



Engro Polymer & Chemicals Ltd.

Financial Information for the Half Year
ended June 30, 2011

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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. Summit Bank Ltd. (formerly 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. Silk 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 HALF YEAR ENDED JUNE 30, 2011**



ENGRO POLYMER & CHEMICALS LIMITED

DIRECTORS' REVIEW TO THE SHAREHOLDERS

ON UNAUDITED CONDENSED INTERIM FINANCIAL INFORMATION

FOR THE HALF YEAR ENDED JUNE 30, 2011

On behalf of the Board of Directors of Engro Polymer & Chemicals Limited, we would like to present the unaudited Financial Information of the Company for the half year ended June 30, 2011.

Business Review

Vinyl Chloride Monomer (VCM) production during 2Q 2011 at 21K tons was better than last year production of 12K tons, but below expectation due to an unplanned outage of one of the VCM furnaces. The Company imported 7K tons of VCM during 2Q 2011 to meet the shortfall. VCM production for 1H 2011 was 35K tons as compared to 14K tons in the corresponding period last year.

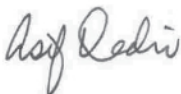
Poly Vinyl Chloride (PVC) production during 2Q 2011 was 27K tons as compared to 30K tons in 2Q 2010. Production was lower than last year due to unavailability of VCM. The Company sold 26K tons in 2Q 2011 as against 25K tons in 2Q 2010. Total PVC production for 1H 2011 was 52K tons as compared to 50K tons in 1H 2010. PVC domestic sales for 1H 2011 was 55K tons as against 46K tons in the same period last year. International PVC prices remained in the range of \$ 1,200/ton during 2Q 2011 on account of high raw material prices and supply demand. International PVC-VCM price differential at around \$100/ton remained the same as 2Q 2010.

Caustic soda production for the quarter was 25K tons which was the same as last year. The Company sold 22K tons in 2Q 2011 as against 21K tons in 2Q 2010. Total Caustic soda production during 1H 2011 was 46K tons as compared to 44K tons in the same period last year. The Company sold 42K tons of Caustic soda in the first six months of the year as against 38K tons last year. A total of 5K tons of Sodium Hypochlorite was produced and sold in the domestic market during the quarter. EDC production for 2Q 2011 was 26K tons. The Company exported 4K tons of EDC during 2Q 2011 through Engro Polymer Trading (Pvt.) Limited (a subsidiary of Engro Polymer & Chemicals Limited).

Revenue during 1H 2011 was Rs. 7,895 million, an increase of 16% over the same period last year. Growth in revenue is attributable to increased volumes and higher product prices as compared to the same period last year. However, as a result of low VCM production and lower PVC sales, the Company incurred a loss after tax of Rs. 207 million in 1H 2011 as compared to a loss after tax of Rs. 476 million in the same period last year.

Near Future Outlook

While VCM operations have been improved over the last year, VCM plant has so far not been able to achieve stable operations for extended period at design throughput rates. Extensive effort is being directed to improve the areas impacting smooth operations and it is expected that the production performance of the VCM plant will continue to see improvement. However, full benefit of the integrated operations will only be achieved with stable VCM operations at designed rates.



Asif Qadir
President & Chief Executive



Kimihide Ando
Director

Karachi
August 05, 2011



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, 2011 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, 2011 and 2010 have not been reviewed, as we are required to review only the cumulative figures for the half year ended June 30, 2011.

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, 2011 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.



Chartered Accountants
Karachi
Date: August 8, 2011

Engagement Partner: Sohail Hasan

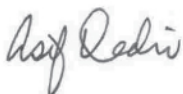
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Islamabad: PIA Building, 3rd Floor, 49 Blue Area, Fazl-ul-Haq Road, P.O.Box 3021, Islamabad-44000; Tel: +92(51)2273457-60; Fax: +92(51)2277924
Kabul: House No. 1916, Street No. 1, Behind Cinema Bariqot, Nahar-e-Darsan, Karte-4, Kabul, Afghanistan; Tel: +93(799)315320, +93(799)315320*

ENGRO POLYMER & CHEMICALS LIMITED
CONDENSED INTERIM BALANCE SHEET
AS AT JUNE 30, 2011

	Note	(Unaudited) June 30, 2011	(Audited) December 31, 2010
		Rupees	
ASSETS			
Non-Current Assets			
Property, plant and equipment	5	18,915,361	19,198,729
Intangible assets	6	33,115	20,856
Long term investment		50,000	50,000
Long term loans and advances		57,014	40,323
Deferred taxation	7	530,489	323,378
		<u>19,585,979</u>	<u>19,633,286</u>
Current Assets			
Stores, spares and loose tools		886,757	633,799
Stock-in-trade	8	2,306,227	2,056,383
Trade debts - considered good	9	266,326	591,770
Loans, advances, deposits, prepayments and other receivables	10	236,448	243,424
Taxes recoverable	11	760,488	653,924
Cash and bank balances	12	85,605	321,496
		<u>4,541,851</u>	<u>4,500,796</u>
TOTAL ASSETS		<u>24,127,830</u>	<u>24,134,082</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	13	6,634,688	6,634,688
Share premium		964,029	964,029
Employees' share compensation reserve	14	8,290	8,384
Hedging reserve		(79,519)	(72,062)
Accumulated loss		(835,751)	(628,697)
		<u>6,691,737</u>	<u>6,906,342</u>
Non-Current Liabilities			
Long term borrowings	15	10,189,710	10,903,360
Derivative financial instruments	16	122,336	110,864
Retirement and other service benefit obligations		54,757	50,091
		<u>10,366,803</u>	<u>11,064,315</u>
Current Liabilities			
Current portion of long term borrowings		1,435,022	1,361,293
Short term borrowings	17	921,546	1,580,388
Trade and other payables	18	4,424,823	2,898,031
Accrued interest / mark-up		146,413	192,691
Provisions	19	141,486	131,022
		<u>7,069,290</u>	<u>6,163,425</u>
Commitments	20		
TOTAL EQUITY AND LIABILITIES		<u>24,127,830</u>	<u>24,134,082</u>

The annexed notes 1 to 32 form an integral part of this condensed interim financial information.



Asif Qadir
 President & Chief Executive



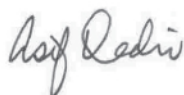
Kimihide Ando
 Director



ENGRO POLYMER & CHEMICALS LIMITED
CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2011

	Note	Quarter ended		Half year ended	
		June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Rupees					
Net sales		3,902,576	3,588,261	7,894,630	6,809,996
Cost of sales	21	<u>(3,407,110)</u>	<u>(3,302,659)</u>	<u>(6,878,574)</u>	<u>(6,377,492)</u>
Gross profit		495,466	285,602	1,016,056	432,504
Distribution and marketing expenses	22	(204,374)	(160,397)	(386,225)	(279,301)
Administrative expenses	23	(93,521)	(79,146)	(171,208)	(139,925)
Other operating expenses	24	(63,567)	(146,311)	(49,692)	(144,452)
Other operating income	25	<u>22,289</u>	<u>7,901</u>	<u>24,774</u>	<u>10,685</u>
Operating profit / (loss)		156,293	(92,351)	433,705	(120,489)
Finance costs	26	<u>(371,205)</u>	<u>(367,456)</u>	<u>(753,102)</u>	<u>(644,815)</u>
Loss before taxation		(214,912)	(459,807)	(319,397)	(765,304)
Taxation		<u>75,472</u>	<u>190,651</u>	<u>112,249</u>	<u>288,816</u>
Loss for the period		<u>(139,440)</u>	<u>(269,156)</u>	<u>(207,148)</u>	<u>(476,488)</u>
Loss per share					
- basic and diluted		<u>(0.21)</u>	<u>(0.43)</u>	<u>(0.31)</u>	<u>(0.80)</u>

The annexed notes 1 to 32 form an integral part of this condensed interim financial information.



Asif Qadir
 President & Chief Executive



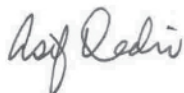
Kimihide Ando
 Director



ENGRO POLYMER & CHEMICALS LIMITED
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2011

	Quarter ended		Half year ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
	Rupees			
Loss for the period	(139,440)	(269,156)	(207,148)	(476,488)
Other comprehensive loss:				
Hedging reserve				
Loss arising during the period	(30,677)	(68,357)	(15,664)	(141,438)
Less:				
- Reclassification adjustments for losses included in profit and loss	3,963	24,838	4,192	39,777
- Adjustments for amounts transferred to initial carrying amount of hedged items	-	-	-	4,066
Income tax relating to hedging reserve	9,350	15,231	4,015	34,158
Other comprehensive loss for the period - net of tax	(17,364)	(28,288)	(7,457)	(63,437)
Total comprehensive loss for the period	<u>(156,804)</u>	<u>(297,444)</u>	<u>(214,605)</u>	<u>(539,925)</u>

The annexed notes 1 to 32 form an integral part of this condensed interim financial information.



