Annual Report - 2008

Engro Polymer & Chemicals Ltd.

Ethics:
We are committed to the highest standards of ethical behaviour.

Safety, Health & Environment:
We will operate, manage and utilize resources in a manner that ensures health and safety of our assets, people, neighbors, and customers.We believe in playing a positive role in environmental conservation and will ensure our operations remain environmentally sound.

Customer Focus:
We believe in keeping customer needs as our primary focus as they define the reason for our existence.

Community Involvement:
We shall endeavor to improve the quality of life in the communities in which we live and operate.

Continuous Improvement:
Continuous Improvement is a way of life for us. We value breakthrough ideas and encourage an environment in which innovative ideas are generated, nurtured and developed.

Individual Growth And Development:
We shall endeavor to assist, encourage, and empower individuals to achieve their maximum potential.

Enhancement Of Shareholders' Value:
We shall endeavor to enhance shareholders' value through long-term profitable growth of our company.

Core Values

Contents

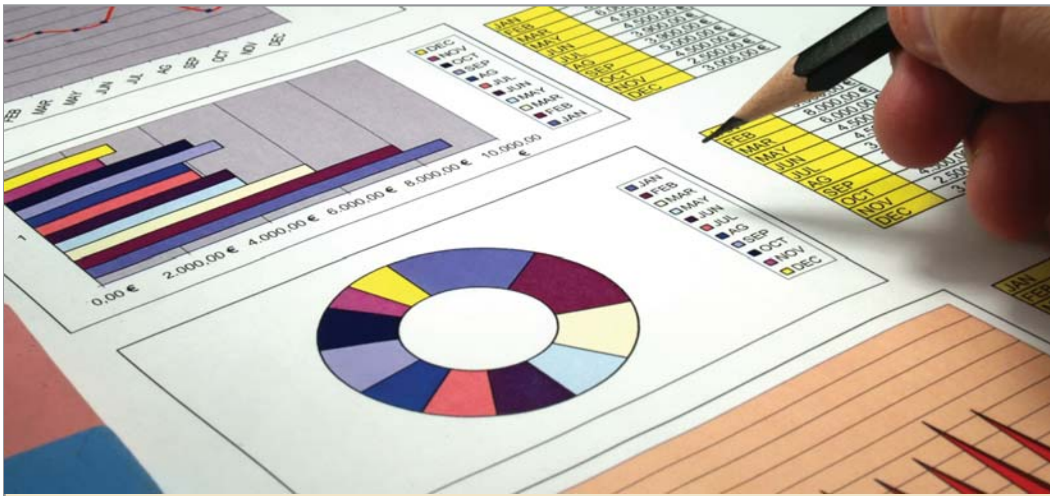
Company Background

Engro Polymer & Chemicals Ltd.

Company Background

Engro Polymer & Chemicals Limited (EPCL) is involved in the manufacturing, marketing and distribution of Poly Vinyl Chloride (PVC). The Company was established in 1997, and went into commercial production in December 1999. The manufacturing facility, which has recently been expanded to 150,000 tons from 100,000 tons of PVC per annum, is located at Port Bin Qasim. The Company markets its PVC product under the brand name of SABZ.

The Company is currently in the process of back integrating its operations which will add Caustic Soda, Ethylene Di Chloride (EDC), Vinyl Chloride Monomer (VCM), Sodium Hypochlorite and Hydro Chloric Acid in its product line. EDC and VCM will be used as raw materials to produce PVC. The integrated complex is expected to be completed by the end of second quarter 2009.



Financial History

Engro Polymer & Chemicals Ltd.

	Unit	1999	2000	2001	2002	2003	2004	2005	2006	2007	**2008**
PROFIT AND LOSS											
Net Sales (including export rebate)	Rs. in mln	60	2,586	2,711	3,218	3,961	5,136	5,524	5,249	6,033	**7,848**
Gross Profit / (Loss)	Rs. in mln	3	(7)	228	453	461	836	753	995	958	**1,111**
Operating Profit / (Loss)	Rs. in mln	16	(6)	131	306	292	630	416	634	617	**492**
Profit / (Loss) before Tax	Rs. in mln	(6)	(338)	(158)	112	155	555	346	569	576	**459**
Profit / (Loss) after Tax	Rs. in mln	(6)	(353)	(171)	173	149	389	303	381	422	**353**
EBITDA	Rs. in mln	40	149	287	466	453	792	586	810	794	**670**
Number of outstanding shares at year end	No. in mln	178	178	178	178	178	178	178	178	444	**520**
Earnings per share - Basic and Diluted	Rs.	(0.04)	(1.98)	(0.96)	0.97	0.83	2.18	1.70	2.14	1.64	**0.68**
Dividend per share	Rs.	-	-	-	-	-	0.50	1.00	1.85	2.10	**0.54**
BALANCE SHEET											
Property, Plant and Equipment	Rs. in mln	3,106	2,958	2,822	2,682	2,542	2,391	2,278	2,443	4,709	**16,135**
Current Assets	Rs. in mln	1,046	1,250	1,006	1,237	1,437	1,646	1,435	1,756	4,604	**1,977**
Current Liabilities	Rs. in mln	945	1,205	971	1,251	1,441	1,464	1,246	1,748	1,505	**2,706**
Long Term Liabilities	Rs. in mln	1,442	1,639	1,666	1,377	1,115	763	532	468	1,828	**9,008**
Share Capital	Rs. in mln	1,780	1,780	1,780	1,780	1,780	1,780	1,780	1,780	4,436	**5,204**
Shareholders Equity	Rs. in mln	1,774	1,421	1,249	1,423	1,571	1,871	1,996	2,048	5,177	**6,566**
INVESTOR INFORMATION											
Gross Profit / (Loss) to Sales	%	5.51	-0.28	8.41	14.09	11.64	16.29	13.63	18.96	15.88	**14.16**
Net Profit / (Loss) to Sales	%	-10.48	-13.66	-6.32	5.39	3.75	7.57	5.48	7.27	6.99	**4.50**
Return on Equity	%	-0.36	-24.86	-13.73	12.19	9.46	20.78	15.18	18.63	8.14	**5.38**
Price Earning Ratio		-	-	-	-	-	-	-	-	-	**21.44**
Net Assets per share	Rs.	9.96	7.98	7.02	7.99	8.83	10.51	11.21	11.50	11.67	**12.63**
Long-term Debt to Equity Ratio		0.75	1.08	1.28	0.96	0.70	0.37	0.23	0.11	0.26	**1.21**
Current Ratio		1.11	1.04	1.04	0.99	1.00	1.12	1.15	1.00	3.06	**0.73**
Quick Ratio		0.65	0.55	0.62	0.68	0.77	0.61	0.91	0.43	2.45	**0.30**
Interest Cover Ratio		0.72	-0.25	0.39	1.62	2.18	9.41	6.87	11.05	17.13	**18.35**
Fixed Assets Turnover	No. of Times	0.02	0.87	0.96	1.20	1.56	2.15	2.43	2.15	1.28	**0.49**
Debtor Turnover	No. of Times	8.51	249.74	279.91	105.56	31.02	25.71	21.46	24.22	44.76	**76.90**
Inventory Turnover	No. of Times	0.26	5.10	5.05	7.09	9.89	7.94	9.05	6.55	5.29	**6.48**

Commencement of commercial operations from December 1, 1999
Dividend paid during 2008 was the Final dividend declared for the year 2007
Company was listed during 2008

Balance Sheet
Vertical and Horizontal Analysis

Rs. in million

	2008		2007		
	% of Total	Amount	% of Total	Amount	% Change
ASSETS					
Non-Current Assets					
Property, plant and equipment	88%	16,135	50%	4,709	243%
Intangible assets	0%	9	0%	3	227%
Long term investment	0%	50	1%	50	0%
Long term loans and advances	1%	108	1%	97	11%
	89%	**16,302**	**51%**	**4,859**	**236%**
Current Assets					
Stores, spares and loose tools	1%	127	1%	96	33%
Stock-in-trade	6%	1,159	10%	919	26%
Trade debts - considered good, secured	0%	70	2%	178	-61%
Loans, advances, deposits, prepayments and other receivables	2%	299	3%	257	16%
Taxes recoverable	1%	221	0%	38	481%
Deferred employee share compensation expense	0%	4	0%	-	100%
Short term investments	0%	-	31%	2,915	-100%
Cash and bank balances	1%	97	2%	201	-52%
	11%	**1,977**	**49%**	**4,604**	**-57%**
	100%	**18,279**	**100%**	**9,463**	**93%**
EQUITY AND LIABILITIES					
Equity					
Share capital	28%	5,204	47%	4,436	17%
Share premium	5%	975	4%	425	129%
Employee share compensation reserve	0%	10	0%	-	100%
Hedging reserve	0%	(39)	0%	-	-100%
Unappropriated profit	2%	416	3%	316	32%
	36%	**6,566**	**55%**	**5,177**	**27%**
Advance against issue of share capital	**0%**	**-**	**11%**	**1,054**	**-100%**
Non-Current Liabilities					
Borrowings	44%	7,973	14%	1,370	482%
Derivative financial instruments	0%	60	0%	-	100%
Retention money against project payments	3%	553	1%	101	448%
Deferred income tax liabilities	2%	383	4%	334	15%
Retirement and other service benefits obligation	0%	39	0%	24	63%
	49%	**9,008**	**19%**	**1,828**	**393%**
Current Liabilities					
Current portion of long term borrowings	1%	130	1%	95	36%
Short term finances	5%	843	0%	-	100%
Trade and other payables	9%	1,678	14%	1,308	28%
Provisions	0%	55	0%	-	100%
	15%	**2,706**	**15%**	**1,404**	**93%**
	100%	**18,279**	**100%**	**9,463**	**93%**

Profit and Loss Account Vertical and Horizontal Analysis

Engro Polymer & Chemicals Ltd.

Rs. in million except for earnings per share

	2008		2007		
	% of Sales	Amount	% of Sales	Amount	% Change
Net sales	100%	7,848	100%	6,033	30%
Cost of sales	-86%	(6,736)	-84%	(5,075)	33%
Gross profit	**14%**	**1,111**	**16%**	**958**	**16%**
Distribution and marketing expenses	-4%	(312)	-4%	(259)	20%
Administrative expenses	-2%	(163)	-2%	(132)	24%
Other operating expenses	-4%	(290)	-1%	(70)	314%
Other operating income	2%	145	2%	119	22%
Operating profit	**6%**	**492**	**10%**	**617**	**-20%**
Finance costs	0%	(34)	-1%	(41)	-19%
Profit before taxation	**6%**	**458**	**10%**	**576**	**-20%**
Taxation	-1%	(105)	-3%	(154)	-32%
Profit for the year	**5%**	**353**	**7%**	**422**	**-16%**
Earnings per share - Rupees - basic and diluted		**0.68**		**1.64**	**-59%**

Summary of Cash Flow Statement

Rs. in million

	2008	2007
Cash generated from operations	**700**	**880**
Finance costs	(354)	(37)
Long term loans and advances	(11)	(84)
Income tax / Advance tax	(184)	(45)
Net cash flow from operating activities	**151**	**714**
Property, Plant and Equipment & Intangible assets	(10,707)	(2,451)
Net proceeds from Investments	3,031	(2,728)
Net cash flow from investing activities	**(7,676)**	**(5,179)**
Long term borrowing	6,603	1,011
Issue of share capital	229	4,118
Dividend	(253)	(422)
Net cash flow from financing activities	**6,579**	**4,707**
Net cash flow	**(946)**	**242**

Current Year Highlights

Engro Polymer & Chemicals Ltd.

- Highest ever domestic sale of 98,000 tons
- Best ever production of 102,000 tons
- Enhanced PVC manufacturing capacity by 50,000 tons
- Listing of the Company on Karachi Stock Exchange
- Highest ever record of 8.97 million man hours without LWI (Lost Workday Injury)
- Received for the fourth time National Forum for Environment & Health (NFEH) Award
- Received for the third time ACCA WWF Award for Environmental Performance and transparency in reporting

Profitability	Rs. in million except EPS	
	2008	**2007**
Net sales	7,848	6,033
Gross Profit	1,111	958
Operating Profit	492	617
Profit before tax	459	576
Profit after tax	353	422
EPS – Rupees	0.68	1.64

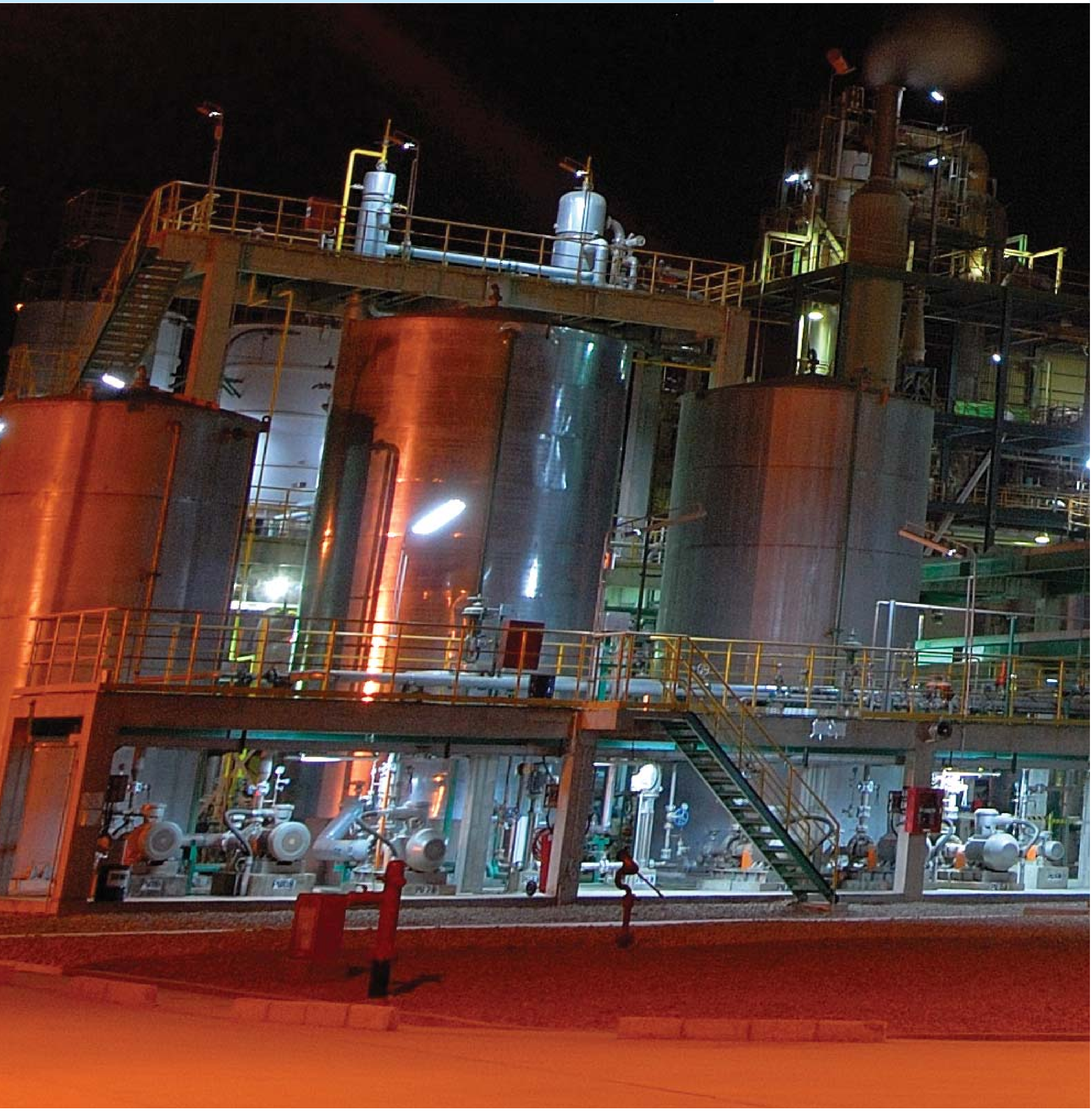
Market Value of Company's Share in 2008	
	Rs.
End of the year	14.58
Highest	27.69
Lowest	13.66

Company Information

Chairman	Asad Umar
President & Chief Executive	Asif Qadir
Directors	Isar Ahmad Shahzada Dawood Masaharu Domichi Takeshi Hagiwara Shabbir Hashmi Waqar A. Malik Khalid Mansoor Khalid S. Subhani
Company Secretary	Arshaduddin Ahmed
Bankers	Allied Bank Ltd. Askari Commercial Bank Ltd. Bank Al Falah Ltd. Bank Al Habib Ltd. Barclays Bank PLC, Pakistan Citibank N.A. Deutsche Bank AG Samba Bank Ltd. (Formerly Crescent Commercial Bank Ltd.) Faysal Bank Ltd. Habib Bank Ltd. Hongkong Shanghai Banking Corporation MCB Bank Ltd. Meezan Bank Ltd. National Bank of Pakistan NIB Bank Ltd. Standard Chartered Bank (Pakistan) Ltd. United Bank Ltd.
Auditors	A. F. Fergusons & 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
Manufacturing Facility	EZ/1/P-II-1, Eastern Zone, Bin Qasim, Karachi.
Share Registration Office	FAMCO Associates (Pvt.) Ltd. [formerly Ferguson Associates (Private) Limited], State Life Building 2-A, 4th Floor, Wallace Road, off I.I. Chundrigar Road, Karachi - 74000
Website	www.engropolymer.com
UAN	111-411-411

Notice of Annual General Meeting

Engro Polymer & Chemicals Ltd.



Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Eleventh Annual General Meeting of Engro Polymer & Chemicals Limited will be held at DHA Golf Club, Phase VIII, Defence Housing Authority, Karachi on Friday, April 3, 2009 at 10 a.m. to transact the following business:

A. ORDINARY BUSINESS

(1) To receive and consider the Audited Accounts for the year ended December 31, 2008 and the Directors' and Auditors' Reports thereon.

(2) To appoint Auditors and fix their remuneration.

B. SPECIAL BUSINESS

(3) To consider, and if thought fit, to pass the following resolution as an Ordinary Resolution:

"RESOLVED that placing of the Company's quarterly accounts on its website instead of transmitting the same to its shareholders by post, be and is hereby approved".

A statement under Section 160 of the Companies Ordinance, 1984 setting forth all material facts concerning the Resolution contained in item (3) of the Notice which will be considered for adoption at the Meeting is annexed to this Notice of Meeting being sent to Members.

By Order of the Board

ARSHADUDDIN AHMED
Company Secretary

Karachi
January 27, 2009

Notice of Annual General Meeting

N.B

(1) The share transfer books of the Company will be closed from Friday, March 20, 2009 to Friday, April 3, 2009 (both days inclusive). Transfers received in order at the office or our Registrar, M/s. FAMCO Associates (Pvt) Limited, State Life Building No.2-A, 4th Floor, Wallace Road, off I.I. Chundrigar Road, Karachi-74000 by the close of business (5:00p.m) on Thursday, March 19, 2009 will be treated as being in time for the purposes to attend the meeting.

(2) A member entitled to attend and vote at this Meeting shall be entitled to appoint another person, as his/her proxy to attend, speak and vote instead of him/her, and a proxy so appointed shall have such rights, as respects attending, speaking and voting at the Meeting as are available to a member. Proxies, in order to be effective, must be received by the Company not less than 48 hours before the Meeting. A proxy need not be a member of the Company.

STATEMENT UNDER SECTION 160 OF THE COMPANIES ORDINANCE, 1984

This Statement is annexed to the Notice of the Eleventh Annual General Meeting of Engro Polymer & Chemicals Ltd. to be held on April 3, 2009 at which certain Special Business is to be transacted. The purpose of this Statement is to set forth the material facts concerning such Special Business.

ITEM (3) OF THE AGENDA

The Securities & Exchange Commission of Pakistan (SECP) vide circular No. 19 dated April 14, 2004 has allowed listed companies to place their quarterly accounts on their website instead of sending the same to each shareholder by post, subject to fulfilment of a few conditions including seeking consent from the Members. The consent from the Members had been sought in the 10th AGM, held on March 19, 2008, however as the Company was not listed at that time therefore SECP had given interim approval and required the Company to again seek consent from the Members in the AGM.

This will be convenient and cost effective way for the Company to transmit its quarterly accounts and ensures quick and easy access for its Members to such accounts of the Company.

By Order of the Board

ARSHADUDDIN AHMED
Company Secretary

Karachi
January 27, 2009

Profile of Board of Directors

Engro Polymer & Chemicals Ltd.

Asad Umar
Chairman

is the President and Chief Executive of Engro Chemical Pakistan Limited and Chairman of Engro Polymer and Chemicals Limited, Engro Vopak Terminal Limited, Engro Foods Limited, Engro Energy Limited and Avanceon Limited and Advanced Automation LP. He is also a member of the Board of Directors of The Pakistan Business Council, Karachi Education Initiative, Pakistan Institute of Corporate Governance & Management Board of Endowment Fund for Preserving Heritage of Sindh and member of the Board of Trustees of Lahore University of Management Sciences (LUMS). He has held key assignments at Engro and with Exxon Chemical in Canada. A Master's in Business Administration, he joined the EPCL Board in 1997.

Asif Qadir
President and Chief Executive

is the Chief Executive of Engro Polymer & Chemicals Limited. He is Chairman and Chief Executive of Engro Polymer Trading (Pvt) Limited and Director of Engro Chemical Pakistan Limited & Engro Energy Limited. He is also Chairman of the Board of Inbox Business Technologies (Pvt) Limited and Unicol (Pvt) Limited. He is President of Management Association of Pakistan and a Member of the Management Committee of Overseas Investors Chamber of Commerce & Industry. He has held key assignments at Engro and with Exxon Chemical Canada. A Chemical Engineer by qualification, he joined the EPCL Board in 1999.

Isar Ahmad
Director

is Group Director, Strategy and Business Development at the Dawood Group. He has had the experience of working in senior management positions in multinational and large Pakistani organisations. He held the position of Finance Director, Supply Chain Director and Head of Business Unit at Reckitt Benckiser (previously Reckitt and Colman) and was the Managing Director of Haleeb Foods (previously CDL Foods Limited). He has also been the Financial Advisor at Indus Motor Company Limited. He holds a Master's degree in Economics and is a Chartered Accountant from the Institute of Chartered Accountants of England & Wales, he joined the EPCL Board in 2007.

Shahzada Dawood
Director

is the Chairman of Dawood Lawrencepur Limited and Chief Executive of Dawood Hercules Chemicals Limited. He is also on the Board of Sui Northern Gas Pipelines Limited and a Member of the Board of Governors of National Management Foundation, sponsoring body of Lahore University of Management Sciences (LUMS). A Masters in Global Textile Marketing and an LLB. He joined the EPCL Board in 2005.

Masaharu Domichi
Director

is the General Manager of Mitsubishi Corporation's operations in Pakistan and Director of Tri-Pack Films Limited. He has a degree in Law from the University of Tokyo, Japan and has been with Mitsubishi Corporation for 31 years. He has a diverse experience in handling industrial machinery, construction equipment and environment, and project development. He joined the EPCL Board in 2005.

Takeshi Hagiwara — Director

is the General Manager for Mitsubishi Corporation's Chlor Alkali Unit and has a degree in Economics from the Keio University, Japan. He has been with Mitsubishi Corporation for 26 years and has held several key positions during this time. He Joined the EPCL Board in 2005.

Shabbir Hashmi — Director

joined Actis Assets Limited (formerly CDC Group Plc) in 1994. He leads private equity investment activities out of Karachi for Pakistan and Bangladesh. Prior to joining Actis he worked for 8 years with the World Bank and US Aid specialising in the energy sector. He is an Engineer from DCET, Pakistan and holds an MBA from JF Kennedy University, USA. He joined the EPCL Board in 2007.

Waqar A. Malik — Director

Waqar A Malik is the Country representative of one of the largest Chemical companies in the world, AkzoNobel. A Fortune 500 company, AkzoNobel is the largest global paints & coatings company. In this role, Waqar is the Chief Executive of ICI Pakistan Limited & Chairman of Pakistan PTA Limited. Waqar has over 23 years of extensive experience with the Group, in senior commercial, finance and strategy roles including a 2-year overseas secondment at ICI Group Headquarters in London.

An active member of the Corporate sector, Waqar is the President of the OICCI, Vice President of MAP, Director on the Boards of IGI Insurance and OGDCL. He is also a Trustee on the Board of The Duke of Edinburgh's Award Foundation, the Karachi Port Trust, the Port Qasim Authority, Member on the Board of Governors of National Management Foundation (LUMS) and the Indus Valley School of Art & Architecture. Waqar is a Chartered Accountant by profession and a Fellow of the Institute of Chartered Accountants in England & Wales.

Khalid Mansoor — Director

is a Senior Vice President of Engro Chemical Pakistan Limited. He has held various key assignments at Engro and with Esso Chemical Canada including leading various major expansion projects. He is a Director on the Board of Engro Polymer & Chemicals Limited and Chief Executive of Engro Energy Limited and Chairman of Engro PowerGen (Private) Limited. A Graduate in Chemical Engineering, he joined the EPCL Board in 2005.

Khalid S. Subhani — Director

is a Senior Vice President of Engro Chemical Pakistan Limited. He has held key positions at Engro and with Esso Chemical Canada. He is a Director on the Boards of Engro Vopak Terminal Limited and Engro Polymer & Chemicals Limited. A Graduate in Chemical Engineering, he joined EPCL Board in 2004.

Directors' Report

Engro Polymer & Chemicals Ltd.

Directors' Report

The Directors of Engro Polymer & Chemicals Ltd. are pleased to present the audited accounts of the Company for the year ended December 31, 2008.

Directors' Report

PRINCIPAL ACTIVITIES

The Company's principal activity is to manufacture, market and sell Polyvinyl Chloride (PVC). The Company is in the process of back integrating its operations which will add Caustic Soda, Ethylene Di Chloride (EDC), Vinyl Chloride Monomer (VCM), Sodium Hypochlorite and Hydro Chloric Acid to its product line.

LISTING OF THE COMPANY

The Company was listed on the Karachi Stock Exchange in July 2008.

BUSINESS REVIEW

PVC sales volume during 2008 was 98,792 tons compared to 94,242 tons during 2007. Current year sales volume includes 1,232 tons of Exports and 1,630 tons of PVC produced during testing phase of the new PVC plant. After successful test runs, Commercial Production of the new plant has been declared with effect from January 1, 2009.

Price Trends

Global PVC prices, saw unprecedented price hikes during the first seven months of the year, based on rising crude oil and robust demand. From August, the global economic crisis brought that to a halt and prices plummeted to levels last seen in 2001 as manufacturers desperately tried to sell their inventories due to uncertain conditions. International PVC prices fell from a peak of $1320 per ton in July to $575 per ton in November. The PVC-VCM margin also crashed from $240 per ton in first half 2008 to $57 per ton in the fourth quarter 2008. However, PVC prices recovered slightly to $620 in December.

Sales & Marketing

Domestic sales during 2008 were the highest ever 97,560 tons as compared to 94,242 tons in 2007. Domestic sales grew by 14% during the first seven months, over the same period last year, however, during the last five months the domestic demand of PVC declined substantially due to falling PVC prices, tight cash liquidity, slow down of construction activity and an ongoing power crisis which limited the ability of the downstream converters to operate smoothly. During the year, approximately 1,000 tons of PVC resin was imported by traders / manufacturers. The domestic demand was derived mainly from the construction and cable sectors. Pipes and fittings segment continued to dominate the domestic PVC demand with a share of 54%.

Market Share

The Company is the sole manufacturer of PVC resin in Pakistan. According to our estimate approximately 1,000 tons of PVC resin was imported during the year.

Directors' Report

Manufacturing

New PVC manufacturing capacity of 50,000 tons per annum was added with the successful trial runs done in December 2008. Production of PVC resin in 2008 was best ever 102,907 tons compared to 94,347 tons produced during 2007. The new PVC plant commissioned during the year produced 4,247 tons of PVC. With the successful commissioning and Guaranteed Test Run of the new plant, the facility has now a capacity to produce 150,000 tons of PVC resin.

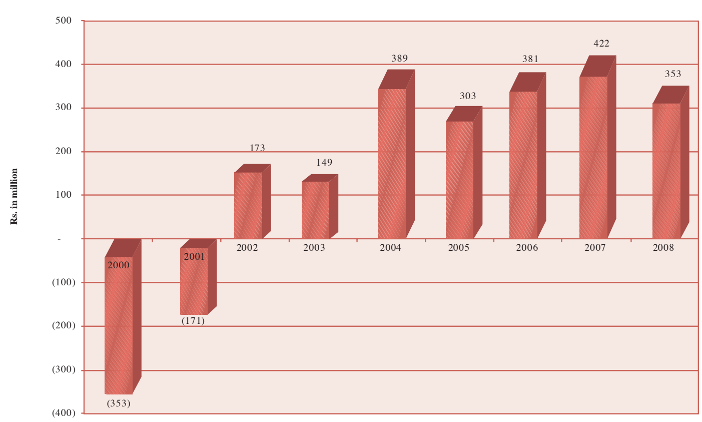
BACK INTEGRATION PROJECT

The Company made good progress on its back integration project. Whilst a part of the utility plant and one gas turbine has been commissioned in January 2009, it is expected that the integrated complex will be in production by the end of second quarter 2009 which will be the only integrated chemical complex in Pakistan.

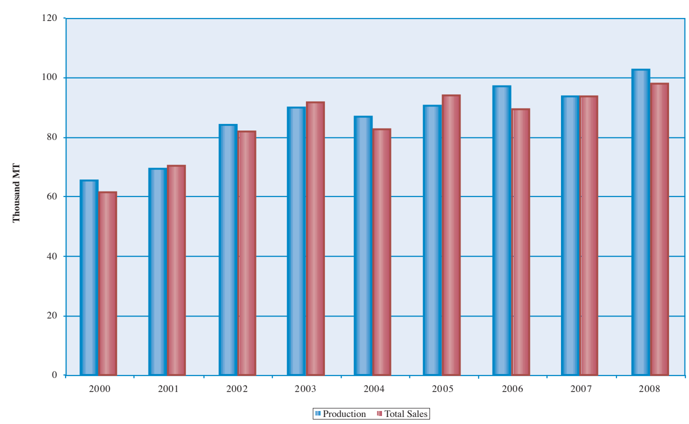
FINANCIAL REVIEW

The profit after tax for the year 2008 was Rs. 353 million compared to Rs. 422 million during 2007. The decrease in profit is mainly attributable to the rapid fall of PVC prices in the fourth quarter 2008, which necessitated an inventory write-down of Rs.133 million and a devaluation of the local currency against the U.S. Dollar caused an exchange loss of Rs. 86 million on the retention money to be paid to the project contractors.

