GR

NATURE AT IT'S BEST

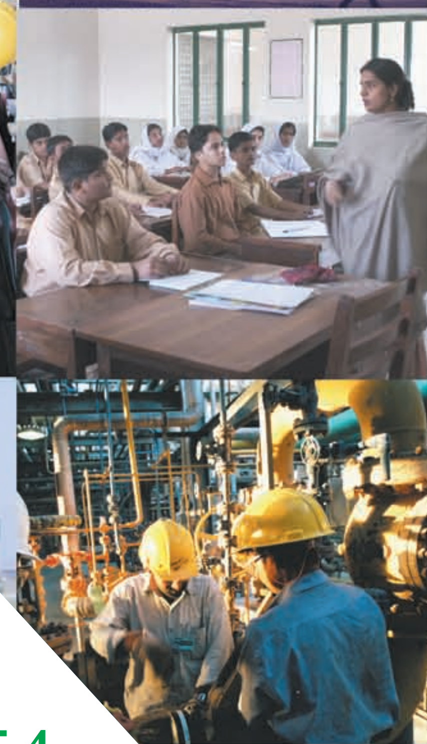
Annual Report 2005

Highlights

- Industry - urea sales up 10% to 5.2 million tons and phosphates up 13% to 1.5 million tons.
- Average retail price of urea at Rs 472 per 50/kg bag was approximately 53% below international price.
- Engro urea production at 912,000 tons was a new record for a turnaround year.
- Achieved urea sales of over 1 million tons of which Engro urea sales were 890,000 tons.
- Zarkhez sales grew by 25% to 143,000 tons.
- Attained record profit after tax of Rs. 2.3 billion.
- Joint ventures' profits for the year - Engro Vopak Rs 438 million; Engro Asahi Rs 305 million.
- Cash dividend of Rs 11.00 per share.
- Rights issue of 10% at the rate of Rs 80 per share.

Key Figures

		2005	2004
Sales revenue	Rs Million	18,276	12,797
Profit after Tax	Rs Million	2,319	1,611
Number of outstanding shares	(000's)	152,940	152,940
Earnings per share - Basic and Diluted	Rs	15.16	10.53
Dividend	Rs/share	11.00	8.50
Capital Expenditure	Rs Million	377	520
Long Term Investments	Rs Million	2,173	1,425
Total Assets	Rs Million	14,112	13,185
Shareholders' Equity	Rs Million	7,376	6,586
Return on Capital Employed	%	23%	18%
Current Ratio		1.8	1.5
Debt: Equity Ratio		28:72	28:72
Market Capitalization (Year End)	Rs Million	25,151	19,775
Market Capitalization (Year End)	US$ Million	421	333
Price to Earnings Ratio		10.85	12.28
Net Assets per share	Rs	48.23	43.06



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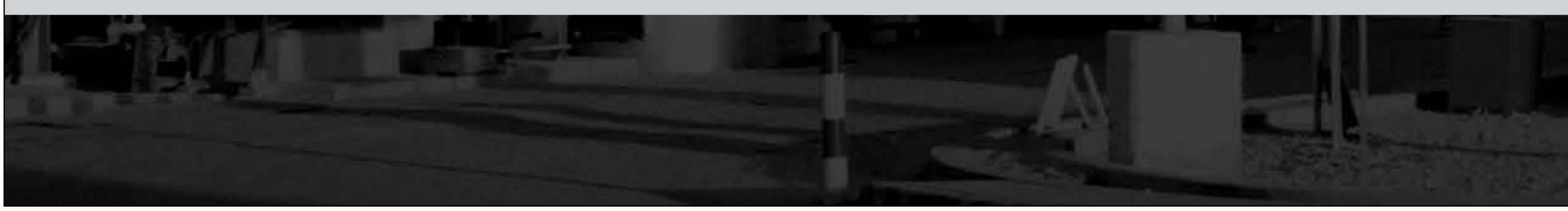
Consolidated Financial Statements





Company Information

S. Naseem Ahmad, Chairman
Asad Umar, President & Chief Executive
Javed Akbar
Muhammad Ali
Hussain Dawood
Shahzada Dawood
Parvez Ghias
Zaffar A. Khan
Arshad Nasar
Asif Qadir

Secretary
Andalib Alavi

Bankers
ABN AMRO Bank N.V.
Allied Bank of Pakistan Limited
Askari Commercial Bank
Bank Al-Habib
Bank Al-Falah
Citibank N.A.
Faysal Bank Limited
Habib Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
Meezan Bank Limited
MCB Bank Limited
National Bank of Pakistan
Standard Chartered Bank
Union Bank Limited
United Bank Limited

Auditors
KPMG Taseer Hadi & Co.
Chartered Accountants

Registered Office
PNSC Building, Moulvi Tamizuddin Khan Road, Karachi.

Notice of Meeting

NOTICE IS HEREBY GIVEN that the Fortieth Annual General Meeting of Engro Chemical Pakistan Limited will be held at Karachi Marriott Hotel, Abdullah Haroon Road, Karachi on Thursday, March 30, 2006 at 10.00 a.m. to transact the following business:

A. ORDINARY BUSINESS

(1) To receive and consider the Audited Accounts for the year ended December 3l, 2005 and the Directors' and Auditors' Reports thereon.

(2) To declare a final dividend at the rate of Rs. 5.00 per share for the year ended December 31, 2005.

(3) To appoint Auditors and fix their remuneration.

(4) To elect ten directors in accordance with the Companies Ordinance, 1984 for a period of three years commencing from April 22, 2006. The retiring Directors are Mr. S. Naseem Ahmad, Mr. Asad Umar, Mr. Javed Akbar, Mr. Muhammad Ali, Mr. Hussain Dawood, Mr. Shahzada Dawood, Mr. Parvez Ghias, Mr. Zaffar A. Khan, Mr. Arshad Nasar and Mr. Asif Qadir.

B. SPECIAL BUSINESS

(5) To consider, and if thought fit, to pass the following resolution as a Special Resolution:

“RESOLVED that the consent of the Company in General Meeting be and is hereby accorded to invest an amount of upto Rs. 1,000,000,000 (rupees one billion) in Ordinary shares of a Subsidiary company, Engro Foods (Private) Limited.”

(6) To consider, and if thought fit, to pass the following resolution as a Special Resolution:

“RESOLVED that the consent of the Company in General Meeting be and is hereby accorded to invest an amount of upto Rs. 3,200,000,000 (rupees three billion two hundred million) in Ordinary shares of a proposed Subsidiary company, Engro Energy (Private) Limited.”

A statement under Section 160 of the Companies Ordinance, 1984 setting forth all material facts concerning the Resolutions contained in items (5) and (6) 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

Karachi,
Dated: January 31, 2006.

ANDALIB ALAVI
General Manager Legal
& Company Secretary

N.B. (1) The Directors of the Company have fixed, under sub-section(1) of Section 178 of the Companies Ordinance, 1984, the number of elected directors of the Company at ten.

(2) The share transfer books of the Company will be closed and no transfers of shares will be accepted for registration from March 16, 2006 to March 30, 2006 (both days inclusive). Transfers received in order at the office of our Registrars, M/s. Ferguson Associates (Private) Limited, Ground Floor, State Life Building 1-A, I.I. Chundrigar Road, Karachi-74000 upto the close of business (5:00 p.m.) on March 15, 2006 will be in time to entitle the transferees to the final dividend, offer of Rights shares and to attend the meeting.

(3) 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 Fortieth Annual General Meeting of Engro Chemical Pakistan Ltd. to be held on March 30, 2006 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 5 OF THE AGENDA

Engro Chemical Pakistan Limited (“ECPL”), as part of its vision to diversify its business, has established Engro Foods (Private) Limited (“EFL”) for undertaking the food business. Pakistan still being primarily an agriculture based country / economy, ECPL foresees great opportunities in the food business. The business is being entered through the dairy field with initial focus on the milk business but in the medium to longer term it is envisaged that EFL will undertake other food businesses as well. Approval of the shareholders of ECPL was obtained for investing Rs. one billion in Ordinary shares of EFL at an EGM of ECPL held on May 27, 2005. The proposed Special Resolution, required by S. 208 of the Companies Ordinance 1984, would accord ECPL’s consent in General Meeting to invest a further Rs. one billion in Ordinary shares of EFL, which is a 100% owned subsidiary of ECPL.

Most of the amount of Rs. one billion already approved has been spent by EFL to finance its initial investments for setting up the milk processing facility in Sukkur and allied equipment and facilities, including over a hundred properly equipped milk collection centres, and on hiring and equipping its human resources. Its expenditure todate has been approximately Rs. 750 million and the remainder of the initial Rs. one billion approved investment will be spent by end March 2006 to complete its facilities and on its initial advertising and other expenses. Milk production by EFL is expected to commence during the first quarter of 2006. Due to the nature of the FMCG business, where investments in plant and sales & marketing, including advertisement for brand building, have to be made upfront to reach the required economies of scale, losses are suffered in initial years and returns on these investments take some years to materialise, therefore more equity is required to be injected by ECPL, the parent Company. This is as per the Plan for the business. As per the Plan, EFL is projected to have total losses of around Rs. 700-900 million during the first three years of operations with profitability thereafter. In the medium to longer term, EFL's business is expected to be a high growth and profitable business.

The information required under SRO 865(I)/2000 is provided below:

(i) **Name of investee company or associated undertaking -**
Engro Foods (Private) Limited

(ii) **Nature, amount and extent of investment -**
Subscription of Rs. one billion in Ordinary shares of EFL.

(iii) **Average market price of the shares -**
N / A

(iv) **Break-up value of shares -**
N / A

(v) **Price at which shares will be purchased -**
Rs. 10/-

(vi) **Earning per share of investee company in last 3 years -**
N / A

(vii) **Source of funds from where shares will be purchased -**
ECPL intends to fund this investment from the Rights issue being announced today.

(viii) **Period for which investment will be made -**
Long term

(ix) **Purpose of investment -**
To provide funding to EFL, as detailed above

(x) **Benefits likely to accrue to the Company and the shareholders from the proposed investment -**
The benefits to ECPL (and its shareholders) will come from the profitability of EFL which will be reflected in the value of its shares (and consequently in the value of the shares of ECPL) and the receipt of dividend income from EFL.

(xi) **Interest of directors and their relatives in the investee company -**
The directors of ECPL have no personal interest in EFL except that some directors of ECPL are directors of EFL and hold one share each in EFL, as nominees of ECPL.

ITEM 6 OF THE AGENDA

ECPL as part of its vision to diversify its business has identified the Power sector also as providing good opportunities for investment, inter alia due shortage of generation capacity in the country. ECPL had submitted a proposal to the Private Power & Infrastructure Board (PPIB) to construct a power plant and the ECC of the Cabinet, in September 2005 approved allocation of permeate gas available in the Qadirpur gas field for an IPP. On January 6, 2006 ECPL has been issued a formal Letter of Interest (LOI) by PPIB. The LOI requires ECPL to conduct and complete a detailed feasibility study (F/S) for the IPP within a period of 6 months. ECPL is confident that the F/S and tariff negotiations will be successful and that a Letter of Support (LOS) will be issued by PPIB as

per the Power Policy 2002, after which the IPP will be constructed. The plant capacity is expected to be approximately 200 MW. ECPL plans to incorporate a Subsidiary company proposed to be named Engro Energy (Private) Limited (EEL) (or other similar name) to conduct the F/S and implement the IPP.

The IPP is presently estimated to cost US$ 200M and at a debt : equity ratio of 75:25, ECPL will need to inject approximately the equivalent of US$ 50M, or Pakistani rupees three billion two hundred million, as equity in the IPP. It is expected that after the successful conclusion and approval of the F/S and issuance of LOS by PPIB, the project construction and implementation will take approximately 24 months. Recent NEPRA tariff determinations for IPP's have provided for a Return on Equity of around 15%.

The information required under SRO 865(I)/2000 is provided below:

(i) **Name of investee company or associated undertaking -**
Engro Energy (Pvt.) Limited (Proposed to be incorporated)

(ii) **Nature, amount and extent of investment -**
Subscription of Rs. 3.2 billion in Ordinary shares of EEL.

(iii) **Average market price of the shares -**
N / A

(iv) **Break-up value of shares -**
N / A

(v) **Price at which shares will be purchased -**
Rs. 10/-

(vi) **Earning per share of investee company in last 3 years -**
N / A

(vii) **Source of funds from where shares will be purchased -**
ECPL intends to fund this investment from a combination of part usage of the Rights issue being announced today, internal cash generation, further equity and possible further debt.

(viii) **Period for which investment will be made -**
Long term

(ix) **Purpose of investment -**
To provide funds to EEL to enable it to construct and operate the power plant.