Asif Qadir
 President & Chief Executive

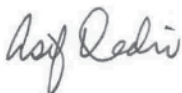


Kimihide Ando
 Director

ENGRO POLYMER & CHEMICALS LIMITED
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2011

	Share capital	Share premium	Employees' share compensation reserve	Hedging reserve	(Accumulated loss) / Unappropriated profit	Total
	Rupees					
Balance as at January 1, 2010 (Audited)	5,203,677	975,438	9,313	(12,958)	184,203	6,359,673
Vested share options lapsed during the period	-	-	(186)	-	186	-
Total comprehensive loss for the six months 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)	<u>6,634,688</u>	<u>964,029</u>	<u>9,127</u>	<u>(76,395)</u>	<u>(292,099)</u>	<u>7,239,350</u>
Vested share options lapsed during the period	-	-	(743)	-	743	-
Total comprehensive loss for the six months ended December 31, 2010	-	-	-	4,333	(337,341)	(333,008)
Balance as at December 31, 2010 (Audited)	<u>6,634,688</u>	<u>964,029</u>	<u>8,384</u>	<u>(72,062)</u>	<u>(628,697)</u>	<u>6,906,342</u>
Vested share options lapsed during the period - note 14	-	-	(94)	-	94	-
Total comprehensive loss for the six months ended June 30, 2011	-	-	-	(7,457)	(207,148)	(214,605)
Balance as at June 30, 2011 (Unaudited)	<u>6,634,688</u>	<u>964,029</u>	<u>8,290</u>	<u>(79,519)</u>	<u>(835,751)</u>	<u>6,691,737</u>

The annexed notes 1 to 32 form an integral part of this condensed interim financial information.



Asif Qadir
 President & Chief Executive

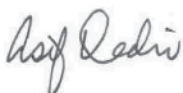


Kimihide Ando
 Director

ENGRO POLYMER & CHEMICALS LIMITED
CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2011

		Half year ended June 30, 2011	Half year ended June 30, 2010
Rupees			
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	27	2,453,269	(10,412)
Finance costs paid		(799,380)	(702,302)
Long term loans and advances		(16,691)	(4,597)
Retirement benefits paid		-	(1,769)
Income tax paid		(197,411)	(192,704)
Net cash generated from / (utilized in) operating activities		1,439,787	(911,784)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(303,354)	(757,730)
Purchases of intangible assets		(16,249)	(8,436)
Proceeds from disposal of operating assets		5,509	6,204
Income on short term investments and bank deposits		10,908	9,099
Net cash utilized in investing activities		(303,186)	(750,863)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of long term borrowings		(713,650)	(589,864)
Proceeds from long term borrowings		-	100,000
Repayments of short term finances		(250,000)	-
Proceeds from issue of share capital		-	1,431,011
Share issuance cost		-	(17,553)
Net cash (utilized in) / generated from financing activities		(963,650)	923,594
Net increase / (decrease) in cash and cash equivalents		172,951	(739,053)
Cash and cash equivalents at beginning of the period		(1,008,892)	(204,177)
Cash and cash equivalents at end of the period	28	(835,941)	(943,230)

The annexed notes 1 to 32 form an integral part of this condensed interim financial information.



Asif Qadir
 President & Chief Executive



Kimihide Ando
 Director

ENGRO POLYMER & CHEMICALS LIMITED
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2011

1 LEGAL STATUS AND OPERATIONS

Engro Polymer & Chemicals Limited (the Company) was incorporated in Pakistan in 1997 under the Companies Ordinance, 1984. The Company was listed on the Karachi Stock Exchange in 2008 and the Islamabad and Lahore Stock Exchanges in 2009.

The Company is a subsidiary of Engro Corporation 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. The Company is also engaged in supply of surplus power generated from its power plants to Engro Fertilizers Limited.

In 2006, the Company commenced work on its expansion and backward integration project comprising setting up of a new PVC plant, Ethylene Di Chloride (EDC), Chlor-alkali, Vinyl Chloride Monomer (VCM) and Power plants (the Project). In 2009, the Company commenced commercial operations of new PVC, EDC, Chlor-alkali and Power plants (Gas turbines). On September 30, 2010, the Company declared commercial operations of the VCM plant, after which the integrated chemical complex is now complete.

2 BASIS OF PREPARATION

This condensed interim financial information of the Company for the half year ended June 30, 2011 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 take precedence. 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, 2010.

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, 2010 except for the changes resulting from initial application of standards, amendments or an interpretation to existing standards as stated in note 3.2 which though adopted does not have any impact on this condensed interim financial information.
- 3.2** Following new standards, amendments to standards and interpretations are mandatory for the financial year beginning on or after January 1, 2011, but are either not currently relevant to the Company or do not have any significant effect on the Company's financial information :
- IFRS 1 (Amendment), 'First time adoption, on financial instrument disclosures';
 - IFRS 7 (Amendment), 'Financial instruments: Disclosures';
 - IAS 1 (Amendment), 'Presentation of financial statements';
 - IAS 32 (Amendment), 'Financial instruments: Presentation on classification of rights issues';
 - IAS 34 (Amendment), 'Interim financial reporting';
 - IFRIC 4, 'Determining whether an agreement contains a lease';
 - IFRIC 14 (Amendment), 'Prepayments of a minimum funding requirement'; and
 - IFRIC 19, 'Extinguishing financial liabilities with equity instruments'.



3.3 Following new standards, amendments and interpretations to published standards are not effective for the accounting period beginning January 1, 2011 and have not been early adopted by the Company:

- IFRS 7 (Amendment), 'Financial instruments: Disclosures';
- IFRS 9, 'Financial instruments';
- IFRS 10, 'Consolidated financial statements';
- IFRS 11, 'Joint arrangements';
- IFRS 12, 'Disclosure of interests in other entities';
- IFRS 13, 'Fair value measurements';
- IAS 1 (Amendment), 'Presentation of financial statements';
- IAS 12 (Amendment), 'Income taxes';
- IAS 19 (Revised), 'Employee benefits';
- IAS 27 (Revised), 'Separate financial statements'; and
- IAS 28 (Revised), 'Associates and joint ventures'.

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, 2010.

	(Unaudited) June 30, 2011	(Audited) December 31, 2010
	Rupees	
5 PROPERTY, PLANT AND EQUIPMENT		
Operating assets, at net book value		
- notes 5.1, 5.2 and 5.3	18,634,452	19,138,589
Capital work-in-progress	280,909	60,140
	<u>18,915,361</u>	<u>19,198,729</u>
5.1 Additions to operating assets during the period / year were as follows:		
Building on leasehold land	3,348	37,255
Plant and machinery	55,262	5,926,831
Pipelines	-	4,852
Furniture, fixtures and equipment	6,347	20,644
Vehicles	17,628	65,122
	<u>82,585</u>	<u>6,054,704</u>

5.2 During the period, assets costing Rs. 15,853 (December 31, 2010: Rs. 36,292), having net book value of Rs. 8,417 (December 31, 2010: Rs. 11,917) were disposed off for Rs. 5,509 (December 31, 2010: Rs. 15,193).

5.3 Furnace tubes related to the VCM Plant, damaged during the period, having net book value of Rs. 2,640 have been written-off. The cost of replacement of the damaged parts is reflected under capital work-in-progress.

6 INTANGIBLE ASSETS

Additions made during the period amount to Rs. 16,249 (December 31, 2010: Rs. 13,804).

7 DEFERRED TAXATION

	(Unaudited) June 30, 2011	(Audited) December 31, 2010
	Rupees	
Credit balances arising due to:		
- accelerated tax depreciation	(4,138,302)	(4,141,621)
Debit balances arising due to:		
- recoupable carried forward tax losses - note 7.1	4,201,997	4,097,320
- recoupable minimum turnover tax	295,072	204,227
- unpaid liabilities and provision for certain retirement and other service benefits	42,829	36,594
- provision against duties	24,982	27,639
- provision for stocks and slow moving stores and spares	3,384	2,707
- fair value of hedging instruments	42,818	38,803
- share issuance cost, net to equity	57,709	57,709
	4,668,791	4,464,999
	<u>530,489</u>	<u>323,378</u>

7.1 The aggregate tax losses available for carry-forward as at June 30, 2011 amount to Rs.12,005,706 (December 31, 2010: Rs.11,706,630), on which deferred tax asset has been recognized.

	(Unaudited) June 30, 2011	(Audited) December 31, 2010
	Rupees	
8 STOCK-IN-TRADE		
Raw and packing materials - note 8.1 and 8.3	1,739,905	1,255,439
Work-in-process	27,922	4,749
Finished goods - own manufactured product - note 8.1 and 8.2	538,400	796,195
	<u>2,306,227</u>	<u>2,056,383</u>



8.1 This includes stocks held at the storage facilities of the following related parties:

	(Unaudited) June 30, 2011	Rupees	(Audited) December 31, 2010
Engro Vopak Terminal Limited	382,998		601,050
Dawood Hercules Chemicals Limited	1,607		4,425
	<u>384,605</u>		<u>605,475</u>

8.2 This represents carrying value of PVC resin, net of realizable value reduction of Rs. 18,971 (December 31, 2010: Rs. 17,162) and write-off of 77 M tons of Off-Spec PVC amounting to Rs. 4,572 (December 31, 2010: 89 M tons of Off-Spec PVC amounting to Rs. 4,386).