Profit / (loss) after Tax



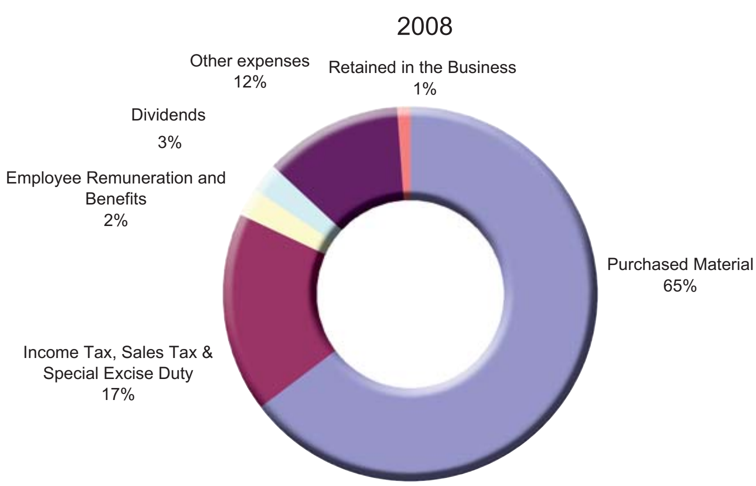
Production and Total Sales (Domestic and Exports)

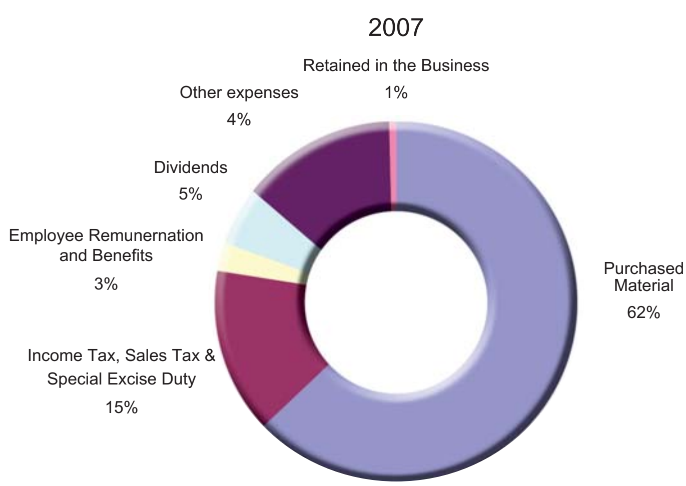


The total assets of the Company increased by Rs. 8,816 million during the year with major additions of Rs. 11,571 million being made to Capital Work-in-Progress.

STATEMENT OF VALUE ADDITION

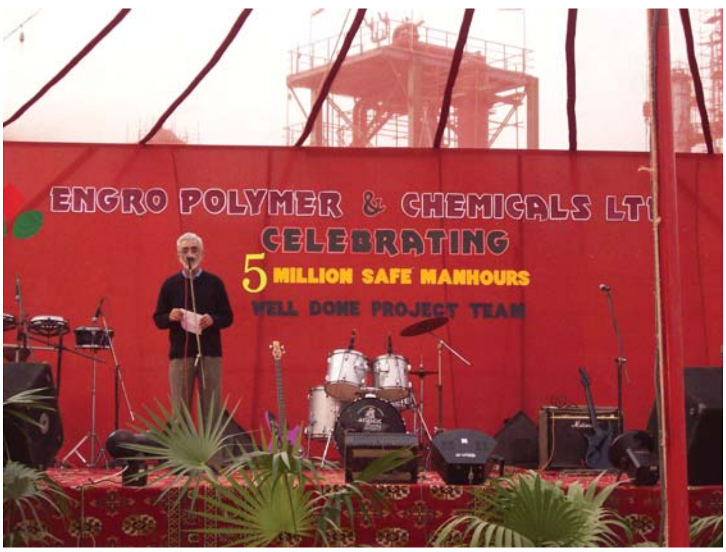
	2008 (Rs. in thousand)	2007 (Rs. in thousand)
Value creation		
Total Revenue Inclusive of Sales tax and other income	**9,673,931**	**7,172,678**
Value distribution		
Purchased Material	6,255,792	4,520,116
Income Tax, Sales Tax & Special Excise Duty	1,681,941	1,050,695
Employee Remuneration and Benefits	232,881	208,291
Dividends	252,896	373,800
Other Expenses	1,150,032	972,000
Retained in the Business	100,389	47,776
	9,673,931	**7,172,678**





HEALTH, SAFETY AND ENVIRONMENT

The Company continued its safe operations during 2008 and achieved the best ever safety record of 8.97 Million man-hours without any Lost Workday Injury.



Directors' Report

Mangrove Rehabilitation

To date 80,000 Mangroves have been planted by the Company over the coast line across the plant that serve as a natural habitat for fish like Mud-Skippers, Prawns and birds like Kingfisher, Log Horn, Curlews, Waders, Humming Birds and Seagull etc. The plan is to develop a Mangrove plantation on the shoreline in front of the Company's plant.

Mangrove plantation across EPCL manufacturing facility at Port Qasim.

EPCL employees taking part in mangrove plantation.

Water Treatment

The Company has an onsite Waste Water Treatment Plant to bring effluent in compliance with the National Environmental and Quality Standard (NEQS).

Waste Management and Recycling

The Company also has a waste management programme based on 3R's (Reduce, Reuse & Recycle). Solid waste generated, such as empty drums, paper, iron etc. is recycled to the local recyclers in an effort to reduce environment footprint. Approximately 80 tons of solid waste was recycled in this manner during the year.

The expansion project consumes a large quantity of water for flushing and hydro jetting of equipment. The wastewater is recycled to sprinkle around the project site to minimize dust emission.

The Company has constructed an Evaporation pond to ensure that contaminated streams are not drained into the sea. This endorses the commitment of the Management to Biodiversity and ensures that the nearby sea remains clear of any pollution.

CORPORATE SOCIAL RESPONSIBILITY

The Company is committed towards fulfilling its Corporate Social Responsibility (CSR) and actively participates in social work programmes. As a part of CSR activities, contributions are made in the sectors of health, education & environment. In this regard, the Company:

Directors' Report

- Supports a school in Port Qasim
- Offers scholarship to Polymer Engineering graduates of Plastic Technology Center and other deserving students
- Encourages its employees to participate in Blood Donation Camps at Port Qasim

EPCL staff distributing books to students of a School located in Port Qasim.

Water Conservation– Micro Irrigation & Geo Membrane

Micro Irrigation systems is a tool for the farmers to save precious water and enhance productivity.

The Water Conservation effort comprises of Micro Irrigation systems which involve laying of pipes throughout the field in a manner where every plant gets water according to its requirement. The water is delivered at the plant roots so that no water is wasted in the process.

Geo membrane to prevent water seepage losses.

The Company has developed micro irrigation systems locally and is promoting them in collaboration with its partners under the "Aabyari" brand name. The Company has developed players who have installed these systems on more than 3,000 acres across Pakistan, during the year 2008 and also imparted training to develop the human resource for effectively installing and running the systems. Besides this 40 acres of demonstration farms have been set up by the Company across the country.

The Company is also promoting the use of PVC geo membrane as a low cost quick installation option for lining of water-courses, canals and ponds to prevent water seepage losses.

Micro Irrigation systems in use at a farm.

EMPLOYEES & ORGANISATION DEVELOPMENT

Valuing People

At Engro Polymer & Chemicals Ltd., employees are considered to be the most important asset of the Company. Employees are the key to our competitive success in the marketplace.

Directors' Report

Safety drills demonstrating usage of fire fighting equipment.

As a socially responsible employer, we respect our employees' rights and endeavor to provide a safe and healthy workplace, fair policies and procedures, freedom of opinion and expression, and open dialogue with our employees.

In addition to offering attractive and fair compensation and benefits, EPCL encourages and invests in its employees' lifelong learning and professional development, and promotes a healthy balance between personal and professional lives.

EPCL employees at soft skills training session.

A demonstrated engagement in diversity, proactive inclusion and equal opportunity is an investment in our people and our future growth. Our commitment to provide equal opportunity to all employees and applicants for employment in accordance with all applicable laws, directives and regulations is constantly reaffirmed through our policies and best-in-class practices.

The Company's Human Resource team provides policies, practices and tools that create a workplace capable of motivating, developing and rewarding employees to achieve success.

The Company was also accredited with Investors in People (IIP) certification which is an indication of the open communication and alignment of employees' objectives with those of the organization.

Guiding principles are to:

- Endeavour for Individual Growth and development to achieve maximum potential.
- Strive for Continuous Improvement by encouraging an environment in which innovative ideas are generated, nurtured and developed.
- Promote an open and supportive work environment.
- Allow a free exchange of points of view to make the best business decisions, and
- Support each other in the pursuit of common goal.

Compensation & Benefits

The Company has focused at rewarding employees for their level of performance which inculcates an enthusiasm and spirit to set higher targets, an example of which are the Share option schemes announced for employees during the current and previous year.

Training & Development

We are committed to the professional development of employees by providing the opportunity for improving their skills and abilities to perform better in their current duties and to become competitive for future challenges.

Training at EPCL is a planned and structured effort to facilitate employees' learning of job related competencies. These competencies include knowledge, skills and behaviours that are critical for successful job performance.

All training efforts are targeted, planned and managed for every employee's professional and personal development, identified through the Training Need Identification process which ensures:

- Employee's motivation to learn
- Basic skills necessary to master the content of the training programme

Employees taking part in recreational activities

- Training methods that should be used to train the employees
- Evaluating whether training achieved desired outcomes

In 2008, the employees of the Company, received 38,000 hours of training, a lot of this training was focused to enhance the technical know how related to the start-up, commissioning and operation of the new plants.

Recruitment

The Company has a proactive recruitment strategy in place to ensure optimal manning for ongoing business needs. However, despite the effort the turnover of employees continued due to better prospects in Middle East and the desire of people to immigrate.

The proactive approach towards recruitment helps address the problems of employee turnover mainly due to current brain drain situation in Pakistan, expansion in Middle East and Far Eastern regions experienced in the recent past, stupendous increase in cost of living etc.

In the year 2008, 136 new employees joined the Company which was in line with the expansion/back integration recruitment plan.

CUSTOMER FOCUS

Technical audits of the manufacturing units of 14 customers were carried out during the year to help improve their production processes, recipes, product quality and increase the output.

Technical training workshops were held in key major cities in which the proper procedure for the joining and installation of PVC pipes was disseminated to our customers and their plumbers.

Directors' Report

Engro Polymer & Chemicals Ltd.

RESEARCH AND DEVELOPMENT

During the year the Research & Development team at EPCL, locally developed the recipe for lead free pipes for use in potable water systems, food grade geo-membrane for lining water reservoirs, medical compound for IV sets and syringe gaskets. It also played an instrumental role in the development, production, quality control, laying and commissioning of the first ever 20 inch uPVC pipe line in Pakistan.

INFORMATION SYSTEMS

Information Technology division of the Company ensures that the IT Infrastructure is maintained and utilized optimally. This includes managing the Enterprise Resource Planning (ERP) systems and electronic communications. System Security and Disaster Recovery are two areas which are given the utmost attention. New avenues of development are pursued with the help of continuous upgrades and staff training to ensure that the company's IT infrastructure stays aligned with the Company's objectives.

BUSINESS OUTLOOK

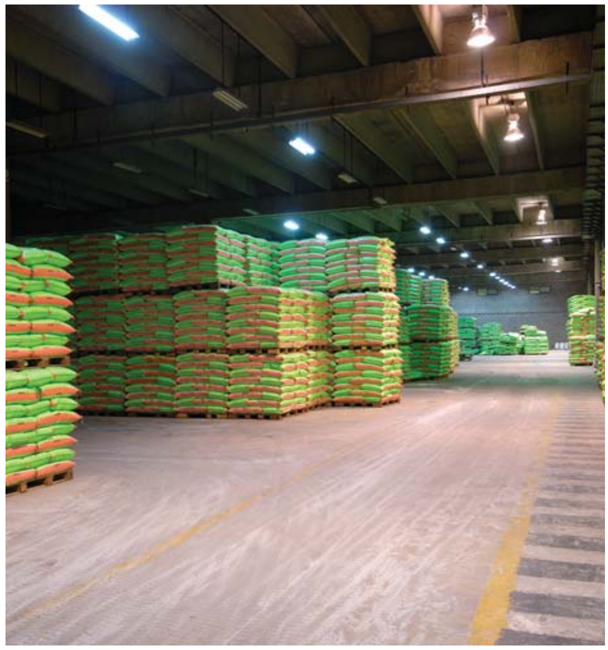
The Company's focus remains on a smooth and safe start up of the integrated chemical complex. The completion of the complex will add new product lines for the Company including Caustic Soda, Sodium Hypochlorite and Hydro Chloric Acid. The Company will also be producing Ethylene Di Chloride (EDC) and Vinyl Chloride Monomer (VCM) which are the main raw materials for producing PVC.

Directors' Report

The PVC prices and PVC-VCM margin is expected to remain under pressure during early part of 2009 on account of slow down in global economy, resulting in low PVC demand. Domestic demand for PVC is also anticipated to be adversely affected in 2009. The size of the domestic demand is seen to remain stagnant during 2009, however, relatively lower PVC resin prices are expected to induce the manufacturers to replace usage of scrap to resin. The Company plans to export PVC on positive netbacks. Besides this, the Company will be entering into the Caustic Soda Market in 2H 09.

The Company is in discussion for potential sale of power to the Karachi Electric Supply Corporation (KESC). This, if materialized, would add to the revenue stream of the Company.

The outlook of the business will greatly depend upon the global and local economic situation. In addition to this, the liquidity situation along with the Power crisis will also play an important part in sustaining the demand of PVC and Caustic Soda.



SHAREHOLDING OF THE COMPANY:

The shareholding of the Company as at December 31, 2008:

	No. of Shares	Holding %
Engro Chemical Pakistan Ltd.	292,400,000	56.2
International Finance Corporation	76,200,000	14.6
Mitsubishi Corporation	57,000,000	11.0
EPCL Employees Trust	18,000,000	3.5
Banks, Development Financial Institutions,		
Non-Banking Financial Institutions	8,513,215	1.6
Modaraba and Mutual Funds	1,111,355	0.2
Individuals	46,912,020	9.0
Companies	20,231,087	3.9
	520,367,677	**100**

EMPLOYEES' SHARE OPTION SCHEME

The employees' share option scheme (the Scheme) was originally approved by the shareholders at their Extraordinary General Meeting (EGM) held on October 8, 2007. Under the scheme, employees who were considered critical to the business operations, were granted options to purchase 5.3 million newly issued ordinary shares at an exercise price of Rs. 22 per ordinary share. The number of options granted was calculated by reference to the criticality of an employee to the business and with the approval of the Board Compensation Committee. The options carry neither right to dividends nor voting rights. Vesting period started from the 'grant date' and ends on December 31, 2009, where after the options can be exercised within a period of two years.

During the year, the Company proposed certain changes relating to 'grant date' in the originally approved Scheme. These changes were approved by the shareholders at their EGM held on June 27, 2008, and subsequently by the Securities and Exchange Commission of Pakistan on September 25, 2008. As per the approved change to the Scheme the 'grant date' is the date of EGM held on October 8, 2007, when the Scheme was originally approved. The effect of the change in the grant date aggregating Rs.1 million has been recognized in current year.

	(Rupees in thousand)
Employees' share option compensation reserve and deferred employee compensation expense recognized on the date of grant	9,858
Less: Amortization for the period October 8, 2007 (date of grant) to December 31, 2008	5,477
Closing balance as on December 31, 2008	4,381

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

- Total number of share options granted - Numbers	5,300,000
- Fair value of the share options at grant date	Rs. 1.86
- Share price at grant date	Rs. 18
- Exercise price	Rs. 22
- Annual volatility based on historical pattern	15.13%
- Risk free rate used	10.12%
- Expected dividends	Nil

Employee-wise detail of options granted to senior management personnel is as follows:

Asif Qadir	1,192,858
Syed Ahsenuddin	792,858
Arshaduddin Ahmed	392,857
Syed Nayyar I. Raza	242,857
Zia Naeem Siddiqui	242,857
Syed Ashar Hussain	142,857
Saleem Lallany	67,857
Imran Farookhi	42,857

MAJOR JUDGEMENT AREAS AND ESTIMATES

Infrastructure Cess

The Company, in the year 2003, filed an appeal before the Honourable High Court of Sindh (High Court) against the levy of cess at the rate of 0.5% by the Government of Sindh (Excise and Taxation Officer) through the Sindh Finance (Second Amendment) Ordinance, 2001, for special maintenance and development of infrastructure for movement of goods. During the current year, the High Court through its order dated September 17, 2008 has directed that the levy of cess imposed and collected from December 28, 2006 is leviable and all imposition and collection before such date have been rendered invalid. The Company has been accruing the said levy in the annexed financial statements, which has accumulated to Rs.194 million. However, taking a prudent approach, the accrual for the period prior to December 28, 2006 amounting to Rs. 84 million has not been reversed in the annexed financial statements as the matter is now pending before the Supreme Court of Pakistan and also because the bank guarantee amounting to Rs.195 million furnished by the Company to the Government of Sindh (Excise and Taxation Officer) has not yet been released.

Special Federal Excise Duty

The Company has paid Rs. 92 million on account of Special Excise Duty (SED) on import of plant and machinery for the Project. Out of this, the Company has adjusted Rs. 55 million in the monthly sales tax returns against SED on goods produced and sold by the Company. The Company has approached Federal Board of Revenue (FBR) to obtain clarification in respect of the adjustment of SED made by the Company in monthly sales tax returns. Pending such clarification, the Company, based on prudence, has made provision of the aforementioned SED, with the corresponding impact being taken to Capital Work-in-Progress.

Custom Duty

The Collector of Customs in its order dated April 11, 2008, decided the case against the Company in respect of refund application for duty paid on import of Raw Material. The Company based on the advice of its tax consultant, has filed an appeal before the Collector of Customs (Appeals), Karachi dated May 31, 2008 against the aforementioned order. However, the Company based on prudence made full provision amounting to Rs.18 million, during 2008, against the aforementioned custom duty refundable in the current year.

Physical Verification of Fixed Assets

An independent Physical Verification exercise for Fixed Assets of the Company was completed during the year. Based on this verification, assets costing Rs. 3.3 million, having a Written Down Value of Rs. 0.243 million have been written off during the year.

Hedging Reserve

During the year, the Company entered into an interest rate swap agreement with a bank to hedge its interest rate exposure on floating rate borrowing from International Finance Corporation (IFC) for an amount of US $ 15 million. The swap is effective for the period starting from December 15, 2008 and ending on June 15, 2017. The fair value of the interest rate swap as at December 31, 2008 amounted to Rs. 60 million which has been debited to equity, net of tax.

FINANCIAL RISK MANAGEMENT

The treasury activities are controlled and are carried out in accordance with the policies approved by the Board. The risks managed by the Treasury function are funding risk, interest rate and currency risk. The purpose of the treasury policies is to ensure that adequate cost-effective funding is available to the Company at all times and that exposure to funding risk is minimized. The Company uses financial instruments such as interest rate swaps and forward currency contracts to manage both interest and currency rates on the underlying business activities.

COMPLIANCE WITH CORPORATE GOVERNANCE

The Board of Directors reviews all significant matters of the Company. These include Company's strategic direction, annual business plans and targets, decision on long term investments and borrowings. The Board of Directors is committed to maintain high standards of corporate governance.

The Board of Directors is pleased to report that:

- The financial statements prepared by the management present fairly its state of affairs, the results of its operations, cash flows and changes in equity
- Proper books of accounts have been maintained
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment
- International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has been adequately disclosed
- The system of internal control is sound in design and has been effectively implemented and monitored
- There are no significant doubts about Company's ability to continue as a going concern
- There has been no material departure from the best practices of corporate governance
- The fair values of investment of provident fund, pension fund and gratuity fund based on their respective audited accounts for the year ended June 30, 2007 are as follows:

	Rupees in million
Provident Fund	63.1
Pension Fund	58.5
Gratuity Fund	21.7

Directors' Report

- Four Board meetings were held during 2008. Attendance by each director is as follows:

	No. of meetings attended
Asad Umar	4
Asif Qadir	4
Isar Ahmad	4
Shahzada Dawood	4
Masaharu Domichi	4
Takeshi Hagiwara	4*
Shabbir Hashmi	3
Waqar A. Malik	3
Khalid Mansoor	4
Khalid S. Subhani	3
* Includes two meetings attended by Alternate Directors	

- Category of Shareholding

Information of shareholding as at Dec 31, 2008 required under the reporting framework is as follows:

(i) Associated Companies, undertakings and related parties

	No. of Shares	**Holding %**
Engro Chemical Pakistan Ltd.	292,400,000	56.2
International Finance Corporation	76,200,000	14.6
Mitsubishi Corporation	57,000,000	11.0
EPCL Employees' Trust	18,000,000	3.5

(ii) NIT and ICP

None

(iii) Directors, CEO and their spouse and minor children

	No. of Shares
Asad Umar	1
Asif Qadir	1
Isar Ahmad	1
Shahzada Dawood	1
Masaharu Domichi	1
Takeshi Hagiwara	1
Shabbir Hashmi	1
Waqar A. Malik	1
Khalid Mansoor	1
Khalid S. Subhani	1

	No. of Shares
(iv) Executives	5,500

(v) Public Sector Companies and Corporations

None

(vi) Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas and Mutual funds

	No. of Shareholders	No. of Shares
Banks, Development Finance Institutions, Non-Banking Finance Institutions	7	8,513,215
Modarabas and Mutual Funds	7	1,111,355
Insurance companies	-	-

Directors' Report

(vii) Shareholders holding ten percent or more voting interest in the listed Company

	No. of Shares	Holding %
Engro Chemical Pakistan Ltd.	292,400,000	56.2
International Finance Corporation	76,200,000	14.6
Mitsubishi Corporation	57,000,000	11.0

(viii) Details of purchase/sale of shares by Directors/Company Secretary / Chief Financial Officer and their spouses / minor children during 2008

None

CATEGORY OF SHAREHOLDING AS AT DEC 31, 2008

S.No	Shareholders category	No. of Shareholders	No. of Shares	Holding %
1	Joint stock companies	120	369,631,087	71.1
2	Individuals	54,207	46,912,020	9.0
3	Trust	1	18,000,000	3.5
4	Banks, Development Finance Institutions, Non-Banking Finance Institutions	7	8,513,215	1.6
5	Modarabas and Mutual Funds	7	1,111,355	0.2
6	International Finance Corporation	1	76,200,000	14.6
	Total	54,343	520,367,677	100

PATTERN OF SHAREHOLDING

Pattern of holding of the shares held by the Shareholders of the Company as at December 31, 2008

Number of Shareholders	Shareholding		Total Shares Held
	From	To	
60	1	100	458
47,302	101	500	23,649,021
3,201	501	1,000	3,196,480
2,999	1,001	5,000	7,399,588
423	5,001	10,000	3,225,594
121	10,001	15,000	1,538,443
68	15,001	20,000	1,231,001
42	20,001	25,000	980,500
18	25,001	30,000	505,998
9	30,001	35,000	298,900
10	35,001	40,000	390,000
6	40,001	45,000	258,999
15	45,001	50,000	741,000
7	50,001	55,000	371,509
5	55,001	60,000	295,999
4	60,001	65,000	248,500
2	65,001	70,000	131,500
2	70,001	75,000	149,000
1	80,001	85,000	85,000
2	85,001	90,000	176,000
2	90,001	95,000	186,500
2	95,001	100,000	197,500
4	100,001	105,000	412,500
2	105,001	110,000	213,502
1	115,001	120,000	120,000
1	125,001	130,000	129,500
1	130,001	135,000	131,500
2	135,001	140,000	275,500
1	140,001	145,000	141,500
1	145,001	150,000	150,000
1	150,001	155,000	153,500
1	160,001	165,000	160,916
1	170,001	175,000	173,500
2	195,001	200,000	400,000
1	205,001	210,000	209,500
1	210,001	215,000	213,500
1	220,001	225,000	223,673
3	245,001	250,000	747,050
1	260,001	265,000	260,952
3	270,001	275,000	822,980
1	285,001	290,000	287,000
1	300,001	305,000	303,500
1	465,001	470,000	467,500
1	780,001	785,000	782,855
1	1,240,001	1,245,000	1,242,627
1	1,385,001	1,390,000	1,388,889
1	2,040,001	2,045,000	2,041,768
1	3,105,001	3,110,000	3,106,567
1	3,725,001	3,730,000	3,727,881
1	13,220,001	13,225,000	13,222,037
1	17,995,001	18,000,000	18,000,000
1	56,995,001	57,000,000	56,999,998
1	76,195,001	76,200,000	76,200,000
1	292,395,001	292,400,000	292,399,992
54,343			520,367,677

- **EARNINGS PER SHARE**

  Earnings per share for the year 2008 was Rs.0.68 whereas it was Rs.1.64 in 2007.

- **DIVIDEND**

  In view of the prevailing uncertainty faced by the local and international economies, the Board of Directors has decided not to announce any dividend this year. This will help in building up the reserve against contingencies arising on account of unforeseen events.

- **SHARES TRADED**

  Since listing of the Company on the Karachi Stock Exchange in July 2008 up to the end of the year, 36,397,500 shares were traded on the Exchange.

- **AUDITORS**

  The present auditors, M/s. A. F. Ferguson & Company, retire and offer themselves for reappointment.

WHOLLY OWNED SUBSIDIARY - ENGRO POLYMER TRADING (PRIVATE) LIMITED [FORMERLY ENGRO ASAHI TRADING (PRIVATE) LIMITED] (EPTL)

EPTL is a wholly owned subsidiary of the Company in the trading business of Chemicals. The activities of EPTL remained limited during the year as no exports were made. The loss of EPTL for current year is Rs. 2.9 million in comparison to a profit of Rs.0.1 million during 2007.

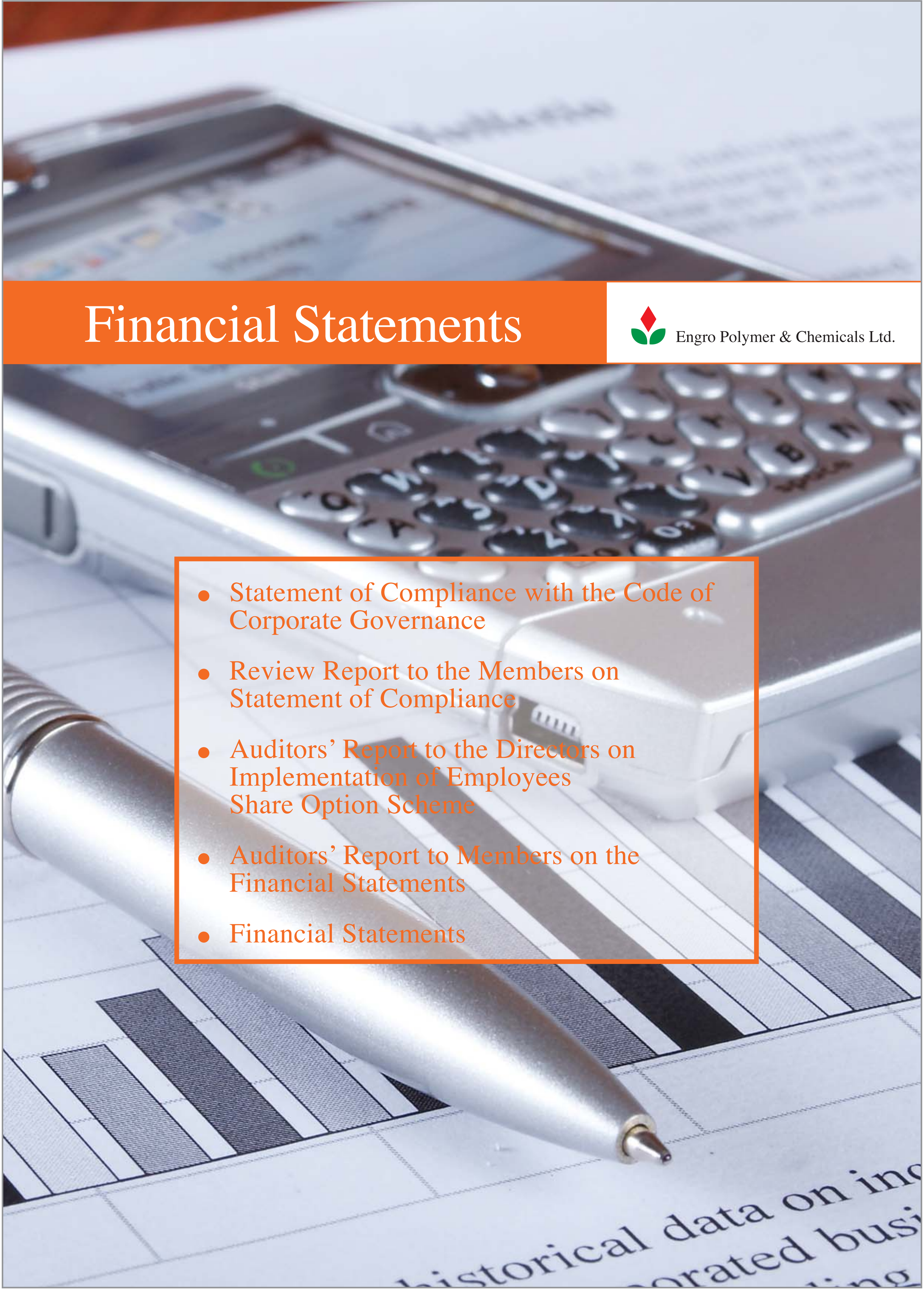
On behalf of the Board

Asif Qadir

Asif Qadir
President & Chief Executive

Masaharu Domichi
Director

Karachi
January 27, 2009



Financial Statements

Engro Polymer & Chemicals Ltd.

- Statement of Compliance with the Code of Corporate Governance
- Review Report to the Members on Statement of Compliance
- Auditors' Report to the Directors on Implementation of Employees Share Option Scheme
- Auditors' Report to Members on the Financial Statements
- Financial Statements

Statement of Compliance with the Code of Corporate Governance

The Company has applied the principles contained in the Code in the following manner:

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes four independent non-executive directors, two of whom also represent minority interests, along with five non-executive directors representing Engro Chemical Pakistan Limited, the majority shareholder, and one executive director, being the CEO of the Company.

2. The directors have confirmed that none of them is serving as a director in more than ten listed companies, including this Company.

3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Company.

5. The Company has developed a Mission Statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which these were enacted has been maintained.

6. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, have been taken by the Board.

7. The meetings of the Board were presided over by the Chairman, and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers, were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated.