(x) **Benefits likely to accrue to the Company and the shareholders from the proposed investment -**
The benefits to ECPL and its shareholders will be receipt of dividend income from EEL alongwith expected increase in the value of shares of EEL, both of which should also result in increased dividends to the shareholders of ECPL and increased value of the shares of ECPL

(xi) **Interest of directors and their relatives in the investee company -**
The directors of ECPL will have no personal interest in EEL, which will be a Subsidiary of ECPL, except that some directors of ECPL are proposed to be appointed, as nominee directors, on the Board of EEL.

The Board of Directors

Javed Akbar

Javed Akbar is Vice President of Engro Chemical Pakistan Ltd., and Chief Executive of Engro Vopak Terminal Ltd. He has held key assignments at Engro and with Exxon Chemical in USA and Canada. He represents industry on a committee dealing with environmental policy regulation. A Masters in Chemical Engineering, he joined the ECPL Board in 1994.

Zaffar A. Khan

Zaffar A. Khan is a former President and Chief Executive of Engro Chemical Pakistan Ltd. He is the Chairman of the PTCL Board of Directors, a director on the Boards of Unilever Pakistan and Pakistan Steel and former President of Overseas Investors Chamber of Commerce and Industry. A Mechanical Engineer by qualification, he joined the ECPL Board in 1982.

Hussain Dawood

Hussain Dawood is the chairman of the Dawood Group and The Pakistan Poverty Alleviation Fund, a World Bank financed apex NGO, and a director of The Pakistan Business Council, SNGPL and Pakistan Refinery Limited. Member of the SAARC Business Leaders Conclave and the Hon. Consul for Italy in Lahore. He is a regular participant at the World Economic Forum at Davos. A Masters in Business Administration from the Kellogg School of Management, Northwestern University, with a degree in Metallurgy, he joined the ECPL Board in 2003.

Asad Umar

Asad Umar is President and Chief Executive of Engro Chemical Pakistan Ltd. and Chairman of Engro Asahi Polymer & Chemicals Ltd, Engro Vopak Terminal Ltd., and Engro Foods (Private) Limited and is a director on the Boards of the Oil & Gas Development Company Ltd., the Pakistan Dairy Development Company, the Pakistan Centre for Philanthropy, the Pakistan Business Council and a trustee on the LUMS Board of Trustees. He has held key assignments at Engro and with Exxon Chemical in Canada. A Masters in Business Administration, he joined the ECPL Board in 2000.

Syed Naseem Ahmad

Syed Naseem Ahmed is the Chairman of Engro Chemical Pakistan Ltd., and the Chairman and Managing Director of Pakistan Security Printing Corporation and Security Papers Ltd., and the Chairman of SICPA Pakistan Limited. A former Chief Executive of Philips Pakistan and President of the Overseas Investors Chamber of Commerce and Industry. He is also a director of Pakistan Cables Ltd. and Wazir Ali Industries Ltd. A Masters in Physics by qualification, he joined the ECPL Board in 1998.

Arshad Nasar

Arshad Nasar is the former Country Chairman and Managing Director of Caltex Oil Pakistan Limited and has served as a Director on the Boards of Pakistan Refinery Limited, Pak Arab Pipeline Company Limited and Petroleum Institute of Pakistan. He is also a former President of American Business Council of Pakistan and has undertaken several key assignments with Caltex Oil both in-country and overseas. He is currently the Chairman of the Board of Directors of OGDCL. He holds a Masters degree in Economics as well as Political Science and joined the ECPL Board in 2002.

Shahzada Dawood

Shahzada Dawood is the Chief Executive of Dawood Hercules Chemicals Limited. He is a Director on the Board of Sui Northern Gas Pipelines Limited and also of a number of other companies engaged in diversified business fields. A Masers in Global Textile Marketing and a LL.B, he joined the ECPL Board in 2003.

Parvez Ghias

Parvez Ghias recently retired as Vice President of Engro Chemical Pakistan Ltd., and is presently chief executive of Indus Motor Company Limited. He has undertaken several key assignments at Engro and with Exxon Chemical in Hong Kong and Canada. A fellow of the Institute of Chartered Accountants, he joined the ECPL Board in 1997.

Muhammad Ali

Muhammad Ali is the Chairman of Three Sixty Degree Pakistan (Private) Limited and Vice Chairman of Inbox Business Technologies (Pvt.) Limited. A Masters in Business Administration, he joined the ECPL Board in 2003.

Asif Qadir

Asif Qadir is Senior Vice President of Engro Chemical Pakistan Ltd. and Chief Executive of Engro Asahi Polymer & Chemicals Ltd. He has held key assignments at Engro and with Exxon Chemical Canada. A Masters in Chemical Engineering by qualification, he joined the ECPL Board in 1997.

The Directors' Report

The Directors of Engro Chemical Pakistan Limited are pleased to submit the fortieth annual report and the audited accounts for the year ended December 31, 2005.

Principal Activities

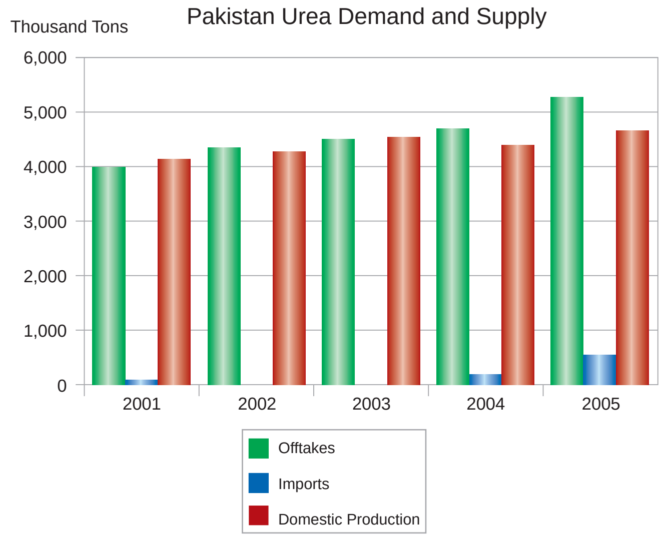
The principal activity of the Company is manufacturing and marketing of fertilizers. The Company also has investments in joint ventures engaged in chemical terminal and storage, PVC resin manufacturing and marketing and automation and control businesses. The Company also produces & markets seeds. During the year, the Company decided to diversify into the foods business by forming and investing in Engro Foods (Pvt) Ltd.

Business Review

Overall, 2005 was an excellent year with new records being created in almost all segments of the Company's business. Our urea business remained strong, imported phosphates volumes and margins had a healthy growth and our fertilizer Zarkhez had another good year due to higher production and sales.

UREA

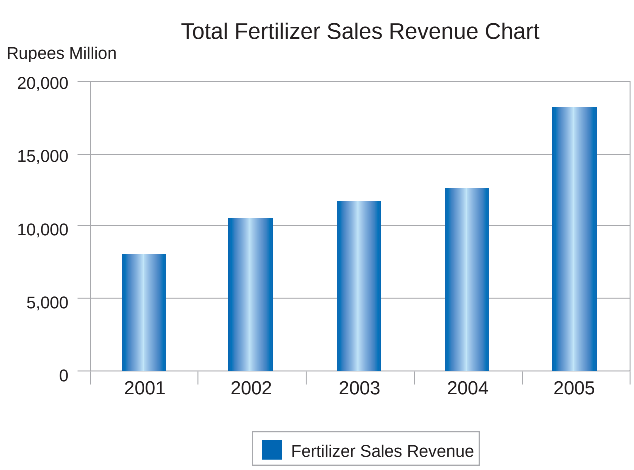
Urea industry witnessed robust growth of approximately 10% as the market grew from 4.7 million tons in 2004 to 5.2 million tons in 2005. Improved farm economics, availability of water, continued increase in crop support prices and significant increase in availability of credit to farmers contributed to the high growth. Local manufacturers aided by no load shedding maximized production to cater for the growing demand. Urea production increased from 4.4 million tons in 2004 to 4.7 million tons in 2005, registering a growth of 7%.



The Directors' Report

Urea shortfall in the country was countered by prompt imports of 561,000 tons by the Government of Pakistan. International Urea prices remained high in 2005 so that imports cost approximately Rs. 1,000 per 50 kg bag as compared to an average local price of Rs 472 per bag. The Government decided to absorb the difference between the imported & domestic prices and in the process provided a sizeable subsidy of Rs. 5.6 billion to the farmers. By providing Urea domestically at substantially lower prices than international prices, the fertilizer industry has provided a net benefit of approximately Rs. 30 billion to the farmers of Pakistan.

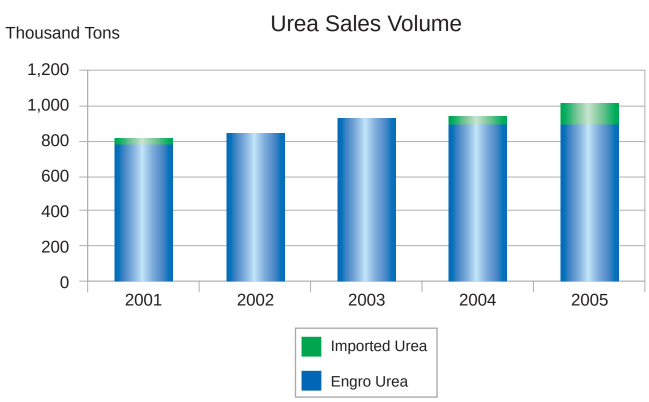
Engro Urea production in 2005 of 912,000 tons, represented increase of 5% over 2004, was the best ever production achieved in a shutdown year. Modifications implemented in the maintenance shutdown contributed to increased production and efficiency. Major projects which resulted in increased production capability of the plant, improved energy efficiency and enhanced site reliability were replacement of Secondary Reformer burner, special high emissive coating in Primary Reformer and major repairs / revamp of the Primary Reformer. After the modifications made during the maintenance shut down in 2005, our Daharki plant is now the most energy efficient fertilizer site in Pakistan. The Company is developing plans to further improve plant reliability and efficiency.



Total Fertilizer Sales Volume (Thousand Metric Tons)				
2001	2002	2003	2004	2005
984	1,220	1,306	1,255	1,522

Mr. Asad Umar giving away Champion Dealer Award to M/S Tahir Brothers

Sales of over 1 million tons of Urea in 2005 have been the highest ever recorded in the Company's history. This comprised of 890,000 tons of Engro Urea and 112,000 tons of imported Urea. Engro market share for the year in review remained at about 20%. Overall the Company sold 1.52 million tons of fertilizers, a growth of 21% vs. 1.26 million tons sold in 2004.



The Company launched a pilot Engro farmer directory project in one district which will help identify and categorize farmers according to their farming requirements and help shape our technical services to fulfill customers' needs.

Engro Technical Team continued to contribute articles in various newspapers and publications and special training workshops were held for the field staff of Sugar Mills, Citrus Polishing Plants, Agriculture Extension and our dealers.

During the year, the concept of a Company Owned Branded Outlet (COBO) was introduced. First COBO in Kot Momin, District Sargodha, started its operations and a second COBO is expected to start its activities by first

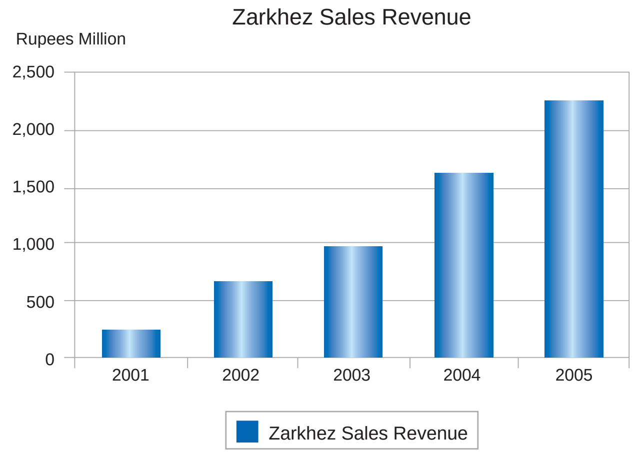
A view of company owned branded outlet

quarter 2006. Each COBO will house an agriculture graduate and a field assistant to guide and advise farmers on the correct use of fertilizers with the aim to increase their farm productivity. It also re-launched www.engrozarai.com. The web site provides fertilizer and soil related information and be a platform for agricultural experts, farmers, dealers and Engro Technical Team to share ideas and respond to customers' queries.

ZARKHEZ

In May 2005, Engro achieved another milestone by launching Engro NP that was manufactured at Zarkhez plant. In our first year, we sold 28,000 tons of Engro NP. Total combined sales of Zarkhez and Engro NP were 143,000 tons, registering an increase of 25% over 2004.