8.3 During the period, expired chemicals amounting to Nil (December 31, 2010: Rs. 9,380) have been written-off.

9 TRADE DEBTS - considered good

Includes amounts due from the following related parties:

	(Unaudited) June 30, 2011	Rupees	(Audited) December 31, 2010
- Engro Fertilizers Limited	-		1,158
- Engro Powergen Qadirpur Limited (formerly Engro Energy Limited)	-		240
- Engro Polymer Trading (Private) Limited	110,501		412,974
	<u>110,501</u>		<u>414,372</u>

10 LOANS, ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES - considered good

Includes amounts due from the following related parties:

	(Unaudited) June 30, 2011	Rupees	(Audited) December 31, 2010
- Engro Corporation Limited	2,900		-
- Engro Fertilizers Limited	3,945		3,998
- Avanceon Limited	-		2,185
	<u>6,845</u>		<u>6,183</u>



11 TAXES RECOVERABLE

- 11.1** Last year, 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 finance costs incurred in relation to the expansion Project. The aforementioned brought forward losses have been amended due to revision of returns as per the ITAT Order mentioned in note 11.3.

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. 180,768 in the aforementioned demand against the Company's assessed refunds. Consequently, the Company has paid the balance amount of Rs. 32,404 'under protest'. Further, the OIR has issued two show cause notices dated December 9, 2010 for the levy of additional tax relating to Tax year 2008 aggregating to Rs. 8,106. During the period, replies to the show cause notices have been filed for withdrawal thereof. The Company's management is of the view that since the matter is pending with the Commissioner Inland Revenue (Appeals), no cohesive recovery measures can be initiated unless a decision is obtained from an independent forum outside the departmental hierarchy. Further, no formal order creating a demand has been received to date in response to the show cause replies submitted by the Company.

The management of the Company, based on the advice of its tax consultant, is confident that the ultimate outcome of the aforementioned matter would be favorable and consequently has not recognized the effects for the same in the condensed interim financial information.

- 11.2** Further, during last year, the Company also received a notice of demand of Rs. 163,206 in respect of Tax year 2009. The Deputy Commissioner Inland Revenue has made various additions to the returned income amounting to Rs. 546,050 and has not considered the brought forward losses amounting to Rs. 499,376 resulting in the aforementioned tax demand. The additions to income are mainly on account of trading liabilities and finance costs incurred in relation to the expansion Project. The aforementioned brought forward losses have been amended due to revision of returns as per the ITAT Order mentioned in note 11.3.

The entire demand of Rs. 163,206 has been adjusted vide OIR order dated December 20, 2010 against assessed refundable taxes. During the period, the Company has filed an appeal against the aforementioned demand with the Commissioner Inland Revenue (Appeals), which is currently pending.

The management of the Company, based on the advice of its tax consultant, is confident that the ultimate outcome of the aforementioned matter would be favorable and consequently has not recognized the effects for the same in the condensed interim financial information.

- 11.3** While finalizing the assessment for the assessment year 2000-2001, the Taxation Officer had disallowed the claim of First Year Allowance (FYA) by the Company on the grounds that the Company 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 decided by the Commissioner of Income Tax (Appeals) in favor of the Company. The department, therefore, filed second appeal before 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 favor in 2005 by the Income Tax Appellate Tribunal (ITAT).

However, the ITAT, in departmental appeal pertaining to 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 resulted in tax deductible timing differences, 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 tax years subsequent to 2000-2001. Consequently, the Company has revised its income tax returns for the tax years 2003 to 2007 and 2009 resulting in a tax liability of Rs. 86,769 for Tax year 2008, which has been settled by adjustment out of recoupable minimum tax brought forward of prior years and refunds available in other tax years as mentioned in note 11.1 above.

	(Unaudited) June 30, 2011	(Audited) December 31, 2010
	Rupees	
12 CASH AND BANK BALANCES		
Cash in hand	977	630
Cash at bank on:		
- current accounts	67,895	297,489
- savings accounts	16,733	23,377
	85,605	321,496

	(Unaudited) June 30, 2011	(Audited) December 31, 2010
	Rupees	
13 SHARE CAPITAL		
Authorized capital		
800,000,000 (2010: 700,000,000) ordinary shares of Rs. 10 each	8,000,000	7,000,000
Issued, subscribed and paid-up capital		
663,468,788 (2010: 663,468,788) ordinary shares of Rs. 10 each, fully paid in cash	6,634,688	6,634,688

13.1 During the current period, the Company has increased its authorized share capital to 800,000,000 ordinary shares of Rs. 10 each.

13.2 As at June 30, 2011, Engro Corporation Limited - the Holding Company, holds 372,809,989 ordinary shares of Rs.10 each (December 31, 2010: 372,809,989 ordinary shares of Rs. 10 each).

	(Unaudited) June 30, 2011	(Audited) December 31, 2010
	Rupees	
14 EMPLOYEES' SHARE COMPENSATION RESERVE		
Balance at beginning of the period/year	8,384	9,313
Less: Options lapsed due to employee resignation	(94)	(929)
Balance at end of the period/year	8,290	8,384

15 LONG TERM BORROWINGS, secured

Under the terms of the agreements for long term borrowings from International Finance Corporation (IFC) and syndicates of banks, the Company is required to comply with certain debt covenants. As at June 30, 2011, all debt covenants have been complied with except for current ratio and debt service coverage ratio, for which waivers have been applied for.

16 DERIVATIVE FINANCIAL INSTRUMENTS

16.1 During the period, the Company has entered into a cross-currency interest rate swap agreement for a notional amount of US\$ 4,016, with a bank to hedge its interest rate exposure on floating rate local currency borrowings from a consortium of local banks under a Syndicate Finance Agreement. Under the swap agreement, the Company would receive six month KIBOR plus 2.25% on the relevant PKR notional amount and will pay six month USD-LIBOR plus 3.70% on the relevant USD notional amount, which will be settled semi-annually. As at June 30, 2011, the Company has outstanding cross currency swap agreements with local banks for notional amounts aggregating to US\$ 7,216.

16.2 As at June 30, 2011, the Company has outstanding interest rate swap agreements with banks for notional amounts aggregating US\$ 32,000 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.

16.3 Details of the swap agreements are as follows:

Notional Amounts US \$	Effective Date	Termination Date	Rate %	(Unaudited)	(Audited)
				Fair value as at June 30, 2011	Fair value as at December 31, 2010
				Rupees	
Interest Rate Swap Agreements			Fixed Rate %		
12,000	December 15, 2008	June 15, 2017	3.385	57,074	54,957
4,000	June 15, 2009	June 15, 2017	3.005	14,834	13,487
12,000	June 15, 2009	June 15, 2017	2.795	37,554	32,452
4,000	June 15, 2009	June 15, 2017	2.800	13,295	10,784
<u>32,000</u>				<u>122,757</u>	<u>111,680</u>
Cross Currency Interest Rate Swap Agreements			Floating Rate %		
3,200	September 9, 2010	June 15, 2015	LIBOR + 0.95	459	(816)
4,016	January 18, 2011	January 19, 2016	LIBOR + 3.70	(880)	-
<u>7,216</u>				<u>(421)</u>	<u>(816)</u>
<u>39,216</u>				<u>122,336</u>	<u>110,864</u>

17 SHORT TERM BORROWINGS

The aggregate facilities for running finance available from various banks, representing the sales price of all mark-up arrangements, amount to Rs. 1,925,000 (December 31, 2010: Rs. 1,925,000). 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 0.9% to plus 1.5% (December 31, 2010: relevant period KIBOR plus 0.9% to plus 1.5%). During the period, the mark-up rates, net of prompt payment rebate, ranged from 14.12% to 15.15% per annum (December 31, 2010: 12.83% to 14.84% per annum). These facilities are secured by a floating charge over stocks and book debts of the Company.

18 TRADE AND OTHER PAYABLES

Includes amounts due to the following related parties:

	(Unaudited) June 30, 2011	(Audited) December 31, 2010
	Rupees	
- Engro Corporation Limited	793	377
- Mitsubishi Corporation	2,988,619	1,690,399
- Engro Vopak Terminal Limited	79,222	86,679
	<u>3,068,634</u>	<u>1,777,455</u>

19 PROVISIONS

19.1 Provision for SED on import of plant and machinery

The Company has paid Rs. 94,611 (December 31, 2010: 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, 2010: 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 (FBR) 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), 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 alongwith default surcharge and penalty. During 2010, the Company was granted a stay order by 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 and the appeal was decided against the Company. The Company has now filed 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, however, based on prudence is carrying a provision in this respect. Further, a provision for surcharge and penalty thereon aggregating to Rs. 28,874 (December 31, 2010: Rs. 25,871) has also been made.

19.2 Provision for duty on import of raw material

In 2009, the Company 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 from 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. However, the tax department has shown its disagreement 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, however, based on prudence, a provision amounting to Rs. 54,688 (December 31, 2010: Rs. 47,227) in respect of custom duty on such raw materials has been made.

20 COMMITMENTS

20.1 Performance guarantees issued by banks on behalf of the Company as at June 30, 2011 amounts to Rs. 640,450 (December 31, 2010: Rs. 431,975).

20.2 The Company has entered into operating lease arrangements with Al-Rahim Trading Terminal and Dawood Hercules Limited – a related party, for storage and handling of Ethylene Di Chloride and Caustic soda respectively. The total lease rentals due under these lease arrangements are payable in periodic monthly installments till July 31, 2019.