8. The Company conducted orientation for its directors to apprise them of their duties and responsibilities.

9. The Board has approved appointment of CFO/Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment as determined by the CEO.

10. The Directors' Report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

11. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.

12. The directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

13. The Company has complied with all the corporate and financial reporting requirements of the Code.

14. The Board has formed an audit committee. It comprises of four directors all of whom are non-executive directors including the Chairman.

15. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company, (except in one quarter due to lack of quorum), as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

16. The Board has set-up an effective internal audit function.

17. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.

18. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

19. We confirm that all other material principles contained in the Code have been complied with.

Asif Qadir

President & Chief Executive

Director

January 27, 2009

A.F.FERGUSON & CO.

A member firm of PRICEWATERHOUSECOOPERS

A.F.Ferguson & Co.
Chartered Accountants
State Life Building No. 1-C
I.I. Chundrigar Road, P.O. Box 4716
Karachi-74000, Pakistan
Telephone: (021) 2426682-6 / 2426711-5
Facsimile: (021) 2415007 / 2427938

Review Report to the Members on Statement of Compliance with best practices of Code of Corporate Governance

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance for the year ended December 31, 2008 prepared by the Board of Directors of Engro Polymer and Chemicals Limited to comply with the Listing Regulations of the Karachi Stock Exchange where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We have not carried out any special review of the internal control system to enable us to express an opinion as to whether the Board's statement on internal control covers all controls and the effectiveness of such internal controls.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended December 31, 2008.

AFFerguson & Co.

Chartered Accountants
Karachi
Date: January 27, 2009

Lahore Office: 505-509, 5th Floor, Alfalah Building, P.O.Box 39, Shahrah-e-Quaid-e-Azam, Lahore-54000, Pakistan Tel: (92-42) 6285078-85 Fax: (92-42) 6285088
Islamabad Office: PIA Building, 3rd Floor, 49 Blue Area, Fazl-ul-Haq Road, P.O.Box 3021, Islamabad-44000, Pakistan Tel: (92-51) 2273457-60 Fax: (92-51) 2277924
Kabul Office: House No. 4, Street No. 3, District 6, Road Karte-3, Kabul, Afghanistan. Tel : (93-799) 315320-203424

During the year, the Company won National Forum for Environment & Health (NFEH) and ACCA WWF Awards for Environmental Performance and transparency in reporting. The Company has been receiving these awards for a number of years and in recognition of that ACCA has nominated EPCL on the panel of judges.

Syed Ahsenuddin, VP Manufacturing receiving ACCA WWF Award.

Environment Awareness

Acknowledging the need for environmental protection, the Company in 2008 conducted a campaign to create awareness in the neighbouring community of the Plant Site at Port Qasim, aimed at preserving and restoring the environment. The objective of the campaign was to create awareness of applicable standards and regulations. This was done by conducting lectures, dialogue and group discussion with emphasis on:

- global warming & climate change
- waste management and recycling
- protection of forests
- encouragement to plant trees
- measures to decrease pollution
- importance to protect drinking water

Earth day celebrations at EPCL.

A.F.FERGUSON & CO.

A member firm of
PRICEWATERHOUSECOOPERS

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Telephone: (021) 2426682-6 / 2426711-5
Facsimile: (021) 2415007 / 2427938

Auditors' Report to the Directors on Implementation of Employees Share Option Scheme

We have audited the Engro Polymer and Chemicals Limited's (the Company) compliance as of December 31, 2008 with:

(i) the Employees Share Option Scheme (the Scheme) as approved by the shareholders of the Company; and

(ii) the Public Companies (Employees Stock Option Scheme) Rules, 2001 (the Rules) issued by the Securities and Exchange Commission of Pakistan vide SRO 300(I)2001 dated May 11, 2001.

The implementation of the Scheme, as approved by the shareholders of the Company, and in accordance with the Rules, including maintenance of proper books of accounts and records in respect thereto, is that of the Company's management.

Our responsibility is to provide an opinion based on our evidence gathering procedures in accordance with International Standards on Auditing applicable to compliance auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Company has complied with the Scheme and the Rules. An audit includes examining appropriate evidence on a test basis. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Company was, in all material respects, in compliance with the Scheme and the Rules as of December 31, 2008

Chartered Accountants
Karachi
Date: January 27, 2009

Lahore Office: 505-509, 5th Floor, Alfalah Building, P.O.Box 39, Shahrah-e-Quaid-e-Azam, Lahore-54000, Pakistan Tel: (92-42) 6285078-85 Fax: (92-42) 6285088
Islamabad Office: PIA Building, 3rd Floor, 49 Blue Area, Fazl-ul-Haq Road, P.O.Box 3021, Islamabad-44000, Pakistan Tel: (92-51) 2273457-60 Fax: (92-51) 2277924
Kabul Office: House No. 4, Street No. 3, District 6, Road Karte-3, Kabul, Afghanistan. Tel : (93-799) 315320-203424

A.F.FERGUSON & CO.

A member firm of PRICEWATERHOUSECOOPERS

A.F.Ferguson & Co.
Chartered Accountants
State Life Building No. 1-C
I.I. Chundrigar Road, P.O. Box 4716
Karachi-74000, Pakistan
Telephone: (021) 2426682-6 / 2426711-5
Facsimile: (021) 2415007 / 2427938

Auditors' Report to the Members

We have audited the annexed balance sheet of Engro Polymer and Chemicals Limited as at December 31, 2008 and the related profit and loss account, statement of changes in equity and cash flow statement together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

(a) in our opinion, proper books of account have been kept by the Company as required by the Companies Ordinance, 1984;

(b) in our opinion:

  (i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied;

  (ii) the expenditure incurred during the year was for the purpose of the Company's business; and

  (iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of changes in equity and cash flow statement together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at December 31, 2008 and of the profit, changes in equity and its cash flows for the year then ended; and

(d) in our opinion no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980.

AFFerguson & Co.

Chartered Accountants

Karachi
Date: January 27, 2009

Lahore Office: 505-509, 5th Floor, Alfalah Building, P.O.Box 39, Shahrah-e-Quaid-e-Azam, Lahore-54000, Pakistan Tel: (92-42) 6285078-85 Fax: (92-42) 6285088
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Balance Sheet

as at December 31, 2008 (Amounts in thousand)

	Note	2008	2007
		(Rupees)	
ASSETS			
Non-Current Assets			
Property, plant and equipment	3	16,134,766	4,708,761
Intangible assets	4	9,262	2,831
Long term investment	5	50,000	50,000
Long term loans and advances	6	107,785	96,971
		16,301,813	4,858,563
Current Assets			
Stores, spares and loose tools	7	127,152	95,719
Stock-in-trade	8	1,159,318	919,455
Trade debts - considered good, secured		69,514	178,472
Loans, advances, deposits, prepayments and other receivables	9	298,932	257,444
Taxes recoverable		220,727	38,012
Deferred employee share compensation expense	13	4,381	-
Short term investments	10	-	2,914,504
Cash and bank balances	11	97,273	200,844
		1,977,297	4,604,450
TOTAL ASSETS		18,279,110	9,463,013
EQUITY AND LIABILITIES			
Equity			
Share capital	12	5,203,677	4,436,000
Share premium		975,438	425,216
Employee share compensation reserve	13	9,858	-
Hedging reserve		(39,100)	-
Unappropriated profit		415,992	315,603
		6,565,865	5,176,819
Advance against issue of share capital		-	1,054,353
		6,565,865	6,231,172
Non-Current Liabilities			
Borrowings	15	7,973,072	1,370,000
Derivative financial instruments	14	60,154	-
Retention money against project payments	16	553,445	100,960
Deferred income tax liabilities	17	382,574	333,596
Retirement and other service benefits obligation	18	38,500	23,602
		9,007,745	1,828,158
Current Liabilities			
Current portion of long term borrowings	15	130,000	95,429
Short term finances	19	842,568	-
Trade and other payables	20	1,678,003	1,308,254
Provisions	21	54,929	-
		2,705,500	1,403,683
Contingencies and Commitments	22		
TOTAL EQUITY AND LIABILITIES		18,279,110	9,463,013

The annexed notes 1 to 40 form an integral part of these financial statements.

Asif Qadir
President & Chief Executive

Masaharu Domichi
Director

Profit and Loss Account

for the year ended December 31, 2008 (Amounts in thousand except for earnings per share)

	Note	2008	2007
		(Rupees)	
Net sales	23	7,847,537	6,032,708
Export rebate		69	-
		7,847,606	6,032,708
Cost of sales	24	(6,736,218)	(5,074,530)
Gross profit		1,111,388	958,178
Distribution and marketing expenses	25	(311,640)	(258,754)
Administrative expenses	26	(163,040)	(131,612)
Other operating expenses	27	(289,828)	(70,026)
Other operating income	28	145,177	119,440
Operating profit		492,057	617,226
Finance costs	29	(33,529)	(41,409)
Profit before taxation		458,528	575,817
Taxation	30	(105,243)	(154,241)
Profit for the year		353,285	421,576
Earnings per share - basic and diluted	31	0.68	1.64

The annexed notes 1 to 40 form an integral part of these financial statements.

Asif Qadir
President & Chief Executive

Masaharu Domichi
Director

Cash Flow Statement

for the year ended December 31, 2008 (Amounts in thousand)

	Note	2008	2007
		(Rupees)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	34	700,355	880,311
Finance costs paid		(354,528)	(37,204)
Long term loans and advances		(10,814)	(83,764)
Income tax paid		(183,508)	(44,943)
Net cash inflow from operating activities		151,505	714,400
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(11,157,805)	(2,448,216)
Purchases of intangible assets		(7,180)	(4,828)
Retention money from Project payments		452,485	-
Proceeds from disposal of operating assets		3,971	1,540
Short term investments		-	(3,271,604)
Proceeds from sale of short term investments		2,914,504	515,728
Income on short term investments and bank deposits		117,077	27,629
Net cash outflow from investing activities		(7,676,948)	(5,179,751)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long term borrowing		6,603,072	1,240,000
Proceeds from issue of share capital		229,128	3,064,068
Receipts of advance against issue of share capital		-	1,054,353
Repayments of long term borrowings		-	(229,005)
Dividend paid		(252,896)	(422,038)
Net cash inflow from financing activities		6,579,304	4,707,378
Net increase / (decrease) in cash and cash equivalents		(946,139)	242,027
Cash and cash equivalents at beginning of the year		200,844	(41,183)
Cash and cash equivalents at end of the year	35	(745,295)	200,844

The annexed notes 1 to 40 form an integral part of these financial statements.

Asif Qadir
President & Chief Executive

Masaharu Domichi
Director

Statement of Changes in Equity
for the year ended December 31, 2008 (Amounts in thousand)

	Issued, subscribed and paid-up capital	Share premium	Employee share compensation reserve	Hedging reserve	Unappropriated profit	Total
			Rupees			
Balance as at January 1, 2007	1,780,000	-	-	-	267,827	2,047,827
Profit for the year	-	-	-	-	421,576	421,576
Dividends						
- 1st interim - Re. 0.33 per share	-	-	-	-	(58,740)	(58,740)
- 2nd interim - Rs. 1.00 per share	-	-	-	-	(178,000)	(178,000)
- 3rd interim - Re. 0.77 per share	-	-	-	-	(137,060)	(137,060)
	-	-	-		(373,800)	(373,800)
Share capital issued	2,656,000	457,200	-	-	-	3,113,200
Share issuance cost, net	-	(31,984)	-	-	-	(31,984)
Balance as at December 31, 2007	4,436,000	425,216	-	-	315,603	5,176,819
Final dividend for the year ended December 31, 2007 - Re. 0.54 per share	-	-	-	-	(252,896)	(252,896)
Profit for the year	-	-	-	-	353,285	353,285
Options granted during the year - note 13	-	-	9,858	-	-	9,858
Effective portion of changes in fair value of cash flow hedge - net	-	-	-	(39,100)	-	(39,100)
Share capital issued	767,677	614,141	-	-	-	1,381,818
Share issuance cost, net	-	(63,919)	-	-	-	(63,919)
Balance as at December 31, 2008	5,203,677	975,438	9,858	(39,100)	415,992	6,565,865

The annexed notes 1 to 40 form an integral part of these financial statements.

Asif Qadir
President & Chief Executive

Masaharu Domichi
Director

Notes to the Financial Statements

for the year ended December 31, 2008 (Amounts in thousand)

1. LEGAL STATUS AND OPERATIONS

1.1 The Company was incorporated in Pakistan in 1997 under the Companies Ordinance, 1984. In July 2008, the Company was listed on Karachi Stock Exchange. The Company is a subsidiary of Engro Chemical Pakistan Limited. The address of its registered office is 1st floor, Bahria Complex I, M.T. Khan Road, Karachi. The Company's principal activity is to manufacture, market and sell Poly Vinyl Chloride (PVC), PVC compounds and other related chemicals.

1.2 In 2006, the Company commenced work on its expansion plan in respect of its existing capacity and backward integration project (the Project). The Project's total cost is estimated at US$ 240,000, which includes construction of PVC, Ethylene Di Chloride (EDC), Vinyl Chloride Monomer (VCM), Chlor Alkali and Power plant. The new plants are being setup adjacent to the Company's existing PVC facilities in the Port Qasim Industrial Area.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

2.1.1 These financial statements have been prepared under the historical cost convention except for the remeasurement of certain financial assets and financial liabilities (including derivative instruments) at fair value and recognition of certain staff retirement benefits at present value.

2.1.2 These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance) and the approved financial reporting standards as applicable in Pakistan. Approved financial reporting standards comprise of such International Financial Reporting Standards (IFRSs) as notified under the provisions of the Ordinance. Wherever, the requirements of the Ordinance or directives issued by the Securities and Exchange Commission of Pakistan (SECP) differ with the requirements of these standards, the requirements of the Ordinance or the requirements of the said directives have been followed.

2.1.3 The preparation of financial statements in conformity with the above requirements 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. The Company makes estimates and assumptions concerning the future, based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will by definition seldom equal the related actual results. The areas where assumptions and estimates that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

- Residual values and useful lives of property, plant and equipment (note 2.2)
- Provision for retirement and other service benefits (note 2.12)
- Taxation (note 2.15)
- Fair value derivatives (note 2.17)

2.1.4 Initial application of a Standard, Amendment or an Interpretation to an existing Standard

Standards, amendments to published standards and interpretations effective in 2008 and relevant

- IFRIC 11, 'IFRS 2 – Group and treasury share transactions', provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone financial statements of the parent and group companies. This interpretation does not have an impact on the Company's financial statements as there are currently no Group and treasury share transactions.

Notes to the Financial Statements

for the year ended December 31, 2008 (Amounts in thousand)

- IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction', provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the Company's financial statements, as there are no statutory or contractual minimum funding requirements affecting the fund.

Standards, amendments to published standards and interpretations effective in 2008 but not relevant

The following interpretation to published standards is mandatory for accounting periods beginning on or after January 1, 2008 but not relevant to the Company's operations:

- IFRIC 12, 'Service concession arrangements'.

Standards, amendments to published standards and interpretations that are not yet effective and have not been early adopted by the Company

The following standards, amendments to existing standards and interpretations have been published and are mandatory for the Company's accounting periods beginning on or after January 1, 2009 or later periods, and the Company has not early adopted them:

- IAS 1 (Revised), 'Presentation of financial statements' (effective from January 1, 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Company will apply IAS 1 (Revised) from January 1, 2009. It is likely that both the income statement and statement of comprehensive income will be presented as performance statements.

- IAS 1 (Amendment), 'Presentation of financial statements' (effective from January 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The Company will apply the IAS 39 (Amendment) from January 1, 2009. It is not expected to have an impact on the Company's financial statements.

- IAS 19 (Amendment), 'Employee benefits' (effective from January 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008.

  - The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

  - The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

  - The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

  - IAS 37, 'Provisions, contingent liabilities and contingent assets', requires contingent liabilities to be disclosed, not recognized. IAS 19 has been amended to be consistent.

The Company will apply the IAS 19 (Amendment) from January 1, 2009. The amendment has no material impact on the Company's financial statements.

- IAS 23 (Amendment), 'Borrowing costs' (effective from January 1, 2009).□The amendment requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Company's current accounting policy is in compliance with this amendment, and therefore there will be no effect on the financial statements.

- IAS 23 (Amendment), 'Borrowing costs' International Accounting Standards Board (IASB's) annual improvements project (effective from January 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008.

  Through this amendment, the definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 'Financial instruments: Recognition and measurement'. This eliminates the inconsistency of terms between IAS 39 and IAS 23. The Company will apply the IAS 23 (Amendment) prospectively to the capitalization of borrowing costs on qualifying assets from January 1, 2009, however, the impact on financial statements is not material.

- IAS 27 (Revised) 'Consolidated and separate financial statements' (effective from July 1, 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Company will apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010, however, the impact on financial statements is not material.

- IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective from January 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment requires that an investment in associate including subsidiaries is treated as a single asset for the purposes of impairment testing and any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The Company will apply the IAS 28 (Amendment) to impairment tests related to investment in subsidiaries and any related impairment losses from January 1, 2009, however, the impact on financial statements is not material.

- IAS 36 (Amendment), 'Impairment of assets' (effective from January 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment requires that where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Company will apply the IAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from January 1, 2009.

- IAS 38 (Amendment), 'Intangible assets' (effective from January 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment requires that a prepayment may only be recognized in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Company's accounting policy is in line with this amendment.

- IAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment deletes the wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortisation than the straight-line method. The amendment will not have an impact on the group's operations, as all intangible assets are amortised using the straight-line method.

- IAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from January 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008.

  - This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

  - The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.

  - When re-measuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used.

  The Company will apply the IAS 39 (Amendment) from January 1, 2009, where applicable.

- IFRS 2 (Amendment), 'Share-based payment' (effective from January 1, 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Company will apply IFRS 2 (Amendment) from January 1, 2009, but is not expected to have a material impact on the Company's financial statements.

- The SECP vide S.R.O. 411 (1) / 2008 dated April 28, 2008 notified the adoption of IFRS 7 'Financial Instruments: Disclosures'. IFRS 7 is mandatory for Company's accounting periods beginning on or after the date of notification i.e. April 28, 2008. IFRS 7 has superseded IAS 30 and disclosure requirements of IAS 32. The Company will apply IFRS from January 1, 2009. Adoption of IFRS 7 will only impact the format and extent of disclosures presented in the financial statements.

- IFRS 8 'Operating Segments' (effective from January 1, 2009). IFRS 8 replaces IAS 14, 'Segment reporting'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes, and introduces detailed disclosures regarding the reportable segments and products. The Company will apply IFRS 8 from January 1, 2009 which will result in additional disclosures in the financial statements.

- There are a number of minor amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the reporting period', IAS 18, 'Revenue' and IAS 34, 'Interim financial reporting', which are part of the IASB's annual improvements project published in May 2008 (not addressed above). These amendments are unlikely to have any impact on the Company's financial statements and have therefore not been analysed in detail.

Standards, amendments and interpretations to existing standards that are not yet effective and are not relevant for the Company have not been presented here.

2.2 Property, plant and equipment

These are stated at cost less accumulated depreciation and impairment, if any, except Capital work-in-progress. Cost in relation to fixed assets signifies historical cost. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Capital work-in-progress is stated at historical cost less impairment, if any.

Depreciation on assets is charged to income using the straight line method to allocate their cost to their residual values over their estimated useful lives at rates given in note 3.1. Depreciation on additions is charged from the month in which the asset is put to use and no depreciation is charged in the month of disposal.

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

Assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

2.3 Intangible assets – Computer software

Costs associated with developing and maintaining computer software programmes are recognized as an expense as incurred. Costs that are directly attributable to identifiable software and have probable economic benefits exceeding one year, are recognized as an intangible asset. Direct costs include the purchase cost of software and related overhead cost.

Expenditure, which enhances or extends the performance of computer software beyond its original specification and useful life is recognized as a capital improvement and added to the original cost of the software.

Computer software cost treated as intangible assets are amortized from the date the software is put to use on straight-line basis over a period of 5 to 10 years. The carrying amount of the intangible assets is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the assets carrying amount exceeds its recoverable amount in income. Reversal of impairment losses are also recognized in income.

2.4 Investments

2.4.1 Subsidiaries

Investment in subsidiaries are stated at cost net of provision for impairment, if any. This investment is classified as long term investments.

2.4.2 Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held to maturity and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Company's loans and receivables comprise 'trade debts and other receivables' and 'cash and cash equivalents' in the balance sheet (note 2.7 and 2.8).

Notes to the Financial Statements

for the year ended December 31, 2008 (Amounts in thousand)

(c) Held to maturity financial assets

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity with a positive intention to hold to maturity.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the profit and loss account. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value.

Loans and receivables are carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'other operating income/expenses' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the profit and loss account as part of other income when the Company's right to receive payments is established.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the profit and loss account as part of other income. Dividends on available-for-sale equity instruments are recognized in the profit and loss account as part of other income when the Company's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a Group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the profit and loss account. Impairment losses recognized in the profit and loss account on equity instruments are not reversed through the profit and loss account. Impairment testing of trade receivables is described in note 2.7.

2.5 Stores and spares

These are valued at weighted average cost except for items in transit which are stated at invoice value plus other charges paid thereon till the balance sheet date. Provision is made for slow moving items, as per policy and is recognized in income.

2.6 Stock-in-trade

These are valued at the lower of cost and net realizable value. Cost in relation to raw materials represent the weighted average cost and in relation to finished goods and work-in-progress represents weighted average cost comprising direct materials, labour and related manufacturing overheads.

Cost of stock-in-transit represents the invoice value plus other charges incurred thereon till the balance sheet date.

Net realizable value signifies the estimated selling price in the ordinary course of business less cost of completion and costs necessarily to be incurred in order to make the sales. Provision is made for slow moving stocks where considered necessary.

2.7 Trade debts and other receivables

Trade debts and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is charged to income. Trade debts and other receivables considered irrecoverable are written-off.

Exchange gains and losses arising on translation in respect of trade debts and other receivables in foreign currency are added to the carrying amount of the respective receivables.

2.8 Cash and cash equivalents

Cash and cash equivalents in the cash flow statement include cash in hand and in transit, balance with banks, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and short term finances. Short term finances on the balance sheet are shown as part of current liabilities.

2.9 Share capital

Ordinary shares are classified as equity and recognized at their face value. Incremental costs, if any, directly attributable to the issue of new shares or options are recognized in equity as a deduction, net of tax, from the proceeds.

2.10 Employees' Share Option Scheme

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

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

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

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

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

Notes to the Financial Statements

for the year ended December 31, 2008 (Amounts in thousand)

2.11 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred and are subsequently measured at amortized cost using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional / contractual right to defer settlement of the liability for at least twelve months after the balance sheet date.

2.12 Retirement and other service benefits

2.12.1 Pension scheme

The Company operates an approved defined benefit pension scheme for its management employees. The scheme is funded and provides for pension based on the employees' last drawn salary. Pensions are payable, after retirement or on optional retirement, for life and thereafter to surviving spouses and dependent children.

2.12.2 Gratuity Scheme

The Company operates an approved defined benefit gratuity scheme for its management employees. The scheme is funded and provides for a graduated scale of benefits dependent on the length of service of the employee on terminated date, subject to the completion of minimum qualifying period of service as per the rules of the scheme. Gratuity is payable on retirement, separation or death to ex-employees, or their spouses thereafter. Gratuity based on employees last drawn salary. Contributions are made annually to these funds on the basis of the actuarial valuations and in line with the provisions of the Income Tax Ordinance, 2001.

2.12.3 Additional Death Gratuity Scheme

The Company operates an approved death gratuity scheme for its permanent employees. The scheme is unfunded and provides for additional death gratuity which is payable on death of employee to servicing spouses and dependent children.

The liability for pension, gratuity and additional death gratuity schemes recognized in the balance sheet in respect of the pension and gratuity schemes and additional death gratuity schemes represents the present value of defined benefit obligations at the balance sheet date as adjusted for unrecognized actuarial gains and losses and past service costs, if any and as reduced by the fair value of plan assets. The defined benefit obligation is calculated every year by independent actuary using the 'Project Unit Credit Method'. The most recent actuarial valuation was carried out as of December 31, 2008.

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

2.12.4 Provident fund

The Company operates a defined contribution provident fund for its permanent management employees. Equal monthly contributions are made both by the Company and the employees to the fund at the rate of 10% of basic salary. Annual contribution, by the Company is charged to income.

2.12.5 Compensated absences

The Company accounts for compensated absences on the basis of unavailed leave balance of each employee at the end of the year, based on last drawn salary.

2.12.6 Other benefits

The Company provides an incentive to certain category of experienced employees to retain them in the Company's employment. Provision is made on the basis of management estimates of incentive to be paid to such employees on fulfillment of a criteria given in the incentive plan.

Notes to the Financial Statements

for the year ended December 31, 2008 (Amounts in thousand)

2.13 Trade and other payables

These are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method. Exchange gains and losses arising on translation in respect of liabilities in foreign currency are added to the carrying amount of the respective liabilities.

2.14 Provisions

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

2.15 Taxation

2.15.1 Current

Provision for current taxation is based on the taxable income for the year, determined in accordance with the prevailing law for taxation on income, using prevailing tax rates. The charge for current tax also includes tax credits and adjustments, where considered necessary, for prior years determined during the year or otherwise considered necessary for such years.

2.15.2 Deferred

Deferred income tax is provided using the liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred tax is charged or credited in the profit and loss account.

2.16 Foreign currency transactions and translation

These financial statements are presented in Pakistan Rupees, which is Company's functional and presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in income.

2.17 Derivatives financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as either:

(a) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or

(b) hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge).

The overall risk management strategy includes reasons for undertaking hedge transactions and entering into derivatives. The objectives of this strategy are to:

- minimize foreign currency exposure's impact on the Company's financial performance; and

- protect the Company's cash flow from adverse movements in foreign currency exchange rates.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(b) Cash flow hedge

On an ongoing basis, the Company assesses whether each derivative continues to be highly effective in offsetting changes in the cash flows of hedged items. If and when a derivative is no longer expected to be highly effective, hedge accounting is discontinued.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the profit and loss.

Amounts accumulated in equity are reclassified to the profit and loss account in the periods when the hedged item affects profit or loss account i.e. when the transaction occurs. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognized in the profit and loss account or the cost of the related asset for which the borrowing is being utilized. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for e.g. inventory or fixed assets) the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognized in cost of goods sold in case of inventory or in depreciation in case of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the profit and loss account or the cost of the related non-financial asset (for e.g. inventory or fixed assets) as applicable. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit and loss account.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 14. Movements on the hedging reserve are shown in statement of changes in equity. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

2.18 Revenue recognition

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, and is recognized on the following basis:

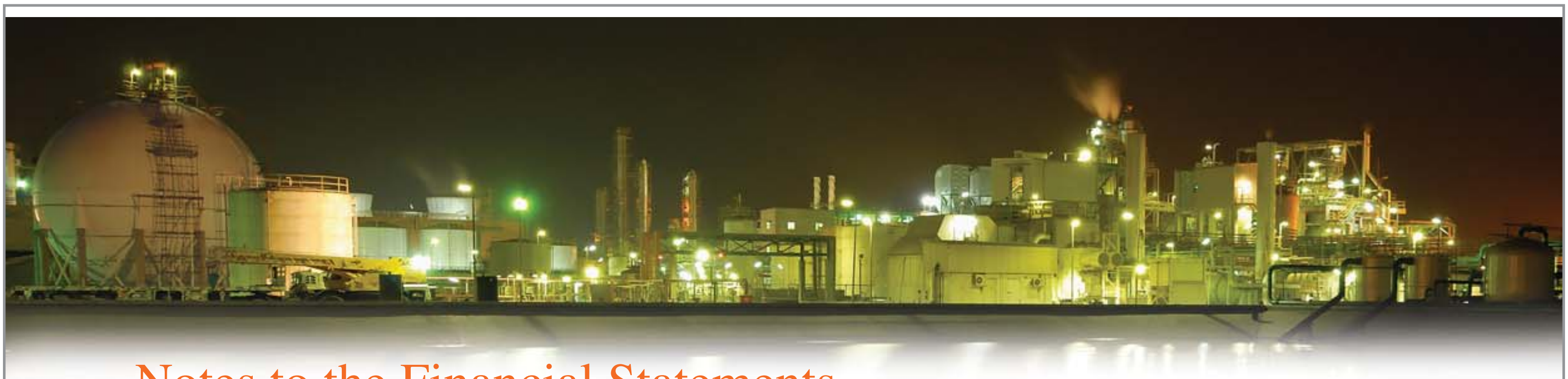
- sales are recognized when the product is dispatched to customers;

- dividend income is recognized when the Company's right to receive the payment is established;

- return on deposits is recognized using the effective interest rate method; and

- income from electricity supply is recognized on accrual basis.

for the year ended December 31, 2008 (Amounts in thousand)



2.19 Borrowing costs

Borrowing costs are recognized as an expense in the period in which they are incurred except where such costs are directly attributable to the acquisition, construction or production of a qualifying asset in which such costs are capitalized as part of the cost of that asset. Borrowing costs includes exchange differences arising from foreign currency borrowings to the extent these are regarded as an adjustment to borrowing costs.

2.20 Offsetting of financial assets and liabilities

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

2.21 Dividend and appropriation to reserves

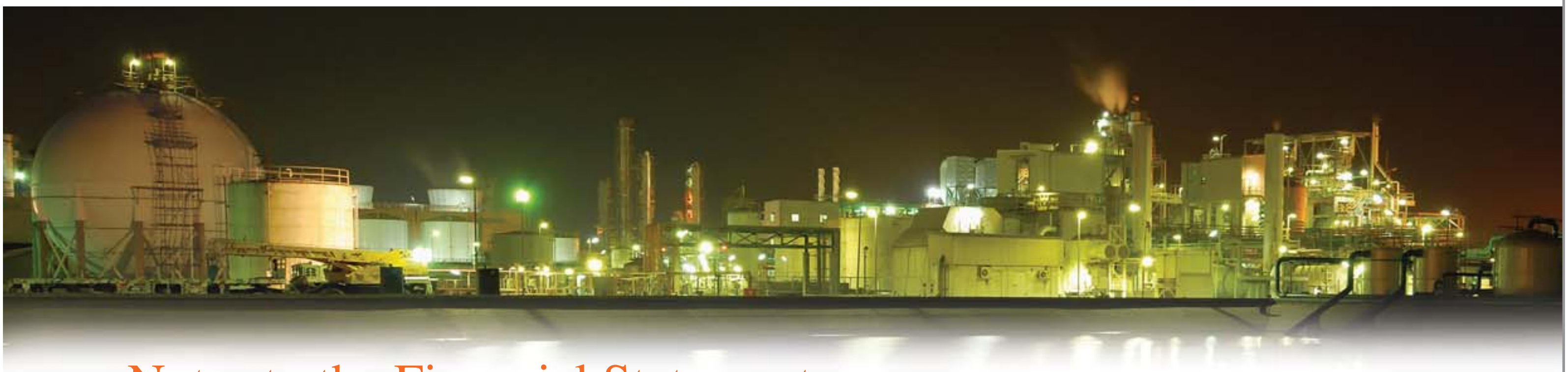
Dividend distribution to the shareholders is recognized as a liability in the financial statements in the period in which the dividends are approved by the shareholders. Appropriation to reserves are recognized in the period in which these are approved by the Board of Directors.