2005 was another good year for the Zarkhez Plant. The production was a record 157,000 tons, an increase of 30% over 121,000 tons achieved last year and 57% above the name plate capacity of 100,000 tons per annum. The contribution of Engro NP production was 31,000 tons in 2005. Plant also improved its operating efficiencies and is now fully equipped to produce 180,000 tons in 2006. The bulk raw material warehouse with a capacity of 20,000 tons was completed in May 2005 with an investment of Rs 80 million resulting in efficient storage and handling of raw materials.



ZARKHEZ SALES VOLUME
(Thousand Metric Tons)

2001	2002	2003	2004	2005
24	64	86	114	143

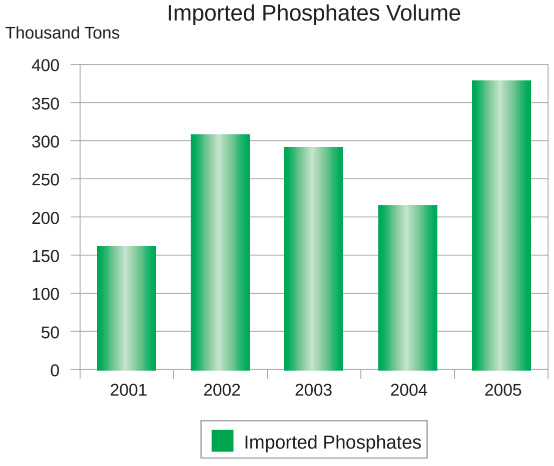
PURCHASED FERTILIZERS

In 2005, overall market for phosphates grew by 13% to 1.5 million tons. The market remained bullish throughout the year despite the fact that international phosphate prices touched all time high.

Engro's imported DAP sales volume more than doubled to 281,000 tons, from 135,000 tons sold in 2004. In an environment of increasing phosphate prices, Engro made timely purchase decisions and gained considerable price advantage over competition.

Engro Zorawar was repositioned based on its benefits which resulted in strategy shift for the brand. Zorawar volume increased to 96,000 tons up 23% over 78,000 tons sold in 2004. Engro is investing aggressively in promoting the brand and building its image as an effective and economical source of phosphorus.

Engro's overall phosphate sales volume was 377,000 tons which is the highest ever for the business in any year. Our market share for DAP / MAP for the year was 25% compared to 16% in 2004.



The Directors’ Report

TONICS

Engro further diversified its product portfolio by extending its micronutrients product line. Zingro (Zinc Sulphate) and Zoron (Boron) are essential micronutrient brands which fall under the Tonics Category and have their unique characteristics and resultant benefits for a variety of crops.

Sales of Zingro for 2005 were 1,512 tons against 635 tons sold in 2004, registering a growth of 138%. Engro achieved market leadership in this category with a market share of 17%. Zoron was test marketed this year as well.

Director General Agriculture Research, Dr. Haji Khan Keerio, addressing during Tonic’s launch ceremony

BEMISAL SEEDS

2005 was a disappointing year for our seeds business. Sales were below our expectations and the business continued to show losses. To give more focus to hybrid seed development, open pollinated seed production and sales were reduced during the year and the Company sold 162 tons of hybrid and 1094 tons of open pollinated seeds vs. 182 tons and 2,800 tons sold respectively in 2004.

The Company has recently re-evaluated its seed business strategy. As the country lacks regional competitive advantage in seed research and production as well as a lack of significant synergy for the Company with the fertilizer business and availability of other more profitable opportunities, the Company has decided to exit from the business in a phased manner.


Replacement of Insulation on liquid Ammonia storage tank

HEALTH, SAFETY, ENVIRONMENT AND QUALITY

The Company operated without a lost work injury (LWI) to any employee. The Urea plant at Daharki site achieved 11.5 million man-hours (MMH) without LWI to an employee over a period of 9 years. This is a significant achievement and an all time record since the startup of the plant in 1968. In addition, the Company completed 14.8 million man-hours without LWI to any employee of our contractors over a period of 7 years. Zarkhez Plant achieved 0.4 million man-hours without LWI to an employee over a period of 3 years. In addition, it completed 0.744 million man-hours without LWI to any employee of our contractors.

The non-manufacturing functions also maintained their excellent safety record now extending over a period of nearly 19 years without LWI. Particularly creditable is the effort of the marketing sales force that achieved 17.8 million kilometers of safe driving over a period of 25 years without suffering LWI.

Engro's endeavor to upgrade the safety systems to the world class standard is continuing. A major milestone was the adoption of Process Safety Risk Management (PSRM) system. PSRM provide a framework to manage a hazardous chemical process plant with minimum risk. The system has fourteen elements covering the technology, facilities and personnel management. All Manufacturing systems were reviewed and upgraded. Similarly, Personnel (Behavioral) Safety Management Systems were also adopted which demand more active involvement of different level of

The Directors' Report

organization in day to day safety improvement. Compliance of the new system would be the major target for the next year. An external audit is planned by DuPont Safety resource consultants to benchmark the Company against the world class standards.

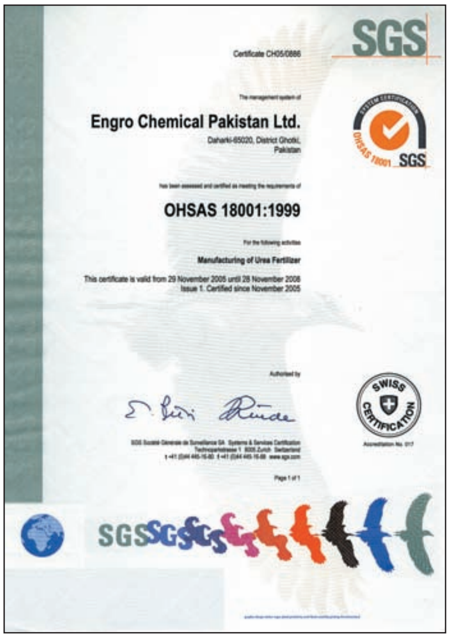
Emergency handling & fire fighting capability analysis of the Urea plant at Daharki was also carried out using the expertise of DuPont safety resources consultant. A number of recommendations have been given which will be implemented in 2006.

On the environment front, 100% NEQS compliance was achieved and self reporting to SEPA was started in 2005. A comprehensive environmental footprint was developed to cover all manufacturing sites and functions of the Company. A five-year Environmental Plan has also been developed to reduce the environmental footprint.

A comprehensive and revamped Occupation Health Program is being developed and phase-I was launched in 2005.

A new Health, Safety & Environment (HSE) policy was also approved by the Board. This policy is more in line with Engro's endeavor to be a world class performer in the field of HSE management.

During 2005, we obtained OHSAS-18001 and SA-8000 certifications. In addition to these certifications, preliminary work has been completed for ISO-17025 certification. Zarkhez Plant is also working towards achieving ISO-14001 Environment Certification in 2006.



SGS

Certificate CH05/0886

The management system of

Engro Chemical Pakistan Ltd.

Daharki-65020, District Ghotki, Pakistan

has been assessed and certified as meeting the requirements of

OHSAS 18001:1999

For the following activities

Manufacturing of Urea Fertilizer

This certificate is valid from 29 November 2005 until 28 November 2008
Issue 1. Certified since November 2005

Authorised by

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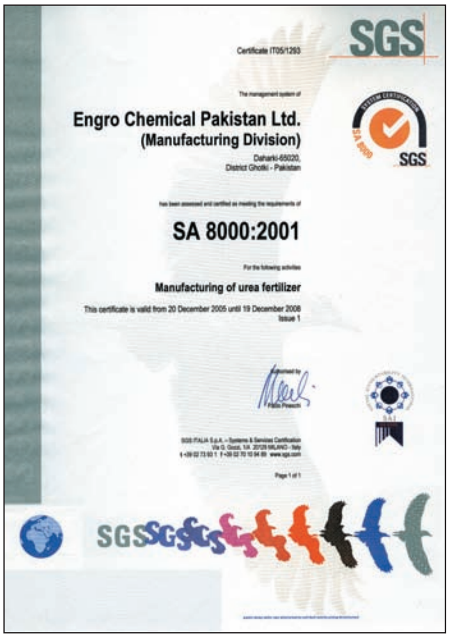


SGS

Certificate IT05/1293

The management system of

Engro Chemical Pakistan Ltd.
(Manufacturing Division)

Daharki-65020, District Ghotki - Pakistan

has been assessed and certified as meeting the requirements of

SA 8000:2001

For the following activities

Manufacturing of urea fertilizer

This certificate is valid from 20 December 2005 until 19 December 2008
Issue 1

Page 1 of 1

A view of Marketing Conference

EMPLOYEE RELATIONS AND ORGANIZATION DEVELOPMENT

Due to the overall increase in economic activity, the Company witnessed a higher than usual level of attrition. Focus was maintained on recruiting quality resources both for the Company as well as for Engro Foods (Private) Limited.

The Company maintained its focus on Training & Development with the designing of a new program on leadership and self development. During the year, the foundation was laid for launching a company wide Six Sigma Quality initiative with the basic training provided to the top management. The pilot program in 360 degree appraisal for the senior management was a success and it will now be a formal part of the overall appraisal process.

The overall industrial climate and employee relations remained cordial. The existing Collective Labour Agreement with the Daharki Staff Union expired on 31st December 2005 and a new agreement is being negotiated.

The Directors' Report

SOCIAL CITIZENSHIP

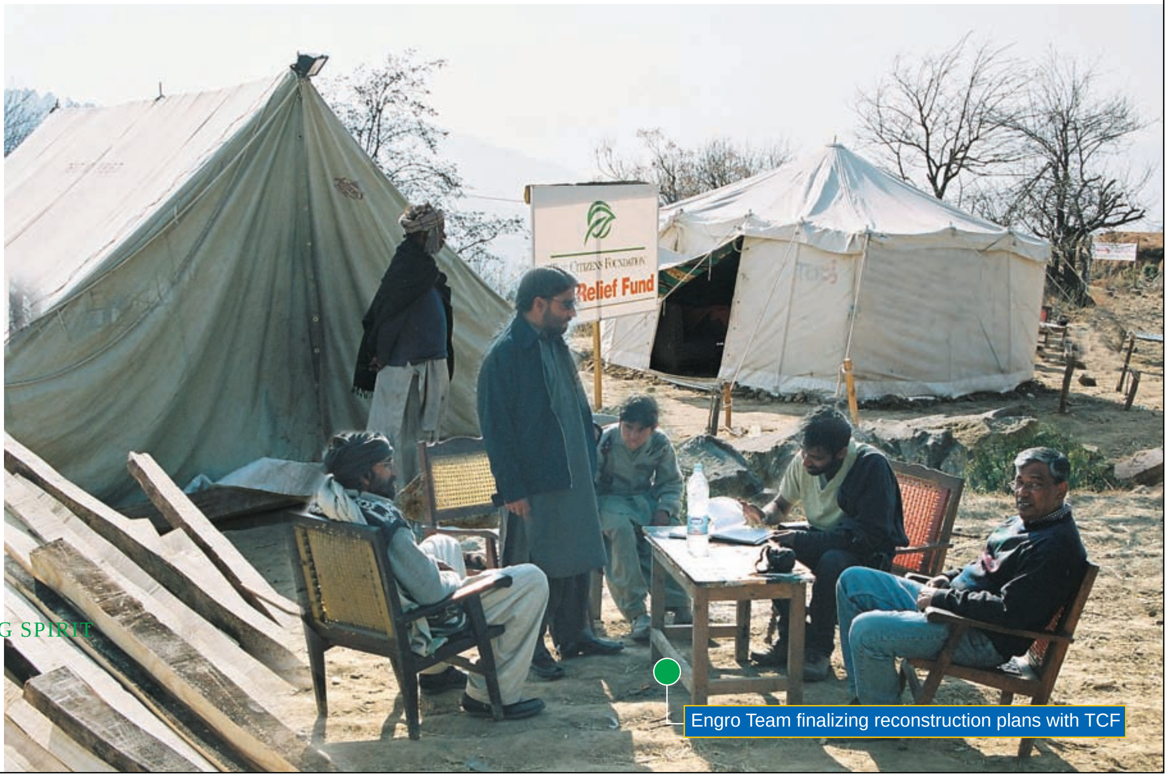
Earthquake Relief Operation

Pakistan saw it's worst natural disaster when a massive earthquake measuring 7.6 on the Richter Scale hit Northern Pakistan with epicenter at 105 Km NNE of Islamabad at 8:50 A.M. on Saturday, 8th October 2005.