The future aggregate lease payments under these arrangements are as follows:

	(Unaudited) June 30, 2011	(Audited) December 31, 2010
	Rupees	
Not later than 1 year	21,540	59,840
Later than 1 year and no later than 5 years	57,600	57,600
Later than 5 years	43,200	50,400
	122,340	167,840

21 COST OF SALES	Unaudited			
	Quarter ended		Half year ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
	Rupees			
Opening stock of work-in-progress	12,171	-	4,749	17,579
Raw and packing materials consumed	1,954,349	2,484,282	4,059,691	4,641,461
Salaries, wages and staff welfare	141,426	95,547	288,540	188,107
Fuel, power and gas	499,738	366,902	967,186	742,845
Repairs and maintenance	88,374	64,200	153,502	105,053
Depreciation	284,269	222,942	569,302	432,076
Consumable stores	48,150	78,949	114,784	132,730
Purchased services	3,145	24,706	18,656	43,525
Storage and handling	217,366	237,785	422,497	392,587
Training and travelling	3,794	5,958	7,075	8,596
Communication, stationery and other office expenses	2,100	1,907	3,420	3,503
Insurance	16,938	18,534	25,300	35,011
Other expenses	4,858	1,093	13,999	8,174
	3,264,507	3,602,805	6,643,952	6,733,668
Closing stock of work-in-progress	(27,922)	(15,576)	(27,922)	(15,576)
Cost of goods manufactured	3,248,756	3,587,229	6,620,779	6,735,671
Opening stock of finished goods	696,754	484,262	796,195	410,653
Closing stock of finished goods	(538,400)	(792,799)	(538,400)	(792,799)
	158,354	(308,537)	257,795	(382,146)
Cost of sales - own manufactured product	3,407,110	3,278,692	6,878,574	6,353,525
Cost of sales - purchased product	-	23,967	-	23,967
	3,407,110	3,302,659	6,878,574	6,377,492

22 DISTRIBUTION AND MARKETING EXPENSES	Unaudited			
	Quarter ended		Half year ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
	Rupees			
Salaries, wages and staff welfare	15,742	13,564	31,343	28,973
Advertising, sales promotion and entertainment	20,275	14,246	41,180	26,911
Product transportation and handling	154,316	122,790	291,043	209,103
Rent, rates and taxes	3,379	3,048	5,502	3,735
Purchased services	1,527	803	2,240	1,091
Insurance	349	335	675	558
Depreciation	1,194	982	2,178	1,878
Training and travelling	2,076	2,029	3,341	3,201
Communication, stationery and other office expenses	738	437	1,331	1,088
Others	4,778	2,163	7,392	2,763
	204,374	160,397	386,225	279,301

	Unaudited			
	Quarter ended		Half year ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
23 ADMINISTRATIVE EXPENSES	Rupees			
Salaries, wages and staff welfare	44,858	33,369	85,470	62,930
Rent, rates and taxes	7,796	5,043	17,485	8,778
Purchased services	12,599	10,567	19,951	16,809
Insurance	141	79	150	195
Depreciation and amortization	4,095	4,089	8,175	5,582
Training and travelling expenses	13,954	15,038	24,305	26,502
Communication, stationery and other office expenses	5,958	8,824	9,054	15,392
Others	4,120	2,137	6,618	3,737
	<u>93,521</u>	<u>79,146</u>	<u>171,208</u>	<u>139,925</u>
24 OTHER OPERATING EXPENSES				
Legal and professional charges	2,120	4,781	5,491	9,136
Auditors' remuneration	471	241	752	530
Donations	975	3,242	1,449	5,787
Foreign exchange loss - net	55,269	137,953	36,011	128,905
Loss on disposal of operating assets	1,962	-	2,908	-
Damaged items of operating assets written-off	2,640	-	2,640	-
Others	130	94	441	94
	<u>63,567</u>	<u>146,311</u>	<u>49,692</u>	<u>144,452</u>
25 OTHER OPERATING INCOME				
Income on short term investments and bank deposits	9,159	7,242	10,908	9,099
Scrap sales	947	748	1,683	1,473
(Loss) / Profit on disposal of operating assets	-	(89)	-	113
Stores and spares written back - net	12,183	-	12,183	-
	<u>22,289</u>	<u>7,901</u>	<u>24,774</u>	<u>10,685</u>
26 FINANCE COSTS				
Interest / Mark-up on:				
- long term borrowings	352,564	345,241	700,901	605,286
- short term borrowings	12,241	17,073	42,111	30,003
Guarantee commission	1,411	1,056	2,583	2,129
Interest on Workers' Profits Participation Fund	-	761	-	1,672
Bank charges and others	4,989	3,325	7,507	5,725
	<u>371,205</u>	<u>367,456</u>	<u>753,102</u>	<u>644,815</u>

Unaudited

	Half year ended June 30, 2011	Half year ended June 30, 2010
	Rupees	

27 CASH GENERATED FROM OPERATIONS

Loss before taxation	(319,397)	(765,304)
Adjustments for non cash charges and other items:		
Provision for staff retirement and other service benefits	4,666	5,481
Provision against concessionary import duty on import of raw materials and Special Excise Duty	10,464	47,227
Provision for net realizable value of stock-in-trade	18,971	-
Provision for slow moving stores and spares	1,934	1,933
Write-off of damaged item of operating assets	2,640	-
Depreciation and amortization	579,655	439,536
Income on short term investments and bank deposits	(10,908)	(9,099)
Finance costs	753,102	644,815
Loss / (profit) on disposal of operating assets	2,908	(113)
Working capital changes - note 27.1	1,409,234	(374,888)
	<u>2,453,269</u>	<u>(10,412)</u>

27.1 WORKING CAPITAL CHANGES

Decrease / (increase) in current assets

Stores, spares and loose tools	(254,892)	(221,624)
Stock-in-trade	(268,815)	(990,120)
Trade debts	325,444	30,712
Loans, advances, deposits, prepayments and other receivables - net	6,976	63,002
	<u>(191,287)</u>	<u>(1,118,030)</u>

Increase in current liabilities

Trade and other payables	1,526,792	463,556
Current portion of long term borrowings	73,729	279,586
	<u>1,409,234</u>	<u>(374,888)</u>

28 CASH AND CASH EQUIVALENTS

Cash and bank balances	85,605	124,276
Short term borrowings	(921,546)	(1,067,506)
	<u>(835,941)</u>	<u>(943,230)</u>

29 SEGMENT INFORMATION

29.1 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, 2010.

	Unaudited June 30, 2011				Unaudited June 30, 2010			
	Poly Vinyl Chloride (PVC) and allied chemicals	Caustic soda and allied chemicals	Power supply	Total	Poly Vinyl Chloride (PVC) and allied chemicals	Caustic soda and allied chemicals	Power supply	Total
	Rupees							
Revenue	6,287,552	1,592,227	14,851	7,894,630	5,374,526	1,341,170	94,300	6,809,996
Profit / (loss) before unallocated expenses	118,694	511,808	(671)	629,831	(129,331)	279,790	2,744	153,203
Unallocated expenses								
Administrative expenses				(171,208)				(139,925)
Other operating expenses				(49,692)				(144,452)
Other operating income				24,774				10,685
Finance costs				(753,102)				(644,815)
Taxation				112,249				288,816
Loss after taxation				(207,148)				(476,488)

	Unaudited June 30, 2011				Unaudited December 31, 2010			
	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	13,264,556	5,984,909	87,351	19,336,816	13,649,824	5,748,046	106,785	19,504,655
Unallocated assets				4,791,014				4,629,427
Total assets				24,127,830				24,134,082

29.2 Segment assets consist primarily of property, plant and equipment, stores & spares, stock-in-trade and trade debts.

30 TRANSACTIONS WITH RELATED PARTIES

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

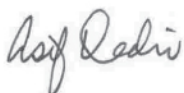
		Unaudited	
		Half year ended June 30, 2011	Half year ended June 30, 2010
		Rupees	
Nature of relationship	Nature of transactions		
Holding company	Purchase of services	2,644	14,323
	Sales of services	97	-
	Use of operating assets	-	1,574
	Pension fund contribution	2,260	1,908
	Provident fund contribution	2,458	1,389
	Medical contribution	225	-
	Gratuity fund contribution	546	-
Subsidiary company	Sale of goods	267,166	749,143
	Sale of services	890	113
Associated companies	Purchase of goods	3,904,453	4,257,734
Related parties by virtue of common directorship	Purchase of goods	17,680	4,467
	Purchase of services	411,541	522,398
	Sale of goods	30,674	1,816
	Sale of services	4,698	2,654
	Sale of steam and electricity	21,860	26,413
	Use of operating assets	161	1,639
	Insurance expenses	-	3,514
	Medical Contribution	4	-
	Annual Subscription	64	-
Directors' fee		1,201	1,000
Key management personnel	Managerial remuneration	32,112	27,894
	Retirement benefits	4,668	2,340
	Bonus	8,530	7,548
	Other benefits	6,484	5,658
Contribution to staff retirement benefits	Pension fund	6,190	3,130
	Provident fund	10,133	9,458
	Gratuity fund	2,816	1,722

31 DATE OF AUTHORIZATION FOR ISSUE

This condensed interim financial information was authorized for issue on August 5, 2011 by the Board of Directors of the Company.

32 CORRESPONDING FIGURES

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, 2010. 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 ended June 30, 2010.



Asif Qadir
President & Chief Executive



Kimihide Ando
Director



Engro Polymer & Chemicals Ltd.

AND IT'S SUBSIDIARY COMPANY

**DIRECTORS' REVIEW &
UNAUDITED CONSOLIDATED CONDENSED
INTERIM FINANCIAL INFORMATION
FOR THE HALF YEAR ENDED JUNE 30, 2011**



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, 2011

On behalf of the Board of Directors of Engro Polymer & Chemicals Limited, we would like to present the unaudited Financial Information of the Company for the half year ended June 30, 2011.