	2008	2007
	(Rupees)	
3. PROPERTY, PLANT AND EQUIPMENT		
Operating assets - note 3.1	1,987,643	2,133,053
Capital work-in-progress - note 3.4	14,147,123	2,575,708
	16,134,766	4,708,761

Notes to the Financial Statements
for the year ended December 31, 2008 (Amounts in thousand)

3.1 Operating Assets

	Leasehold land	Building on leasehold land	Plant and Machinery	Pipelines: Water	Pipelines: VCM	Pipelines: Gas	Furniture, fixtures and equipment	Vehicles	Total
	Rupees								
As at January 1, 2007									
Cost	182,229	227,102	2,732,433	119,280	26,122	1,691	64,944	51,439	3,405,240
Accumulated depreciation	(5,659)	(40,859)	(966,049)	(42,386)	(9,305)	(604)	(40,253)	(24,280)	(1,129,395)
Net book value	176,570	186,243	1,766,384	76,894	16,817	1,087	24,691	27,159	2,275,845
Year ended December 31, 2007									
Opening net book value	176,570	186,243	1,766,384	76,894	16,817	1,087	24,691	27,159	2,275,845
Additions	8,550	-	-	-	-	-	12,660	18,770	39,980
Disposals /write off - note 3.3									
- Cost	-	-	-	-	-	-	-	(3,967)	(3,967)
- Accumulated depreciation	-	-	-	-	-	-	-	3,020	3,020
Net book value	-	-	-	-	-	-	-	(947)	(947)
Depreciation charge - note 3.2	(3,821)	(5,827)	(145,882)	(5,964)	(1,306)	(85)	(6,751)	(12,189)	(181,825)
Closing net book value	181,299	180,416	1,620,502	70,930	15,511	1,002	30,600	32,793	2,133,053
As at January 1, 2008									
Cost	190,779	227,102	2,732,433	119,280	26,122	1,691	77,604	66,242	3,441,253
Accumulated depreciation	(9,480)	(46,686)	(1,111,931)	(48,350)	(10,611)	(689)	(47,004)	(33,449)	(1,308,200)
Net book value	181,299	180,416	1,620,502	70,930	15,511	1,002	30,600	32,793	2,133,053
Year ended December 31, 2008									
Opening net book value	181,299	180,416	1,620,502	70,930	15,511	1,002	30,600	32,793	2,133,053
Additions	3,348	-	-	-	-	-	19,940	20,384	43,672
Disposals /write off - note 3.3									
- Cost	-	-	-	-	-	-	(3,353)	(6,583)	(9,936)
- Accumulated depreciation	-	-	-	-	-	-	2,749	3,565	6,314
Net book value	-	-	-	-	-	-	(604)	(3,018)	(3,622)
Reclassification									
- Cost	-	-	(5,889)	-	-	-	-	5,889	-
- Accumulated depreciation	-	-	2,984	-	-	-	-	(2,984)	-
Net book value	-	-	(2,905)	-	-	-	-	2,905	-
Depreciation charge - note 3.2	(3,870)	(5,827)	(145,761)	(5,964)	(1,306)	(85)	(9,985)	(12,662)	(185,460)
Closing net book value	180,777	174,589	1,471,836	64,966	14,205	917	39,951	40,402	1,987,643
As at December 31, 2008									
Cost	194,127	227,102	2,726,544	119,280	26,122	1,691	94,191	85,932	3,474,989
Accumulated depreciation	(13,350)	(52,513)	(1,254,708)	(54,314)	(11,917)	(774)	(54,240)	(45,530)	(1,487,346)
Net book value	180,777	174,589	1,471,836	64.966	14,205	917	39,951	40,402	1,987,643
Annual Rate of Depreciation (%)	2 to 2.14	2.5 to 10	5 to 16.67	5	5	5	5 to 33	20 to 25	



Notes to the Financial Statements
for the year ended December 31, 2008 (Amounts in thousand)

		2008	2007
		(Rupees)	
3.2	Depreciation charge has been allocated as follows:		
	Cost of sales - note 24	167,626	166,746
	Distribution and marketing expenses - note 25	4,255	3,981
	Administrative expenses - note 26	5,085	5,829
	Capital work-in-progress - note 3.4.2	8,494	5,269
		185,460	181,825

3.3 The details of operating assets disposed /written off during the year are as follows:

	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Particulars of purchaser
	Rupees					
Vehicle	900	450	450	562	By Company policy to existing/seperating executives	Mr. Fawad A Shaikh
"	770	305	465	536		Mr. Irfanul Haq Siddiqui
"	900	375	525	633		Mr. Moazaam Ali Anwar
"	939	939	-	235		Mr.Qadeer A. Khan
"	1,500	70	1,430	1,336		Mr.Qadeer A. Khan
"	835	687	148	417		Mr. Inam-Ur-Raheem
"	739	739	-	185		Mr. Zaki A. Sharif
Furniture, fixtures and equipment	729	490	239	-	Written off	-
Aggregate amount of assets having net book value less than Rs. 50 each	2,624	2,259	365	67		
	9,936	6,314	3,622	3,971		
2007	3,967	3,020	947	1,540		

		2008	2007
3.4	**Capital work-in-progress**	(Rupees)	
	These comprise:		
	Plant and machinery	12,523,057	1,925,402
	Ethylene pipeline and power cables	61,486	30,251
	Water and gas pipelines	233,016	168,293
	Building on leasehold land	163,301	109,671
	Other ancillary costs - note 3.4.2	1,140,230	331,783
	Furniture, fixtures and equipment	19,170	7,386
	Advances for vehicles	6,863	2,922
		14,147,123	2,575,708

for the year ended December 31, 2008 (Amounts in thousand)

3.4.1 As referred to in note 1.2, the Company commenced work on the expansion Project in 2006, and the Capital work-in-progress relates to the cost of this expansion Project. The cost of the Project financed through debt and equity is estimated at US$ 240,000.

	2008	2007
	(Rupees)	
3.4.2 The ancillary costs, directly attributable to the Projects, comprise:		
Salaries, wages and benefits	315,240	92,989
Training and travelling expenses	74,439	45,590
Borrowing costs, including mark-up on finances using capitalization rate of 13.45% - net	591,713	134,431
Legal and professional charges	43,103	25,760
Depreciation charge - note 3.2	13,763	5,269
Others	101,972	27,744
	1,140,230	331,783

4. INTANGIBLE ASSETS – Computer software

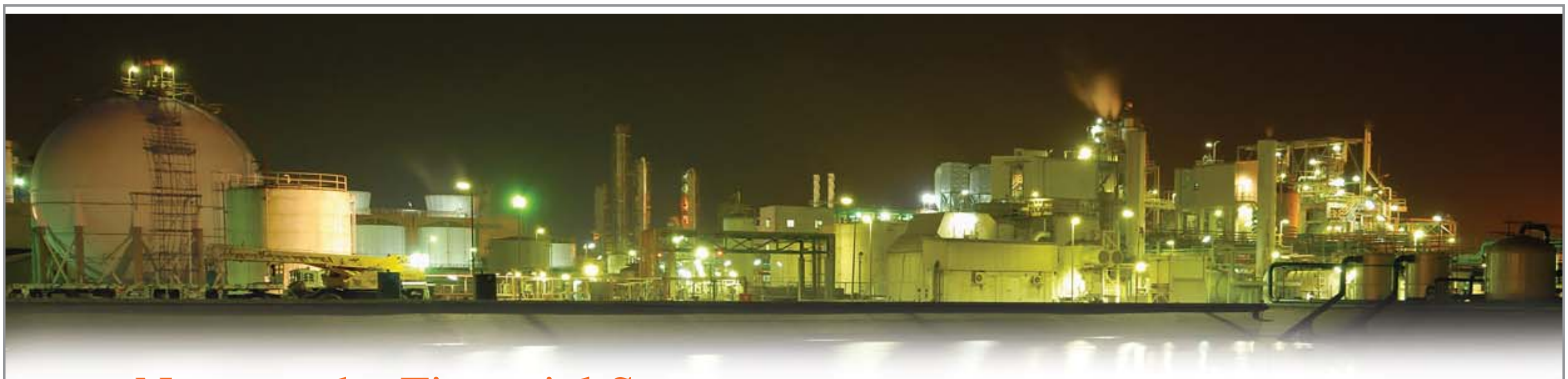
	2008	2007
Net carrying value		
Balance at beginning of the year	2,831	148
Additions at cost	7,180	2,785
Amortization charge for the year - note 26	(749)	(102)
Balance at end of the year	9,262	2,831
Gross carrying value		
Cost	13,596	6,416
Accumulated amortization	(4,334)	(3,585)
Net book value	9,262	2,831

4.1 The cost is being amortized over a period of 5 to 10 years.

5. LONG TERM INVESTMENT

	2008	2007
Subsidiary - at cost		
Engro Polymer Trading (Private) Limited [formerly Engro Asahi Trading (Private) Limited] 5,000,000 ordinary shares of Rs. 10 each	50,000	50,000

for the year ended December 31, 2008 (Amounts in thousand)



	2008	2007
	(Rupees)	
6. LONG TERM LOANS AND ADVANCES - considered good		
Executives - notes 6.1, 6.2 and 6.4	120,513	114,402
Less: Current portion shown under current assets - note 9	(40,578)	(31,241)
	79,935	83,161
Employees - note 6.3	37,944	18,330
Less: Current portion shown under current assets - note 9	(10,094)	(4,520)
	27,850	13,810
	107,785	96,971

6.1 **Reconciliation of the carrying amount of loans and advances to executives**

	2008	2007
Balance as at January 1	114,402	18,930
Add: Disbursements	292,287	142,392
Less: Repayments	(286,176)	(46,920)
Balance as at December 31	120,513	114,402

6.2 These represent interest free loans and advances to executives for house rent, vehicles, home appliances and investments given in accordance with the terms of employment and for purchase of the Company's shares under the Employees' Share Scheme (ESS) introduced/announced by EPCL Employees' Trust. Loans for house rent and investments are repayable in 18 to 36 equal monthly instalments. Loans for home appliances are repayable in 5 equal annual instalments. 20% of the loan for purchase of Company's share under ESS are repayable at the end of month 1, 12 and 24 and 40% is repayable at the end of month 30 from the expiry date of the Option Period. Advances for vehicles are charged to profit and loss account over a period of 3 years.

6.3 These represent interest free loans to employees for home appliances and investments, given in accordance with the terms of employment and for purchase of the Company's shares under the Employees' Share Scheme (ESS) introduced/announced by EPCL Employees' Trust. Loans are repayable in accordance with the terms mentioned in note 6.2.

6.4 The maximum aggregate amount due from executives at the end of any month during the year was Rs. 130,000 (2007: Rs. 140,765).

Notes to the Financial Statements

for the year ended December 31, 2008 (Amounts in thousand)

7. STORES, SPARES AND LOOSE TOOLS

	2008	2007
	(Rupees)	
Consumable stores	13,745	5,664
Spares	113,407	90,055
	127,152	95,719

8. STOCK-IN-TRADE

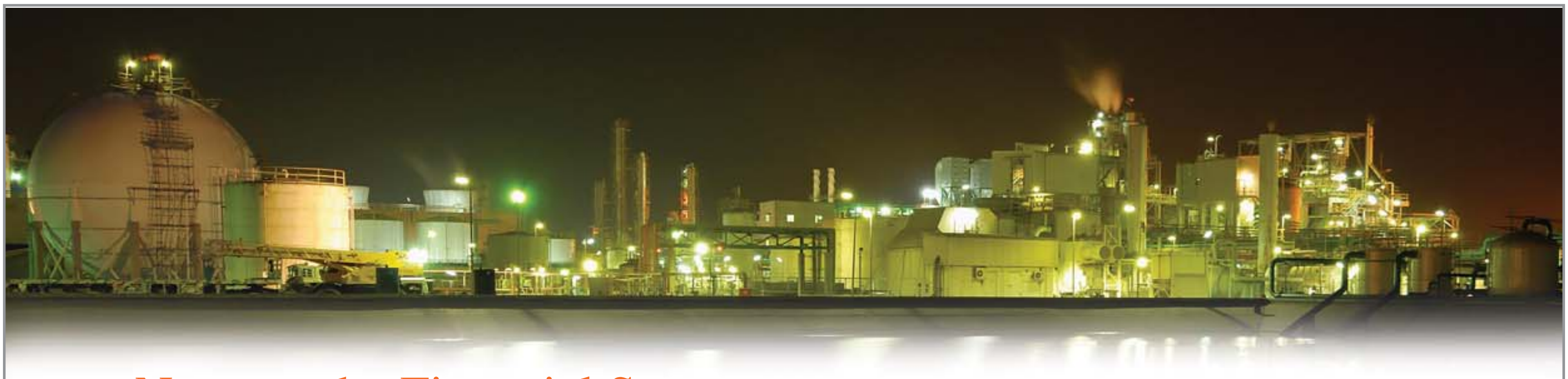
	2008	2007
Raw and packing materials - note 8.1	327,670	256,277
Work-in-process	21,293	22,861
Finished goods		
- own manufactured product	810,355	640,170
- purchased product	-	147
	810,355	640,317
	1,159,318	919,455

8.1 This includes stocks-in-transit amounting to Rs. 155,925 (2007: Nil) and stocks held at the storage facilities of Engro Vopak Terminal Limited, a related party, amounting to Rs. 22,148 (2007: Rs. 140,581).

9. LOANS, ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2008	2007
Considered good	(Rupees)	
Current portion of long term loans and advances - note 6		
- executives	40,578	31,241
- employees	10,094	4,520
Advances to employees for reimburseable expenses	4,201	1,588
Advances to suppliers and others	24,307	5,364
Deposits	43,131	10,045
Prepayments - note 9.1	26,030	173,939
Receivable from Government		
- export rebate claim	-	192
- sales tax refundable	150,171	6,376
- octroi/duty claims	152	273
Accrued return on investments	30	918
Receivable from ECPL	153	4,707
Other receivables	85	238
	298,932	239,401
Considered doubtful		
Custom duty claims refundable	18,043	18,043
Less: Provision for impairment - note 9.2	(18,043)	-
	-	18,043
Special Excise Duty (SED) refundable	36,687	-
Less: Provision for impairment - note 21	(36,687)	-
	-	-
	298,932	257,444

for the year ended December 31, 2008 (Amounts in thousand)



9.1 This includes transaction costs aggregating to Nil (2007: Rs. 108,311) relating to Syndicated term finance facility from a consortium of banks and long term loan, referred to in note 15.1 and 15.2, respectively, which has been netted-off during the year against the respective borrowings upon disbursement thereof, as per policy.

9.2 During the year, the Collector of Customs in his order dated April 11, 2008, disposed of the refund applications filed by the Company for the refund of this duty paid at import stage on import of Vinyl Chloride Monomer. The Company based on the advice of its tax consultant, has filed an appeal before the Collector of Customs (Appeals), Karachi dated May 31, 2008 against the aforementioned order. However, the Company based on prudence has made full provision against the aforementioned custom duty refundable in these financial statements.

10. SHORT TERM INVESTMENTS

	2008	2007
	(Rupees)	
At fair value through profit or loss		
Mutual fund securities - note 10.1	-	1,897,932
Term finance certificate - note 10.2	-	936,752
	-	2,834,684
Held to maturity		
Short term bank deposits - note 10.3	-	79,820
	-	2,914,504

10.1 These represent investments in open end mutual funds. During the year, the Company disposed of all mutual fund securities.

10.2 This represents investments in unsecured Term Finance Certificate (TFC) of a listed company. During the year, the TFCs were redeemed and encashed.

10.3 These deposits matured on September 26, 2008 and carried mark-up at the rates ranging from 4.2% to 4.7% per annum.

11. CASH AND BANK BALANCES

	2008	2007
	(Rupees)	
Cash in hand	935	834
Cash at bank		
- on current accounts	4,875	97,072
- on saving accounts - note 11.1	3,217	102,938
	8,092	200,010
Short term bank deposits - note 11.2	88,246	-
	97,273	200,844

for the year ended December 31, 2008 (Amounts in thousand)

11.1 This includes Rs. 2,671 (2007: Rs. 3,000) kept in a separate bank account in respect of security deposits.

11.2 These deposits have various maturities up to January 23, 2009 and carry mark-up at the rates ranging from 1 % to 4.7 % (2007: Nil).

	2008	2007
	(Rupees)	
12. SHARE CAPITAL		
Authorized capital		
700,000,000 (2007: 700,000,000) ordinary shares of Rs. 10 each	7,000,000	7,000,000
Issued, subscribed and paid-up capital		
520,367,677 (2007: 443,600,000) ordinary shares of Rs. 10 each, fully paid in cash	5,203,677	4,436,000

12.1 During the year the Company issued 76,767,677 ordinary shares of Rs. 10 each at a subscription price of Rs.18 per share to various investors. Of this JS Global Capital Limited (JS Global), one of the investors, made available 50 million ordinary shares out of its total shareholding in the Company to the general public through listing at the Karachi Stock Exchange under an Offer for Sale dated May 31, 2008. The Company was listed on Karachi Stock Exchange in July 2008.

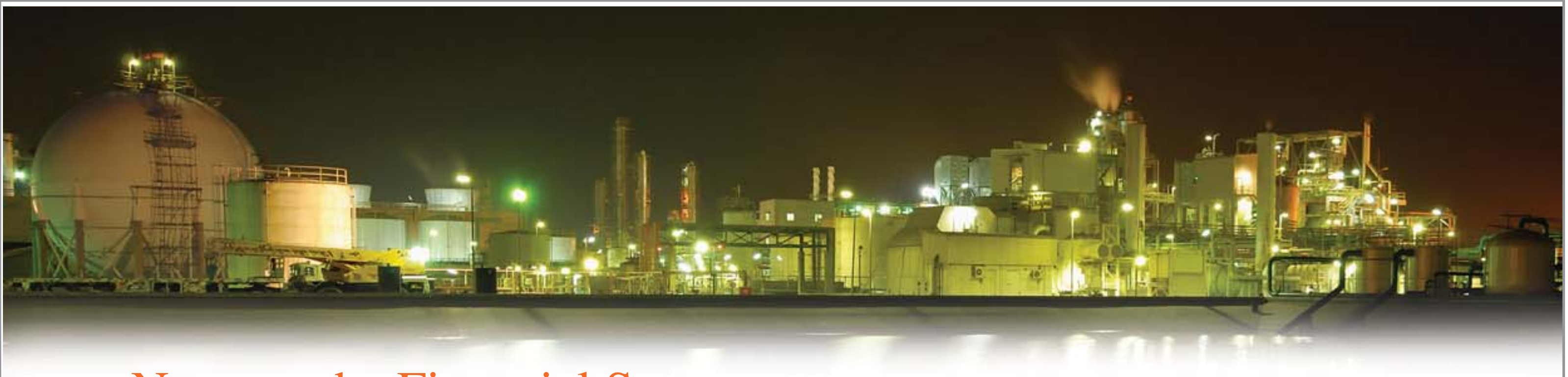
12.2 As at December 31, 2008, Engro Chemical Pakistan Limited holds 292,400,000 ordinary shares of Rs. 10 each (2007: 292,400,000 ordinary shares of Rs. 10 each).

13. EMPLOYEES' SHARE OPTION SCHEME

The employees' share option scheme (the Scheme) was originally approved by the shareholders in their Extraordinary General Meeting (EGM) held on October 8, 2007. Under the scheme, senior employees who were considered critical to the business operations, were granted options to purchase 5.3 million newly issued ordinary shares at an exercise price of Rs. 22 per ordinary share. The number of options granted was calculated by reference to how critical an employee was considered to the business and his ability, subject to approval by the Compensation Committee. The options carry neither right to dividends nor voting rights. Vesting period started from the 'grant date' and ends on December 31, 2009, whereafter the options can be exercised within a period of two years. Further, future employees who join the Company by October 31, 2008 and those promoted to the eligible employee grade by the same date are also to be granted options on similar terms.

During the year, the Company proposed certain changes relating to 'grant date' in the originally approved Scheme. These changes were approved by the shareholders in their EGM held on June 27, 2008, and subsequently by the SECP on September 25, 2008. As per the approved change to the Scheme the 'grant date' is the date of EGM held on October 8, 2007, when the Scheme was originally approved. The effect of the change aggregating Rs. 1,096, in the grant date has been recognized in current year as follows:

for the year ended December 31, 2008 (Amounts in thousand except for note 13.1)



	(Rupees)
Employees' share option compensation reserve and deferred employee compensation expense recognized on the date of grant	9,858
Less: Amortization for the period October 8, 2007 (date of grant) to December 31, 2008	5,477
Closing balance as on December 31, 2008	4,381

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

- Total number of share options granted	5,300,000
- Fair value of the share options at grant date	Rs. 1.86
- Share price at grant date	Rs. 18
- Exercise price	Rs. 22
- Annual volatility based on historical pattern	15.13%
- Risk free rate used	10.12%
- Expected dividends	Nil

14. DERIVATIVE FINANCIAL INSTRUMENTS

	2008	2007
	(Rupees)	
Interest rate swap - note 14.1	60,154	-

14.1 During the year, the Company entered into a interest rate swap agreement with a bank to hedge its interest rate exposure on floating rate borrowing from International Finance Corporation (IFC) for a notional amount of US$ 15,000. The swap is effective for the period matching interest payments from December 15, 2008 to June 15, 2017. Under the swap agreement, the Company would receive USD-LIBOR from the bank on notional amount and pay fixed 3.385% which will be settled semi-annually. The fair value of the interest rate swap as at December 31, 2008 amounted to Rs. 60,154.

14.2 During the year, the Company also purchased forward exchange contracts having various maturity dates to hedge its Dollar currency exposure of US$ 71,152, representing the anticipated cash outflows for the Project and Project financing. These contracts matured during the year and no contracts are outstanding as at December 31, 2008.

for the year ended December 31, 2008 (Amounts in thousand)

15. BORROWINGS, Secured

	2008	2007
	(Rupees)	
Syndicated term finance - note 15.1	5,648,525	-
International Finance Corporation (IFC) - note15.2	2,324,547	-
Local commercial bank - note 15.3	-	35,429
Bridge finance facility - note 15.4	-	1,240,000
Morabaha finance - note 15.5 and 15.7	100,000	100,000
Long term finance utilised under mark-up arrangements - note 15.6 and 15.7	30,000	90,000
	8,103,072	1,465,429
Less: Current portion shown under current liabilities	(130,000)	(95,429)
	7,973,072	1,370,000

15.1 The Company entered into a Syndicated Term Finance Agreement on October 12, 2007 for Rs. 5,700,000. The facility has been utilized to finance capital expenditure related to the Project, referred to in note 1.2. The facility is repayable in seventeen semi-annual instalments, inclusive of mark-up at 2.25% over six months KIBOR, from the effective date.

The facility is secured by:

i) a first mortgage by deposit of title deeds over Project Properties ranking pari passu with facilities against LCs referred to in note 19.3 and long term loan from International Finance Corporation (IFC) referred to in note 15.2;

ii) a first mortgage by deposit of title deeds over leasehold land (30 acres) of the Project together with the buildings, plant, machinery and other equipment thereon ranking pari passu with the facilities referred to in note 19.3 and note 15.2;

iii) hypothecation by way of:

- a first charge over all Project Assets, ranking pari passu with facilities referred to in note 15.2 and note 19.3; and
- a first charge over all present and future movable fixed assets other than Project Assets.

15.2 The Company, effective June 21, 2007, entered into a loan agreement with the International Finance Corporation (IFC) consisting of:

i) Loan A, amounting to US$ 30,000; and
ii) Loan B, amounting to US$ 30,000.

The loans, obtained to finance the Project referred to in note 1.2, carry interest at 2.6% to 3% above 6 months LIBOR with a commitment fee at the rate of 0.50% per annum on that part of the loan that has not been disbursed. The loans are repayable in fifteen half yearly instalments commencing June 15, 2010. During the year, the Company has drawn down US$ 30,000 from above mentioned loan arrangement against the total facility available of US$ 60,000.

The facility is secured by:

i) a first mortgage by deposit of title deeds over Project Properties ranking pari passu with facilities against LCs referred to in note 19.3 and Syndicated loan referred to in note 15.1;

ii) a first mortgage by deposit of title deeds over leasehold land (30 acres) of the Project together with the buildings, plant, machinery and other equipment thereon ranking pari passu with the facilities referred to in note 15.1 and note 19.3;

iii) hypothecation by way of:

- a first charge over all Project Assets, ranking pari passu with facilities referred to in note 15.1 and note 19.3; and

- a first charge over all present and future movable fixed assets other than Project Assets.

15.3 The loan, which was repayable in eight half yearly instalments commencing from July 15, 2004, carried interest at the rate of 1.6% above 6 months LIBOR and a monitoring fee of 0.4% per annum. During the year the loan has been fully repaid.

The above loan was secured by:

(i) an equitable mortgage upon the immovable property, referred to in note 15.7, ranking pari passu with mortgage referred to therein and note 15.4; and

(ii) a first floating charge over all present and future undertaking and assets of the Company, ranking pari passu with long term finance and morahabas referred to in note 15.7.

15.4 The aggregate facility amounted to Rs. 2,440,000. During the year, the outstanding balance has been repaid from the proceeds of the Syndicated Term Finance Facility, referred to in note 15.1. The facility carried mark-up at 1.45% over six months KIBOR payable at the expiry of the facility.

The facility is secured by:

i) an equitable mortgage upon the immovable property referred to in note 15.7, ranking pari passu with mortgages referred to therein and note 15.3.

ii) a first mortgage upon the immovable property, together with all other fixed assets thereon, of the Company; and

for the year ended December 31, 2008 (Amounts in thousand)

iii) hypothecation by way of:

- a first charge over all present and future movable fixed assets of the Company, ranking pari passu with charges referred to in note 15.7; and

- a charge over all present and future undertaking and current assets of the Company, ranking subsequent to the charges referred to in note 15.3 and 15.7.

15.5 The aggregate facility available up to September 27, 2009 amounts to Rs. 100,000. All amounts due under the Morabaha transactions are payable before the expiry date of the facility.

15.6 The aggregate facility amounts to Rs. 400,000 against which Rs. 150,000 was utilized during the year. No commitment fee is payable on the unutilized amount. The facility carries mark-up at the rate of 0.5% above the average ask rate of six monthly KIBOR and is payable in five half yearly instalments commencing from June 12, 2007.

15.7 The Morabaha and long term finances are secured by:

i) an equitable mortgage upon immovable property, together with all other fixed assets thereon, of the Company, ranking pari passu with each other and with mortgages referred to in note 15.4 and note 15.3.

ii) a first floating charge over all present and future undertaking and assets of the Company, ranking pari passu with each other and with facilities referred to in note 15.3; and

iii) hypothecation by way of first charge over all movable assets of the Company.

	2008	2007
	(Rupees)	
16. RETENTION MONEY AGAINST PROJECT PAYMENTS		
Amounts retained as at December 31 - note 16.1	792,478	100,960
Less: Current portion shown under current liabilities - note 20	(239,033)	-
	553,445	100,960

16.1 This represents amounts retained from progress payments made to contractors/suppliers against work completed on the Project, referred to in note 1.2. Further, the liability has been translated at year end exchange rate resulting in exchange loss amounting to Rs. 86,484.

for the year ended December 31, 2008 (Amounts in thousand)

	2008	2007
	(Rupees)	
17. DEFERRED INCOME TAX LIABILITIES		
Credit/(Debit) balances arising due to:		
- accelerated tax depreciation	548,080	554,226
- net borrowing costs capitalized	160,054	-
- recoupable carried forward tax losses - note 17.1	(153,887)	(79,587)
- unrealized foreign exchange losses and provision for retirement and other service benefits	(25,243)	(41,982)
- provision against custom duty and SED refundable	(6,454)	-
- fair value of hedging instrument	(21,054)	-
- share issuance cost, net to equity	(51,566)	(17,148)
- recoupable minimum turnover tax	(67,356)	(81,913)
	382,574	333,596

17.1 Deferred income tax asset is recognized for tax losses available for carry-forward to the extent that the realization of the related tax benefit through future taxable profits is probable. The aggregate tax losses available for carry-forward at December 31, 2008 amount to Rs. 439,677 (2007: Rs. 227,391), on which the deferred income tax asset has been recognized.

	2008	2007
	(Rupees)	
18. RETIREMENT AND OTHER SERVICE BENEFIT OBLIGATIONS		
Service incentive plan	35,524	21,285
Additional death gratuity - note 32	2,976	2,317
	38,500	23,602
19. SHORT TERM FINANCES, Secured		
Running finance utilized under mark-up arrangements - note 19.1	717,568	-
Short term finance - note 19.2	125,000	-
	842,568	-

for the year ended December 31, 2008 (Amounts in thousand)

19.1 The aggregate facilities for running finance available from various banks, represents the sales price of all mark-up arrangements, amount to Rs. 1,275,000 (2007: Rs. 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 one month KIBOR plus 1.25% to 1 month KIBOR plus 3% (2007: 1 month KIBOR plus 0.75% to 6 months KIBOR plus 1.5%). During the year, the mark-up rates, net of prompt payment rebate, ranged from 10.37% to 17.6% per annum (2007: 9.85% to 11.88% per annum).

19.2 The Company entered into a Short Term Finance Agreement on November 24, 2008 for Rs. 125,000. The finance, obtained to meet the working capital requirements, carries mark-up at 1 to 6 months KIBOR plus 3% per annum. The finance is secured by way of floating charge upon all present and future current assets of the Company ranking pari passu ranking with the charges referred to in notes 15.1 and 15.2. This facility will expire on May 31, 2009.

19.3 The facility for opening letters of credit as at December 31, 2008 aggregate to Rs. 9,468,000 (2007: Rs. 10,848,000). The amount utilized at December 31, 2008 was Rs. 1,232,000 (2007: Rs. 7,369,411). The facilities carry mark-up at rates ranging from 0.05% to 0.1% per quarter.

