369	25,557	62,930	32,790
Rent, rates and taxes	5,043	4,493	8,778	7,748
Purchased services	13,005	4,130	19,247	8,508
Insurance	79	107	195	208
Depreciation	2,786	1,205	3,599	2,550
Amortization	1,303	429	1,983	739
Training and travelling	15,038	9,819	26,502	15,832
Communication, stationery and other office expenses	8,824	2,140	15,392	5,358
Others	2,137	2,754	3,737	4,405
	81,584	50,634	142,363	78,138
21. OTHER OPERATING EXPENSES				
Legal and professional charges	4,781	1,378	9,136	2,305
Auditors' remuneration	271	317	560	317
Donations	3,242	1,467	5,787	1,375
Workers' profits participation fund	-	206	-	206
Workers' welfare fund	-	78	-	78
Foreign exchange loss - net	133,126	35,905	125,476	82,793
Others	128	149	252	540
	141,548	39,500	141,211	87,614

(Amounts in thousand)

22. FINANCE COSTS

	Unaudited				
	Quarter ended			Half Year ended	
	June 30, 2010	June 30, 2009		June 30, 2010	June 30, 2009
			Rupees		
Interest / Mark-up-on:					
- long term borrowings	345,241	52,748		605,286	97,988
- short term borrowings	20,941	4,570		38,037	16,698
Interest on Workers' Profits Participation Fund	761	-		1,672	-
Guarantee commission, bank charges and others	7,722	3,335		12,045	6,277
	374,665	60,653		657,040	120,963

23. CASH GENERATED FROM OPERATIONS

	Unaudited	
	Half year ended	
	June 30, 2010	June 30, 2009
	Rupees	
(Loss) / Profit before taxation	(730,263)	14,650
Adjustments for non-cash charges and other items:		
Provision for staff retirement and other service benefits	5,481	539
Provision against concessionary duty on import of raw material / Special Excise Duty	47,227	10,968
Provision for slow moving stores and spares	1,933	-
Depreciation	437,553	143,946
Amortization	1,983	739
Income on deposits	(18,304)	(45,666)
Amortization of deferred employee compensation expense	-	1,984
Realized gain on short term investments	(5,252)	(1,977)
Unrealized fair value gain on short term investments	-	(4,629)
Finance costs	657,040	120,963
Profit on disposal of operating assets	(113)	(886)
Working capital changes - note 23.1	(420,866)	1,329,769
	(23,581)	1,570,400

(Amounts in thousand)

	Unaudited Half year ended June 30, 2010	Unaudited Half year ended June 30, 2009
	Rupees	
23.1 **Working capital changes**		
(Increase) / Decrease in current assets:		
Stores, spares and loose tools	(221,624)	(31,665)
Stock-in-trade	(989,934)	83,284
Trade debts	(13,439)	(39,127)
Loans, advances, deposits, prepayments and other receivables (net)	63,034	18,800
	(1,161,963)	31,292
Increase in current liabilities:		
Trade and other payables	461,511	1,050,933
Current portion of long term borrowings	279,586	247,544
	(420,866)	1,329,769

24. CASH AND CASH EQUIVALENTS

Cash and bank balances	198,313	1,164,283
Short term borrowings	(1,267,506)	(35,645)
	(1,069,193)	1,128,638

(Amounts in thousand)

25. SEGMENT INFORMATION

25.1 The basis of segmentation and reportable segments presented in this consolidated condensed interim financial information are same as disclosed in the annual financial statements of the Company for the year ended December 31, 2009.

	Unaudited June 30, 2010			
	Poly Vinyl Chloride and Allied Chemicals	Caustic soda and Allied Chemicals	Power Supply	Total
	Rupees			
Revenue	**5,419,101**	**1,341,170**	**94,300**	**6,854,571**
Profit / (loss) before unallocated expenses	**(88,644)**	**279,790**	**2,744**	**193,890**
Unallocated expenses				
Administrative expenses				(142,363)
Other operating expenses				(141,211)
Other operating income				16,461
Finance costs				(657,040)
Taxation				280,879
Loss after taxation				**(449,384)**

	Unaudited June 30, 2010				Audited December 31, 2009			
	Poly Vinyl Chloride and Allied Chemicals	Caustic soda and Allied Chemicals	Power Supply	Total	Poly Vinyl Chloride and Allied Chemicals	Caustic soda and Allied Chemicals	Power Supply	Total
	Rupees							
Total segment assets	14,327,973	6,285,855	113,172	20,727,000	13,190,511	6,368,873	132,333	19,691,717
Unallocated assets				3,685,774				3,107,778
Total assets				**24,412,774**				**22,799,495**

25.2 Segment assets consist primarily of property, plant and equipment, stock in trade and trade debts.

(Amounts in thousand)

26. TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties other than those which have been disclosed elsewhere in this consolidated condensed interim financial information are as follows:

		Unaudited Half year ended June 30, 2010	Unaudited Half year ended June 30, 2009 (Restated)
		Rupees	Rupees
Nature of relationship	**Nature of transactions**		
Holding company	Purchase of services	14,323	15,475
	Sale of services	-	2,559
	Supply of steam and electricity	-	24,749
	Use of operating assets	1,574	1,232
	Pension fund contribution	1,908	1,619
	Provident fund contribution	1,389	1,434
Associated companies	Purchase of goods	4,257,734	3,694,215
	Sale of goods	642,431	226,258
Related parties by virtue of common directorship	Purchase of goods	4,467	6,465
	Purchase of services	522,398	398,921
	Sale of goods	1,816	-
	Sale of services	2,654	631
	Supply of steam and electricity	26,413	-
	Insurance expense	3,514	-
	Use of operating assets	1,639	-
Key management personnel	Managerial remuneration	35,442	32,184
	Retirement benefits	2,340	1,464
	Other benefits	5,658	7,148
Contribution to staff retirement benefits	Pension fund	3,130	2,865
	Provident fund	9,458	8,634
	Gratuity fund	1,722	873
Directors fee		1,000	45

27. DATE OF AUTHORIZATION FOR ISSUE

This consolidated condensed interim financial information was authorized for issue on July 23, 2010 by the Board of Directors of the Company.

(Amounts in thousand)

28. CORRESPONDING FIGURES

28.1 In order to comply with the requirements of International Accounting Standard 34 - 'Interim Financial Reporting', corresponding figures in the consolidated condensed interim balance sheet comprise of balances as per the annual audited financial statements of the Company for the year ended December 31, 2009 and the corresponding figures in the consolidated condensed interim profit and loss account, consolidated condensed interim statement of comprehensive income, consolidated condensed interim statement of changes in equity and consolidated condensed interim statement of cash flows comprise of balances of comparable period as per the consolidated condensed interim financial information of the Company for the half year ended June 30, 2009.

28.2 For better presentation, the following major reclassification in the corresponding figures has been made:

Description	Head of account of the financial information for the six months ended June 30, 2009	Head of account of the financial information for the six months ended June 30, 2010	Rupees
Supply of electricity	Other operating income	Net revenue	17,390

The effect of other reclassifications is not material.

Asif Qadir
President & Chief Executive

Kimihide Ando
Director

Engro Polymer & Chemicals Ltd.

Head Office: First Floor, Bahria Complex I, 24 M.T. Khan Road, Karachi-74000, Pakistan.
UAN: 111-411-411 PABX: +92-21-35610610, 35610743, 35610753 Fax: +92-21-35611690
Website: www.engropolymer.com