Business Review

Vinyl Chloride Monomer (VCM) production during 2Q 2011 at 21K tons was better than last year production of 12K tons, but below expectation due to an unplanned outage of one of the VCM furnaces. The Company imported 7K tons of VCM during 2Q 2011 to meet the shortfall. VCM production for 1H 2011 was 35K tons as compared to 14K tons in the corresponding period last year.

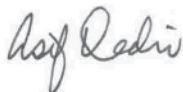
Poly Vinyl Chloride (PVC) production during 2Q 2011 was 27K tons as compared to 30K tons in 2Q 2010. Production was lower than last year due to unavailability of VCM. The Company sold 26K tons in 2Q 2011 as against 25K tons in 2Q 2010. Total PVC production for 1H 2011 was 52K tons as compared to 50K tons in 1H 2010. PVC domestic sales for 1H 2011 was 55K tons as against 46K tons in the same period last year. International PVC prices remained in the range of \$ 1,200/ton during 2Q 2011 on account of high raw material prices and supply demand. International PVC-VCM price differential at around \$100/ton remained the same as 2Q 2010.

Caustic soda production for the quarter was 25K tons which was the same as last year. The Company sold 22K tons in 2Q 2011 as against 21K tons in 2Q 2010. Total Caustic soda production during 1H 2011 was 46K tons as compared to 44K tons in the same period last year. The Company sold 42K tons of Caustic soda in the first six months of the year as against 38K tons last year. A total of 5K tons of Sodium Hypochlorite was produced and sold in the domestic market during the quarter. EDC production for 2Q 2011 was 26K tons. The Company exported 4K tons of EDC during 2Q 2011.

Revenue during 1H 2011 was Rs. 8,031 million, an increase of 17% over the same period last year. Growth in revenue is attributable to increased volumes and higher product prices as compared to the same period last year. However, as a result of low VCM production and lower PVC sales, the Company incurred a loss after tax of Rs. 195 million in 1H 2011 as compared to a loss after tax of Rs. 449 million in the same period last year.

Near Future Outlook

While VCM operations have been improved over the last year, VCM plant has so far not been able to achieve stable operations for extended period at design throughput rates. Extensive effort is being directed to improve the areas impacting smooth operations and it is expected that the production performance of the VCM plant will continue to see improvement. However, full benefit of the integrated operations will only be achieved with stable VCM operations at designed rates.



Asif Qadir
President & Chief Executive



Kimihide Ando
Director

Karachi
August 05, 2011

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 and Chemicals Limited and its subsidiary company, Engro Polymer Trading (Private) Limited as at June 30, 2011 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, 2011 and 2010 have not been reviewed, as we are required to review only the cumulative figures for the half year ended June 30, 2011.

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, 2011 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.



Chartered Accountants
Karachi
Date: August 8, 2011

Engagement Partner: Sohail Hasan

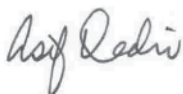
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Kabul: House No. 1916, Street No. 1, Behind Cinema Bariqot, Nahar-e-Darsan, Karte-4, Kabul, Afghanistan: Tel: +93(779)315320, +93(799)315320*

ENGRO POLYMER & CHEMICALS LIMITED AND ITS SUBSIDIARY COMPANY
CONSOLIDATED CONDENSED INTERIM BALANCE SHEET
AS AT JUNE 30, 2011

		(Unaudited) June 30, 2011	(Audited) December 31, 2010
		Rupees	
ASSETS			
Non-Current Assets			
Property, plant and equipment	5	18,915,361	19,198,729
Intangible assets	6	33,115	20,856
Long term loans and advances		57,014	40,323
Deferred taxation	7	530,489	323,378
		<u>19,535,979</u>	<u>19,583,286</u>
Current Assets			
Stores, spares and loose tools		886,757	633,799
Stock-in-trade	8	2,315,030	2,176,960
Trade debts - considered good	9	270,837	369,400
Loans, advances, deposits, prepayments and other receivables	10	338,803	380,846
Taxes recoverable	11	760,090	654,155
Short term investments		14,926	-
Cash and bank balances	12	102,741	682,894
		<u>4,689,184</u>	<u>4,898,054</u>
TOTAL ASSETS		<u>24,225,163</u>	<u>24,481,340</u>
EQUITY AND LIABILITIES			
Equity			
Share capital	13	6,634,688	6,634,688
Share premium		964,029	964,029
Employees' share compensation reserve	14	8,290	8,384
Hedging reserve		(79,519)	(72,062)
Accumulated loss		(744,184)	(549,179)
		<u>6,783,304</u>	<u>6,985,860</u>
Non-Current Liabilities			
Long term borrowings	15	10,189,710	10,903,360
Derivative financial instruments	16	122,336	110,864
Retirement and other service benefit obligations		54,757	50,091
		<u>10,366,803</u>	<u>11,064,315</u>
Current Liabilities			
Current portion of long term borrowings		1,435,022	1,361,293
Short term borrowings	17	921,546	1,780,388
Trade and other payables	18	4,430,589	2,960,982
Accrued interest / mark-up		146,413	197,480
Provisions	19	141,486	131,022
		<u>7,075,056</u>	<u>6,431,165</u>
Commitments	20		
TOTAL EQUITY AND LIABILITIES		<u>24,225,163</u>	<u>24,481,340</u>

The annexed notes 1 to 32 form an integral part of this condensed interim financial information.



Asif Qadir
President & Chief Executive

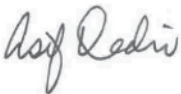


Kimihide Ando
Director

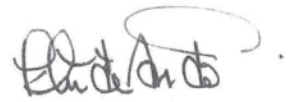
ENGRO POLYMER & CHEMICALS LIMITED AND ITS SUBSIDIARY COMPANY
CONSOLIDATED CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2011

	Note	Quarter ended		Half year ended	
		June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
		Rupees			
Net sales		3,907,520	3,570,715	8,031,180	6,854,469
Export rebate		-	102	-	102
		<u>3,907,520</u>	<u>3,570,817</u>	<u>8,031,180</u>	<u>6,854,571</u>
Cost of sales	21	<u>(3,410,294)</u>	<u>(3,303,021)</u>	<u>(6,990,348)</u>	<u>(6,377,854)</u>
Gross profit		497,226	267,796	1,040,832	476,717
Distribution and marketing expenses	22	(204,234)	(162,114)	(396,846)	(282,827)
Administrative expenses	23	(96,328)	(81,584)	(174,015)	(142,363)
Other operating expenses	24	(59,975)	(141,548)	(49,546)	(141,211)
Other operating income	25	<u>25,404</u>	<u>10,140</u>	<u>37,068</u>	<u>16,461</u>
Operating profit / (loss)		162,093	(107,310)	457,493	(73,223)
Finance costs	26	<u>(371,535)</u>	<u>(374,665)</u>	<u>(758,852)</u>	<u>(657,040)</u>
Loss before taxation		(209,442)	(481,975)	(301,359)	(730,263)
Taxation		<u>73,236</u>	<u>186,968</u>	<u>106,260</u>	<u>280,879</u>
Loss for the period		<u>(136,206)</u>	<u>(295,007)</u>	<u>(195,099)</u>	<u>(449,384)</u>
Loss per share					
- basic and diluted		<u>(0.21)</u>	<u>(0.47)</u>	<u>(0.29)</u>	<u>(0.75)</u>

The annexed notes 1 to 32 form an integral part of this condensed interim financial information.



Asif Qadir
President & Chief Executive



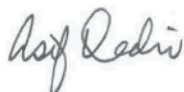
Kimihide Ando
Director



ENGRO POLYMER & CHEMICALS LIMITED AND ITS SUBSIDIARY COMPANY
CONSOLIDATED CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2011

	Quarter ended		Half year ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
	Rupees			
Loss for the period	(136,206)	(295,007)	(195,099)	(449,384)
Other comprehensive loss:				
Hedging reserve				
Loss arising during the period	(30,677)	(68,357)	(15,664)	(141,438)
Less:				
- Reclassification adjustments for losses included in profit and loss	3,963	24,838	4,192	39,777
- Adjustments for amounts transferred to initial carrying amount of hedged items	-	-	-	4,066
Income tax relating to hedging reserve	9,350	15,231	4,015	34,158
Other comprehensive loss for the period - net of tax	(17,364)	(28,288)	(7,457)	(63,437)
Total comprehensive loss for the period	<u>(153,570)</u>	<u>(323,295)</u>	<u>(202,556)</u>	<u>(512,821)</u>

The annexed notes 1 to 32 form an integral part of this condensed interim financial information.