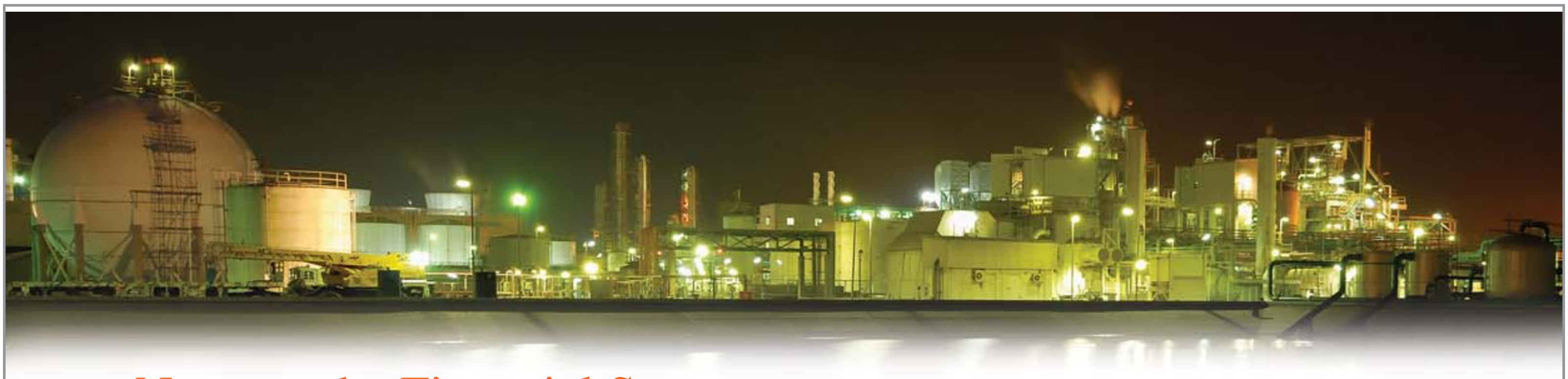
20. TRADE AND OTHER PAYABLES

	2008	2007
	(Rupees)	
Trade and other creditors - note 20.1	797,208	916,077
Accrued liabilities	317,536	216,923
Advances from customers - note 20.2	118,173	70,002
Current portion of retention money - note 16.1	239,033	-
Unearned return on TFC	-	23,098
Accrued finance costs		
- long term borrowings	157,678	29,476
- short term finances	9,590	1,509
Security deposits	2,510	3,000
Workers' profits participation fund - note 20.3	24,625	30,988
Workers' welfare fund	9,357	12,955
Others	2,293	4,226
	1,678,003	1,308,254

20.1 This includes amount due to following related parties:

	2008	2007
- Mitsubishi Corporation	740,811	867,831
- Engro Polymer Trading (Private) Limited [formerly Engro Asahi Trading (Private) Limited]	-	25
- Engro Vopak Terminal Limited	15,046	11,514
	755,857	879,370

for the year ended December 31, 2008 (Amounts in thousand)



20.2 This includes advance received from Mitsubishi Corporation, a related party, amounting to Nil (2007: Rs. 12,001).

	2008	2007
	(Rupees)	
20.3 Workers' profits participation fund		
Balance as at January 1	30,988	30,631
Add: Allocation for the year - note 27	24,625	30,988
	55,613	61,619
Less: Payments made during the year	(30,988)	(30,631)
Balance as at December 31	24,625	30,988

21. PROVISIONS

The Company has paid Rs. 91,616 on account of Special Excise Duty (SED) on import of plant and machinery for the Project. Out of Rs. 91,616, the Company has adjusted Rs. 54,929 in the monthly sales tax returns against SED on goods produced and sold by the Company. The Company has approached Federal Board of Revenue (FBR) to obtain clarification in respect of the adjustment of SED made by the Company in monthly sales tax returns. Pending such clarification, the Company, based on prudence, has made provision of the aforementioned SED in these financial statements.

22. CONTINGENCIES AND COMMITMENTS

22.1 Commitments

22.1.1 Capital expenditure for the Project, referred to in note 1.2, under the contracts signed as at December 31, 2008, but not yet incurred amounts to Rs. 1,305,738 (2007: Rs. 7,897,193).

22.1.2 Performance guarantees issued by the banks on behalf of the Company as at December 31, 2008 amount to Rs. 264,200 (2007: Rs. 301,431).

	2008	2007
	(Rupees)	
23. NET SALES		
Gross local sales	9,455,612	7,055,946
Less:		
- Sales tax	1,602,785	990,503
- Special excise duty	78,363	30,027
- Discount	6,150	2,906
	1,687,298	1,023,436
	7,768,314	6,032,510
Export sales	79,223	198
	7,847,537	6,032,708

Notes to the Financial Statements

for the year ended December 31, 2008 (Amounts in thousand)

24. COST OF SALES

	2008	2007
	(Rupees)	
Opening stock of work-in-progress	22,861	16,051
Raw and packing materials consumed	6,254,555	4,519,613
Salaries, wages and staff welfare - note 24.2	97,332	97,648
Fuel, power and gas	158,437	135,228
Repairs and maintenance	10,797	13,736
Depreciation charge - note 3.2	167,626	166,746
Consumable stores	21,310	37,836
Purchased services	25,082	20,163
Storage and handling	139,405	120,277
Training and travelling expenses	11,185	3,249
Communication, stationery and other office expenses	2,211	1,715
Insurance	10,597	14,050
Stock - finished goods written off	-	1,914
Other expenses	5,061	767
	6,903,598	5,132,942
Closing stock of work-in-progress - note 8	(21,293)	(22,861)
Cost of goods manufactured	6,905,166	5,126,132
Opening stock of finished goods	640,170	588,065
Closing stock of finished goods - note 8	(810,355)	(640,170)
	(170,185)	(52,105)
Cost of sales - own manufactured product	6.734,981	5,074,027
- purchased product - note 24.1	1,237	503
	6,736,218	5,074,530

24.1 Cost of sales - purchased product

	2008	2007
Opening stock	147	650
Add: Purchases	1,090	-
Less: Closing stock - note 8	-	(147)
	1,237	503

24.2 This includes Rs. 5,648 (2007: Rs. 7,773), in respect of staff retirement and benefits referred to in note 32.

Notes to the Financial Statements
for the year ended December 31, 2008 (Amounts in thousand)

25. DISTRIBUTION AND MARKETING EXPENSES

	2008	2007
	(Rupees)	
Salaries, wages and staff welfare - note 25.1	42,535	40,774
Advertising, sales promotion and entertainment	30,669	27,910
Product transportation and handling	202,208	159,448
Rent, rates and taxes	5,524	5,273
Purchased services	9,695	7,223
Insurance	919	323
Depreciation charge - note 3.2	4,255	3,981
Training and travelling expenses	7,872	7,887
Communication, stationery and other office expenses	2,709	2,800
Other expenses	5,254	3,135
	311,640	258,754

25.1 This includes Rs. 2,613 (2007: Rs. 2,386), in respect of staff retirement and benefits, referred to in note 32.

26. ADMINISTRATIVE EXPENSES

	2008	2007
	(Rupees)	
Salaries, wages and staff welfare - note 26.1	93,014	69,869
Rent, rates and taxes	13,560	13,259
Purchased services	8,733	8,202
Insurance	154	25
Depreciation charge - note 3.2	5,085	5,829
Amortization charge - note 4	749	102
Training and travelling expenses	18,557	17,393
Communication, stationery and other office expenses	13,846	10,293
Other expenses	9,342	6,640
	163,040	131,612

26.1 This includes Rs. 6,056 (2007: Rs. 3,533), in respect of staff retirement and benefits, referred to in note 32.

27. OTHER OPERATING EXPENSES

	2008	2007
	(Rupees)	
Legal and professional charges	5,778	3,510
Auditors' remuneration - note 27.1	1,070	2,168
Donations - note 27.2	1,527	1,492
Workers' profits participation fund - note 20.3	24,625	30,988
Workers' welfare fund	9,357	12,955
Provision against custom duty refundable - note 9	18,043	-
Foreign exchange loss (net)	229,428	18,913
	289,828	70,026

Notes to the Financial Statements
for the year ended December 31, 2008 (Amounts in thousand)

	2008	2007
	(Rupees)	
27.1 Auditors' remuneration		
Statutory audit	550	500
Half yearly review	150	-
Taxation and other advisory services	250	1,548
Reimbursement of expenses	120	120
	1,070	2,168

27.2 The recipients of donations for the year do not include any donee in whom a director or his spouse had any interest.

28. OTHER OPERATING INCOME

	2008	2007
	(Rupees)	
Income on short term investment and bank deposit	46,310	25,885
Gain on sale of short term investments	69,879	12,565
Unrealized fair value gain on short term investment	-	49,135
Income from supply of electricity to Engro Chemical Pakistan Limited	20,843	30,220
Profit on disposal of operating assets	349	593
Scrap sales	814	843
Others	6,982	199
	145,177	119,440

29. FINANCE COSTS

Interest /Mark-up on:		
- long term borrowings	18,212	33,674
- short term finances	8,244	2,015
Guarantee commission	979	1,180
Bank charges and others	6,094	4,540
	33,529	41,409

30. TAXATION

Current - note 30.1	793	30,165
Deferred	104,450	124,076
	105,243	154,241

30.1 Current year charge represents tax under presumptive tax regime on export. The levy of minimum tax at the rate of 0.5% of the turnover has been withdrawn through the Finance Act, 2008.

Notes to the Financial Statements

for the year ended December 31, 2008 (Amounts in thousand)

30.2 During the year 2003, the Assessing Officer (AO) while finalizing the assessment order for the year ended December 31, 2000 (Assessment year 2001 – 2002) made addition to income of Rs. 144 million on the contention that the sales made by the Company to its wholly owned subsidiary, Engro Polymer Trading (Private) Limited [formerly Engro Asahi Trading (Private) Limited], were allegedly made on non-arm's length basis. The Company's appeal to the CIT(A) against the above addition was decided in the Tax Department's favour in 2004, against which the Company filed an appeal with the Income Tax Appellant Tribunal (ITAT). The ITAT in its order dated October 30, 2005 has set-aside the issue for re-examination by the AO. The management of the Company is confident that the ultimate outcome of the above would be in their favour and as such no effect for the same has been considered on the carried forward tax losses and resulting deferred tax asset in these financial statements.

30.3 Relationship between tax expense and accounting profit

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the Company's applicable tax rates as follows:

	2008	2007
	(Rupees)	
Accounting profit before taxation	458,528	575,817
Tax calculated at applicable rate of 35% (2007: 35%)	160,485	201,536
Tax effect of:		
- exempt income and income subject to lower tax rates	(23,665)	-
- permanent differences not deductible in determining taxable profit	-	473
Recoupable minimum turnover tax	14,557	-
Effect of adjustments in opening written down values and carried forward losses	(46,134)	(47,768)
Tax expense for the year	105,243	154,241

31. EARNINGS PER SHARE – Basic and diluted

There is no dilutive effect on the basic earnings per share of the Company, since the average market price of the Company's share is less than the exercise price of the share's options granted to employee as per policy, referred to in note 13. The basic earnings per share of the Company is based on:

	2008	2007
	(Rupees)	
Profit after taxation	353,285	421,576
Weighted average number of ordinary shares (in thousand)	517,633	257,051

for the year ended December 31, 2008 (Amounts in thousand)

32. RETIREMENT AND OTHER SERVICE BENEFITS

The latest actuarial valuation of the defined benefit plans was conducted at December 31, 2008 using the Projected Unit Credit Method. Details of the defined benefit plans are:

	Pension Fund		Gratuity Fund		Additional Death Gratuity Scheme	
	2008	2007	2008	2007	2008	2007
	Rupees					
32.1 Balance sheet reconciliation						
Present value of defined benefit obligations	68,644	53,267	22,888	19,600	-	-
Fair value of plan assets	(73,582)	(62,237)	(21,821)	(21,742)	-	-
(Surplus) / Deficit	(4,938)	(8,970)	1,067	(2,142)	-	-
Present value of unfunded obligations	-	-	-	-	3,359	2,429
Unrecognized net actuarial gains / (losses)	4,938	8,970	(1,067)	2,142	(383)	(112)
Net liability at the end of the year	-	-	-	-	2,976	2,317
32.2 Movement in the defined benefit obligations						
Obligation as at January 1	53,267	44,310	19,600	16,145	2,429	1,956
Current service cost	5,525	4,002	2,223	1,714	413	264
Interest cost	5,603	4,631	2,049	1,700	246	209
Actuarial losses / (gains)	4,754	324	4,280	41	271	-
Benefits paid	(505)	-	(5,264)	-	-	-
Obligation as at December 31	68,644	53,267	22,888	19,600	3,359	2,429
32.3 Movement in the fair value of plan assets						
Fair value as at January 1	62,237	53,604	21,742	18,328	-	-
Expected return on plan assets	6,449	4,921	2,253	1,653	-	-
Actuarial gains	905	324	1,071	41	-	-
Employer contributions	4,496	3,388	2,019	1,720	-	-
Benefits paid	(505)	-	(5,264)	-	-	-
Fair value as at December 31	73,582	62,237	21,821	21,742	-	-
32.4 The amounts recognised in the profit and loss account are as follows:						
Current service cost	5,525	4,002	2,223	1,714	413	264
Interest cost	5,603	4,631	2,049	1,700	246	209
Expected return on plan assets	(6,449)	(4,921)	(2,253)	(1,653)	-	-
Recognition of actuarial (gains) / losses	(183)	(324)	-	(41)	-	-
Expense	4,496	3,388	2,019	1,720	659	473
32.5 Actual return on plan assets	2,461	2,461	827	2,029	-	-

Notes to the Financial Statements

for the year ended December 31, 2008 (Amounts in thousand)

32.6 Principal assumptions used in the actuarial valuation:

	Pension Fund		Gratuity Fund	
	2008	**2007**	**2008**	**2007**
Discount rate	14%	10%	14%	10%
Expected rate of return per annum on plan assets	14%	10%	14%	10%
Expected rate of increase per annum on future salaries	13%	10%	13%	10%

32.7 Plan assets comprise of following:

	Pension Fund		Gratuity Fund	
	2008	**2007**	**2008**	**2007**
	Rupees			
Equity	25,754	21,783	14,402	7,610
Debt	25,754	7,468	6,110	2,609
Others	22,075	32,986	1,309	11,523
	73,583	62,237	21,821	21,742

32.8 The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date.

32.9 Comparison of five years:

	2008	2007	2006	2005	2004
	Rupees				
Pension Fund					
Present value of defined benefit obligation	68,644	53,267	44,310	34,760	28,983
Fair value of plan assets	(73,582)	(62,237)	(47,516)	(34,861)	(29,503)
(Surplus) / Deficit	(4,938)	(8,970)	(3,206)	(101)	(520)
Gratuity Fund					
Present value of defined benefit obligation	22,888	19,600	16,145	12,784	10,523
Fair value of plan assets	(21,821)	(21,742)	(15,665)	(12,870)	(10,992)
(Surplus) / Deficit	1,067	(2,142)	480	(86)	(469)

Notes to the Financial Statements

for the year ended December 31, 2008 (Amounts in thousand)

32.10 During the year, Rs. 8,658 (2007: Rs. 5,780) has been recognized in the profit and loss account in respect of defined contribution provident fund.

33. REMUNERATION OF CHIEF EXECUTIVE AND EXECUTIVES

The aggregate amounts charged in the financial statements for remuneration, to chief executive and executives are as follows:

	2008		2007	
	Chief Executive	Executives	Chief Executive	Executives
Managerial remuneration	11,076	184,954	9,682	109,614
Retirement benefit funds	1,579	10,955	1,366	5,648
Bonus	5,366	40,999	4,511	22,359
Employee share option scheme	1,229	4,218	-	-
Other benefits	1,318	17,565	1,282	11,555
Total	20,568	258,691	16,841	149,176
Number of persons	1	121	1	81

33.1 The Company also provides household items and vehicles for use of Chief Executive and certain executives.

34. CASH GENERATED FROM OPERATIONS

	2008	2007
	(Rupees)	
Profit before taxation	458,528	575,817
Adjustments for non cash charges and other items:		
Provision for staff retirement and other service benefits	14,898	6,732
Provision against custom duty refundable	18,043	-
Depreciation charge	185,460	181,825
Amortization charge	749	102
Amortization of deferred employee share compensation expense	5,477	-
Stocks - Finished goods written off	-	1,914
Income on short term investments and bank deposits	(46,310)	(25,885)
Gain realized on sale of short term investments	(69,879)	(12,565)
Provision against SED	91,616	-
Unrealized fair value gain on short term investments	-	(49,135)
Finance costs	33,529	41,409
Profit on disposal of operating assets	(349)	(593)
	233,234	143,804
Working capital changes - note 34.1	8,593	160,690
	700,355	880,311

for the year ended December 31, 2008 (Amounts in thousand)

		2008	2007
		(Rupees)	
34.1	**Working capital changes**		
	(Increase) / Decrease in current assets		
	Stores and spares	(31,433)	(8,439)
	Stock-in-trade	(239,863)	79,114
	Trade debts	108,958	(41,689)
	Loans, advances, deposits, prepayments and other receivables (net)	(97,106)	(179,601)
		(259,444)	(150,615)
	Increase in current liabilities		
	Trade and other payables	233,466	311,305
	Long term borrowings - current portion	34,571	-
		8,593	160,690

35. CASH AND CASH EQUIVALENTS

	2008	2007
Cash and bank balances - note 11	97,273	200,844
Short term finances - note 19	(842,568)	-
	(745,295)	200,844

36. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

36.1 Financial assets and liabilities

	Interest/mark-up bearing			Non-Interest/mark-up bearing				
	Maturity up to one year	Maturity after one year	Sub-total	Maturity up to one year	Maturity after one year	Sub-total	Total	Effective interest rates %
Financial Assets	Rupees							
Long term investment	-	-	-	-	50,000	50,000	50,000	-
Trade debts	-	-	-	69,514	-	69,514	69,514	-
Loans, advances, deposits and other receivables	-	-	-	98,242	107,785	206,027	206,027	-
Cash and bank balances	91,463	-	91,463	5,810	-	5,810	97,273	1 to 14
	91,463	-	91,463	173,566	157,785	331,351	422,814	
2007	1,119,510	-	1,119,510	2,227,567	146,971	2,374,538	3,494,048	
Financial Liabilities								
Borrowings	972,568	7,973,072	8,945,640	-	-	-	8,945,640	5.25 to 17.88
Trade and other payables	-	-	-	1,320,797	-	1,320,797	1,320,797	-
Retention money against project payments	-	-	-	239,033	553,445	792,478	792,478	-
	972,568	7,973,072	8,945,640	1,559,830	553,445	2,113,275	11,058,915	
2007	95,429	1,370,000	1,465,429	1,295,269	-	1,295,269	2,760,698	

36.2 Financial risk management

36.2.1 Fair value of financial instruments

The carrying values of the financial instruments reflected in the financial statements approximate their fair values.

36.2.2 Financial risk factors

The Company's activities expose it to a variety of financial risks namely market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's risk management programme focuses on the unpredictability of financial markets and seeks to minimize the potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk factors. Risk management is carried out by the Finance Department under guidance of the Company's Board of Directors.

36.2.3 Foreign exchange (Currency) risk

Foreign exchange risk represents the risk that the fair value of financial instruments will fluctuate because of changes in foreign currency rates. The Company is exposed to foreign exchange risk arising from currency exposures primarily with respect to US Dollars. The risk arises from outstanding payments for imports, recognized assets and liabilities in foreign currency and future commercial transactions. In the current economic environment, the Company is significantly exposed to currency risk because of the expected volatility in exchange rates. The Company manages the foreign currency risk through forward contracts or prepayments. At December 31, 2008 the financial assets and liabilities exposed to foreign exchange risk amount to Rs. 88,276 (2007: Rs. 85,646) and Rs. 3,117,025 (2007: Rs. 989,676) respectively.

36.2.4 Interest rate risk

Interest rate risk represents the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk arising from long and short term borrowings. Borrowing at variable rates exposes the Company's cash flow to interest rate risk. Borrowing at fixed rate expose the Company to fair value interest rate risk. For borrowing at variable rates, the rates are fixed in advance for a stipulated period with reference to rates on Government Treasury Bills, LIBOR and KIBOR.

To manage its cash flow interest rate risk, the Company in November 2008 has entered into a floating to fixed rate interest swap on its foreign currency borrowing. Such interest rate swaps have the economic effect of converting floating rates to fixed rates. Under the interest rate swap the Company has agreed with the banks to exchange, at half yearly intervals the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional amounts.

36.2.5 Price risk

Price risk represents the risk that the value of financial instruments will fluctuate as a result of changes in market prices. During the year, the Company has disposed of all its investment, in Mutual Funds and Term Finance Certificates. Therefore, there is no major price risk faced by the management at balance sheet date.

for the year ended December 31, 2008 (Amounts in thousand)

36.2.6 Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments, deposits with banks, as well as credit exposures on outstanding trade debts and receivables. For banks and financial institutions independently rated parties with a high grade rating are accepted.

The credits to customers individual credit limits are set which are regularly monitored. The Company is not exposed materially to credit risk as these are secured by bank guarantees and letters of credit from customers.

Concentration of credit risk is minimized by dealing with a variety of major banks

36.2.7 Liquidity risk

Liquidity risk represents the risk of entity encountering difficulty in raising funds to meet its commitments associated with financial instruments. The Company manages this risk by maintaining sufficient cash marketable securities, the availability of funding through an adequate amount of available credit facilities and through its ability to close out market positions. Due to the dynamic nature of the business, the Company's treasury aims at maintaining flexibility in funding by keeping committed credit lines available.

37. CAPITAL RISK MANAGEMENT

The objective of the Company when managing capital is to safeguard its ability to continue as a going concern and to provide expected returns to its shareholders by maintaining optimum capital structure to minimize the cost of capital.

To maintain or adjust the capital structure, the Company may issue new equity, manage dividend payouts to its shareholders or sell assets to reduce debt.

The Company manages capital by maintaining gearing ratio at certain levels. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings including current and non-current borrowings, as disclosed in note 15, less cash and cash equivalents as disclosed in note 35. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt.

The gearing ratio at December 31, 2008 and 2007 were as follows:

	2008	2007
	(Rupees)	
Total borrowings - note 15	8,103,072	1,465,429
Less: Cash and cash equivalents - note 35	745,295	(200,844)
Net debt	8,848,367	1,264,585
Total equity	6,565,865	5,176,819
Total capital	15,414,232	6,441,404
Gearing ratio	0.574	0.196

Notes to the Financial Statements

for the year ended December 31, 2008 (Amounts in thousand)

38. TRANSACTIONS WITH RELATED PARTIES

38.1 Transactions with related parties other than those which have been disclosed elsewhere in these financial statements are as follows:

Nature of relationship	Nature of transactions	2008 (Rupees)	2007 (Rupees)
Holding Company			
- Engro Chemical Pakistan Limited	Purchase of services	9,824	4,163
	Sale of services	2,807	2,837
	Sale of steam and electricity	28,859	35,366
	Use of operating assets	2,685	2,111
	Pension fund contribution	2,208	2,852
	Provident fund contribution	3,322	4,291
Subsidiary Company			
- Engro Polymer Trading (Pvt) Limited [formerly Engro Asahi Trading (Private) Limited]	Purchase of goods	1,090	-
	Reimbursements	23	-
Associated Company			
- Mitsubishi Corporation	Purchase of goods	6,191,979	4,541,640
	Sale of goods	78,648	-
Related parties by virtue of common directorship			
- Engro Vopak Terminal Limited	Purchase of services	142,293	121,292
	Sale of services	1,219	-
- Central Insurance Company Limited	Insurance	458	8,731
- ICI Pakistan Limited	Directors Fee	15	-
	Purchase of Goods	4,102	-
- Dawood Hercules Chemicals Limited	Sales of services	37	-
	Reimbursement	71	-
- Indus Valley School of Art and Architecture	Purchase of services	100	-
- Lahore University of Management Sciences	Purchase of services	248	-
- Management Association of Pakistan	Purchase of services and Annual subscription	120	90
- Port Qasim Authority	Purchase of services	11,095	4,739
- Overseas Investors Chambers of Commerce & Industry	Advertisement (Purchase of services)	27	122
	Annual Subscription	165	-
	Training Course (Purchase of services)	5	-
- Inbox Business Technologies (Pvt.) Limited	Purchase of goods	785	445
	Setup Oracle replication	150	-
- Avanceon	Purchase of goods	409	-
- Actis Assets Limited	Directors fee	5	-
Key management personnel	Managerial remuneration	117,696	81,553
	Retirement benefit funds	8,655	4,952
	Bonus	35,367	20,648
	Employee share option scheme	5,447	-
	Other benefits	12,794	10,509

for the year ended December 31, 2008 (Amounts in thousand)

38.2 Sales, purchases and other transactions with related parties are carried out on commercial terms and conditions.

38.3 The related party status of outstanding balances as at December 31, 2008 are disclosed in the respective notes.

39. PRODUCTION CAPACITY

	Designed Annual Capacity		Actual Production		Remarks
	2008	2007	2008	2007	
	Metric tons				
PVC resin	100,000	100,000	98,660	94,346	Production planned as per market demand

40. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on January 27, 2009 by the Board of Directors of the Company.

Asif Qadir
President & Chief Executive

Masaharu Domichi
Director

Consolidated Financial Statements

Engro Polymer & Chemicals Ltd.

- Auditors' Report to the Members on the Consolidated Financial Statements
- Consolidated Financial Statements

A.F.Ferguson & Co.
Chartered Accountants
State Life Building No. 1-C
I.I. Chundrigar Road, P.O. Box 4716
Karachi-74000, Pakistan
Telephone: (021) 2426682-6 / 2426711-5
Facsimile: (021) 2415007 / 2427938

Auditors' Report to the Members

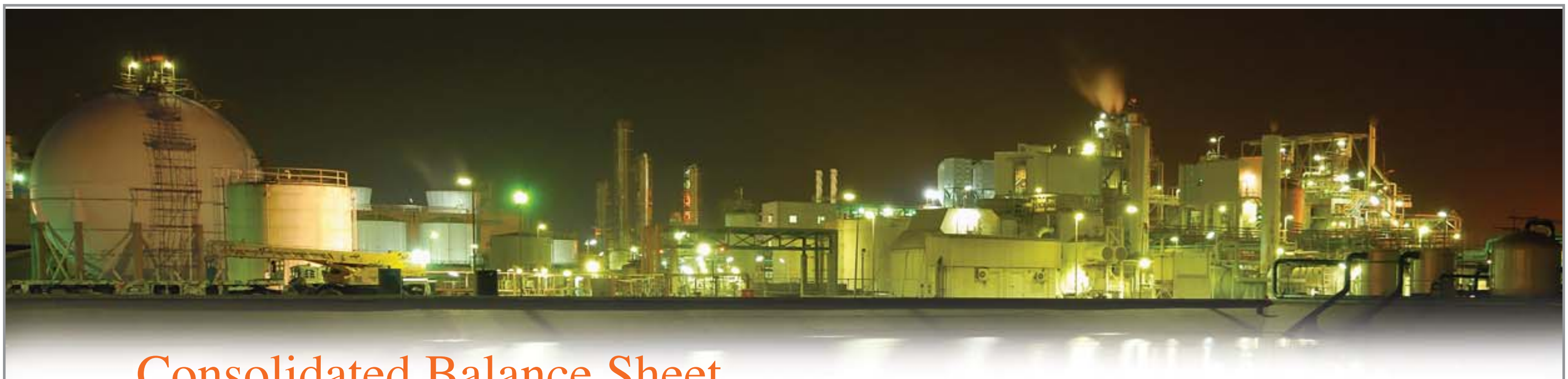
We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Engro Polymer and Chemicals Limited (the holding company) and its subsidiary company, Engro Polymer Trading (Private) Limited [formerly Engro Asahi Trading (Private) Limited], as at December 31, 2008 and the related consolidated profit and loss account, consolidated statements of changes in equity and the consolidated cash flow statement together with the notes forming part thereof, for the year then ended. We have also expressed separate opinions on the financial statements of Engro Polymer and Chemicals Limited and Engro Polymer Trading (Private) Limited [formerly Engro Asahi Trading (Private) Limited]. These financial statements are the responsibility of the holding company's management. Our responsibility is to express an opinion on these financial statements based on our examination.

Our audit was made in accordance with the International Standards on Auditing and accordingly included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion the consolidated financial statements present fairly the financial position of Engro Polymer and Chemicals Limited and its subsidiary company, Engro Polymer Trading (Private) Limited [formerly Engro Asahi Trading (Private) Limited], as at December 31, 2008 and the results of their operations, changes in equity and cash flows for the year then ended.

AFFerguson & Co.

Chartered Accountants
Karachi
Date: January 27, 2009



Consolidated Balance Sheet

as at December 31, 2008 (Amounts in thousand)

	Note	2008	2007
		(Rupees)	
ASSETS			
Non-Current Assets			
Property, plant and equipment	3	16,134,766	4,708,761
Intangible assets	4	9,262	2,831
Long term loans and advances	5	107,785	96,971
		16,251,813	4,808,563
Current Assets			
Stores and spares	6	127,152	95,719
Stock-in-trade	7	1,159,473	920,139
Trade debts - considered good, secured		69,514	178,472
Loans, advances, deposits, prepayments and other receivables	8	300,959	261,027
Tax recoverable		220,901	37,911
Deferred employee share compensation expense		4,381	-
Short term investments	9	43,648	2,914,504
Cash and bank balances	10	99,385	247,856
		2,025,413	4,655,628
TOTAL ASSETS		18,277,226	9,464,191
EQUITY AND LIABILITIES			
Share Capital and Reserves			
Share capital	11	5,203,677	4,436,000
Share premium		975,438	425,216
Employee share compensation reserve	12	9,858	-
Hedging reserve		(39,100)	-
Unappropriated profit		413,869	316,412
		6,563,742	5,177,628
Advance Against Issue of Share Capital		-	1,054,353
Non-Current Liabilities			
Borrowings	14	7,973,072	1,370,000
Derivative financial instruments	13	60,154	-
Retention money against project payments	15	553,445	100,960
Deferred income tax liabilities	16	382,574	333,596
Retirement and other service benefits obligation	17	38,500	23,602
		9,007,745	1,828,158
Current Liabilities			
Current portion of long term borrowings	14	130,000	95,429
Short term finances	18	842,568	-
Trade and other payables	19	1,678,242	1,308,623
Provisions	20	54,929	-
		2,705,739	1,404,052
Contingencies and Commitments	21		
TOTAL EQUITY AND LIABILITIES		18,277,226	9,464,191

The annexed notes 1 to 39 form an integral part of these financial statements.