Engro Chemical Pakistan Limited and its associated companies acted quickly to support the people of this worst ever earthquake of Pakistan by pledging in excess of Rs. 39 Million. Apart from dispatching relief goods in self hired trucks, Engro employees were also engaged in loading relief supplies at PAF base on voluntary basis. In addition Urea and DAP fertilizers were also donated.

The above donation of Rs 39 million is inclusive of Rs 1 million each by Engro Vopak and Engro Asahi and Rs 0.3 million by Engro's visitors from Nigerian Government led by Mr. Akin Kekere Ekun, Presidential Technical Advisor on Privatization.

The Company is embarking upon a plan to launch a rehabilitation plan for the earthquake victims in 2006. The Citizens Foundation (TCF) has been chosen as partner to carryout rebuilding of a village containing more than 100 houses around Balakot area. Basic civic facilities like mosque, school, sewerage and access roads will also be provided to the residents of the selected village. The cost of such rebuilding is expected to cross Rs. 45 million which will be fully funded by Engro and its associates (of which Rs 15 million have already been disbursed). The completion of this project is expected during 2006.



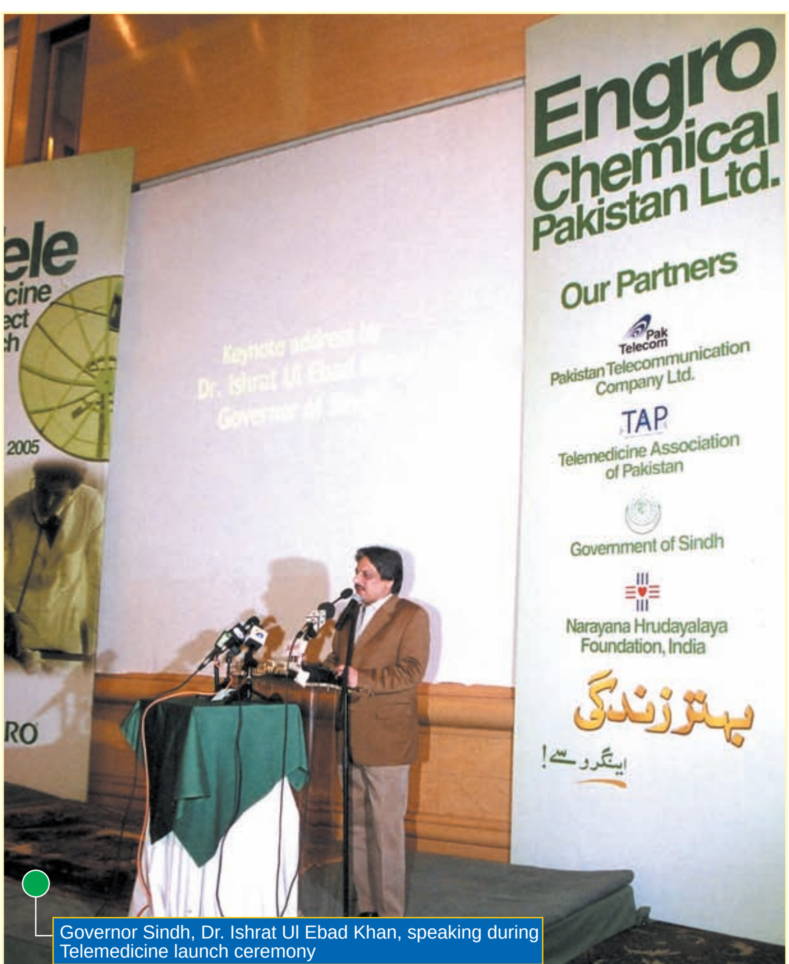
Engro Team finalizing reconstruction plans with TCF

TeleMedicine Project

The Company initiated work on the first Telemedicine project in 2004 that delivers health care services to selected rural areas from specialist doctors in Karachi using communication technologies for diagnosis, treatment and prevention of diseases. The facility includes electronic online transmission of X-rays, Electro Cardiograms and patients live heartbeats for real time consultation by experts. Video conferencing and image transfer facility has also been provided between Hub and the Spokes.

The project has been commissioned at two locations. The specialists at Karachi Hub examine patients referred to them electronically from Gambat Institute of Medical Sciences and from Shikarpur District Hospital. 100 tele-consultations were made during fourth quarter of 2005. Arrangements for the additional Spokes have been finalized for Ghotki District Hospital, District Hospital Jacobabad and two other hospitals of Sindh whereas extension of this facility to Muzaffarabad is also being considered.

The Board would like to take this opportunity to acknowledge the efforts and support of Pakistan Telecommunication Company Limited, Telemedicine Association of Pakistan, Government of Sindh and Narayana Hrudayalaya Foundation, India in making Tele-Medicine Project a success.



Governor Sindh, Dr. Ishrat Ul Ebad Khan, speaking during Telemedicine launch ceremony

In addition to the above activities, the Company continued to support:

- The Oncology Unit at Aga Khan University Hospital, Karachi which has now been completed and inaugurated in December 2005.

- Engro Thalasaemia Centre, Sukkur has provided treatment to more than 600 patients. Approximately 23,000 blood transfusions have taken place since its inception. We continued to sponsor the project this year as well by donating Rs.1 million to construct a welfare operation theatre complex, 2 wards & 13 private rooms.

- School Adoption Program: 6 government schools of District Ghotki have been adopted under the Sindh Government's Public Private Partnership Program in 2005. About 1,850 students are benefiting from this program.

- Katcha Schools Program - an informal education program in Katcha (riverine) area of Indus in Ghotki District which now has a total of 11 schools operating with an enrollment of more than 850 students and 18 full time trained teachers. On infrastructure front in this area, we have leveraged our contribution with USAID and district government funding by constructing proper school structures at four locations.

Engro Thalasaemia Centre at Sukkur

Chairperson SOS, Mrs Mughis Shaikh, presenting Shield to ECPL

- Training and Resource Centre - the only teachers training facility in Ghotki District. Since its inception in 1999, more than 2,500 teachers of Ghotki District have been trained at the centre.

- Sahara Welfare Society, a not-for-profit voluntary organization substantially funded and managed by the employees of the Company at Daharki, runs a primary school, vocational training school and a free clinic.

- Free snakebite treatment - 5,000 victims treated in 2005 at the Company's 24-hours 7-day clinic at plant site in Daharki.

- Dialysis Centres at Daharki and Mirpur Mathelo – made operational in June 2005.

- The Eye Care Centre at Daharki - has so far treated more than 45,000 patients for various ailments.

- Free Eye Camp at Ranipur - the camp registered a total of 1,450 out patients of which 110 were screened for surgeries.

FINANCIAL REVIEW

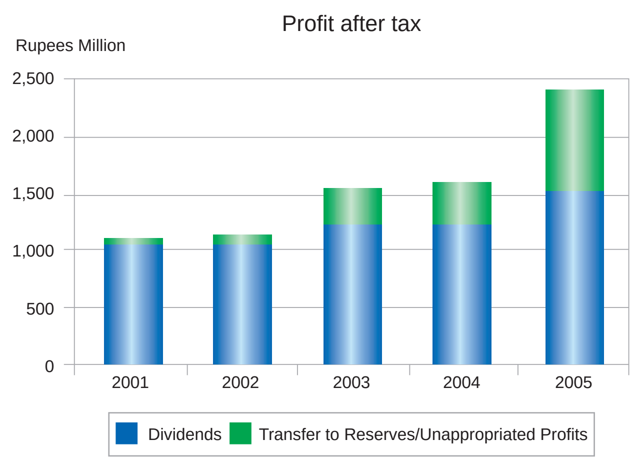
Results for the Year

Sales for the year grew by 43% to a new record of Rs. 18.3 billion mainly due to high phosphate, imported urea and Zarkhez volumes and supported by higher unit selling prices of all the fertilizers.

Profit from operations registered significant increase despite higher gas prices and cost of other inputs, like transportation (due to rise in diesel prices) because of volume and average sales price growth. Urea profitability grew due to better production and better margins. Zarkhez business continued to benefit from operational efficiencies and inventory gains due to timely purchase of raw materials.

Profit before tax at Rs. 3.2 billion was 39% higher than 2004. Higher dividend income from Engro Vopak, Engro Eximp and first time dividends from Engro Asahi supported the higher profit before tax number.

The profit after tax was Rs.2.3 billion which is a new record for the Company and is higher by 44% over the 2004 profit of Rs.1.6 billion.



Profit after tax (US$ Million)				
2001	2002	2003	2004	2005
17	19	27	27	39

Dividends

The Board is pleased to propose a final dividend of Rs 5.00 per share. Together with the two interim dividends amounting to Rs 6.00 per share, the total dividend attributable to the year is Rs 11.00 per share, which is Rs 2.50 per share higher than last year.

The appropriations approved by the Board of Directors are as follows:

	Million Rupees
Un-appropriated profit from prior years	627
Final dividend for the year 2004 on 152,940,079 shares of Rs. 10 each at Rs. 4.00 per share declared on February 10, 2005	(611)
Profit for the year after taxation	2,319
Disposable profit for appropriation	2,335
First interim dividend on 152,940,079 shares of Rs 10 each at Rs. 3.00 per share declared on July 27, 2005	(459)
Second interim dividend on 152,940,079 shares of Rs 10 each at Rs. 3.00 per share declared on October 20, 2005	(459)
Un-appropriated profit carried forwarded	1,417

Subsequent Effects

Proposed final dividend on 152,940,079 shares of Rs. 10 each at Rs. 5.00 per share	765
Total Dividend for the year Rs. 11.00 per share	1,683

Key operating and financial data for 10 years is summarized on page 134

The Directors' Report

Earnings Per Share / Dividends Per Share

The Company's post tax earnings per share (EPS) and dividends per share (DPS) registered constant increase over the last 5 years which demonstrate our business strength, leadership position and successful diversification.

Rupees per share

EPS	7.65	8.15	10.18	10.53	15.16
DPS	7.50	7.50	8.00	8.50	11.00

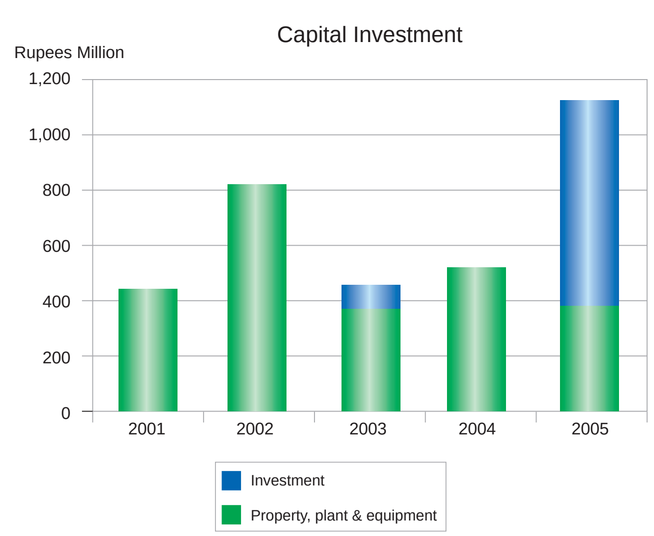
Cash flow and Capital Investment

Cash generated from operations during the year was Rs. 2,349 million (2004: Rs. 2,422 million).

This is after adjusting for increase in working capital of Rs 778 million (2004: Rs 330 million) mainly on account of increase in raw material inventory of Zarkhez at year end. Taxes paid for the year amounted to Rs 660 million (2004: Rs 906 million) based on the regulations of Income Tax.

Long term investments of Rs 748 million were made in food business during 2005.

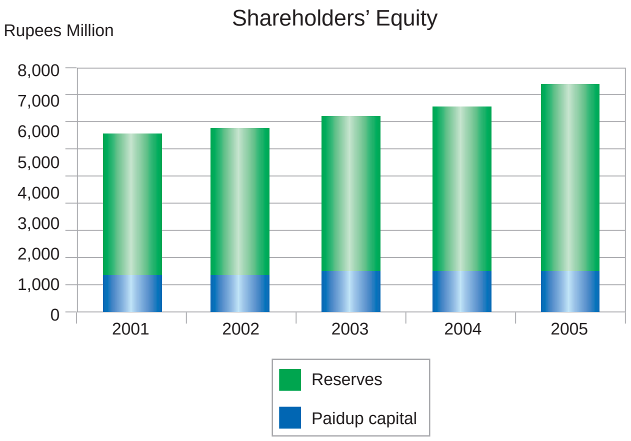
Additions to property, plant and equipment which mainly represent items relating to plant reliability, catalysts, efficiency improvements and normal replacement of operating assets were Rs 377 million (2004: Rs 520 million).