Asif Qadir
President & Chief Executive



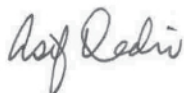
Kimihide Ando
Director




**ENGRO POLYMER & CHEMICALS LIMITED AND ITS SUBSIDIARY COMPANY
CONSOLIDATED CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2011**

	Share capital	Share premium	Employees' share compensation reserve	Hedging reserve	(Accumulated loss) / Unappropriated profit	Total
	Rupees					
Balance as at January 1, 2010 (Audited)	5,203,677	975,438	9,313	(12,958)	220,173	6,395,643
Vested share options lapsed during the period	-	-	(186)	-	186	-
Total comprehensive loss for the six months 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)	<u>6,634,688</u>	<u>964,029</u>	<u>9,127</u>	<u>(76,395)</u>	<u>(229,025)</u>	<u>7,302,424</u>
Vested share options lapsed during the period	-	-	(743)	-	743	-
Total comprehensive loss for the six months ended December 31, 2010	-	-	-	4,333	(320,897)	(316,564)
Balance as at December 31, 2010 (Audited)	<u>6,634,688</u>	<u>964,029</u>	<u>8,384</u>	<u>(72,062)</u>	<u>(549,179)</u>	<u>6,985,860</u>
Vested share options lapsed during the period - note 14	-	-	(94)	-	94	-
Total comprehensive loss for the six months ended June 30, 2011	-	-	-	(7,457)	(195,099)	(202,556)
Balance as at June 30, 2011 (Unaudited)	<u>6,634,688</u>	<u>964,029</u>	<u>8,290</u>	<u>(79,519)</u>	<u>(744,184)</u>	<u>6,783,304</u>

The annexed notes 1 to 32 form an integral part of this condensed interim financial information.



Asif Qadir
President & Chief Executive

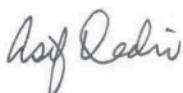


Kimihide Ando
Director

**ENGRO POLYMER & CHEMICALS LIMITED AND ITS SUBSIDIARY COMPANY
CONDENSED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2011**

		Half year ended June 30, 2011	Half year ended June 30, 2010
	Note	Rupees	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	27	2,330,178	(23,581)
Finance costs paid		(809,919)	(710,154)
Long term loans and advances		(16,691)	(4,597)
Retirement benefits paid		-	(1,769)
Income tax paid		(202,771)	(200,968)
Net cash generated from / (utilized in) operating activities		<u>1,300,797</u>	<u>(941,069)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(303,354)	(757,730)
Purchases of intangible assets		(16,249)	(8,436)
Proceeds from disposal of operating assets		5,509	6,204
Proceeds from sale of short term investments		393,503	213,869
Purchases of short term investments		(398,775)	(147,219)
Income on short term investments and bank deposits		10,908	18,304
Net cash utilized in investing activities		<u>(308,458)</u>	<u>(675,008)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of long term borrowings		(713,650)	(589,864)
Proceeds from long term borrowings		-	100,000
Repayments of short term finances		(450,000)	-
Proceeds from issue of share capital		-	1,431,011
Share issuance cost		-	(17,553)
Net cash (utilized in) / generated from financing activities		<u>(1,163,650)</u>	<u>923,594</u>
Net decrease in cash and cash equivalents		<u>(171,311)</u>	<u>(692,483)</u>
Cash and cash equivalents at beginning of the period		(647,494)	(376,710)
Cash and cash equivalents at end of the period	28	<u>(818,805)</u>	<u>(1,069,193)</u>

The annexed notes 1 to 32 form an integral part of this condensed interim financial information.



Asif Qadir
President & Chief Executive



Kimihide Ando
Director

**ENGRO POLYMER & CHEMICALS LIMITED AND ITS SUBSIDIARY COMPANY
NOTES TO THE CONSOLIDATED CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2011**

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. The Company was listed on the Karachi Stock Exchange in 2008 and the Islamabad and Lahore Stock Exchanges in 2009.

The Company is a subsidiary of Engro Corporation 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. The Company is also engaged in supply of surplus power generated from its power plants to Engro Fertilizers Limited.

In 2006, the Company commenced work on its expansion and backward integration project comprising setting up of a new PVC plant, Ethylene Di Chloride (EDC), Chlor-alkali, Vinyl Chloride Monomer (VCM) and Power plants (the Project). In 2009, the Company commenced commercial operations of new PVC, EDC, Chlor-alkali and Power plants (Gas turbines). On September 30, 2010, the Company declared commercial operations of the VCM plant, after which the integrated chemical complex is now complete.

2 BASIS OF PREPARATION

This condensed interim financial information of the Company for the half year ended June 30, 2011 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 take precedence. 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, 2010.

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, 2010 except for the changes resulting from initial application of standards, amendments or an interpretation to existing standards as stated in note 3.2 which though adopted does not have any impact on this condensed interim financial information.

3.2 Following new standards, amendments to standards and interpretations are mandatory for the financial year beginning on or after January 1, 2011, but are either not currently relevant to the Company or do not have any significant effect on the Company's financial information:

- IFRS 1 (Amendment), 'First time adoption, on financial instrument disclosures';
- IFRS 7 (Amendment), 'Financial instruments: Disclosures';
- IAS 1 (Amendment), 'Presentation of financial statements';
- IAS 32 (Amendment), 'Financial instruments: Presentation on classification of rights issues';
- IAS 34 (Amendment), 'Interim financial reporting';
- IFRIC 4, 'Determining whether an agreement contains a lease';
- IFRIC 14 (Amendment), 'Prepayments of a minimum funding requirement'; and
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments'.



ENGRO POLYMER & CHEMICALS LIMITED
NOTES TO THE CONDENSED INTERIM FINANCIAL INFORMATION (UNAUDITED)
FOR THE HALF YEAR ENDED JUNE 30, 2011

3.3 Following new standards, amendments and interpretations to published standards are not effective for the accounting period beginning January 1, 2011 and have not been early adopted by the Company:

- IFRS 7 (Amendment), 'Financial instruments: Disclosures';
- IFRS 9, 'Financial instruments';
- IFRS 10, 'Consolidated financial statements';
- IFRS 11, 'Joint arrangements';
- IFRS 12, 'Disclosure of interests in other entities';
- IFRS 13, 'Fair value measurements';
- IAS 1 (Amendment), 'Presentation of financial statements';
- IAS 12 (Amendment), 'Income taxes';
- IAS 19 (Revised), 'Employee benefits';
- IAS 27 (Revised), 'Separate financial statements'; and
- IAS 28 (Revised), 'Associates and joint ventures'.

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, 2010.

	(Unaudited) June 30, 2011	(Audited) December 31, 2010
	Rupees	
5 PROPERTY, PLANT AND EQUIPMENT		
Operating assets, at net book value - notes 5.1, 5.2 and 5.3	18,634,452	19,138,589
Capital work-in-progress	280,909	60,140
	<u>18,915,361</u>	<u>19,198,729</u>
5.1 Additions to operating assets during the period / year were as follows:		
Building on leasehold land	3,348	37,255
Plant and machinery	55,262	5,926,831
Pipelines	-	4,852
Furniture, fixtures and equipment	6,347	20,644
Vehicles	17,628	65,122
	<u>82,585</u>	<u>6,054,704</u>



5.2 During the period, assets costing Rs. 15,853 (December 31, 2010: Rs. 36,292), having net book value of Rs. 8,417 (December 31, 2010: Rs. 11,917) were disposed off for Rs. 5,509 (December 31, 2010: Rs. 15,193).

5.3 Furnace tubes related to the VCM Plant, damaged during the period, having net book value of Rs. 2,640 have been written-off. The cost of replacement of the damaged parts is reflected under capital work-in-progress.

6 INTANGIBLE ASSETS

Additions made during the period amount to Rs. 16,249 (December 31, 2010: Rs. 13,804).

7 DEFERRED TAXATION

	(Unaudited) June 30, 2011	(Audited) December 31, 2010
	Rupees	
Credit balances arising due to:		
- accelerated tax depreciation	(4,138,302)	(4,141,621)
Debit balances arising due to:		
- recoupable carried forward tax losses - note 7.1	4,201,997	4,097,320
- recoupable minimum turnover tax	295,072	204,227
- unpaid liabilities and provision for certain retirement and other service benefits	42,829	36,594
- provision against duties	24,982	27,639
- provision for stocks and slow moving stores and spares	3,384	2,707
- fair value of hedging instruments	42,818	38,803
- share issuance cost, net to equity	57,709	57,709
	4,668,791	4,464,999
	<u>530,489</u>	<u>323,378</u>

7.1 The aggregate tax losses available for carry-forward as at June 30, 2011 amount to Rs.12,005,706 (December 31, 2010: Rs.11,706,630), on which deferred tax asset has been recognized.

	(Unaudited) June 30, 2011	(Audited) December 31, 2010
	Rupees	
8 STOCK-IN-TRADE		
Raw and packing materials - note 8.1 and 8.3	1,739,905	1,255,439
Work-in-process	27,922	4,749
Finished goods - own manufactured product - note 8.1 and 8.2	547,203	916,772
	<u>2,315,030</u>	<u>2,176,960</u>



8.1 This includes stocks held at the storage facilities of the following related parties:

	(Unaudited) June 30, 2011	(Audited) December 31, 2010
	Rupees	
Engro Vopak Terminal Limited	382,998	601,050
Dawood Hercules Chemicals Limited	1,607	4,425
	<u>384,605</u>	<u>605,475</u>

8.2 This represents carrying value of PVC resin, net of realizable value reduction of Rs. 18,971 (December 31, 2010: Rs. 17,162) and write-off of 77 M tons of Off-Spec PVC amounting to Rs. 4,572 (December 31, 2010: 89 M tons of Off-Spec PVC amounting to Rs. 4,386).