Asif Qadir
President & Chief Executive

Masaharu Domichi
Director

Consolidated Profit and Loss Account

for the year ended December 31, 2008 (Amounts in thousand except for earnings per share)

	Note	2008	2007
		(Rupees)	
Net sales	22	7,847,537	6,039,535
Export rebate		69	-
		7,847,606	6,039,535
Cost of sales	23	(6,735,658)	(5,081,697)
Gross profit		1,111,948	957,838
Distribution and marketing expenses	24	(311,640)	(258,938)
Administrative expenses	25	(163,182)	(131,841)
Other operating expenses	26	(293,787)	(70,080)
Other operating income	27	145,788	120,913
Operating profit		489,127	617,892
Finance costs	28	(33,531)	(41,419)
Profit before taxation		455,596	576,473
Taxation	29	(105,243)	(154,791)
Profit for the year		350,353	421,682
Earnings per share - Basic and diluted		0.68	1.64

The annexed notes 1 to 39 form an integral part of these financial statements.

Asif Qadir
President & Chief Executive

Masaharu Domichi
Director

Consolidated Cash Flow Statement

for the year ended December 31, 2008 (Amounts in thousand)

	Note	2008	2007
		(Rupees)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	33	694,717	887,044
Finance costs paid		(354,530)	(37,466)
Long term loans and advances		(10,814)	(83,764)
Income tax paid		(183,783)	(45,456)
Net cash inflow from operating activities		145,590	720,358
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		(11,150,853)	(2,448,216)
Purchases of intangible assets		(7,180)	(4,828)
Proceeds from disposal of operating assets		3,971	1,540
Retention money from Project payments		452,485	-
Short term investments		(46,000)	(3,271,604)
Proceeds from sale of short term investments		2,914,504	515,728
Income on short term investments and bank deposits		117,410	28,831
Net cash (outflow) from investing activities		(7,715,663)	(5,178,549)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long term borrowings		6,603,072	1,240,000
Proceeds from issue of share capital - net		229,128	3,064,068
Receipts of advance against issue of share capital		-	1,054,353
Repayment of long term borrowings		-	(229,005)
Dividend paid		(252,896)	(422,038)
Net cash inflow from financing activities		6,579,304	4,707,378
Net increase / (decrease) in cash and cash equivalents		(990,769)	249,187
Cash and cash equivalents at beginning of the year		247,586	(1,601)
Cash and cash equivalents at end of the year	34	(743,183)	247,586

The annexed notes 1 to 39 form an integral part of these financial statements.

Asif Qadir
President & Chief Executive

Masaharu Domichi
Director

Consolidated Statement of Changes in Equity

for the year ended December 31, 2008 (Amounts in thousand)

	Issued, subscribed and paid-up capital	Share premium	Employee share compensation reserve	Hedging reserve	Unappropriated profit	Total
	Rupees					
Balance as at January 1, 2007	1,780,000	-	-	-	268,530	2,048,530
Profit for the year	-	-	-	-	421,682	421,682
Dividends						
- 1st interim - Re. 0.33 per share	-	-	-	-	(58,740)	(58,740)
- 2nd interim - Rs. 1.00 per share	-	-	-	-	(178,000)	(178,000)
- 3rd interim - Re. 0.77 per share	-	-	-	-	(137,060)	(137,060)
	-	-	-	-	(373,800)	(373,800)
Share capital issued	2,656,000	457,200	-	-	-	3,113,200
Share issuance cost, net	-	(31,984)	-	-	-	(31,984)
Balance as at December 31, 2007	4,436,000	425,216	-	-	316,412	5,177,628
Final dividend for the year ended December 31, 2007 - Re. 0.54 per share	-	-	-	-	(252,896)	(252,896)
Profit for the year	-	-	-	-	350,353	350,353
Reserve created during the year - note 12	-	-	9,858	-	-	9,858
Effective portion of changes in fair value of cash flow hedge - net	-	-	-	(39,100)	-	(39,100)
Share capital issued	767,677	614,141	-	-	-	1,381,818
Share issuance cost, net	-	(63,919)	-	-	-	(63,919)
Balance as at December 31, 2008	5,203,677	975,438	9,858	(39,100)	413,869	6,563,742

The annexed notes 1 to 39 form an integral part of these financial statements.

Asif Qadir
President & Chief Executive

Masaharu Domichi
Director

Notes to the Consolidated Financial Statements
for the year ended December 31, 2008 (Amounts in thousand)

1. LEGAL STATUS AND OPERATIONS

The Group consists of Engro Polymer and Chemicals Limited (the Company) and it's wholly owned subsidiary company, Engro Polymer Trading (Private) Limited [formerly Engro Asahi Trading (Private) Limited].

1.1 The Company was incorporated in Pakistan in 1997 under the Companies Ordinance, 1984. In July 2008, the Company was listed on Karachi Stock Exchange. The Company is a subsidiary of Engro Chemical Pakistan Limited. The address of its registered office is 1st floor, Bahria Complex I, M.T. Khan Road, Karachi. The Company's principal activity is to manufacture, market and sell Poly Vinyl Chloride (PVC), PVC compounds and other related chemicals.

1.2 In 2006, the Company commenced work on its expansion plan in respect of its existing capacity and backward integration project (the Project). The Project's total cost is estimated at US$ 240,000, which includes construction of PVC, Ethylene Di Chloride (EDC), Vinyl Chloride Monomer (VCM), Chlor Alkali and Power plant. The new plants are being setup adjacent to the Company's existing PVC facilities in the Port Qasim Industrial Area.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

2.1.1 These financial statements have been prepared under the historical cost convention except for the remeasurement of certain financial assets and financial liabilities (including derivative instruments) at fair value and recognition of certain staff retirement benefits at present value.

2.1.2 These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance) and the approved financial reporting standards as applicable in Pakistan. Approved financial reporting standards comprise of such International Financial Reporting Standards (IFRSs) as notified under the provisions of the Ordinance. Wherever, the requirements of the Ordinance or directives issued by the Securities and Exchange Commission of Pakistan (SECP) differ with the requirements of these standards, the requirements of the Ordinance or the requirements of the said directives have been followed.

2.1.3 The preparation of financial statements in conformity with the above requirements 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. The Company makes estimates and assumptions concerning the future, based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will by definition seldom equal the related actual results. The areas where assumptions and estimates that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

- Residual values and useful lives of property, plant and equipment (note 2.2)
- Provision for retirement and other service benefits (note 2.12)
- Taxation (note 2.15)
- Fair value derivatives (note 2.17)

2.1.4 Initial application of a Standard, Amendment or an Interpretation to an existing Standard

Standards, amendments to published standards and interpretations effective in 2008 and relevant

■ IFRIC 11, 'IFRS 2 – Group and treasury share transactions', provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone financial statements of the parent and group companies. This interpretation does not have an impact on the Company's financial statements as there are currently no Group and treasury share transactions.

- IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction', provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the Company's financial statements, as there are no statutory or contractual minimum funding requirements affecting the fund.

Standards, amendments to published standards and interpretations effective in 2008 but not relevant

The following interpretation to published standards is mandatory for accounting periods beginning on or after January 1, 2008 but not relevant to the Company's operations:

- IFRIC 12, 'Service concession arrangements'.

Standards, amendments to published standards and interpretations that are not yet effective and have not been early adopted by the Company

The following standards, amendments to existing standards and interpretations have been published and are mandatory for the Company's accounting periods beginning on or after January 1, 2009 or later periods, and the Company has not early adopted them:

- IAS 1 (Revised), 'Presentation of financial statements' (effective from January 1, 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Company will apply IAS 1 (Revised) from January 1, 2009. It is likely that both the income statement and statement of comprehensive income will be presented as performance statements.

- IAS 1 (Amendment), 'Presentation of financial statements' (effective from January 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The Company will apply the IAS 39 (Amendment) from January 1, 2009. It is not expected to have an impact on the Company's financial statements.

- IAS 19 (Amendment), 'Employee benefits' (effective from January 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008.

  - The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

  - The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

  - The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

- IAS 37, 'Provisions, contingent liabilities and contingent assets', requires contingent liabilities to be disclosed, not recognized. IAS 19 has been amended to be consistent.

The Company will apply the IAS 19 (Amendment) from January 1, 2009. The amendment has no material impact on the Company's financial statements.

■ IAS 23 (Amendment), 'Borrowing costs' (effective from January 1, 2009).□The amendment requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Company's current accounting policy is in compliance with this amendment, and therefore there will be no effect on the financial statements.

■ IAS 23 (Amendment), 'Borrowing costs' International Accounting Standards Board (IASB's) annual improvements project (effective from January 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Through this amendment, the definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 'Financial instruments: Recognition and measurement'. This eliminates the inconsistency of terms between IAS 39 and IAS 23. The Company will apply the IAS 23 (Amendment) prospectively to the capitalization of borrowing costs on qualifying assets from January 1, 2009, however, the impact on financial statements is not material.

■ IAS 27 (Revised) 'Consolidated and separate financial statements' (effective from July 1, 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Company will apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010, however, the impact on financial statements is not material.

■ IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective from January 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment requires that an investment in associate including subsidiaries is treated as a single asset for the purposes of impairment testing and any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The Company will apply the IAS 28 (Amendment) to impairment tests related to investment in subsidiaries and any related impairment losses from January 1, 2009, however, the impact on financial statements is not material.

■ IAS 36 (Amendment), 'Impairment of assets' (effective from January 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment requires that where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Company will apply the IAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from January 1, 2009.

■ IAS 38 (Amendment), 'Intangible assets' (effective from January 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment requires that a prepayment may only be recognized in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Company's accounting policy is in line with this amendment.

- IAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment deletes the wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortisation than the straight-line method. The amendment will not have an impact on the group's operations, as all intangible assets are amortised using the straight-line method.

- IAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from January 1, 2009). The amendment is part of the IASB's annual improvements project published in May 2008.

  - This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

  - The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.

  - When re-measuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used.

  The Company will apply the IAS 39 (Amendment) from January 1, 2009, where applicable.

- IFRS 2 (Amendment), 'Share-based payment' (effective from January 1, 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Company will apply IFRS 2 (Amendment) from January 1, 2009, but is not expected to have a material impact on the Company's financial statements.

- The SECP vide S.R.O. 411 (1) / 2008 dated April 28, 2008 notified the adoption of IFRS 7 'Financial Instruments: Disclosures'. IFRS 7 is mandatory for Company's accounting periods beginning on or after the date of notification i.e. April 28, 2008. IFRS 7 has superseded IAS 30 and disclosure requirements of IAS 32. The Company will apply IFRS from January 1, 2009. Adoption of IFRS 7 will only impact the format and extent of disclosures presented in the financial statements.

- IFRS 8 'Operating Segments' (effective from January 1, 2009). IFRS 8 replaces IAS 14, 'Segment reporting'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes, and introduces detailed disclosures regarding the reportable segments and products. The Company will apply IFRS 8 from January 1, 2009 which will result in additional disclosures in the financial statements.

- There are a number of minor amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the reporting period', IAS 18, 'Revenue' and IAS 34, 'Interim financial reporting', which are part of the IASB's annual improvements project published in May 2008 (not addressed above). These amendments are unlikely to have any impact on the Company's financial statements and have therefore not been analysed in detail.

2.2 Property, plant and equipment

These are stated at cost less accumulated depreciation and impairment, if any, except Capital work-in-progress. Cost in relation to fixed assets signifies historical cost. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Capital work-in-progress is stated at historical cost less impairment, if any.

Depreciation on assets is charged to income using the straight line method to allocate their cost to their residual values over their estimated useful lives at rates given in note 3.1. Depreciation on additions is charged from the month in which the asset is put to use and no depreciation is charged in the month of disposal.

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

Assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

2.3 Intangible assets – Computer software

Costs associated with developing and maintaining computer software programmes are recognized as an expense as incurred. Costs that are directly attributable to identifiable software and have probable economic benefits exceeding one year, are recognized as an intangible asset. Direct costs include the purchase cost of software and related overhead cost.

Expenditure, which enhances or extends the performance of computer software beyond its original specification and useful life is recognized as a capital improvement and added to the original cost of the software.

Computer software cost treated as intangible assets are amortized from the date the software is put to use on straight-line basis over a period of 5 to 10 years. The carrying amount of the intangible assets is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the assets carrying amount exceeds its recoverable amount in income. Reversal of impairment losses are also recognized in income.

2.4 Investments

2.4.1 Subsidiaries

Investment in subsidiaries are stated at cost net of provision for impairment, if any. This investment is classified as long term investments.

2.4.2 Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held to maturity and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Company's loans and receivables comprise 'trade debts and other receivables' and 'cash and cash equivalents' in the balance sheet (note 2.7 and 2.8).

(c) Held to maturity financial assets

Held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity with a positive intention to hold to maturity.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognized on the trade-date - the date on which the Company commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the profit and loss account. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value.

Loans and receivables are carried at amortized cost using the effective interest method.

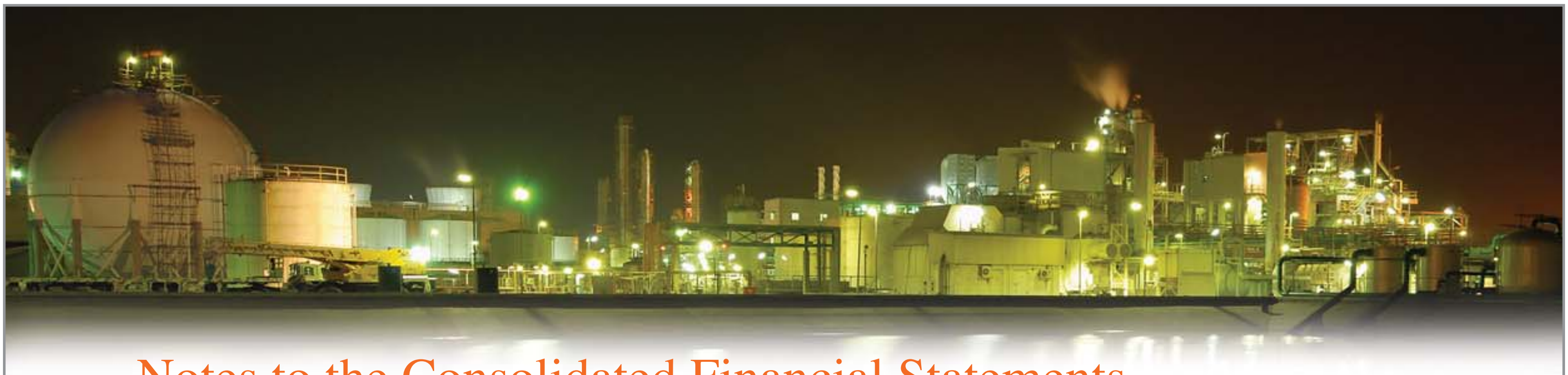
Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'other operating income/expenses' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the profit and loss account as part of other income when the Company's right to receive payments is established.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the profit and loss account as part of other income. Dividends on available-for-sale equity instruments are recognized in the profit and loss account as part of other income when the Company's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a Group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the profit and loss account. Impairment losses recognized in the profit and loss account on equity instruments are not reversed through the profit and loss account. Impairment testing of trade receivables is described in note 2.7.



2.5 Stores and spares

These are valued at weighted average cost except for items in transit which are stated at invoice value plus other charges paid thereon till the balance sheet date. Provision is made for slow moving items, as per policy and is recognized in income.

2.6 Stock-in-trade

These are valued at the lower of cost and net realizable value. Cost in relation to raw materials represent the weighted average cost and in relation to finished goods and work-in-progress represents weighted average cost comprising direct materials, labour and related manufacturing overheads.

Cost of stock-in-transit represents the invoice value plus other charges incurred thereon till the balance sheet date.

Net realizable value signifies the estimated selling price in the ordinary course of business less cost of completion and costs necessarily to be incurred in order to make the sales. Provision is made for slow moving stocks where considered necessary.

2.7 Trade debts and other receivables

Trade debts and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method, less provision for impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is charged to income. Trade debts and other receivables considered irrecoverable are written-off.

Exchange gains and losses arising on translation in respect of trade debts and other receivables in foreign currency are added to the carrying amount of the respective receivables.

2.8 Cash and cash equivalents

Cash and cash equivalents in the cash flow statement include cash in hand and in transit, balance with banks, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and short term finances. Short term finances on the balance sheet are shown as part of current liabilities.

2.9 Share capital

Ordinary shares are classified as equity and recognized at their face value. Incremental costs, if any, directly attributable to the issue of new shares or options are recognized in equity as a deduction, net of tax, from the proceeds.

2.10 Employees' Share Option Scheme

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

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

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

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

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

2.11 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred and are subsequently measured at amortized cost using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional / contractual right to defer settlement of the liability for at least twelve months after the balance sheet date.

2.12 Retirement and other service benefits

2.12.1 Pension scheme

The Company operates an approved defined benefit pension scheme for its management employees. The scheme is funded and provides for pension based on the employees' last drawn salary. Pensions are payable, after retirement or on optional retirement, for life and thereafter to surviving spouses and dependent children.

2.12.2 Gratuity Scheme

The Company operates an approved defined benefit gratuity scheme for its management employees. The scheme is funded and provides for a graduated scale of benefits dependent on the length of service of the employee on terminated date, subject to the completion of minimum qualifying period of service as per the rules of the scheme. Gratuity is payable on retirement, separation or death to ex-employees, or their spouses thereafter. Gratuity based on employees last drawn salary. Contributions are made annually to these funds on the basis of the actuarial valuations and in line with the provisions of the Income Tax Ordinance, 2001.

2.12.3 Additional Death Gratuity Scheme

The Company operates an approved death gratuity scheme for its permanent employees. The scheme is unfunded and provides for additional death gratuity which is payable on death of employee to servicing spouses and dependent children.

The liability for pension, gratuity and additional death gratuity schemes recognized in the balance sheet in respect of the pension and gratuity schemes and additional death gratuity schemes represents the present value of defined benefit obligations at the balance sheet date as adjusted for unrecognized actuarial gains and losses and past service costs, if any and as reduced by the fair value of plan assets. The defined benefit obligation is calculated every year by independent actuary using the 'Project Unit Credit Method'. The most recent actuarial valuation was carried out as of December 31, 2008.

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

2.12.4 Provident fund

The Company operates a defined contribution provident fund for its permanent management employees. Equal monthly contributions are made both by the Company and the employees to the fund at the rate of 10% of basic salary. Annual contribution, by the Company is charged to income.

2.12.5 Compensated absences

The Company accounts for compensated absences on the basis of unavailed leave balance of each employee at the end of the year, based on last drawn salary.

2.12.6 Other benefits

The Company provides an incentive to certain category of experienced employees to retain them in the Company's employment. Provision is made on the basis of management estimates of incentive to be paid to such employees on fulfilment of a criteria given in the incentive plan.

2.13 Trade and other payables

These are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method. Exchange gains and losses arising on translation in respect of liabilities in foreign currency are added to the carrying amount of the respective liabilities.

2.14 Provisions

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

2.15 Taxation

2.15.1 Current

Provision for current taxation is based on the taxable income for the year, determined in accordance with the prevailing law for taxation on income, using prevailing tax rates. The charge for current tax also includes tax credits and adjustments, where considered necessary, for prior years determined during the year or otherwise considered necessary for such years.

2.15.2 Deferred

Deferred income tax is provided using the liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred tax is charged or credited in the profit and loss account.

2.16 Foreign currency transactions and translation

These financial statements are presented in Pakistan Rupees, which is Company's functional and presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in income.

2.17 Derivatives financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates certain derivatives as either:

(a) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or

(b) hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge).

The overall risk management strategy includes reasons for undertaking hedge transactions and entering into derivatives. The objectives of this strategy are to:

- minimize foreign currency exposure's impact on the Company's financial performance; and

- protect the Company's cash flow from adverse movements in foreign currency exchange rates.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(b) Cash flow hedge

On an ongoing basis, the Company assesses whether each derivative continues to be highly effective in offsetting changes in the cash flows of hedged items. If and when a derivative is no longer expected to be highly effective, hedge accounting is discontinued.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the profit and loss.

Amounts accumulated in equity are reclassified to the profit and loss account in the periods when the hedged item affects profit or loss account i.e. when the transaction occurs. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognized in the profit and loss account or the cost of the related asset for which the borrowing is being utilized. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for e.g. inventory or fixed assets) the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognized in cost of goods sold in case of inventory or in depreciation in case of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the profit and loss account or the cost of the related non-financial asset (for e.g. inventory or fixed assets) as applicable. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit and loss account.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 14. Movements on the hedging reserve are shown in statement of changes in equity. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

2.18 Revenue recognition

Revenue is recognized to the extent it is probable that the economic benefits will flow to the Company and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, and is recognized on the following basis:

- sales are recognized when the product is dispatched to customers;
- dividend income is recognized when the Company's right to receive the payment is established;
- return on deposits is recognized using the effective interest rate method; and
- income from electricity supply is recognized on accrual basis.

2.19 Borrowing costs

Borrowing costs are recognized as an expense in the period in which they are incurred except where such costs are directly attributable to the acquisition, construction or production of a qualifying asset in which such costs are capitalized as part of the cost of that asset. Borrowing costs includes exchange differences arising from foreign currency borrowings to the extent these are regarded as an adjustment to borrowing costs.

2.20 Offsetting of financial assets and liabilities

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

2.21 Dividend and appropriation to reserves

Dividend distribution to the shareholders is recognized as a liability in the financial statements in the period in which the dividends are approved by the shareholders. Appropriation to reserves are recognized in the period in which these are approved by the Board of Directors.

Notes to the Consolidated Financial Statements
for the year ended December 31, 2008 (Amounts in thousand)

3. PROPERTY, PLANT AND EQUIPMENT

	2008	2007
	(Rupees)	
Operating assets - note 3.1	1,987,643	2,133,053
Capital work-in-progress - note 3.4	14,147,123	2,575,708
	16,134,766	4,708,761

3.1 Operating Assets

	Leasehold land	Building on leasehold land	Plant and Machinery	Pipelines: Water	Pipelines: VCM	Pipelines: Gas	Furniture, fixtures and equipment	Vehicles	Total
	Rupees								
As at January 1, 2007									
Cost	182,229	227,102	2,732,433	119,280	26,122	1,691	64,944	51,439	3,405,240
Accumulated depreciation	(5,659)	(40,859)	(966,049)	(42,386)	(9,305)	(604)	(40,253)	(24,280)	(1,129,395)
Net book value	**176,570**	**186,243**	**1,766,384**	**76,894**	**16,817**	**1,087**	**24,691**	**27,159**	**2,275,845**
Year ended December 31, 2007									
Opening net book value	176,570	186,243	1,766,384	76,894	16,817	1,087	24,691	27,159	2,275,845
Additions	8,550	-	-	-	-	-	12,660	18,770	39,980
Disposals /write off - note 3.3									
- Cost	-	-	-	-	-	-	-	(3,967)	(3,967)
- Accumulated depreciation	-	-	-	-	-	-	-	3,020	3,020
Net book value	-	-	-	-	-	-	-	(947)	(947)
Depreciation charge - note 3.2	(3,821)	(5,827)	(145,882)	(5,964)	(1,306)	(85)	(6,751)	(12,189)	(181,825)
Closing net book value	**181,299**	**180,416**	**1,620,502**	**70,930**	**15,511**	**1,002**	**30,600**	**32,793**	**2,133,053**
As at January 1, 2008									
Cost	190,779	227,102	2,732,433	119,280	26,122	1,691	77,604	66,242	3,441,253
Accumulated depreciation	(9,480)	(46,686)	(1,111,931)	(48,350)	(10,611)	(689)	(47,004)	(33,449)	(1,308,200)
Net book value	**181,299**	**180,416**	**1,620,502**	**70,930**	**15,511**	**1,002**	**30,600**	**32,793**	**2,133,053**
Year ended December 31, 2008									
Opening net book value	181,299	180,416	1,620,502	70,930	15,511	1,002	30,600	32,793	2,133,053
Additions	3,348	-	-	-	-	-	19,940	20,384	43,672
Disposals /write off - note 3.3									
- Cost	-	-	-	-	-	-	(3,353)	(6,583)	(9,936)
- Accumulated depreciation	-	-	-	-	-	-	2,749	3,565	6,314
Net book value	-	-	-	-	-	-	(604)	(3,018)	(3,622)
Reclassification									
- Cost	-	-	(5,889)	-	-	-	-	5,889	-
- Accumulated depreciation	-	-	2,984	-	-	-	-	(2,984)	-
Net book value	-	-	(2,905)	-	-	-	-	2,905	-
Depreciation charge - note 3.2	(3,870)	(5,827)	(145,761)	(5,964)	(1,306)	(85)	(9,985)	(12,662)	(185,460)
Closing net book value	**180,777**	**174,589**	**1,471,836**	**64,966**	**14,205**	**917**	**39,951**	**40,402**	**1,987,643**
As at December 31, 2008									
Cost	194,127	227,102	2,726,544	119,280	26,122	1,691	94,191	85,932	3,474,989
Accumulated depreciation	(13,350)	(52,513)	(1,254,708)	(54,314)	(11,917)	(774)	(54,240)	(45,530)	(1,487,346)
Net book value	**180,777**	**174,589**	**1,471,836**	**64,966**	**14,205**	**917**	**39,951**	**40,402**	**1,987,643**
Annual Rate of Depreciation (%)	2 to 2.14	2.5 to 10	5 to 16.67	5	5	5	5 to 33	20 to 25	

for the year ended December 31, 2008 (Amounts in thousand)

	2008	2007
	(Rupees)	

3.2 Depreciation charge has been allocated as follows:

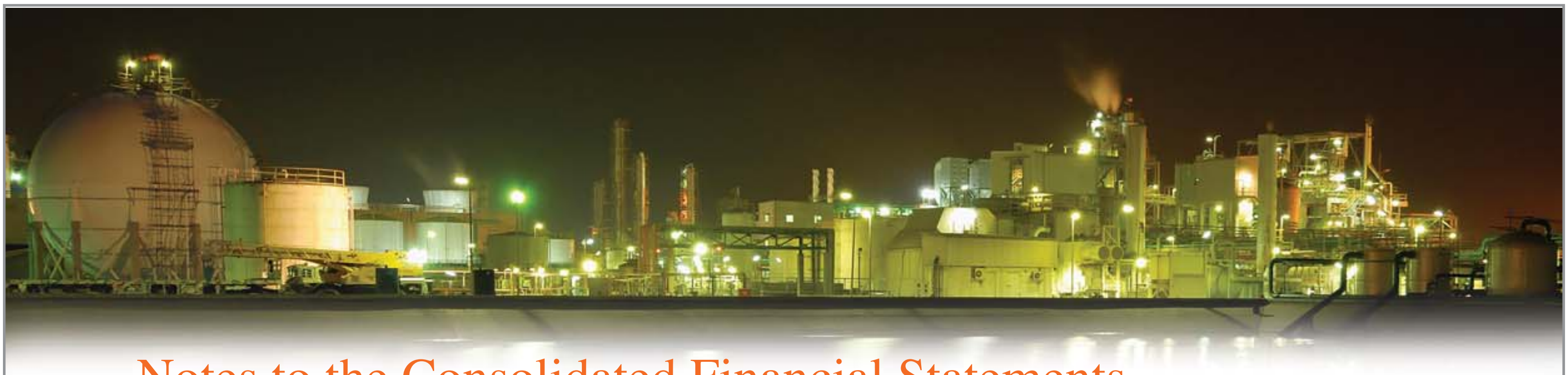
	2008	2007
Cost of sales - note 23	167,626	166,746
Distribution and marketing expenses - note 24	4,255	3,981
Administrative expenses - note 25	5,085	5,829
Capital work-in-progress - note 3.4.2	8,494	5,269
	185,460	181,825

3.3 The details of operating assets disposed /written off during the year are as follows:

	Cost	Accumulated depreciation	Net book value	Sale proceeds	Mode of disposal	Particulars of purchaser
	Rupees					
Vehicle	900	450	450	562	By Company policy to existing/seperating executives	Mr. Fawad A Shaikh
"	770	305	465	536		Mr. Irfanul Haq Siddiqui
"	900	375	525	633		Mr. Moazaam Ali Anwar
"	939	939	-	235		Mr.Qadeer A. Khan
"	1,500	70	1,430	1,336		Mr.Qadeer A. Khan
"	835	687	148	417		Mr. Inam-Ur-Raheem
"	739	739	-	185		Mr. Zaki A. Sharif
Furniture, fixtures and equipment	729	490	239	-	Written off	-
Aggregate amount of assets having net book value less than Rs. 50 each	2,624	2,259	365	67		
	9,936	6,314	3,622	3,971		
2007	3,967	3,020	947	1,540		

3.4 Capital work-in-progress

	2008	2007
	(Rupees)	
These comprise:		
Plant and machinery	12,523,057	1,925,402
Ethylene pipeline and power cables	61,486	30,251
Water and gas pipelines	233,016	168,293
Building on leasehold land	163,301	109,671
Other ancillary costs - note 3.4.2	1,140,230	331,783
Furniture, fixtures and equipment	19,170	7,386
Advances for vehicles	6,863	2,922
	14,147,123	2,575,708



Notes to the Consolidated Financial Statements
for the year ended December 31, 2008 (Amounts in thousand)

3.4.1 As referred to in note 1.2, the Company commenced work on the expansion Project in 2006, and the Capital work-in-progress relates to the cost of this expansion Project. The cost of the Project financed through debt and equity is estimated at US$ 240,000.

	2008	2007
	(Rupees)	
3.4.2 The ancillary costs, directly attributable to the Projects, comprise:		
Salaries, wages and benefits	315,240	92,989
Training and travelling expenses	74,439	45,590
Borrowing costs, including mark-up on finances using capitalization rate of 13.45% - net	591,713	134,431
Legal and professional charges	43,103	25,760
Depreciation charge - note 3.2	13,763	5,269
Others	101,972	27,744
	1,140,230	331,783

4. INTANGIBLE ASSETS – Computer software

	2008	2007
Net carrying value		
Balance at beginning of the year	2,831	148
Additions at cost	7,180	2,785
Amortization charge for the year - note 25	(749)	(102)
Balance at end of the year	9,262	2,831
Gross carrying value		
Cost	13,596	6,416
Accumulated amortization	(4,334)	(3,585)
Net book value	9,262	2,831

4.1 The cost is being amortized over a period of 5 to 10 years.

5. LONG TERM LOANS AND ADVANCES - considered good

	2008	2007
Executives - notes 5.1, 5.2 and 5.4	120,513	114,402
Less: Current portion shown under current assets - note 8	(40,578)	(31,241)
	79,935	83,161
Employees - note 5.3	37,944	18,330
Less: Current portion shown under current assets - note 8	(10,094)	(4,520)
	27,850	13,810
	107,785	96,971

for the year ended December 31, 2008 (Amounts in thousand)

		2008	2007
		(Rupees)	
5.1	**Reconciliation of the carrying amount of loans and advances to executives**		
	Balance as at January 1	114,402	18,930
	Add: Disbursements	292,287	142,392
	Less: Repayments	(286,176)	(46,920)
	Balance as at December 31	120,513	114,402

5.2 These represent interest free loans and advances to executives for house rent, vehicles, home appliances and investments given in accordance with the terms of employment and for purchase of the Company's shares under the Employees' Share Scheme (ESS) introduced/announced by EPCL Employees' Trust. Loans for house rent and investments are repayable in 18 to 36 equal monthly instalments. Loans for home appliances are repayable in 5 equal annual instalments. 20% of the loan for purchase of Company's share under ESS are repayable at the end of month 1, 12 and 24 and 40% is repayable at the end of month 30 from the expiry date of the Option Period. Advances for vehicles are charged to profit and loss account over a period of 3 years.