Capital Structure and Finance

Shareholders' funds at the year end aggregated to Rs 7.37 billion (2004: Rs 6.58 billion). The increase is largely due to retained profits and excludes the effect of recommended payment of final dividend.

Net borrowings at the year end more or less maintained at Rs 3.57 billion (2004: Rs 3.66 billion). The balance sheet gearing (Company's long term debt to equity ratio) for the year ended 2005 is 28:72. The liquidity position of the Company is comfortable with a year ended current ratio of 1.8.



The Directors' Report

Value Addition

	2005 Rupees in Million	%	2004 Rupees in Million	%
Wealth Generated				
Total revenue inclusive of sales tax and other income	20,962		14,652	
Bought-in-material and services	(12,730)		(7,451)	
	8,232	100%	7,201	100%
Wealth Distributed				
To Employees				
Salaries, benefits and other costs	804	9.8%	795	11.1%
To Government				
Taxes, duties & development surcharge	4,168	50.6%	3,911	54.3%
To Society				
Donation towards education, health, environment and natural disaster	52	0.6%	17	0.2%
To Providers of Capital				
- Dividend to shareholders	1,529	18.6%	1,223	17.0%
- Mark-up/interest expense on borrowed money	280	3.4%	286	4.0%
Retained for reinvestment & future growth				
Depreciation, amortization & retained profit	1,399	17.0%	969	13.4%
	8,232	100%	7,201	100%

MAJOR JUDGEMENT AREAS

Taxation

The Company has filed tax returns up to income year 2004. All assessments upto income year 2002 have been finalized by the Department and appealed against.

Income years June 1995 and June 1996 – Assessments were set-aside by the Commissioner (Appeals) wiping of the additional tax demand of Rs. 211 million. The Company is in appeal before the Income Tax Appellate Tribunal (ITAT) on this set-aside.

Income years June 1997, Dec 1997 and Dec 1998 – The appeals for these years have been decided in favor of the Company by the appellate authorities. However, in 1998 the Commissioner has rejected the Company's appeal on the issue of incorporating correct turnover numbers in the assessment. The Company is in appeal before ITAT which the Company is confident of winning. For June 1997 and Dec 1997 the Company has filed an appeal before ITAT on grounds of error in calculation of depreciation which the Company believes to be an error of fact and should be rectified.

Income years Dec 1999 to Dec 2002 – The Company has filed appeals before the Commissioner (Appeals) of which 2000 and 2001 appeals have been decided in favor of the Company on most of the issues except for on the issue of apportionment of gross profit and selling and distribution expenses while appeals for 1999 and 2002 are pending. For 2000 and 2001, the Company is in the process of filing appeals before ITAT.

Income years Dec 2003 and Dec 2004 – These years income tax returns have been filed under self assessment scheme.

We are hopeful that all pending issues will be ultimately resolved without any additional liability.

Marketing Incidentals

In 1988, the Company had commenced two separate arbitration proceedings against the Government of Pakistan for nonpayment of the marketing incidentals for years 1983-1984 and 1985-1986. The sole arbitrator in the later case awarded the Company Rs 47.8 million in 2002 but the Government filed objections in 2003 and the case is now pending hearing in the High Court. The award for the earlier years (where a similar amount is claimed) is awaiting decision before two arbitrators and it is hoped that both the decisions will be announced soon. The award for 1985-1986 arbitration has not been recognized due to inherent uncertainties arising from its challenge in the High Court.

The Directors' Report

MANAGEMENT INFORMATION SYSTEMS

In 2004, we had made significant investments in terms of both human and financial resources to upgrade our information management and reporting technology with the implementation of SAP, an Enterprise Resource Planning system, for our financial, accounting and human resource requirements to replace our existing legacy applications. The implementation of this integrated solution has caused significant efficiencies which will increase over time.

ACCOUNTING STANDARDS

Our accounting policies fully reflect the requirements of the Companies Ordinance 1984 and such approved International Accounting Standards as notified under this Ordinance and directives issued by the Securities and Exchange Commission of Pakistan.

CREDIT RATING

Pakistan Credit Rating Agency in its recent annual review of the Company's creditworthiness has maintained Engro's long and short term ratings as AA- "Double A minus" and " A One Plus" respectively. These ratings reflect the Company's financial and management strength and denote a low expectation of credit risk and the capacity for timely payment of financial commitment.

CORPORATE AWARDS

In recognition of its financial performance, the Company was once again selected for the "Top 25 Companies Award" of the Karachi Stock Exchange for year 2004. The Company has won this award for the 23rd time and holds the distinction of being the most frequent winner amongst all the companies quoted on the Karachi Stock Exchange.

Annual report of the Company was awarded IIIrd "Best Corporate Report Award – 2004" in Chemical and Fertilizer Sector held by the Joint Committee of the Institute of Chartered Accountants of Pakistan and the Institute of Cost and Management Accountants of Pakistan.

TREASURY MANAGEMENT

Our treasury activities are controlled and are carried out in accordance with the policies approved by the Board. 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 financial risk is minimized. The risks managed by the Treasury function are funding, interest rate and currency risks. Investments made as part of the arbitrage activities were only in the Board approved securities and institution for the Company's funds. We use financial instruments such as interest rate swaps and forward currency contracts to manage both interest and currency rates on the underlying business activities. Our Treasury function does not operate as a profit centre.

INTEREST RATE MANAGEMENT

At the end of 2005, our core borrowings were Rs 3.57 billion. We have a policy of managing our exposure to interest rate fluctuations. We do this by using of interest rate swaps for some part of the borrowing . Last year Rs. 1 billion of our long term loans were swapped from a floating interest rate basis to a fixed interest rate basis. During the year, as interest rates were peaking, a reverse swap was entered into effectively unwinding the earlier swap. During the year, the Company also entered into a Forward Rate Agreement (FRA) with a financial institution which effectively fixed interest rates for a six month period (October 2005 to March 2006) for a notional amount of Rs.1 billion. Both transactions resulted in significant savings to the Company.

LIQUIDITY RISK

In light of increasing working capital requirements, the Board increased our approved short term funded facilities from Rs.2.4 billion to Rs.3.0 billion. Our policy is to ensure that adequate medium term funding and committed bank facilities are available to meet the forecasted peak borrowing requirements. At year end 2005, we had received commitment letters for the additional Rs.325 million short term funded facilities.

FOREIGN CURRENCY RISK

Since our manufacturing and trading operations are only in Pakistan, the receipts and payments of the local currency are thereof not hedged. Where deemed appropriate, we eliminate currency exposure on transactions on purchases of goods in foreign currency in excess of US$ 10,000 through the use of forward exchange contracts.

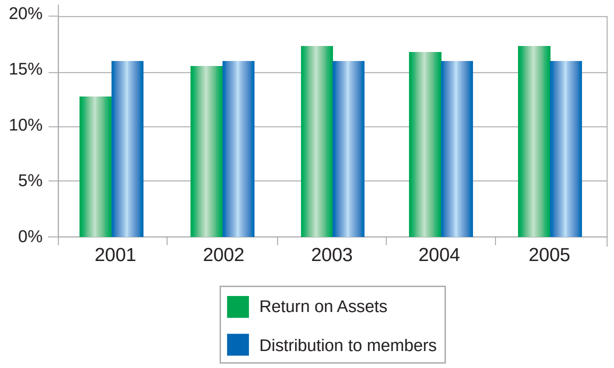
PENSION, GRATUITY AND PROVIDENT FUND

The Company maintains plans that provide post-employment and retirement benefits to its employees. These include a contributory provident fund and a non contributory gratuity scheme for all employees and a Defined Benefit (DB) pension scheme. During the year, the Company, with the approval of the relevant authorities, launched a Defined Contribution (DC) Pension Plan. All employees joining the Company on or after July 1, 2005 will become part of the new DC Pension Plan. In addition all existing employees were given options to move from the old DB Pension Plan to the new DC Pension Plan. All the existing employees have opted to move to the new DC Pension Plan, thereby leaving only the annuitants as members of the old DB Pension Scheme.

All above mentioned plans are funded schemes recognized by the tax authorities. The latest actuarial valuation of management pension and gratuity schemes was carried out at December 31, 2005 and the financial statements of these have been audited upto December 31, 2004. The latest audited accounts for the provident fund, cover year ended June 30, 2005. The Company has fully paid all its obligations on all the above schemes.

	Provident Fund	Pension Fund	Gratuity Fund
			Rupees in million
Audited upto	June 30, 2005	December 31, 2004	December 31, 2004
Assets as per last audited financial statements	**503**	**771**	**192**
DSC/PIB/WAPDA Bonds	211	402	134
Equity based mutual funds	75	33	4
Income based mutual funds	67	66	21
TFC	16	61	-
Shares	21	95	16
COT	25	35	6
Bank Deposits	66	36	3
Others	22	43	8
Total	**503**	**771**	**192**

What Provident Fund Earned and Distributed



JOINT VENTURES AND SUBSIDIARY COMPANIES

Engro Vopak Terminal Limited (EVTL)

Engro Vopak Terminal Limited is a joint venture with Royal Vopak of the Netherlands in which Engro has 50% equity. EVTL owns and operates a modern liquid chemical & LPG terminal at Port Qasim. In 2005, EVTL completed 8 years of safe operations and added OHSAS-18001 standard to its slate of international certifications on safety, quality and security.

The total volume of chemicals and LPG handled increased from 863,000 tons to 885,000 tons mainly due to higher volume of Phosphoric Acid imports. Efforts continue to position EVTL as a key contender for the anticipated LNG import terminal for Pakistan.

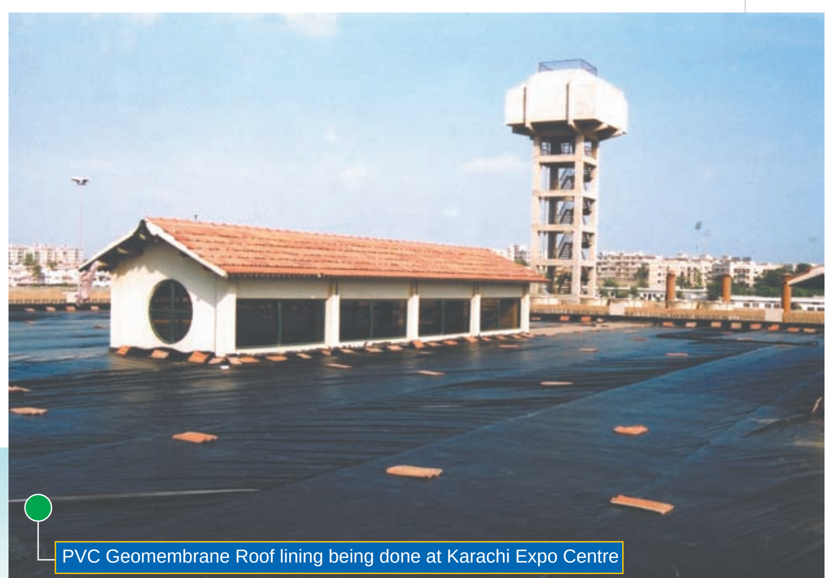
EVTL made a profit after tax (unaudited) of Rs.438 million in 2005 compared to Rs.384 million in 2004 and paid a dividend of 60% (2004: 55%) after partially utilizing the reserves. Engro's share of the dividend payout amounts to Rs.270 million.

A vessel discharging liquid chemical at EVTL's terminal

Engro Asahi Polymer & Chemicals Limited (EAPCL)

Engro Asahi Polymer & Chemicals Limited (EAPCL) is a joint venture with Asahi Glass and Mitsubishi Corporation of Japan in which Engro has 50% equity. EAPCL is involved in manufacturing and marketing of PVC resin. EAPCL, during 2005, saw continued improvements in all areas of operations. Safe operations continued throughout the year with no lost work injury and no NEQS excursion. Production for the year was 91,000 tons, which is a record versus previous best of 90,000 tons. Domestic sales at 72,000 tons was a record versus 66,000 tons in 2004. The domestic sales reflect EAPCL's efforts in enhancing acceptability of PVC products through a comprehensive customer quality improvement program. Export sales remained a critical focus area where intelligent decision making enabled EAPCL to take advantage of the market swings to achieve significant contributions to its bottom line. Export sales in 2005 closed at 22,000 tons as against 17,000 tons in 2004. Total sales of 94,000 tons in 2005, domestic and export together, was again a record.

In the year 2005, EAPCL was awarded Investor's in People accreditation that reflects its philosophy of investing in the development of its people. EAPCL is the first ever company to achieve this milestone in the region.