8.3 During the period, expired chemicals amounting to Nil (December 31, 2010: Rs. 9,380) have been written-off.

	(Unaudited) June 30, 2011	(Audited) December 31, 2010
	Rupees	

9 TRADE DEBTS - considered good

Includes amounts due from the following related parties:

- Engro Fertilizers Limited	-	1,158
- Engro Powergen Qadirpur Limited (formerly Engro Energy Limited)	-	240
	<u>-</u>	<u>1,398</u>

	(Unaudited) June 30, 2011	(Audited) December 31, 2010
	Rupees	

10 LOANS, ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES - considered good

Includes amounts due from the following related parties:

- Engro Corporation Limited	2,900	-
- Engro Fertilizers Limited	3,945	3,998
- Avanceon Limited	-	2,185
	<u>6,845</u>	<u>6,183</u>

11 TAXES RECOVERABLE

- 11.1** Last year, 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 finance costs incurred in relation to the expansion Project. The aforementioned brought forward losses have been amended due to revision of returns as per the ITAT Order mentioned in note 11.3.

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. 180,768 in the aforementioned demand against the Company's assessed refunds. Consequently, the Company has paid the balance amount of Rs. 32,404 'under protest'. Further, the OIR has issued two show cause notices dated December 9, 2010 for the levy of additional tax relating to Tax year 2008 aggregating to Rs. 8,106. During the period, replies to the show cause notices have been filed for withdrawal thereof. The Company's management is of the view that since the matter is pending with the Commissioner Inland Revenue (Appeals), no cohesive recovery measures can be initiated unless a decision is obtained from an independent forum outside the departmental hierarchy. Further, no formal order creating a demand has been received to date in response to the show cause replies submitted by the Company.

The management of the Company, based on the advice of its tax consultant, is confident that the ultimate outcome of the aforementioned matter would be favorable and consequently has not recognized the effects for the same in the condensed interim financial information.

- 11.2** Further, during last year, the Company also received a notice of demand of Rs. 163,206 in respect of Tax year 2009. The Deputy Commissioner Inland Revenue has made various additions to the returned income amounting to Rs. 546,050 and has not considered the brought forward losses amounting to Rs. 499,376 resulting in the aforementioned tax demand. The additions to income are mainly on account of trading liabilities and finance costs incurred in relation to the expansion Project. The aforementioned brought forward losses have been amended due to revision of returns as per the ITAT Order mentioned in note 11.3.

The entire demand of Rs. 163,206 has been adjusted vide OIR order dated December 20, 2010 against assessed refundable taxes. During the period, the Company has filed an appeal against the aforementioned demand with the Commissioner Inland Revenue (Appeals), which is currently pending.

The management of the Company, based on the advice of its tax consultant, is confident that the ultimate outcome of the aforementioned matter would be favorable and consequently has not recognized the effects for the same in the condensed interim financial information.

- 11.3** While finalizing the assessment for the assessment year 2000-2001, the Taxation Officer had disallowed the claim of First Year Allowance (FYA) by the Company on the grounds that the Company 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 decided by the Commissioner of Income Tax (Appeals) in favor of the Company. The department, therefore, filed second appeal before 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 favor in 2005 by the Income Tax Appellate Tribunal (ITAT).

However, the ITAT, in departmental appeal pertaining to 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 resulted in tax deductible timing differences, 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 tax years subsequent to 2000-2001. Consequently, the Company has revised its income tax returns for the tax years 2003 to 2007 and 2009 resulting in a tax liability of Rs. 86,769 for Tax year 2008, which has been settled by adjustment out of recoupable minimum tax brought forward of prior years and refunds available in other tax years as mentioned in note 11.1 above.

	(Unaudited) June 30, 2011	(Audited) December 31, 2010
	Rupees	
12 CASH AND BANK BALANCES		
Cash in hand	977	630
Cash at bank on:		
- current accounts	68,347	297,942
- savings accounts	33,417	384,322
	<u>102,741</u>	<u>682,894</u>

	(Unaudited) June 30, 2011	(Audited) December 31, 2010
	Rupees	
13 SHARE CAPITAL		
Authorized capital		
800,000,000 (2010: 700,000,000) ordinary shares of Rs. 10 each	<u>8,000,000</u>	<u>7,000,000</u>
Issued, subscribed and paid-up capital		
663,468,788 (2010: 663,468,788) ordinary shares of Rs. 10 each, fully paid in cash	<u>6,634,688</u>	<u>6,634,688</u>

13.1 During the current period, the Company has increased its authorized share capital to 800,000,000 ordinary shares of Rs. 10 each.

13.2 As at June 30, 2011, Engro Corporation Limited - the Holding Company, holds 372,809,989 ordinary shares of Rs. 10 each (December 31, 2010: 372,809,989 ordinary shares of Rs. 10 each).

	(Unaudited) June 30, 2011	(Audited) December 31, 2010
	Rupees	
14 EMPLOYEES' SHARE COMPENSATION RESERVE		
Balance at beginning of the period/year	8,384	9,313
Less: Options lapsed due to employee resignation	(94)	(929)
Balance at end of the period/year	<u>8,290</u>	<u>8,384</u>

15 LONG TERM BORROWINGS, secured

Under the terms of the agreements for long term borrowings from International Finance Corporation (IFC) and syndicates of banks, the Company is required to comply with certain debt covenants. As at June 30, 2011, all debt covenants have been complied with except for current ratio and debt service coverage ratio, for which waivers have been applied for.

16 DERIVATIVE FINANCIAL INSTRUMENTS

16.1 During the period, the Company has entered into a cross-currency interest rate swap agreement for a notional amount of US\$ 4,016, with a bank to hedge its interest rate exposure on floating rate local currency borrowings from a consortium of local banks under a Syndicate Finance Agreement. Under the swap agreement, the Company would receive six month KIBOR plus 2.25% on the relevant PKR notional amount and will pay six month USD-LIBOR plus 3.70% on the relevant USD notional amount, which will be settled semi-annually. As at June 30, 2011, the Company has outstanding cross currency swap agreements with local banks for notional amounts aggregating to US\$ 7,216.

16.2 As at June 30, 2011, the Company has outstanding interest rate swap agreements with banks for notional amounts aggregating US\$ 32,000 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.

16.3 Details of the swap agreements are as follows:

Notional Amounts US \$	Effective Date	Termination Date	Rate %	(Unaudited)	(Audited)
				Fair value as at June 30, 2011	Fair value as at December 31, 2010
				Rupees	
Interest Rate Swap Agreements			Fixed Rate %		
12,000	December 15, 2008	June 15, 2017	3.385	57,074	54,957
4,000	June 15, 2009	June 15, 2017	3.005	14,834	13,487
12,000	June 15, 2009	June 15, 2017	2.795	37,554	32,452
4,000	June 15, 2009	June 15, 2017	2.800	13,295	10,784
<u>32,000</u>				<u>122,757</u>	<u>111,680</u>
Cross Currency Interest Rate Swap Agreements			Floating Rate %		
3,200	September 9, 2010	June 15, 2015	LIBOR + 0.95	459	(816)
4,016	January 18, 2011	January 19, 2016	LIBOR + 3.70	(880)	-
<u>7,216</u>				<u>(421)</u>	<u>(816)</u>
<u>39,216</u>				<u>122,336</u>	<u>110,864</u>

17 SHORT TERM BORROWINGS

17.1 The aggregate facilities for running finance available from various banks, representing the sales price of all mark-up arrangements, amount to Rs. 1,925,000 (December 31, 2010: Rs. 1,925,000). 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 0.9% to plus 1.5% (December 31, 2010: relevant period KIBOR plus 0.9% to plus 1.5%). During the period, the mark-up rates, net of prompt payment rebate, ranged from 14.12% to 15.15% per annum (December 31, 2010: 12.83% to 14.84% per annum). These facilities are secured by a floating charge over stocks and book debts of the Company.

17.2 During the period, on February 28, 2011, the short term financing arrangement under the Export Refinance Scheme amounting to Rs. 200,000 has expired and has not been renewed further.

	(Unaudited) June 30, 2011	(Audited) December 31, 2010
18 TRADE AND OTHER PAYABLES		
Includes amounts due to the following related parties:		
- Engro Corporation Limited	793	377
- Mitsubishi Corporation	2,988,619	1,690,399
- Engro Vopak Terminal Limited	79,222	86,679
	3,068,634	1,777,455

19 PROVISIONS**19.1 Provision for SED on import of plant and machinery**

The Company has paid Rs. 94,611 (December 31, 2010: 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, 2010: 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 (FBR) 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), 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 alongwith default surcharge and penalty. During 2010, the Company was granted a stay order by 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 and the appeal was decided against the Company. The Company has now filed 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, however, based on prudence is carrying a provision in this respect. Further, a provision for surcharge and penalty thereon aggregating to Rs. 28,874 (December 31, 2010: Rs. 25,871) has also been made.

19.2 Provision for duty on import of raw material

In 2009, the Company 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 from 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. However, the tax department has shown its disagreement 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, however, based on prudence, a provision amounting to Rs. 54,688 (December 31, 2010: Rs. 47,227) in respect of custom duty on such raw materials has been made.

20 COMMITMENTS

20.1 Performance guarantees issued by banks on behalf of the Company as at June 30, 2011 amounts to Rs. 771,395 (December 31, 2010: Rs. 942,774).

20.2 The Company has entered into operating lease arrangements with Al-Rahim Trading Terminal and Dawood Hercules Limited – a related party, for storage and handling of Ethylene Di Chloride and Caustic soda respectively. The total lease rentals due under these lease arrangements are payable in periodic monthly installments till July 31, 2019.