5.3 These represent interest free loans to employees for home appliances and investments, given in accordance with the terms of employment and for purchase of the Company's shares under the Employees' Share Scheme (ESS) introduced/announced by EPCL Employees' Trust. Loans are repayable in accordance with the terms mentioned in note 5.2.

5.4 The maximum aggregate amount due from executives at the end of any month during the year was Rs. 130,000 (2007: Rs. 140,765).

	2008	2007
	(Rupees)	

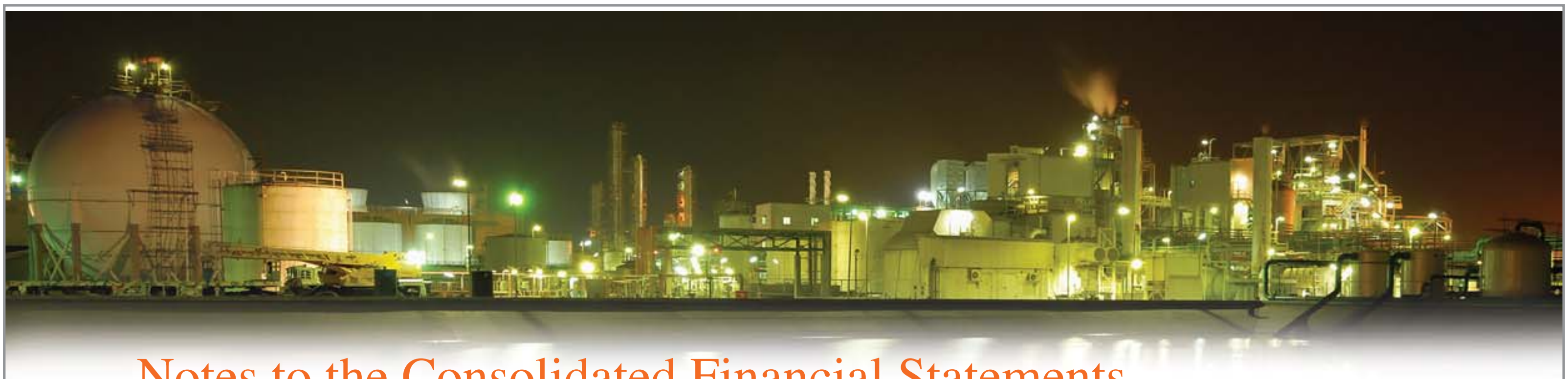
6. STORES, SPARES AND LOOSE TOOLS

	2008	2007
Consumable stores	13,745	5,664
Spares	113,407	90,055
	127,152	95,719

7. STOCK-IN-TRADE

	2008	2007
Raw and packing materials - note 7.1	327,670	256,277
Work-in-process	21,293	22,861
Finished goods		
- own manufactured product	810,355	640,170
- purchased product - note 7.2	155	831
	810,510	641,001
	1,159,473	920,139

for the year ended December 31, 2008 (Amounts in thousand)



7.1 This includes stocks-in-transit amounting to Rs. 155,925 (2007: Nil) and stocks held at the storage facilities of Engro Vopak Terminal Limited, a related party, amounting to Rs. 22,148 (2007: Rs. 140,581).

7.2 This represents carrying value of PVC resin, net of realizable value reduction of Nil (2007: Rs. 174).

	2008	2007
	(Rupees)	
8. LOANS, ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES		
Considered good		
Current portion of long term loans and advances - note 5		
- executives	40,578	31,241
- employees	10,094	4,520
Advances to employees for reimburseable expenses	4,201	5,671
Advances to suppliers and others	24,307	1,281
Deposits	43,131	10,264
Prepayments - note 8.1	26,030	174,081
Receivable from Government		
- export rebate claim	462	1,849
- octroi/duty claims	152	273
- sales tax refundable, considered good	151,736	7,941
Accrued return on investments	30	918
Receivable from ECPL	153	4,707
Other receivables	85	238
	300,959	242,984
Considered doubtful		
Custom duty claims refundable	18,043	18,043
Less: Provision for impairment - note 8.2	(18,043)	-
	-	18,043
Special Excise Duty (SED) refundable	36,687	-
Less: Provision for impairment - note 20	(36,687)	-
	-	-
Sales tax refundable	140	140
Less: Provision for impairment	(140)	(140)
	-	-
	300,959	261,027

for the year ended December 31, 2008 (Amounts in thousand)

8.1 This includes transaction costs aggregating to Nil (2007: Rs. 108,311) relating to Syndicated term finance facility from a consortium of banks and long term loan, referred to in note 14.1 and 14.2, respectively, which has been netted-off during the year against the respective borrowings upon disbursement thereof, as per policy.

8.2 During the year, the Collector of Customs in his order dated April 11, 2008, disposed off the refund applications filed by the Company for the refund of this duty paid at import stage on import of Vinyl Choloride Monomer. The Company based on the advice of its tax consultant, has filed an appeal before the Collector of Customs (Appeals), Karachi dated May 31, 2008 against the aforementioned order. However, the Company based on prudence has made full provision against the aforementioned custom duty refundable in these financial statements.

9. SHORT TERM INVESTMENTS

	2008	2007
	(Rupees)	
At fair value through profit or loss		
Mutual fund securities - note 9.1	43,648	1,897,932
Term finance certificate - note 9.2	-	936,752
	43,648	2,834,684
Held to maturity		
Short term bank deposits - note 9.3	-	79,820
	43,648	2,914,504

9.1 These represent investments in open end mutual funds and are valued at their respective redemption price as at the balance sheet date.

9.2 This represents investments in unsecured Term Finance Certificate (TFC) of a listed company. During the year, the TFCs were redeemed and encashed.

9.3 These deposits matured on September 26, 2008 and carried mark-up at the rates ranging from 4.2% to 4.7% per annum.

10. CASH AND BANK BALANCES

	2008	2007
	(Rupees)	
Cash in hand	935	834
Cash at bank		
- on current accounts	4,931	97,252
- on saving accounts - note 10.1	5,273	149,770
	10,204	247,022
Short term bank deposits - note 10.2	88,246	-
	99,385	247,856

for the year ended December 31, 2008 (Amounts in thousand)

10.1 This includes Rs. 2,671 (2007: Rs. 3,000) kept in a separate bank account in respect of security deposits.

10.2 These deposits have various maturities up to January 23, 2009 and carry mark-up at the rates ranging from 1 % to 4.7 % (2007: Nil).

11. SHARE CAPITAL

	2008	2007
	(Rupees)	
Authorized capital		
700,000,000 (2007: 700,000,000) Ordinary shares of Rs. 10 each	7,000,000	7,000,000
Issued, subscribed and paid-up capital		
520,367,677 (2007: 443,600,000) Ordinary shares of Rs. 10 each, fully paid in cash	5,203,677	4,436,000

11.1 During the year the Company issued 76,767,677 ordinary shares of Rs. 10 each at a subscription price of Rs.18 per share to various investors. Of this JS Global Capital Limited (JS Global), one of the investors, made available 50 million ordinary shares out of its total shareholding in the Company to the general public through listing at the Karachi Stock Exchange under an Offer for Sale dated May 31, 2008. The Company was listed on Karachi Stock Exchange in July 2008.

11.2 As at December 31, 2008, Engro Chemical Pakistan Limited holds 292,400,000 ordinary shares of Rs. 10 each (2007: 292,400,000 ordinary shares of Rs. 10 each).

12. EMPLOYEES' SHARE OPTION SCHEME

The employees' share option scheme (the Scheme) was originally approved by the shareholders in their Extraordinary General Meeting (EGM) held on October 8, 2007. Under the scheme, senior employees who were considered critical to the business operations, were granted options to purchase 5.3 million newly issued ordinary shares at an exercise price of Rs. 22 per ordinary share. The number of options granted was calculated by reference to how critical an employee was considered to the business and his ability, subject to approval by the Compensation Committee. The options carry neither right to dividends nor voting rights. Vesting period started from the 'grant date' and ends on December 31, 2009, whereafter the options can be exercised within a period of two years. Further, future employees who join the Company by October 31, 2008 and those promoted to the eligible employee grade by the same date are also to be granted options on similar terms.

During the year, the Company proposed certain changes relating to 'grant date' in the originally approved Scheme. These changes were approved by the shareholders in their EGM held on June 27, 2008, and subsequently by the SECP on September 25, 2008. As per the approved change to the Scheme the 'grant date' is the date of EGM held on October 8, 2007, when the Scheme was originally approved. The effect of the change aggregating Rs.1,096, in the grant date has been recognized in income as follows:

Notes to the Consolidated Financial Statements
for the year ended December 31, 2008 (Amounts in thousand except for note 12.1)

	(Rupees)
Employees' share option compensation reserve and deferred employee compensation expense recognized on the date of grant	9,858
Less: Amortization for the period October 8, 2007 (date of grant) to December 31, 2008	5,477
Closing balance as on December 31, 2008	4,381

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

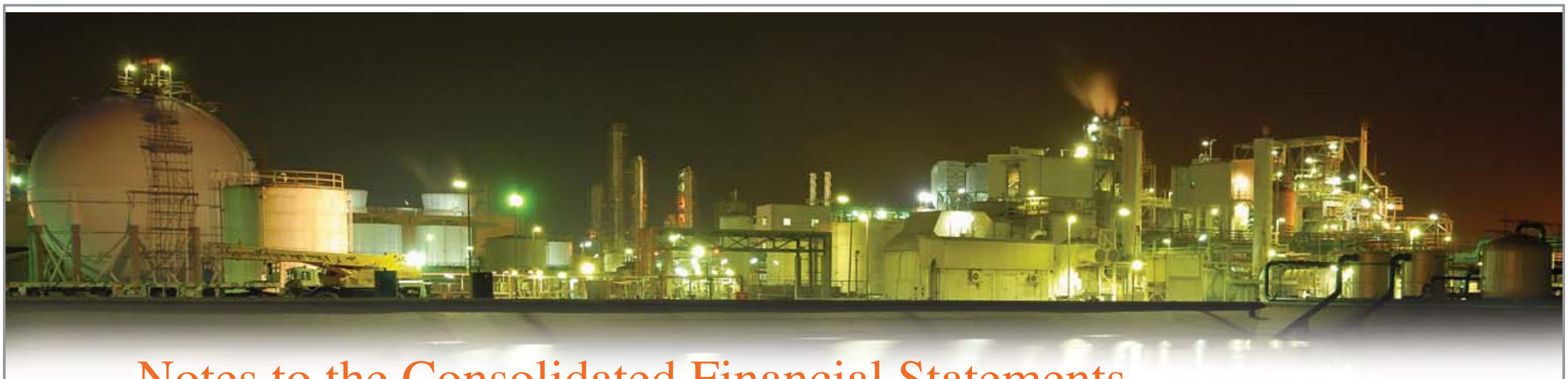
- Total number of share options granted	5,300,000
- Fair value of the share options at grant date	Rs.1.86
- Share price at grant date	Rs. 18
- Exercise price	Rs .22
- Annual volatility based on historical pattern	15.13%
- Risk free rate used	10.12%
- Expected dividends	Nil

	2008	2007
	(Rupees)	
13. DERIVATIVE FINANCIAL INSTRUMENTS		
Interest rate swap - note 13.1	60,154	-

13.1 During the year, the Company entered into a interest rate swap agreement with a bank to hedge its interest rate exposure on floating rate borrowing from International Finance Corporation (IFC) for a notional amount of US$ 15,000. The swap is effective for the period matching interest payments from December 15, 2008 to June 15, 2017. Under the swap agreement, the Company would receive USD-LIBOR from the bank on notional amount and pay fixed 3.385% which will be settled semi-annually. The fair value of the interest rate swap as at December 31, 2008 amounted to Rs. 60,154.

13.2 During the year, the Company also purchased forward exchange contracts having various maturity dates to hedge its Dollar currency exposure of US$ 71,152, representing the anticipated cash outflows for the Project and Project financing. These contracts matured during the year and no contracts are outstanding as at December 31, 2008.

for the year ended December 31, 2008 (Amounts in thousand)



	2008	2007
	(Rupees)	
14. BORROWINGS, Secured		
Syndicated term finance - note 14.1	5,648,525	-
International Finance Corporation (IFC) - note14.2	2,324,547	-
Local commercial bank - note 14.3	-	35,429
Bridge finance facility - note 14.4	-	1,240,000
Morabaha finance - note 14.5 and 14.7	100,000	100,000
Long term finance utilised under mark-up arrangements - note 14.6 and 14.7	30,000	90,000
	8,103,072	1,465,429
Less: Current portion shown under current liabilities	(130,000)	(95,429)
	7,973,072	1,370,000

14.1 The Company entered into a Syndicated Term Finance Agreement on October 12, 2007 for Rs. 5,700,000. The facility has been utilized to finance capital expenditure related to the Project, referred to in note 1.2. The facility is repayable in seventeen semi-annual instalments, inclusive of mark-up at 2.25% over six months KIBOR, from the effective date.

The facility is secured by:

i) a first mortgage by deposit of title deeds over Project Properties ranking pari passu with facilities against LCs referred to in note 18.3 and long term loan from International Finance Corporation (IFC) referred to in note 14.2;

ii) a first mortgage by deposit of title deeds over leasehold land (30 acres) of the Project together with the buildings, plant, machinery and other equipment thereon ranking pari passu with the facilities referred to in note 18.3 and note 14.2;

iii) hypothecation by way of:

- a first charge over all Project Assets, ranking pari passu with facilities referred to in note 14.2 and note 18.3; and

- a first charge over all present and future moveable fixed assets other than Project Assets.

14.2 The Company, effective June 21, 2007, entered into a loan agreement with the International Finance Corporation (IFC) consisting of:

i) Loan A, amounting to US$ 30,000; and
ii) Loan B, amounting to US$ 30,000.

The loans, obtained to finance the Project referred to in note 1.2, carry interest at 2.6% to 3% above 6 months LIBOR with a commitment fee at the rate of 0.50% per annum on that part of the loan that has not been disbursed. The loans are repayable in fifteen half yearly instalments commencing June 15, 2010. During the year, the Company has drawn down US $ 30,000 from above mentioned loan arrangement against the total facility available of US $ 60,000.

The facility is secured by:

i) a first mortgage by deposit of title deeds over Project Properties ranking pari passu with facilities against LCs referred to in note 18.3 and Syndicated loan referred to in note 14.1;

ii) a first mortgage by deposit of title deeds over leasehold land (30 acres) of the Project together with the buildings, plant, machinery and other equipment thereon ranking pari passu with the facilities referred to in note 14.1 and note 18.3;

iii) hypothecation by way of:

- a first charge over all Project Assets, ranking pari passu with facilities referred to in note 14.1 and note 18.3; and
- a first charge over all present and future movable fixed assets other than Project Assets.

14.3 The loan, which was repayable in eight half yearly instalments commencing from July 15, 2004, carried interest at the rate of 1.6% above 6 months LIBOR and a monitoring fee of 0.4% per annum. During the year the loan has been fully repaid.

The above loan was secured by:

(i) an equitable mortgage upon the immovable property, referred to in note 14.7, ranking pari passu with mortgage referred to therein and note 14.4; and

(ii) a first floating charge over all present and future undertaking and assets of the Company, ranking pari passu with long term finance and morabahas referred to in note 14.7.

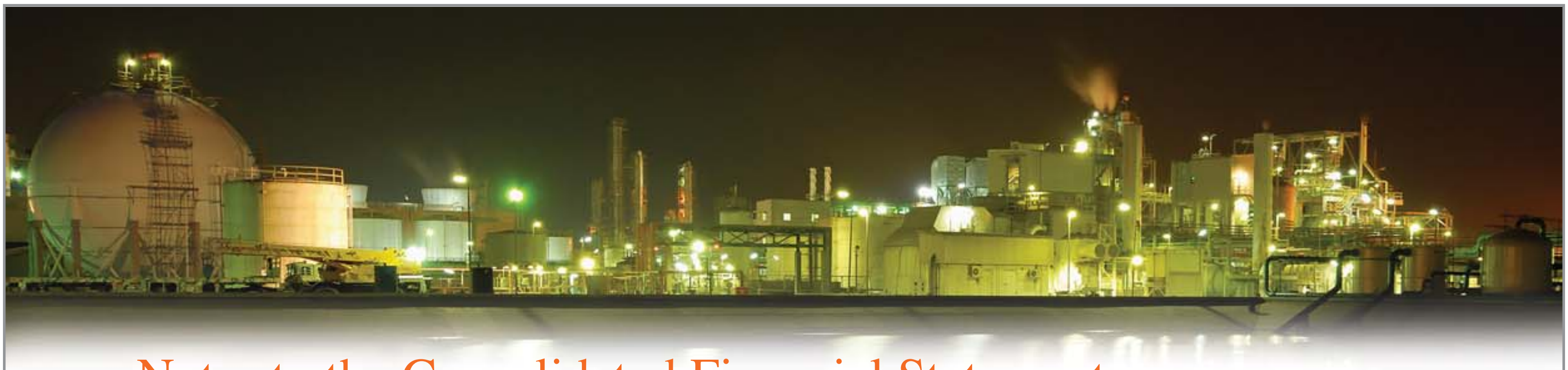
14.4 The aggregate facility amounted to Rs. 2,440,000. During the year, the outstanding balance has been repaid from the proceeds of the Syndicated Term Finance Facility, referred to in note 14.1. The facility carried mark-up at 1.45% over six months KIBOR payable at the expiry of the facility.

The facility is secured by:

i) an equitable mortgage upon the immovable property referred to in note 14.7, ranking pari passu with mortgages referred to therein and note 14.3.

ii) a first mortgage upon the immovable property, together with all other fixed assets thereon, of the Company; and

for the year ended December 31, 2008 (Amounts in thousand)



iii) hypothecation by way of:

- a first charge over all present and future movable fixed assets of the Company, ranking pari passu with charges referred to in note 14.7; and

- a charge over all present and future undertaking and current assets of the Company, ranking subsequent to the charges referred to in note 14.3 and 14.7.

14.5 The aggregate facility available up to September 27, 2009 amounts to Rs. 100,000. All amounts due under the Morabaha transactions are payable before the expiry date of the facility.

14.6 The aggregate facility amounts to Rs. 400,000 against which Rs. 150,000 was utilized during the year. No commitment fee is payable on the unutilized amount. The facility carries mark-up at the rate of 0.5% above the average ask rate of six monthly KIBOR and is payable in five half yearly instalments commencing from June 12, 2007.

14.7 The Morabaha and long term finances are secured by:

i) an equitable mortgage upon immovable property, together with all other fixed assets thereon, of the Company, ranking pari passu with each other and with mortgages referred to in note 14.4 and note 14.3.

ii) a first floating charge over all present and future undertaking and assets of the Company, ranking pari passu with each other and with facilities referred to in note 14.3; and

iii) hypothecation by way of first charge over all movable assets of the Company.

	2008	2007
	(Rupees)	
15. RETENTION MONEY AGAINST PROJECT PAYMENTS		
Amounts retained as at December 31 - note 15.1	792,478	100,960
Less: Current portion shown under current liabilities - note 19	(239,033)	-
	553,445	100,960

15.1 This represents the amounts retained from progress payments made to contractors/suppliers against work completed on the Project, referred to in note 1.2. Further, the liability has been translated at year end exchange rate resulting in exchange loss amounting to Rs. 86,484.

for the year ended December 31, 2008 (Amounts in thousand)

16. DEFERRED INCOME TAX LIABILITIES

	2008	2007
	(Rupees)	
Credit/(Debit) balances arising due to:		
- accelerated tax depreciation	548,080	554,226
- net borrowing costs capitalized	160,054	-
- recoupable carried forward tax losses - note 16.1	(153,887)	(79,587)
- unrealized foreign exchange losses and provision for retirement and other service benefits	(25,243)	(41,982)
- provision against custom duty and SED refundable	(6,454)	-
- fair value of hedging instrument	(21,054)	-
- share issuance cost, net to equity	(51,566)	(17,148)
- recoupable minimum turnover tax	(67,356)	(81,913)
	382,574	333,596

16.1 Deferred income tax asset is recognized for tax losses available for carry-forward to the extent that the realization of the related tax benefit through future taxable profits is probable. The aggregate tax losses available for carry-forward at December 31, 2008 amount to Rs. 439,677 (2007: Rs. 227,391), on which the deferred income tax asset has been recognized.

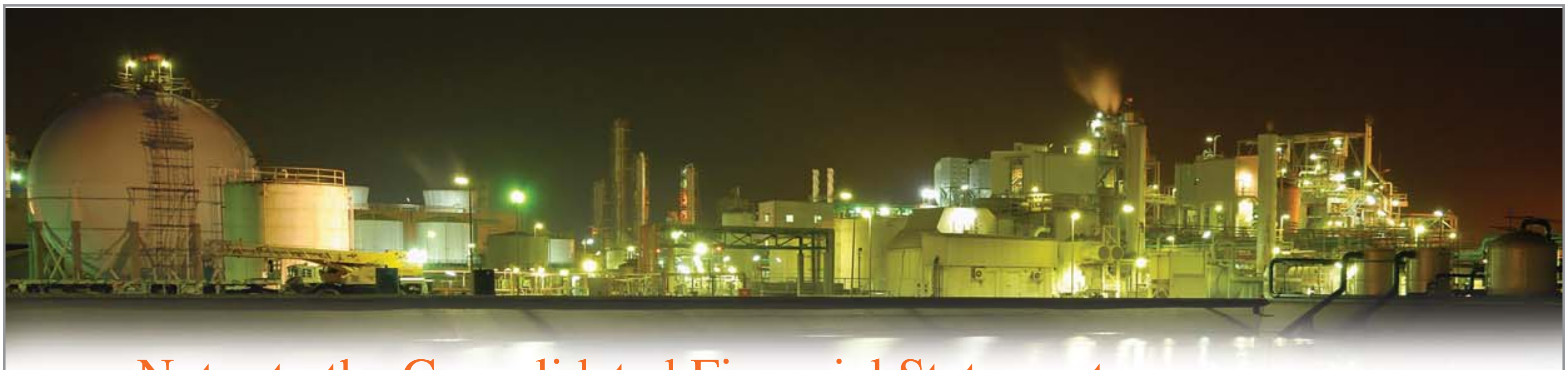
17. RETIREMENT AND OTHER SERVICE BENEFIT OBLIGATIONS

	2008	2007
	(Rupees)	
Service incentive plan	35,524	21,285
Additional death gratuity - note 31	2,976	2,317
	38,500	23,602

18. SHORT TERM FINANCES, Secured

Running finance utilized under mark-up arrangements - note 18.1	717,568	-
Short term finance - note 18.2	125,000	-
	842,568	-

for the year ended December 31, 2008 (Amounts in thousand)



18.1 The aggregate facilities for running finance available from various banks, represents the sales price of all mark-up arrangements, amount to Rs. 1,275,000 (2007: Rs. 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 one month KIBOR plus 1.25% to 1 month KIBOR plus 3% (2007: 1 month KIBOR plus 0.75% to 6 months KIBOR plus 1.5%). During the year, the mark-up rates, net of prompt payment rebate, ranged from 10.37% to 17.6% per annum (2007: 9.85% to 11.88% per annum).

18.2 The Company entered into a Short Term Finance Agreement on November 24, 2008 for Rs. 125,000. The finance, obtained to meet the working capital requirements, carries mark-up at 1 to 6 months KIBOR plus 3% per annum. The finance is secured by way of floating charge upon all present and future current assets of the Company ranking pari passu ranking with the charges referred to in notes 14.1 and 14.2. This facility will expire on May 31, 2009.

18.3 The facility for opening letters of credit as at December 31, 2008 aggregate to Rs. 9,468,000 (2007: Rs. 10,848,000). The amount utilized at December 31, 2008 was Rs. 1,232,000 (2007: Rs. 7,369,411). The facilities carry mark-up at rates ranging from 0.05% to 0.1% per quarter.

19. TRADE AND OTHER PAYABLES

	2008	2007
	(Rupees)	
Trade and other creditors - note 19.1	797,211	916,054
Accrued liabilities	317,713	217,255
Advances from customers - note 19.2	118,232	70,062
Current portion of retention money - note 15.1	239,033	-
Unearned return on TFC	-	23,098
Accrued finance costs		
- long term borrowings	157,678	29,476
- short term finances	9,590	1,509
Security deposits	2,510	3,000
Workers' profits participation fund - note 19.3	24,625	30,988
Workers' welfare fund	9,357	12,955
Others	2,293	4,226
	1,678,242	1,308,623

19.1 This includes amount due to following related parties:

	2008	2007
- Mitsubishi Corporation	740,811	867,831
- Engro Vopak Terminal Limited	15,046	11,514
	755,857	879,345

19.2 This includes advance received from Mitsubishi Corporation, a related party, amounting to Nil (2007: Rs. 12,001).

Notes to the Consolidated Financial Statements
for the year ended December 31, 2008 (Amounts in thousand)

	2008	2007
	(Rupees)	
19.3 Workers' profits participation fund		
Balance as at January 1	30,988	30,631
Add: Allocation for the year - note 26	24,625	30,988
	55,613	61,619
Less: Payments made during the year	(30,988)	(30,631)
Balance as at December 31	24,625	30,988

20. PROVISIONS

The Company has paid Rs. 91,616 on account of Special Excise Duty (SED) on import of plant and machinery for the Project. Out of Rs. 91,616, the Company has adjusted Rs. 54,929 in the monthly sales tax returns against SED on goods produced and sold by the Company. The Company has approached Federal Board of Revenue (FBR) to obtain clarification in respect of the adjustment of SED made by the Company in monthly sales tax returns. Pending such clarification, the Company, based on prudence, has made provision of the aforementioned SED in these financial statements.

21. CONTINGENCIES AND COMMITMENTS

21.1 Commitments

21.1.1 Capital expenditure for the Project, referred to in note 1.2, under the contracts signed as at December 31, 2008, but not yet incurred amounts to Rs. 1,305,738 (2007: Rs. 7,897,193).

21.1.2 Performance guarantees issued by the banks on behalf of the Company as at December 31, 2008 amount to Rs. 264,200 (2007: Rs. 301,431).

	2008	2007
22. NET SALES	(Rupees)	
Gross local sales	9,455,612	7,063,797
Less:		
- Sales tax	1,602,785	991,527
- Special excise duty	78,363	30,027
- Discount	6,150	2,906
	1,687,298	1,024,460
	7,768,314	6,039,337
Export sales	79,223	198
	7,847,537	6,039,535

Notes to the Consolidated Financial Statements
for the year ended December 31, 2008 (Amounts in thousand)

	2008	2007
	(Rupees)	

23. COST OF SALES

	2008	2007
Opening stock of work-in-progress	22,861	16,051
Raw and packing materials consumed	6,254,555	4,519,613
Salaries, wages and staff welfare - note 23.2	97,332	97,648
Fuel, power and gas	158,437	135,228
Repairs and maintenance	10,797	13,736
Depreciation charge - note 3.2	167,626	166,746
Consumable stores	21,310	37,836
Purchased services	25,082	20,163
Storage and handling	139,405	120,277
Training and travelling expenses	11,185	3,249
Communication, stationery and other office expenses	2,211	1,715
Insurance	10,597	14,050
Stock - finished goods written off	-	1,914
Other expenses	5,061	945
	6,903,598	5,133,120
Closing stock of work-in-progress - note 7	(21,293)	(22,861)
Cost of goods manufactured	6,905,166	5,126,310
Opening stock of finished goods	640,170	588,065
Closing stock of finished goods - note 7	(810,355)	(640,170)
	(170,185)	(52,105)
Cost of sales - own manufactured product	6,734,981	5,074,205
- purchased product - note 23.1	677	7,492
	6,735,658	5,081,697

23.1 Cost of sales - purchased product

	2008	2007
Opening stock	147	8,323
Add: Purchases	530	–
Less: Closing stock - note 7	-	(831)
	677	7,492

23.2 This includes Rs. 5,648 (2007: Rs. 7,773), in respect of staff retirement and benefits referred to in note 31.

for the year ended December 31, 2008 (Amounts in thousand)

24. DISTRIBUTION AND MARKETING EXPENSES

	2008	2007
	(Rupees)	
Salaries, wages and staff welfare - note 24.1	42,535	40,774
Advertising, sales promotion and entertainment	30,669	27,910
Product transportation and handling	202,208	159,632
Rent, rates and taxes	5,524	5,273
Purchased services	9,695	7,223
Insurance	919	323
Depreciation charge - note 3.2	4,255	3,981
Training and travelling expenses	7,872	7,887
Communication, stationery and other office expenses	2,709	2,800
Other expenses	5,254	3,135
	311,640	258,938

24.1 This includes Rs. 2,613 (2007: Rs. 2,386), in respect of staff retirement and benefits, referred to in note 31.

25. ADMINISTRATIVE EXPENSES

	2008	2007
	(Rupees)	
Salaries, wages and staff welfare - note 25.1	93,014	69,869
Rent, rates and taxes	13,560	13,259
Purchased services	8,733	8,202
Insurance	154	25
Depreciation charge - note 3.2	5,085	5,829
Amortization charge - note 4	749	102
Training and travelling expenses	18,557	17,393
Communication, stationery and other office expenses	13,846	10,293
Other expenses	9,484	6,869
	163,182	131,841

25.1 This includes Rs. 6,056 (2007: Rs. 3,533), in respect of staff retirement and benefits, referred to in note 31.

for the year ended December 31, 2008 (Amounts in thousand)

	2008	2007
	(Rupees)	
26. OTHER OPERATING EXPENSES		
Legal and professional charges	5,804	3,534
Auditors' remuneration - note 26.1	1,239	2,198
Donations - note 26.2	1,527	1,492
Provision against custom duty refundable - note 8	18,043	-
Unrealized fair value loss on investments	2,352	-
Security deposit written-off	217	-
Export rebate claim written-off	1,195	-
Workers' profits participation fund - note 19.3	24,625	30,988
Workers' welfare fund	9,357	12,955
Foreign exchange loss (net)	229,428	18,913
	293,787	70,080

26.1 Auditors' remuneration

	2008	2007
Statutory audit	580	530
Half yearly review	150	-
Taxation and other advisory services	389	1,548
Reimbursement of expenses	120	120
	1,239	2,198

26.2 The recipients of donations for the year do not include any donee in whom a director or his spouse had any interest.