PVC Geomembrane Roof lining being done at Karachi Expo Centre

PVC Geomembrane Pond lining under progress at Karachi Golf Course

The Directors' Report

The profit after tax for 2005 was Rs. 305 million as compared to 365 million in 2004. A first ever dividend of 5% was declared followed by another dividend of 10% of which Engro's cumulative share amounted to Rs.134 million. In 2005, some of the tax related cases were decided in EAPCL's favour that resulted in a significant reduction in deferred tax liability. The overall reduction in profit was mainly due to tight supply of VCM through the 1st half of the year while the PVC prices could not sustain the same. This caused the PVC-VCM margin in 2005 to remain tighter than last year. Feasibility for an expansion and back-integration project was taken to an advanced stage in 2005 and is likely to be completed in 2006.

Mr. Ghulam Murtaza Khan Jatoi, Advisor to Chief Minister Sindh, (with the status of Provincial Minister) for food and agriculture visiting Engro Asahi's sprinkler & micro irrigation demonstration site at Gadap.

Innovative Automation & Engineering (Private) Limited (IAEL)

IAEL is a 51% owned subsidiary of Engro acquired in 2003. IAEL is a market leader in industrial automation business providing process control solutions to leading industrial units in the country. It also offers Power & Energy Management Software Solutions as well as High End Software that integrate production and business applications.

In 2005, IAEL achieved sales of Rs. 468 million, a growth of 73% compared to Rs.270 million achieved last year. The profit after tax of Rs.10 million was lower than 2004 primarily due to higher costs incurred during the year in anticipation of future sales growth.

IAEL's wholly owned subsidiary in Dubai's Jebel Ali Free Zone also enjoyed robust sales and paid a dividend to IAEL in its first full year of operations.

Project discussion at IAEL

Engro Eximp (Private) Limited (EEPL)

EEPL is a wholly owned subsidiary in the trading business of fertilizer imports and exports. During the year, EEPL imported and sold 408,000 tons (2004: 217,000 tons) of phosphatic product at port to the Company at market prices.

Engro Management Services (Private) Limited (EMSL)

EMSL is a wholly owned subsidiary for acting as a modaraba management company to assist in the future diversification plans of Engro. EMSL had no business transactions during 2005.

Engro Foods (Private) Limited (EFL)

In 2005, the Company took a major diversification initiative into the Food sector by launching its wholly owned subsidiary EFL. The first project of Engro Foods is to procure, process and market processed milk and its by-products. A modern milk processing plant with a capacity of 200,000 liters per day is being set up at Sukkur at a cost of Rs. 1 billion. The Company is expected to commence commercial operations by March 2006 by when its plant is expected to become operational. The entire project cost at this stage is being financed by equity to be provided by the Company. As of December 31, 2005 a sum of Rs.748 million had been invested in EFL.

Receiving first tanker of Milk at Engro Foods plant at Sukkur

Business Growth and Diversification Plans

POWER

In response to its application to the Private Power & Infrastructure Board (PPIB) to set up an Independent Power Plant (IPP), the PPIB issued a Letter of Interest to the Company to set up a 150-225 MW power plant. The plant will use approximately 75 MSFCD permeate gas from the Qadirpur gas field. Work on activities, required to be completed for the issuance of a Letter of Support by the PPIB, have commenced and should be completed within 2006. In order to pursue the energy business, the Board has authorized formation of a new subsidiary company.

The Company completed due diligence activities as part of its preparation to bid for the privatization of Jamshoro Power Company (JPC).

FERTILIZER

Since 2004 the Government has been importing high cost urea and providing the same at subsidized prices to the farmer. The Company since June 2004 has been following up with the Government to allocate it gas for setting up another world scale ammonia – urea plant. The ECC has allocated 100 MSCFD from the Qadirpur gas field for setting up a state of the art new ammonia urea plant in Daharki. The Company is vigorously following up with the Government for this gas to be allocated to it. In parallel, activities related to the feasibility for this project are being carried out and are likely to be completed by mid-2006.

In addition to the above mentioned domestic fertilizer project, the Company is continuing to explore offshore fertilizer opportunities.

Implementation of Furnace Reliability & Enhancement Project (FREP)

The Directors' Report

AUDITORS

The auditors, KPMG Taseer Hadi & Co. retire and offer themselves for re-appointment. The Board Audit Committee and the Board of Directors of the Company have endorsed their appointment for shareholders consideration at the forthcoming annual general meeting. The external auditors have been given satisfactory rating under the Quality Control Review Program of the Institute of Chartered Accountants of Pakistan.

PATTERN OF SHAREHOLDING

Major shareholders of Engro Chemical Pakistan Limited are The Dawood Group of Companies including Dawood Hercules Chemicals Limited (DH), Engro employees, annuitants and their relatives and the ECPL Employees Trust. Other shareholders are local and foreign institutions and the general public.

A statement of the general pattern of shareholding along with pattern of shareholding of certain classes of shareholders whose disclosure is required under the reporting framework and the statement of purchase and sale of shares by Directors, Company Secretary and their spouses including minor children during 2005 is shown on page 43 of this report.

The Company's stock is amongst the actively traded shares on all the Stock Exchanges of the country.

10th Extraordinary General Meeting in progress

BOARD OF DIRECTORS

Statement of Directors' Responsibilities

The directors confirm compliance with Corporate and Financial Reporting Framework of the SECP Code of Governance for the following:

1. The financial statements, prepared by the management of the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
2. Proper books of accounts of the Company have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of the financial statements and accounting estimates are based on reasonable prudent judgment.
4. International Accounting Standards, as applicable in Pakistan, have been followed in preparation of the financial statements and any departure therefrom have been adequately disclosed.
5. The system of internal control is sound in design and has been effectively implemented and monitored.
6. There are no significant doubts upon the Company's ability to continue as a going concern.
7. There is no material departure from the best practices of corporate governance, as detailed in the listing regulations.

A view of Engro's Urea Manufacturing Facility at Daharki

BOARD MEETINGS AND ATTENDANCE

In 2004, the Board of Directors held seven meetings to cover its complete cycle of activities. The attendance record of the directors is as follows:

Director's Name	Meetings attended
	[redacted]
	[redacted]
	[redacted]
	[redacted]
	[redacted]
	[redacted]
	[redacted]
	[redacted]
	[redacted]
	[redacted]

A joyous moment during 40 years celebrations

OUTLOOK AND CHALLENGES

2006 is expected to be another year of strong economic growth for the country. Agriculture is expected to remain robust which should support the Fertilizer industry. The overall improved macroeconomics of the country coupled with the well established position of the Company makes it possible to actively pursue growth and diversification opportunities. However, the challenge for the Company will be to continue to attract, develop and retain good quality human resources in an environment where competition for such resources is increasing.

In Engro, we hope to start implementation of the urea expansion project as well as the proposed power project. Engro Asahi is in the final stages of its back integration and expansion feasibility, Engro Vopak is one of the contenders for the new LNG terminal to be built at Port Qasim while Innovative is expecting strong growth both in Pakistan and the Middle East while it is actively looking to enter the US market. Engro Food is expected to commence its commercial operations by March 2006.

As part of the Company's initiative to improve efficiency a comprehensive company wide Six Sigma program is being launched. This will help the Company improve processes, quality and customer service. We remain committed to improve our safety practices and strengthen our environmental performance.

Your Board would like to take the opportunity to express its appreciation to the Engro dealers and to the employees of the Company for their dedication throughout the year. We also acknowledge the support and cooperation received from the Government, our joint venture partners, our bankers, suppliers, contractors and other stakeholders.

S. NASEEM AHMAD
Chairman

ASAD UMAR
President and Chief Executive

January 31, 2006

Key Shareholding and Shares Traded

Information of shareholding required under reporting framework is as follows:

1.	Associated Companies, undertakings & related parties	
	Dawood Hercules Chemicals Ltd.	58,323,686
	Central Insurance Co. Ltd.	5,533,716
2.	NIT and ICP	
	National Investment Trust	41,693
	Investment Corporation of Pakistan	99,837
3.	Directors, CEO & their spouses & minor children	
	S.Naseem Ahmad	174
	Javed Akbar	49,429
	Muhammad Ali	3,300
	M.Hussain Dawood	3,162
	Shahzada Dawood	3,162
	Parvez Ghias	14,580
	Parvez Ghias/Zeba Ghias	142,200
	Zaffar Ahmad Khan	583,827
	Arshad Nasar	110
	Asif Qadir	306,564
	Asad Umar	171,949
4.	Executives	2,266,000
	The employees and annuitants of the Company and their family members & the ECPL Employees Trust collectively hold approximately 13% shares of the Company.	
5.	Public Sector Companies & Corporations	3,398,716

6. Banks, Development Financial Institutions, Non-Banking Financial Institutions, Insurance Companies, Modarabas and Mutual Funds — 36,699,009

7. Shareholder holding ten percent or more voting interest in the Company

   Dawood Hercules Chemicals Ltd. — 58,323,686

8. Details of purchase/sale of shares by Directors/ Company Secretary/Chief Financial Officer and their spouses/minor children during 2005

Name	Dated	Purchase	Sale	Rate Rs./Share
Ruhail Mohammad (Chief Financial Officer)	August 10	1000		116.75*

*Shares purchased from Karachi Stock Exchange.

Pattern of Holding of Shares

Pattern of holding of the shares held by the Shareholders of Engro Chemical Pakistan Limited as at December 31, 2005

Number of Shareholders	Shareholding From	Shareholding To	Total Shares Held
1,636	1	100	69,390
1,739	101	500	517,558
1,172	501	1,000	919,884
2,608	1,001	5,000	6,275,281
663	5,001	10,000	4,737,150
254	10,001	15,000	3,205,024
144	15,001	20,000	2,567,743
93	20,001	25,000	2,086,358
70	25,001	30,000	1,975,769
35	30,001	35,000	1,130,540
33	35,001	40,000	1,250,149
27	40,001	45,000	1,145,582
30	45,001	50,000	1,459,476
17	50,001	55,000	895,067
18	55,001	60,000	1,036,100
19	60,001	65,000	1,189,587
8	65,001	70,000	538,378
16	70,001	75,000	1,158,510
11	75,001	80,000	850,696
6	80,001	85,000	493,326
5	85,001	90,000	441,936
5	90,001	95,000	465,221
9	95,001	100,000	892,109
2	100,001	105,000	207,777
2	105,001	110,000	218,006
3	110,001	115,000	335,816
2	115,001	120,000	235,700
2	120,001	125,000	249,057
4	130,001	135,000	531,518
1	135,001	140,000	137,100
2	140,001	145,000	282,465
3	145,001	150,000	443,800
1	155,001	160,000	160,000
2	165,001	170,000	334,798
4	170,001	175,000	687,326
3	175,001	180,000	531,600
1	180,001	185,000	180,329
1	185,001	190,000	187,000
2	190,001	195,000	386,445
2	200,001	205,000	404,366
1	205,001	210,000	210,000
1	210,001	215,000	214,780
2	215,001	220,000	435,264
2	225,001	230,000	453,100

Number of Shareholders	Shareholding From	Shareholding To	Total Shares Held
1	235,001	240,000	237,100
3	250,001	255,000	755,529
1	270,001	275,000	273,570
1	280,001	285,000	283,064
3	295,001	300,000	896,009
4	300,001	305,000	1,213,159
1	305,001	310,000	306,564
1	310,001	315,000	313,887
2	325,001	330,000	654,993
1	335,001	340,000	340,000
1	345,001	350,000	346,107
1	355,001	360,000	360,000
1	370,001	375,000	373,300
2	380,001	385,000	767,949
1	385,001	390,000	385,603
1	390,001	395,000	390,350
1	395,001	400,000	396,957
1	460,001	465,000	465,000
1	505,001	510,000	510,000
1	550,001	555,000	551,000
1	565,001	570,000	565,400
2	580,001	585,000	1,168,416
2	610,001	615,000	1,224,500
1	640,001	645,000	643,267
1	695,001	700,000	700,000
1	810,001	815,000	813,650
1	840,001	845,000	841,500
1	900,001	905,000	902,002
1	915,001	920,000	915,750
1	975,001	980,000	978,950
1	1,065,001	1,070,000	1,069,673
1	1,120,001	1,125,000	1,120,600
1	1,210,001	1,215,000	1,214,631
1	1,215,001	1,220,000	1,215,300
1	1,325,001	1,330,000	1,329,500
1	1,460,001	1,465,000	1,460,346
1	1,835,001	1,840,000	1,838,285
1	1,955,001	1,960,000	1,956,200
1	2,640,001	2,645,000	2,644,250
1	4,250,001	4,255,000	4,253,356
1	4,810,001	4,815,000	4,813,827
1	5,465,001	5,470,000	5,466,077
1	5,530,001	5,535,000	5,533,691
1	58,320,001	58,325,000	58,323,686
8,716			152,940,079

Pattern of Holding of Shares

Categories of Shareholders	Number of Shareholders	Shares Held	Percentage
INDIVIDUALS	8,418	40,448,261	26.45
INVESTMENT COMPANIES	33	10,165,378	6.65
INSURANCE COMPANIES	18	12,993,026	8.50
JOINT STOCK COMPANIES	88	60,257,692	39.40
FINANCIAL INSTITUTIONS	82	18,097,669	11.83
MODARABA COMPANIES	14	98,445	0.06
COOPERATIVE SOCIETIES	3	17,095	0.01
SECURITIES & EXCHANGE COMMISSION OF PAKISTAN	1	1	0.00
OTHERS	59	10,862,512	7.10
TOTAL	8,716	152,940,079	100.00

On behalf of the Board of Directors

S. Naseem Ahmad
Chairman

Asad Umar
President and Chief Executive

Shareholder Information

Annual General Meeting

The annual shareholders meeting will be held at 10:00 a.m. on March 30 2006 at Karachi Marriott Hotel, Abdullah Haroon Road, Karachi.