The future aggregate lease payments under these arrangements are as follows:

	(Unaudited) June 30, 2011	(Audited) December 31, 2010
	Rupees	
Not later than 1 year	21,540	59,840
Later than 1 year and no later than 5 years	57,600	57,600
Later than 5 years	43,200	50,400
	<u>122,340</u>	<u>167,840</u>

21 COST OF SALES	Unaudited			
	Quarter ended		Half year ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
	Rupees			
Opening stock of work-in-progress	12,171	-	4,749	17,579
Raw and packing materials consumed	1,954,349	2,484,282	4,059,691	4,641,461
Salaries, wages and staff welfare	141,426	95,547	288,540	188,107
Fuel, power and gas	499,738	366,902	967,186	742,845
Repairs and maintenance	88,374	64,200	153,502	105,053
Depreciation	284,269	222,942	569,302	432,076
Consumable stores	48,150	78,949	114,784	132,730
Purchased services	3,145	24,706	18,656	43,525
Storage and handling	217,366	237,785	422,497	392,587
Training and travelling	3,794	5,958	7,075	8,596
Communication, stationery and other office expenses	2,096	1,907	3,420	3,503
Insurance	16,938	18,534	25,300	35,011
Other expenses	4,858	1,093	13,999	8,174
	3,264,503	3,602,805	6,643,952	6,733,668
Closing stock of work-in-progress	(27,922)	(15,576)	(27,922)	(15,576)
Cost of goods manufactured	3,248,752	3,587,229	6,620,779	6,735,671
Opening stock of finished goods	708,745	484,262	916,772	410,653
Closing stock of finished goods	(547,203)	(792,799)	(547,203)	(792,799)
	161,542	(308,537)	369,569	(382,146)
Cost of sales - own manufactured product	3,410,294	3,278,692	6,990,348	6,353,525
Cost of sales - purchased product	-	24,329	-	24,329
	3,410,294	3,303,021	6,990,348	6,377,854

22 DISTRIBUTION AND MARKETING EXPENSES	Unaudited			
	Quarter ended		Half year ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
	Rupees			
Salaries, wages and staff welfare	15,742	13,564	31,343	28,973
Advertising, sales promotion and entertainment	20,275	14,246	41,180	26,911
Product transportation and handling	154,292	124,507	301,660	212,629
Rent, rates and taxes	3,379	3,048	5,502	3,735
Purchased services	1,407	803	2,240	1,091
Insurance	349	335	675	558
Depreciation	1,194	982	2,178	1,878
Training and travelling	2,076	2,029	3,341	3,201
Communication, stationery and other office expenses	742	437	1,335	1,088
Others	4,778	2,163	7,392	2,763
	204,234	162,114	396,846	282,827

	Unaudited			
	Quarter ended		Half year ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
23 ADMINISTRATIVE EXPENSES	Rupees			
Salaries, wages and staff welfare	44,858	33,369	85,470	62,930
Rent, rates and taxes	7,796	5,043	17,485	8,778
Purchased services	15,400	13,005	22,752	19,247
Insurance	141	79	150	195
Depreciation and amortization	4,095	4,089	8,175	5,582
Training and travelling expenses	13,954	15,038	24,305	26,502
Communication, stationery and other office expenses	5,958	8,824	9,054	15,392
Others	4,126	2,137	6,624	3,737
	<u>96,328</u>	<u>81,584</u>	<u>174,015</u>	<u>142,363</u>
24 OTHER OPERATING EXPENSES				
Legal and professional charges	(820)	4,781	5,526	9,136
Auditors' remuneration	465	271	762	560
Donations	975	3,242	1,449	5,787
Foreign exchange loss - net	54,349	133,126	35,546	125,476
Loss on disposal of operating assets	1,962	-	2,908	-
Damaged items of operating assets written-off	2,640	-	2,640	-
Others	404	128	715	252
	<u>59,975</u>	<u>141,548</u>	<u>49,546</u>	<u>141,211</u>
25 OTHER OPERATING INCOME				
Income on short term investments and bank deposits	12,274	9,481	23,202	14,875
Scrap sales	947	748	1,683	1,473
(Loss) / Profit on disposal of operating assets	-	(89)	-	113
Stores and spares written back - net	12,183	-	12,183	-
	<u>25,404</u>	<u>10,140</u>	<u>37,068</u>	<u>16,461</u>
26 FINANCE COSTS				
Interest / Mark-up on:				
- long term borrowings	352,564	345,241	700,901	605,286
- short term borrowings	12,241	20,941	45,295	38,037
Guarantee commission	2,324	1,856	3,496	2,929
Interest on Workers' Profits Participation Fund	-	761	-	1,672
Bank charges and others	4,406	5,866	9,160	9,116
	<u>371,535</u>	<u>374,665</u>	<u>758,852</u>	<u>657,040</u>

Unaudited

	Half year ended June 30, 2011	Half year ended June 30, 2010
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Rupees

27 CASH GENERATED FROM OPERATIONS

Loss before taxation	(301,359)	(730,263)
Adjustments for non cash charges and other items:		
Provision for staff retirement and other service benefits	4,666	5,481
Provision against concessionary import duty on import of raw materials and Special Excise Duty	10,464	47,227
Provision for net realizable value of stock-in-trade	18,971	-
Provision for slow moving stores and spares	1,934	1,933
Write-off of damaged item of operating assets	2,640	-
Depreciation and amortization	579,655	439,536
Income on short term investments and bank deposits	(10,908)	(18,304)
Realized gain on sale of short term investments	(8,891)	(5,252)
Unrealized fair value gain on investments	(763)	-
Finance costs	758,852	657,040
Loss / (profit) on disposal of operating assets	2,908	(113)
Working capital changes - note 27.1	1,272,009	(420,866)
	<u>2,330,178</u>	<u>(23,581)</u>

27.1 WORKING CAPITAL CHANGES

Decrease / (increase) in current assets		
Stores, spares and loose tools	(254,892)	(221,624)
Stock-in-trade	(157,041)	(989,934)
Trade debts	98,563	(13,439)
Loans, advances, deposits, prepayments and other receivables - net	42,043	63,034
	<u>(271,327)</u>	<u>(1,161,963)</u>
Increase in current liabilities		
Trade and other payables	1,469,607	461,511
Current portion of long term borrowings	73,729	279,586
	<u>1,272,009</u>	<u>(420,866)</u>

28 CASH AND CASH EQUIVALENTS

Cash and bank balances	102,741	198,313
Short term borrowings	(921,546)	(1,267,506)
	<u>(818,805)</u>	<u>(1,069,193)</u>

29 SEGMENT INFORMATION

29.1 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, 2010.

	Unaudited June 30, 2011				Audited December 31, 2010			
	Poly Vinyl Chloride (PVC) and allied chemicals	Caustic soda and allied chemicals	Power supply	Total	Poly Vinyl Chloride (PVC) and allied chemicals	Caustic soda and allied chemicals	Power supply	Total
	Rupees							
Revenue	6,424,102	1,592,227	14,851	8,031,180	5,419,101	1,341,170	94,300	6,854,571
Profit / (loss) before unallocated expenses	132,849	511,808	(671)	643,986	(88,644)	279,790	2,744	193,890
Unallocated expenses								
Administrative expenses				(174,015)				(142,363)
Other operating expenses				(49,546)				(141,211)
Other operating income				37,068				16,461
Finance costs				(758,852)				(657,040)
Taxation				106,260				280,879
Loss after taxation				(195,099)				(449,384)

	Unaudited June 30, 2011				Audited December 31, 2010			
	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	13,277,870	5,984,909	87,351	19,350,130	13,427,455	5,748,046	106,785	19,282,286
Unallocated assets				4,875,033				5,199,054
Total assets				24,225,163				24,481,340

29.2 Segment assets consist primarily of property, plant and equipment, stores & spares, stock-in-trade and trade debts.

30 TRANSACTIONS WITH RELATED PARTIES

30.1 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, 2011	June 30, 2010
		Rupees	
Nature of relationship	Nature of transactions		
Holding company	Purchase of services	2,644	14,323
	Sale of services	97	-
	Use of operating assets	-	1,574
	Pension fund contribution	2,260	1,908
	Provident fund contribution	2,458	1,389
	Medical contribution	225	-
	Gratuity fund contribution	546	-
Associated companies	Purchase of goods	3,904,453	4,257,734
	Sale of goods	359,835	642,231
Related parties by virtue of common directorship	Purchase of goods	17,680	4,467
	Purchase of services	411,541	522,398
	Sale of goods	30,674	1,816
	Sale of services	1,332	2,654
	Sale of steam and electricity	21,860	26,413
	Use of operating assets	161	1,639
	Insurance expense	-	3,514
	Medical Contribution	4	-
Annual Subscription	64	-	
Directors' fee		1,201	1,000
Key management personnel	Managerial remuneration	32,112	27,894
	Retirement benefits	4,668	2,340
	Bonus	8,530	7,548
	Other benefits	6,484	5,658
Contribution to staff retirement benefits	Pension fund	6,190	3,130
	Provident fund	10,133	9,458
	Gratuity fund	2,816	1,722

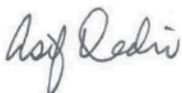


31 DATE OF AUTHORIZATION FOR ISSUE

This consolidated condensed interim financial information was authorized for issue on August 5, 2011 by the Board of Directors of the Company.

32 CORRESPONDING FIGURES

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, 2010. 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, 2010.



Asif Qadir
President & Chief Executive



Kimihide Ando
Director

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