	2008	2007
	(Rupees)	
27. OTHER OPERATING INCOME		
Income on short term investment and bank deposit	46,643	27,358
Gain on sale of short term investments	69,879	12,565
Unrealized fair value gain on short term investment	-	49,135
Income from supply of electricity to Engro Chemical Pakistan Limited	20,843	30,220
Profit on disposal of operating assets	349	593
Scrap sales	814	843
Others	7,260	199
	145,788	120,913

for the year ended December 31, 2008 (Amounts in thousand)

	2008	2007
	(Rupees)	
28. FINANCE COSTS		
Interest /Mark-up on:		
- long term borrowings	18,212	33,674
- short term finances	8,244	2,015
Guarantee commission	979	1,180
Bank charges and others	6,096	4,550
	33,531	41,419

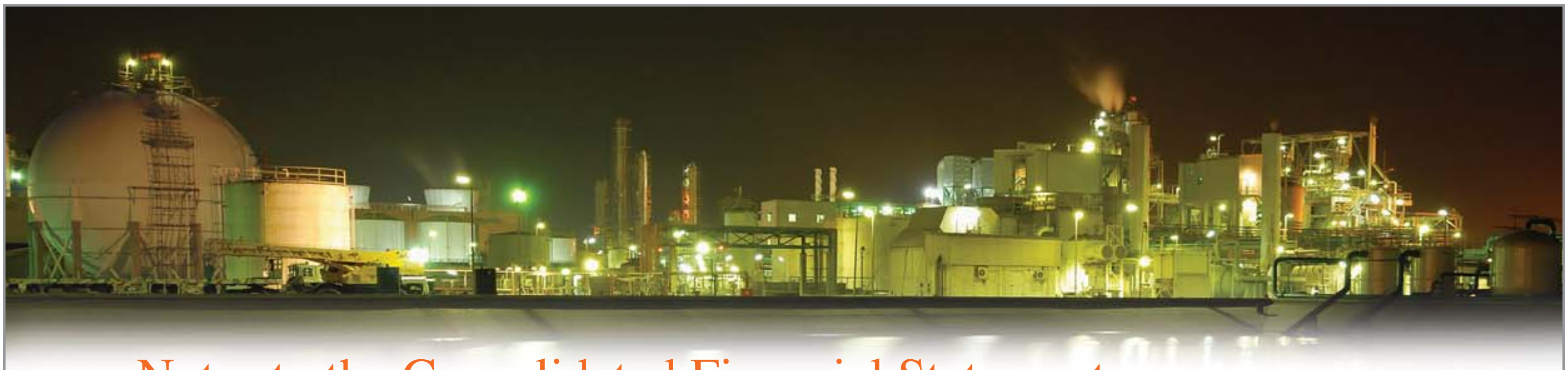
	2008	2007
29. TAXATION		
Current - note 29.1	793	30,715
Deferred	104,450	124,076
	105,243	154,791

29.1 Current year charge represents tax under presumptive tax regime on export. The levy of minimum tax at the rate of 0.5% of the turnover has been withdrawn through the Finance Act, 2008.

29.2 During the year 2003, the Assessing Officer (AO) while finalizing the assessment order for the year ended December 31, 2000 (Assessment year 2001 – 2002) made addition to income of Rs. 144 million on the contention that the sales made by the Company to its wholly owned subsidiary, Engro Polymer Trading (Private) Limited [formerly Engro Asahi Trading (Private) Limited], were allegedly made on non-arm's length basis. The Company's appeal to the CIT(A) against the above addition was decided in the Tax Department's favour in 2004, against which the Company filed an appeal with the Income Tax Appellant Tribunal (ITAT). The ITAT in its order dated October 30, 2005 has set-aside the issue for re-examination by the AO. The management of the Company is confident that the ultimate outcome of the above would be in their favour and as such no effect for the same has been considered on the carried forward tax losses and resulting deferred tax asset in these financial statements.

29.3 Relationship between tax expense and accounting profit

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the Company's applicable tax rates as follows:



Notes to the Consolidated Financial Statements
for the year ended December 31, 2008 (Amounts in thousand)

	2008	2007
	(Rupees)	
Accounting profit before taxation	455,596	575,817
Tax calculated at applicable rate of 35% (2007: 35%)	159,459	201,536
Tax effect of:		
- exempt income and income subject to lower tax rates	(23,665)	-
- permanent differences not deductible in determining taxable profit	-	473
Recoupable minimum turnover tax	14,557	-
Effect of adjustments in opening written down values and carried forward losses	(45,108)	(47,768)
Tax expense for the year	105,243	154,241

30. EARNINGS PER SHARE – Basic and diluted

There is no dilutive effect on the basic earnings per share of the Company, since the average market price of the Company's share is less than the exercise price of the share's options granted to employee as per policy, referred to in note 12. The basic earnings per share of the Company is based on:

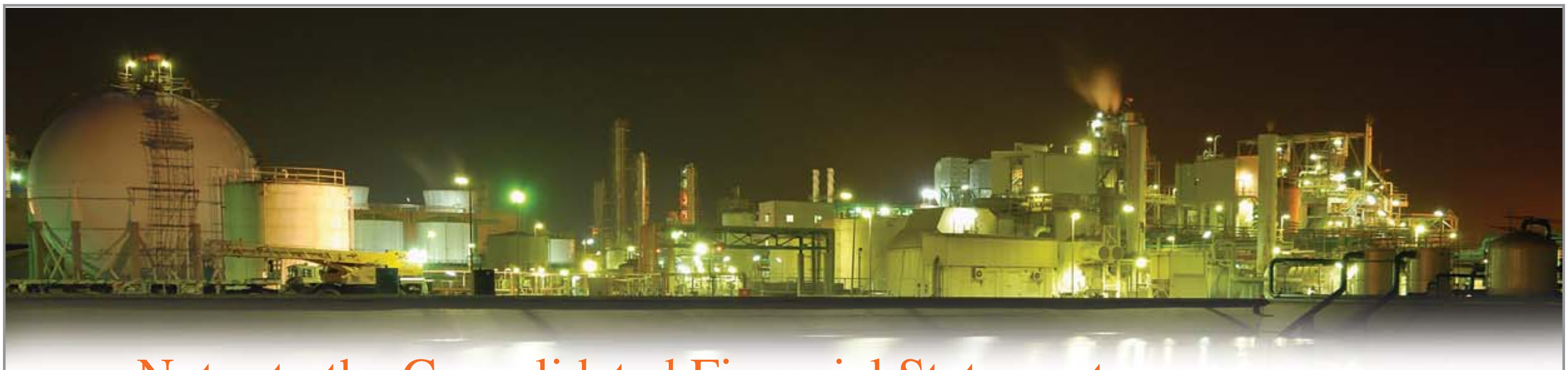
	2008	2007
Profit after taxation	350,353	421,682
Weighted average number of ordinary shares (in thousand)	517,633	257,051

for the year ended December 31, 2008 (Amounts in thousand)

31. RETIREMENT AND OTHER SERVICE BENEFITS

The latest actuarial valuation of the defined benefit plans was conducted at December 31, 2008 using the Projected Unit Credit Method. Details of the defined benefit plans are:

	Pension Fund		Gratuity Fund		Additional Death Gratuity Scheme	
	2008	2007	2008	2007	2008	2007
	Rupees					
31.1 Balance sheet reconciliation						
Present value of defined benefit obligations	68,644	53,267	22,888	19,600	-	-
Fair value of plan assets	(73,582)	(62,237)	(21,821)	(21,742)	-	-
(Surplus) / Deficit	(4,938)	(8,970)	1,067	(2,142)	-	-
Present value of unfunded obligations	-	-	-	-	3,359	2,429
Unrecognized net actuarial gains / (losses)	4,938	8,970	(1,067)	2,142	(383)	(112)
Net liability at the end of the year	-	-	-	-	2,976	2,317
31.2 Movement in the defined benefit obligations						
Obligation as at January 1	53,267	44,310	19,600	16,145	2,429	1,956
Current service cost	5,525	4,002	2,223	1,714	413	264
Interest cost	5,603	4,631	2,049	1,700	246	209
Actuarial losses / (gains)	4,754	324	4,280	41	271	-
Benefits paid	(505)	-	(5,264)	-	-	-
Obligation as at December 31	68,644	53,267	22,888	19,600	3,359	2,429
31.3 Movement in the fair value of plan assets						
Fair value as at January 1	62,237	53,604	21,742	18,328	-	-
Expected return on plan assets	6,449	4,921	2,253	1,653	-	-
Actuarial gains	905	324	1,071	41	-	-
Employer contributions	4,496	3,388	2,019	1,720	-	-
Benefits paid	(505)	-	(5,264)	-	-	-
Fair value as at December 31	73,582	62,237	21,821	21,742	-	-
31.4 The amounts recognised in the profit and loss account are as follows:						
Current service cost	5,525	4,002	2,223	1,714	413	264
Interest cost	5,603	4,631	2,049	1,700	246	209
Expected return on plan assets	(6,449)	(4,921)	(2,253)	(1,653)	-	-
Recognition of actuarial (gains) / losses	(183)	(324)	-	(41)	-	-
Expense	4,496	3,388	2,019	1,720	659	473
31.5 Actual return on plan assets	2,461	2,461	827	2,029	-	-



Notes to the Consolidated Financial Statements
for the year ended December 31, 2008 (Amounts in thousand)

31.6 Principal assumptions used in the actuarial valuation:

	Pension Fund		Gratuity Fund	
	2008	**2007**	**2008**	**2007**
Discount rate	14%	10%	14%	10%
Expected rate of return per annum on plan assets	14%	10%	14%	10%
Expected rate of increase per annum on future salaries	13%	10%	13%	10%

31.7 Plan assets comprise of following:

	Pension Fund		Gratuity Fund	
	2008	**2007**	**2008**	**2007**
	Rupees			
Equity	25,754	21,783	14,402	7,610
Debt	25,754	7,468	6,110	2,609
Others	22,075	32,986	1,309	11,523
	73,583	62,237	21,821	21,742

31.8 The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date.

31.9 Comparison of five years:

	2008	**2007**	**2006**	**2005**	**2004**
	Rupees				
Pension Fund					
Present value of defined benefit obligation	68,644	53,267	44,310	34,760	28,983
Fair value of plan assets	(73,582)	(62,237)	(47,516)	(34,861)	(29,503)
(Surplus) / Deficit	(4,938)	(8,970)	(3,206)	(101)	(520)
Gratuity Fund					
Present value of defined benefit obligation	22,888	19,600	16,145	12,784	10,523
Fair value of plan assets	(21,821)	(21,742)	(15,665)	(12,870)	(10,992)
(Surplus) / Deficit	1,067	(2,142)	480	(86)	(469)

for the year ended December 31, 2008 (Amounts in thousand)

31.10 During the year, Rs. 8,658 (2007: Rs. 5,780) has been recognized in the profit and loss account in respect of defined contribution provident fund.

32. REMUNERATION OF CHIEF EXECUTIVE AND EXECUTIVES

The aggregate amounts charged in the financial statements for remuneration, to chief executive and executives are as follows:

	2008		2007	
	Chief Executive	Executives	Chief Executive	Executives
	Rupees			
Managerial remuneration	11,076	184,954	9,682	109,614
Retirement benefit funds	1,579	10,955	1,366	5,648
Bonus	5,366	40,999	4,511	22,359
Employee share option scheme	1,229	4,218	-	-
Other benefits	1,318	17,565	1,282	11,555
Total	20,568	258,691	16,841	149,176
Number of persons	1	121	1	81

32.1 The Company also provides household items and vehicles for use of Chief Executive and certain executives.

33. CASH GENERATED FROM OPERATIONS

	2008	2007
	(Rupees)	
Profit before taxation	455,596	576,473
Adjustments for non cash charges and other items:		
Provision for staff retirement and other service benefits	14,898	6,732
Provision against custom duty refundable	18,043	-
Depreciation charge	185,460	181,825
Amortization charge	749	102
Amortization of deferred employee share compensation expense	5,477	-
Stocks - Finished goods written off	-	1,914
Income on short term investments and bank deposits	(46,643)	(27,358)
Gain realized on sale of short term investments	(69,879)	(12,565)
Provision against SED refundable	91,616	-
Unrealized fair value gain on short term investments	2,353	(49,135)
Finance costs	33,532	41,419
Profit on disposal of operating assets	(349)	(593)
	235,257	142,341
Working capital changes - note 33.1	3,864	168,230
	694,717	887,044

Notes to the Consolidated Financial Statements

for the year ended December 31, 2008 (Amounts in thousand)

	2008	2007
	(Rupees)	
33.1 Working capital changes		
(Increase) / Decrease in current assets		
Stores and spares	(31,433)	(8,439)
Stock-in-trade	(239,334)	86,103
Trade debts	108,958	(41,689)
Loans, advances, deposits, prepayments and other receivables (net)	(95,550)	(178,094)
	(257,359)	(142,119)
Increase in current liabilities		
Trade and other payables	226,652	310,349
Long term borrowings - current portion	34,571	-
	3,864	168,230

34. CASH AND CASH EQUIVALENTS

	2008	2007
Cash and bank balances - note 10	99,385	247,856
Short term finances - note 18	(842,568)	-
	(743,183)	247,856

35. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

35.1 Financial assets and liabilities

	Interest/mark-up bearing			Non-Interest/mark-up bearing				
	Maturity upto one year	Maturity after one year	Sub-total	Maturity upto one year	Maturity after one year	Sub-total	Total	Effective weighted average interest rates
	Rupees							%
Financial Assets								
Investment	-	-	-	43,648	-	43,648	43,648	-
Trade debts	-	-	-	69,514	-	69,514	69,514	-
Loans, advances, deposits and other receivables	-	-	-	94,071	107,785	201,856	201,856	-
Cash and bank balances	93,519	-	93,519	5,866	-	5,866	99,385	1 to 14
	93,519	-	93,519	213,099	107,785	320,884	414,403	
2007	1,116,342	-	1,166,342	2,227,991	-	2,227,991	3,394,333	
Financial Liabilities								
Borrowings	972,568	7,973,072	8,945,640	-	-	-	8,945,640	5.2 to 17.88
Trade and other payables	-	-	-	1,320,977	-	1,320,977	1,320,977	-
Retention money against project payments	-	-	-	239,033	553,445	792,478	792,478	-
	972,568	7,973,072	8,945,640	1,560,010	553,445	2,113,455	11,059,095	
2007	95,429	1,370,000	1,465,429	1,295,269	-	1,295,269	2,760,698	

35.2 Financial risk management

35.2.1 Fair value of financial instruments

The carrying values of the financial instruments reflected in the financial statements approximate their fair values.

35.2.2 Financial risk factors

The Company's activities expose it to a variety of financial risks namely market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's risk management program focuses on the unpredictability of financial markets and seeks to minimize the potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain risk factors. Risk management is carried out by the Finance Department under guidance of the Company's Board of Directors.

35.2.3 Foreign exchange (Currency) risk

Foreign exchange risk represents the risk that the fair value of financial instruments will fluctuate because of changes in foreign currency rates. The Company is exposed to foreign exchange risk arising from currency exposures primarily with respect to US Dollars. The risk arises from outstanding payments for imports, recognized assets and liabilities in foreign currency and future commercial transactions. In the current economic environment, the Company is significantly exposed to currency risk because of the expected volatility in exchange rates. The Company manages the foreign currency risk through forward contracts or prepayments. At December 31, 2008 the financial assets and liabilities exposed to foreign exchange risk amount to Rs. 88,276 (2007: Rs. 85,646) and Rs. 3,117,025 (2007: Rs. 989,676) respectively.

35.2.4 Interest rate risk

Interest rate risk represents the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk arising from long and short term borrowings. Borrowing at variable rates exposes the Company's cash flow to interest rate risk. Borrowing at fixed rate expose the Company to fair value interest rate risk. For borrowing at variable rates, the rates are fixed in advance for a stipulated period with reference to rates on Government Treasury Bills, LIBOR and KIBOR.

To manage its cash flow interest rate risk, the Company in November 2008 has entered into a floating to fixed rate interest swap on its foreign currency borrowing. Such interest rate swaps have the economic effect of converting floating rates to fixed rates. Under the interest rate swap the Company has agreed with the banks to exchange, at half yearly intervals the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional amounts.

35.2.5 Price risk

Price risk represents the risk that the value of financial instruments will fluctuate as a result of changes in market prices. During the year, the Company has disposed off all its investment, in Mutual Funds and Term Finance Certificates. Therefore, there is no major price risk faced by the management at balance sheet date.

for the year ended December 31, 2008 (Amounts in thousand)

35.2.6 Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments, deposits with banks, as well as credit exposures on outstanding trade debts and receivables. For banks and financial institutions independently rated parties with a high grade rating are accepted.

The credits to customers individual credit limits are set which are regularly monitored. The Company is not exposed materially to credit risk as these are secured by bank guarantees and letters of credit from customers.

Concentration of credit risk is minimized by dealing with a variety of major banks.

35.2.7 Liquidity risk

Liquidity risk represents the risk of entity encountering difficulty in raising funds to meet its commitments associated with financial instruments. The Company manages this risk by maintaining sufficient cash marketable securities, the availability of funding through an adequate amount of available credit facilities and through its ability to close out market positions. Due to the dynamic nature of the business, the Company's treasury aims at maintaining flexibility in funding by keeping committed credit lines available.

36. CAPITAL RISK MANAGEMENT

The objective of the Company when managing capital is to safeguard its ability to continue as a going concern and to provide expected returns to its shareholders by maintaining optimum capital structure to minimize the cost of capital.

To maintain or adjust the capital structure, the Company may issue new equity, manage dividend payouts to its shareholders or sell assets to reduce debt.

The Company manages capital by maintaining gearing ratio at certain levels. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings including current and non-current borrowings, as disclosed in note 14, less cash and cash equivalents as disclosed in note 34. Total capital is calculated as 'equity' as shown in the balance sheet plus net debt.

The gearing ratio at December 31, 2008 and 2007 were as follows:

	2008	2007
	(Rupees)	
Total borrowings - note 14	8,103,072	1,465,429
Less: Cash and cash equivalents - note 34	743,183	(247,856)
Net debt	8,846,255	1,217,573
Total equity	6,563,742	5,177,628
Total capital	15,409,997	6,395,201
Gearing ratio	0.574	0.190

for the year ended December 31, 2008 (Amounts in thousand)

37. TRANSACTIONS WITH RELATED PARTIES

37.1 Transactions with related parties other than those which have been disclosed elsewhere in these financial statements are as follows:

Nature of relationship	Nature of transactions	2008	2007
		(Rupees)	
Holding Company			
- Engro Chemical Pakistan Limited	Purchase of services	9,824	4,163
	Sale of services	2,807	2,837
	Sale of steam and electricity	28,859	35,366
	Use of operating assets	2,685	2,111
	Pension fund contribution	2,208	2,852
	Provident fund contribution	3,322	4,291
Associated Company			
- Mitsubishi Corporation	Purchase of goods	6,191,979	4,541,640
	Sale of goods	78,648	-
Related parties by virtue of common directorship			
- Engro Vopak Terminal Limited	Purchase of services	142,293	121,292
	Sale of services	1,219	-
- Central Insurance Company Limited	Insurance	458	8,731
- ICI Pakistan Limited	Directors Fee	15	-
	Purchase of Goods	4,102	-
- Dawood Hercules Chemicals Limited	Sales of services	37	-
	Reimbursement	71	-
- Indus Valley School of Art and Architecture	Purchase of services	100	-
- Lahore University of Management Sciences	Purchase of services	248	-
- Management Association of Pakistan	Purchase of services and Annual subscription	120	90
			-
- Port Qasim Authority	Purchase of services	11,095	4,739
- Overseas Investors Chambers of Commerce & Industry	Advertisement (Purchase of services)	27	122
	Annual Subscription	165	-
	Training Course (Purchase of services)	5	-
- Inbox Business Technologies (Pvt.) Limited	Purchase of goods	785	445
	Setup Oracle replication	150	-
- Avanceon	Purchase of goods	409	-
- Actis Assets Limited	Directors fee	5	-
Key management personnel	Managerial remuneration	117,696	81,553
	Retirement benefit funds	8,655	4,952
	Bonus	35,367	20,648
	Employee share option scheme	5,447	-
	Other benefits	12,794	10,509

for the year ended December 31, 2008 (Amounts in thousand)

37.2 Sales, purchases and other transactions with related parties are carried out on commercial terms and conditions.

37.3 The related party status of outstanding balances as at December 31, 2008 are disclosed in the respective notes.

38. PRODUCTION CAPACITY

	Designed Annual Capacity		Actual Production		Remarks
	2008	**2007**	**2008**	**2007**	
	Metric tons				
PVC resin	100,000	100,000	98,660	94,346	Production planned as per market demand

39. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on 27 Jan, 2009 by the Board of Directors of the Company.

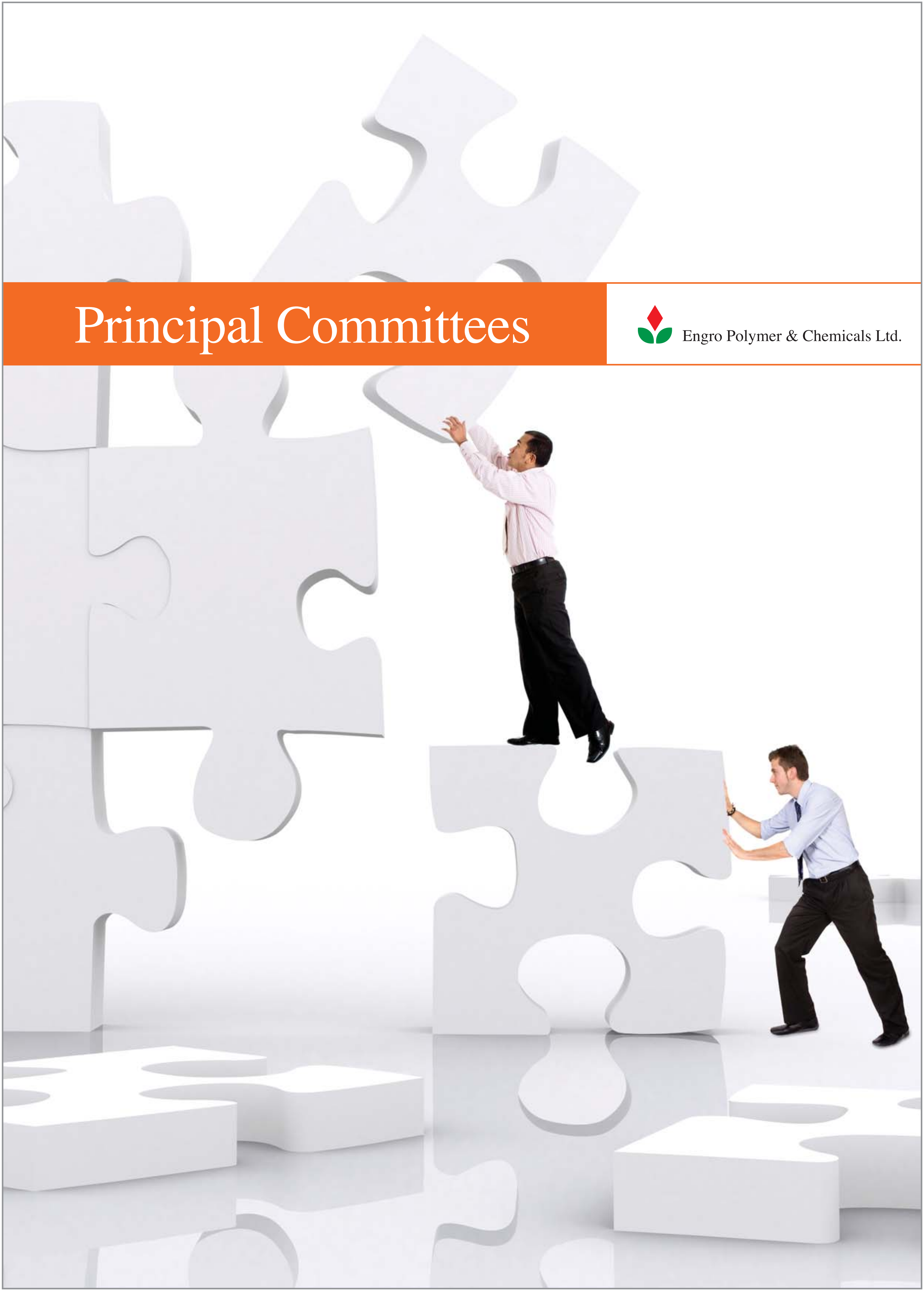
Asif Qadir

Asif Qadir
President & Chief Executive

Masaharu Domichi
Director

Principal Committees

Engro Polymer & Chemicals Ltd.



Principal Board Committees

Board Audit Committee (BAC)

The BAC assists the Board in fulfilling its responsibilities, primarily in reviewing and reporting financial and non-financial information to shareholders, system of internal control and risk management and the audit process. It has the power to call for information from management and to consult directly with the external auditors or their advisors as considered appropriate.

The BAC comprises of non-executive Directors. The Chief Financial Officer, head of Internal Audit and a representative of the external auditors attend meetings of the Audit Committee at which issues relating to accounts and audit are discussed. The Chief Executive Officer attends the meetings by invitation. The Committee also privately meets with the external auditors at least once a year. After each meeting the Chairman of the Committee reports to the Board. The Committee met three times during 2008.

Members


Isar Ahmad (Chairman)


Masaharu Domichi


Shabbir Hashmi


Khalid Siraj Subhani

The Secretary of the Committee is Saleem Lallany, Corporate Audit Manager.

Board Compensation Committee (BCC)

The BCC is responsible for administering the compensation, organization and employee development matters relating to the Company. It reviews the key human resource initiatives and organizational overview of the Company.

The BCC consists of two independent non-executive directors, two non-executive directors and one executive director who is the CEO of the Company. The Committee met three times during 2008.

Members


Asad Umar (Chairman)


Asif Qadir


Isar Ahmad


Waqar A. Malik


Masaharu Domichi

The Secretary of the Committee is M. Imran Farookhi, Human Resource Manager.

Principal Operation Committees

The following Committees act at the operation level in an advisory capacity providing recommendations relating to business and employee matters:

Management Committee (MC)

The MC is responsible for review and endorsement of long-term strategic plans, capital and expense budgets, development and stewardship of business plans and reviewing the effectiveness of risk management processes and internal control.

Members


Asif Qadir (Chairman)


Syed Ahsenuddin


Arshaduddin Ahmed


Syed Nayyar I. Raza


Zia Naeem Siddiqui


Syed Ashar Hussain


Saleem Lallany


M.Imran Farookhi


Khalid Mukhtar


Yoshio Shiga

The Secretaries of the Committee are:

i) M. Imran Farookhi, Human Resource Manager for HR related matters and
ii) Syed Nayyar I. Raza, Plant Manager for all matters other than those related to HR.

Safe Operations Committee Expansion (SOCE)

The SOCE is responsible for promoting safety standards, monitor personnel safety, health & risk management in the areas of design, operation & construction of new facilities in-line with Company's safety policies.

Members


Zia Naeem Siddiqui (Chairman)


Syed Ali Akbar


Mohammad Ali Ansari


Farrukh Iqbal Qureshi


Mohammad Naveed Rizvi


Syed Zubair Ahmed

The Secretary of the Committee is Mohammad Naveed Rizvi, EDC/VCM Construction Manager.

Corporate Governance

Engro Polymer & Chemicals Ltd.

Corporate Governance

Compliance Statement

The Compliance Statement along with the review report of Auditors on the Compliance Statement is included in this Annual Report.

Risk Management Process

The Management regularly reviews the financial and operational risks and has policies and procedures in place to highlight areas requiring attention.

Internal Control Framework

Responsibility: The Board is ultimately responsible for the Company's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board, whilst maintaining its overall responsibility for managing risk within the Company, has delegated the detailed design and operation of the system of internal controls to the Chief Executive.

Framework: The Company maintains an established control framework comprising clear structures, authority limits, and accountabilities, well-understood policies & procedures, and budgeting & review processes.

The Board establishes corporate strategy and the Company's business objectives. Divisional management integrates these objectives into divisional business strategies with supporting financial objectives. All policies and control procedures are documented in manuals.

Review: The Board meets quarterly to consider the Company's financial performance, financial and operating budgets and forecasts, business growth and development plans, capital expenditure proposals and other key performance indicators.

There is a company wide policy governing appraisal and approval of investment expenditure and asset disposals. Post completion reviews are performed on all material investment expenditure.

The Board Audit Committee receives reports on the system of internal financial controls from the external and internal auditors and reviews the process for monitoring the effectiveness of internal controls.

Audit: The Company has an Internal Audit function. The Board Audit Committee annually reviews the appropriateness of resources and authority of this function. The Head of Internal Audit reports directly to the Audit Committee on the results of its work. The Internal Audit function carries out reviews on the financial, operational and compliance controls, and reports on findings to the Chief Executive and the divisional management. All material issues are reported to the Board Audit Committee which approves the audit programme, based on an annual risk assessment of the operating areas.

Corporate Governance

To underpin the effectiveness of controls, it is the policy of the Company to attract, retain and develop staff of high caliber and integrity in appropriate disciplines. There is an annual appraisal process, which assesses employee performance against agreed objectives and identifies necessary training to maintain and enhance standards of performance.

Directors

At present, the Board includes four independent non-executive directors, two of whom also represent minority interests along-with five non-executive directors representing Engro Chemical Pakistan Limited, the majority shareholder and one executive director, being the CEO of the Company.

The non-executive Directors are independent of management and free from any business or other relationships that could materially interfere in the exercise of their judgment.

A Board of Directors meeting calendar is issued annually that schedules the matters reserved for discussion and approval. The full Board meets at least four times a year and, in addition, devotes additional time for a meeting on longer term planning, giving consideration both to the opportunities and risks of future strategy.

All Board members are given appropriate documentation in advance of each Board meeting. This normally includes a detailed analysis on businesses and full papers on matters where the Board will be required to make a decision or give its approval.

Engro Polymer & Chemicals Ltd.

Head Office: First Floor, Bahria Complex I, 24 M.T. Khan Road, Karachi-74000, Pakistan.
UAN: 111 411 411 PABX: +92-21-5610610-5610743-5610753 Fax: +92-21-5611690
Website: www.engropolymer.com