Shareholders as of March 16, 2006 are encouraged to participate and vote.

Any shareholder may appoint a proxy to vote on his or her behalf. Proxies should be filled with the company at least 48 hours before the meeting time.

CDC Shareholders or their proxies are requested to bring with them copies of their National Identity Card or Passport alongwith the Participant's ID Number and their account number at the time of attending the Annual General Meeting in order to facilitate their identification.

Ownership

On December 31, 2005 there were 8716 holders on record of the Company's ordinary shares.

Dividend Payment

The proposal of the board of directors for dividend payment will be considered at the annual general meeting. Provided the proposal is approved, the dividend warrants will be sent soon thereafter to persons listed in the register of members on March 16, 2006. Income tax will be deducted in accordance with the current regulations. Shareholders who wish to have the dividends deposited directly in their bank accounts should contact our Registrars, M/s Ferguson Associates (Private) Limited.

Quarterly Results

Engro Chemical Pakistan Ltd. issues quarterly financial statements. The planned dates for release of the quarterly results in 2006 are:

* 1^{st} quarter: April 25
* 2^{nd} quarter: July 26
* 3^{rd} quarter: October 19

The Company holds quarterly briefings with Security Analysts to discuss the results and the business environment. These sessions are planned to be on:

* 1st quarter: May 02
* 2nd quarter: August 01
* 3rd quarter: October 24

All annual/quarterly reports and presentations from quarterly briefings are regularly posted at the Company's web site: www.engro.com

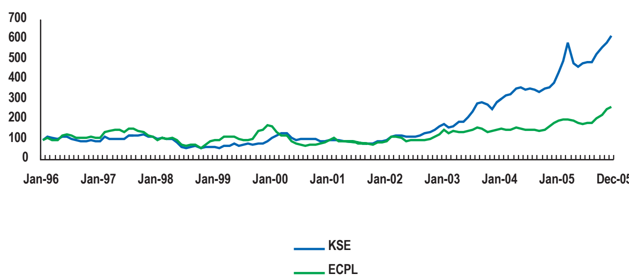
The Company reserves the right to change any of the above dates.

Change of Address

All registered shareholders should send information on changes of address to:

M/s Ferguson Associates (Private) Limited Ground Floor, State Life Building 1-A, I.I. Chundrigar Road, Karachi- 74000.

ECPL VS. KSE 100 (1996-2005)



Note: Engro share price has been adjusted for bonus an rights issues.

Share prices and Volumes 2005

Karachi Stock Exchange	Price in Rupees		Daily Average Volume
	High	Low	
First Quarter	150.00	118.40	1,541,082
Second Quarter	133.30	108.00	276,366
Third Quarter	143.15	112.50	743,226
Fourth Quarter	178.50	139.15	1,457,010

GR

- Statement of Compliance with the Code of Corporate Governance
- Review Report to the Members on Statement of Compliance with Best Practices of Code of Corporate Governance
- Auditors' Report to the Members
- Financial Statements

Statement of Compliance With The Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance contained in the listing regulations of Karachi, Lahore and Islamabad Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices 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 seven independent non-executive directors and of the remaining three, who are all Executives of the Company, two have been appointed as chief executives of Engro Asahi Polymer & Chemicals Limited and Engro Vopak Terminal Limited and do not therefore devote their full time to the business of the Company. Due to the diversified nature of the shareholding structure of the Company, there is no single majority shareholder as such.

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 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. No casual vacancy arose in the Board during the year.

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

6. The Board has developed a vision/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 they were approved or amended has been maintained.

7. 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 and other executive directors, have been taken by the Board.

8. 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, were circulated at least seven days before the meetings.

9. The Board had arranged an orientation course for its directors to apprise them of their duties and responsibilities.

10. 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.

11. 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.

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

13. 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.

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

15. The Board has formed an audit committee. It comprises of 5 members, three of whom are non-executive directors including the Chairman, alongwith the two Executives of the Company who are working with EAPCL and EVTL.

16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

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

18. 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.

19. 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.

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

S. Naseem Ahmad
Chairman

Asad Umar
President and Chief Executive

Karachi
Dated: January 31, 2006

KPMG Taseer Hadi & Co.
Chartered Accountants

First Floor,
Sheikh Sultan Trust Building No.2,
Beaumont Road,
Karachi 75530 Pakistan

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

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 prepared by the Board of Directors of Engro Chemical Pakistan Limited ("the Company") to comply with the listing regulations of the respective Stock Exchanges, 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.

KPMG Taseer Hadi & Co.
Chartered Accountants

Karachi
Dated: January 31, 2006

KPMG

KPMG Taseer Hadi & Co.
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Auditors' Report to the Members

We have audited the annexed balance sheet of Engro Chemical Pakistan Limited as at 31 December 2005 and the related profit and loss account, cash flow statement and statement of changes in equity 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, cash flow statement and statement of changes in equity 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 31 December 2005 and of the profit, its cash flows and changes in equity for the year then ended; and

d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980) was deducted by the Company and deposited in the Central Zakat Fund established under Section 7 of that Ordinance.

KPMG Taseer Hadi & Co.

Karachi
Dated: January 31, 2006

KPMG Taseer Hadi & Co.
Chartered Accountants

Balance Sheet as at December 31, 2005

(AMOUNTS IN THOUSAND)

	Note	2005	2004
		(Rupees)	
SHARE CAPITAL AND RESERVES			
Share Capital			
Authorized			
200,000,000 Ordinary shares of Rs. 10 each		2,000,000	2,000,000
Issued, subscribed and paid-up	3	1,529,400	1,529,400
Reserves - revenue		4,429,240	4,429,240
Unappropriated profit		1,416,926	627,244
		5,846,166	5,056,484
		7,375,566	6,585,884
NON CURRENT LIABILITIES			
Redeemable capital	4	2,887,500	2,575,000
Liability against asset subject to finance lease	5	2,289	4,515
Deferred Taxation	6	1,003,177	966,295
Retirement and other service benefits	7	43,004	68,514
		3,935,970	3,614,324
CURRENT LIABILITIES			
Current portion of:			
- redeemable capital	4	687,500	1,086,500
- long term loan		-	594,500
- liability against asset subject to finance lease	5	2,226	2,085
- other service benefits	7	20,230	22,471
Short term borrowings	8	-	-
Trade and other payables	9	1,969,001	1,236,790
Taxation		43,267	-
Unclaimed dividends		77,870	42,803
		2,800,094	2,985,149
CONTINGENCIES AND COMMITMENTS	10		
		14,111,630	13,185,357

(AMOUNTS IN THOUSAND)

	Note	2005		2004
			(Rupees)	
FIXED ASSETS				
Property, plant and equipment	11	6,840,058		7,096,330
Intangible assets	12	21,618		9,938
		6,861,676		7,106,268
LONG TERM INVESTMENTS	13	2,172,757		1,424,557
LONG TERM LOANS, ADVANCES AND OTHER RECEIVABLES	14	65,642		51,928
CURRENT ASSETS				
Stores, spares and loose tools	15	665,902		587,288
Stock-in-trade	16	1,922,982		484,748
Trade debts	17	543,316		522,608
Loans, advances, deposits and prepayments	18	360,923		477,636
Other receivables	19	237,931		64,662
Taxation		-		160,291
Short term investments	20	138,016		864,223
Cash and bank balances	21	1,142,485		1,441,148
		5,011,555		4,602,604
		14,111,630		13,185,357

The annexed notes 1 to 38 form an integral part of these financial statements.

S. Naseem Ahmad
Chairman

Asad Umar
President and Chief Executive

Profit And Loss Account for the Year Ended December 31, 2005

(AMOUNTS IN THOUSAND EXCEPT FOR EARNINGS PER SHARE)

	Note	2005	(Rupees)	2004
Net sales	22	18,276,277		12,797,662
Cost of sales	23	(14,364,288)		(9,528,215)
GROSS PROFIT		3,911,989		3,269,447
Selling and distribution expenses	24	(1,270,703)		(1,036,509)
		2,641,286		2,232,938
Other income	25	1,144,987		558,154
Other operating charges	26	(286,652)		(190,328)
Financial charges	27	(280,070)		(285,711)
		(566,722)		(476,039)
PROFIT BEFORE TAXATION		3,219,551		2,315,053
Taxation	28	(900,469)		(704,478)
PROFIT AFTER TAXATION		2,319,082		1,610,575
Earnings per share - Basic and diluted	29	Rs. 15.16		Rs. 10.53

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

The annexed notes 1 to 38 form an integral part of these financial statements.

S. Naseem Ahmad
Chairman

Asad Umar
President and Chief Executive

Statement of Changes in Equity for the Year Ended December 31, 2005

(AMOUNTS IN THOUSAND)

	Share Capital	Revenue Reserve General	Revenue Reserve Unappropriated Profit	Total
	(Rupees)			
Balance as at January 1, 2004	1,529,400	4,129,240	540,189	6,198,829
Final Dividend for the year ended December 31, 2003 @ Rs. 3.50 per share	-	-	(535,290)	(535,290)
Profit for the year ended December 31, 2004	-	-	1,610,575	1,610,575
Interim dividends : 1st @ Rs. 2.50 per share	-	-	(382,350)	(382,350)
2nd @ Rs. 2.00 per share	-	-	(305,880)	(305,880)
Transfer to general reserve	-	300,000	(300,000)	-
Balance as at December 31, 2004	1,529,400	4,429,240	627,244	6,585,884
Final Dividend for the year ended December 31, 2004 @ Rs. 4.00 per share	-	-	(611,760)	(611,760)
Profit for the year ended December 31, 2005	-	-	2,319,082	2,319,082
Interim dividends : 1st @ Rs. 3.00 per share	-	-	(458,820)	(458,820)
2nd @ Rs. 3.00 per share	-	-	(458,820)	(458,820)
	1,529,400	4,429,240	1,416,926	7,375,566

The annexed notes 1 to 38 form an integral part of these financial statements.

S. Naseem Ahmad
Chairman

Asad Umar
President and Chief Executive

Cash Flow Statement for the Year Ended December 31, 2005

(AMOUNTS IN THOUSAND)

	Note	2005	2004
		(Rupees)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	31	2,349,338	2,422,235
Retirement and other service benefits paid		(61,204)	(256,926)
Financial charges paid		(234,338)	(283,883)
Taxes paid		(660,029)	(906,127)
Long term loans and advances		(13,714)	23,295
Net cash inflow from operating activities		1,380,053	998,594
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure		(377,072)	(520,106)
Sales proceeds on disposal of fixed assets		11,023	19,751
Income on deposits/ other financial assets		53,044	42,372
Investment in a subsidiary company		(748,200)	-
Dividends received		833,700	485,921
Net cash (outflow) / inflow from investing activities		(227,505)	27,938
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from redeemable capital		1,000,000	1,000,000
Repayment of redeemable capital		(1,086,500)	(587,500)
Asset subject to finance lease		(2,085)	6,600
Repayment of long term loan		(594,500)	-
Dividends paid		(1,494,333)	(1,234,716)
Net cash (outflow) from financing activities		(2,177,418)	(815,616)
Net (decrease)/ increase in cash and cash equivalents		(1,024,870)	210,916
Cash and cash equivalents at the beginning of the year		2,305,371	2,094,455
Cash and cash equivalents at the end of the year	32	1,280,501	2,305,371

The annexed notes 1 to 38 form an integral part of these financial statements.

S. Naseem Ahmad
Chairman

Asad Umar
President and Chief Executive

Notes to the Financial Statements for the Year Ended December 31, 2005

1. STATUS AND NATURE OF BUSINESS

Engro Chemical Pakistan Limited (the Company) is a public listed company incorporated in Pakistan.The principal activity of the Company is manufacturing, purchasing and marketing of fertilizers. The Company is also involved in the production and marketing of seeds and has invested in joint ventures / other entities engaged in chemical related activities and industrial automation. During the year, the Company has incorporated a wholly owned subsidiary with the objective to undertake food business.

The registered office of the Company is situated at 8th floor, PNSC Building, Moulvi Tamizuddin Khan Road, Karachi.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance) and approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Accounting Standards (IASs) 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 take precedence.

2.2 Basis of preparation

2.2.1 These financial statements have been prepared under the historical cost convention, except for the remeasurement of 'financial assets at fair value through profit or loss' including derivative financial instruments, at fair value and recognition of certain staff retirement benefits at present value.

2.2.2 The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The estimates / judgments and associated assumptions used in the preparation are 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 / judgments / assumptions will, by definition, seldom equal the related actual results. The estimates / judgments and associated assumption are reviewed on an ongoing basis. Revision to the accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in period of revision and future periods if the revision affects both current and future periods. The estimates, judgments and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities within the next financial year are discussed in respective notes.

2.3 Taxation

Current taxation

Provision for current taxation is based on the taxable income for the year determined in accordance with the prevailing law for taxation on income. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years, arising from assessments framed during the year for such years.

Deferred taxation

Deferred tax has been provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purpose and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefit will be realized.

2.4 Retirement and Other Service Benefits

Defined contribution plans

- The Company operates:
  - defined contribution provident fund for its permanent employees. Monthly contributions are made both by the Company and employees to the fund at the rate of 10% of basic salary.
  - defined contribution pension fund for the benefit of management employees. Monthly contributions are made by the Company to the fund at the rate ranging from 12.5% to 13.75% of basic salary (note 7.6).

Defined benefit plans and other service benefits

- The Company operates:
  - defined benefit funded pension scheme for its management employees (note 7.1 and 7.6).
  - defined benefit funded gratuity schemes for its management and non-management employees.

    The pension scheme provides life time pension to retired employees or to their spouses. Contributions are made annually to these funds on the basis of actuarial recommendations. The pension scheme has been curtailed and effective from July 1, 2005, no new members are inducted in this scheme (note 7.6).
- The Company also operates unfunded scheme for resignation gratuity of certain management employees.

- The Company recognizes actuarial gains / losses over the expected future services of current members, using the recommended approach under IAS 19, Employee Benefits.

- Actuarial valuations of the schemes are undertaken at appropriate regular intervals and the latest valuation was carried out at December 31, 2005.

- Provision is also made under a service incentive plan for certain category of experienced employees to continue in the Company's employment.

Employees' compensated absences

- The Company accounts for compensated absences on the basis of unavailed leave balance of each employee at the end of the year.

2.5 Financial Liabilities

All financial liabilities are recognised initially at fair value plus directly attributable transaction costs, if any, and subsequently measured at amortised cost using effective interest rate method.

2.6 Property, plant and equipment

Owned

- Operating assets are stated at cost less accumulated depreciation and impairment losses, if any, whereas capital work-in-progress is stated at cost. Borrowing and other related costs specific to a project during its construction period are capitalized.

- Depreciation is charged to income using the straight-line method whereby the cost of an operating asset is written off over its estimated useful life. Depreciation on additions is charged from the month following the one in which the asset is available for use and on disposal upto the month the asset is in use. The rates of depreciation are stated in note 11.

- Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipments.

- Maintenance and repairs are charged to income as and when incurred. Major renewals and betterments are capitalized and the assets so replaced, if any, other than those kept as standby items are retired.

- Gains and losses on disposal of assets are included in income currently.

- The residual value, if not insignificant, is reassessed annually.

Leased

Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership, are classified as finance lease. Assets subject to finance lease are stated at the lower of present value of minimum lease payments under the lease agreement and the fair value of the assets acquired on lease. Outstanding obligations under the lease less finance charges allocated to future periods are shown as a liability. Value of leased assets is depreciated over the useful life of the asset using the straight line method. Depreciation on leased assets is charged to income. Finance charges under lease agreements are allocated to the periods during the lease term so as to produce a constant periodic rate of financial cost on the remaining balance of principal liability for each period.

2.7 Intangible assets

Costs that are directly associated with identifiable software products controlled by the Company and have probable economic benefit beyond one year are recognised as intangible assets.

Intangible assets are stated at cost less accumulated amortisation and impairment losses, if any. Intangible assets are amortised on a straight line basis over their estimated useful lives.

Costs associated with maintaining computer software products are recognised as an expense as incurred.

2.8 Investments

Subsidiaries and joint venture companies

Investments in subsidiary and joint venture companies are stated at cost less provision for impairment, if any.

Held-to-maturity investments

Investments with a fixed maturity that the Company has the intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are carried at amortized cost using the effective interest rate method.

Financial assets at fair value through profit or loss

Investments are designated as 'financial assets at fair value through profit or loss' by the Company either at initial recognition or as per transitional provisions of International Accounting Standard 39, Financial Instruments: Recognition and Measurement. Surplus/ deficit arising from re-measurement is taken to profit and loss account.

Investments are treated as current assets where the intention is to hold these for less than twelve months from the balance sheet date. Otherwise investments are treated as long term assets.

2.9 Stores, spares and loose tools

Stores, spares and loose tools are valued at weighted average cost except for items in transit which are stated at cost. A provision is made for any excess book value over estimated realizable value of items identified as surplus to the Company's requirements. Adequate provision is also made for slow moving items.

2.10 Stock-in-trade

Stock-in-trade is valued at the lower of cost and net realizable value. Cost is determined using weighted average method except for raw material in transit which are stated at cost. Cost includes applicable purchase cost and manufacturing expenses. The cost of work in process includes material and proportionate conversion costs.

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

2.11 Trade and other receivables

Trade and other receivables are recognized initially at fair value plus directly attributable transaction costs, if any, and subsequently measured at amortised cost using effective interest rate method less provision for impairment, if any. A provision for impairment of trade and other receivables 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.

2.12 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of cash flow statements, cash and cash equivalents comprise cash in hand, balance with banks and short term placements readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Cash and cash equivalents also include bank overdrafts / short term borrowings that are repayable on demand and form an integral part of the Company's cash management.

2.13 Provisions

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

2.14 Foreign currency translation

Transactions in the foreign currencies are accounted for in Pak Rupees at the exchange rates prevailing at the date of the transactions. Monetary assets and liabilities in foreign currencies are translated into Pak Rupees at rates of exchange prevailing at the balance sheet date. Foreign exchange differences are recognised in the profit and loss account.

2.15 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the financial statements only when the Company has a legally enforceable right to offset the recognised amounts and the Company intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.16 Revenue recognition

- Sales are recognised when product is despatched to customers.
- Income on deposits and other financial assets is recognised on accrual basis.
- Dividend income is recognized when the Company's right to receive the payment has been established.

2.17 Derivative financial instruments

Derivatives that do not qualify for hedge accounting are recognised in the balance sheet at fair value with corresponding effect to profit and loss. Derivative financial instruments are carried as assets when fair value is positive and liabilities when fair value is negative.

2.18 Transactions with related parties

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

2.19 Impairment losses

The carrying amount of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If such indications exist, the assets recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment loss is recognised as expense in the profit and loss account.

2.20 Research and development costs

Research and development costs are charged to income as and when incurred.

2.21 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Company's financial statements in the period / year in which the dividends are approved.

(AMOUNTS IN THOUSAND)

3. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2005 (Numbers)	2004 (Numbers)		2005 (Rupees)	2004 (Rupees)
40,352,000	40,352,000	Ordinary shares of Rs.10 each fully paid in cash	403,520	403,520
112,588,079	112,588,079	Ordinary shares of Rs.10 each issued as fully paid bonus shares	1,125,880	1,125,880
152,940,079	152,940,079		1,529,400	1,529,400

4. REDEEMABLE CAPITAL
Secured (Non-participatory)

Long term finance utilised under mark-up arrangement

	Installments Number	Installments Commencing from	2005 (Rupees)	2004 (Rupees)
- National Bank of Pakistan (1)	2 half yearly	December 15, 2006	400,000	400,000
- National Bank of Pakistan (2)	8 half yearly	June 17, 2004	175,000	262,500
- United Bank Limited	5 half yearly	September 30, 2006	920,000	920,000
- MCB Bank Limited (1)	5 half yearly	September 30, 2006	680,000	680,000
- Standard Chartered Bank	5 half yearly	September 30, 2006	400,000	400,000
- National Bank of Pakistan (3)	8 quarterly	November 1, 2009	600,000	-
- MCB Bank Limited (2)	8 quarterly	March 12, 2010	400,000	-
			3,575,000	2,662,500
Term Finance Certificates (TFCs)				
- 2nd Tranche			-	999,000
			3,575,000	3,661,500
Less: Current portion shown under current liabilities			687,500	1,086,500
			2,887,500	2,575,000

4.1 The long term finance carry mark-up ranging between 1.0% - 1.05% (2004:1.0% - 1.05%) over six months Government Treasury Bills, except for National Bank of Pakistan (3) and MCB Bank Limited (2) on which markup is 1.3% over three month Karachi Interbank Offered Rate (KIBOR).

4.2 During the year, the Company redeemed 2nd Tranche of Term Finance Certificates amounting to Rs. 1 billion (amount of Rs. 999,000 outstanding at December 31, 2004) by exercising the call option for early redemption.

(AMOUNTS IN THOUSAND)

4.3 The above finances are secured by an equitable mortgage upon the immovable property and floating charge over current and future fixed assets of the Company.

4.4 In view of the substance of the transactions, the sale and repurchase of assets under long term finance have not been recorded in these financial statements.

4.5 The Company has entered into an interest rate swap agreement with Citibank Pakistan to manage its interest rate exposure on floating rate borrowing for a notional amount of Rs. 1 billion, amortizing upto September 2008. Under swap arrangement, the Company would receive average of last three cut-off yields of six months Government Treasury Bills from Citibank on notional amount and pay fixed 5.47% which will be settled semi-annually. The Company has the option of unwinding whole or part of the swap transaction at any semi-annual settlement date with prior notice to the bank.

4.6 As interest rates were peaking during the year, the Company entered into a matching swap with United Bank Limited, effective from March 2006 to perfectly offset the earlier swap of Citibank. Under this arrangement, the Company will pay average of last three cut-off yields of six months Government Treasury Bills on notional amount of Rs. 1 billion and receive fixed at 9.5% which will be settled semi-annually.

The fair value of above swap is Rs. 65,117 (note 14).

5. LIABILITY AGAINST ASSET SUBJECT TO FINANCE LEASE

5.1 The Company has entered into a lease agreement with a financial institution for lease of a vehicle. The liability under this agreement is payable by the year 2007 and is subject to finance charges @ 6% per annum used as the discount factor. The Company intends to exercise its option to purchase the leased vehicle for Rs. 50 upon completion of the lease period.

5.2 The amount of future payments for the finance leases and the periods in which these payments will become due are as follows:

	2005	2004
	(Rupees)	
Year		
2005	-	2,417
2006	2,400	2,400
2007	2,400	2,400
	4,800	7,217
Less: Finance charges not due	285	617
	4,515	6,600
Less: Current portion shown under current liabilities	2,226	2,085
	2,289	4,515

(AMOUNTS IN THOUSAND)

	2005 (Rupees)	2004
6. DEFERRED TAXATION		
Credit / (debit) balances arising on account of:		
Accelerated depreciation allowance	1,036,297	1,026,353
Provision for - retirement benefits	(22,132)	(31,845)
- slow moving stores and spares/ doubtful receivables	(6,058)	(23,176)
Others	(4,930)	(5,037)
	1,003,177	966,295
7. RETIREMENT AND OTHER SERVICE BENEFITS		
Retirement benefits:		
Opening balance	19,960	177,475
Expense recognized - net (note 7.3)	(4,297)	52,762
Contributions made	(11,718)	(210,277)
Closing balance	3,945	19,960
Less: Payable to / (receivable from) gratuity funds (notes 9 & 19)	450	(5,520)
	3,495	25,480
Other service benefit plan	59,739	65,505
Less: Current portion shown under current liabilities	20,230	22,471
	39,509	43,034
	43,004	68,514

(AMOUNTS IN THOUSAND)

7.1 The amounts recognised in the balance sheet are as follows:

	Defined Benefit Pension Plan Funded (Curtailed)	Defined Benefit Gratuity Plans Funded	Defined Benefit Separation Gratuity Plan Un-funded
		(Rupees)	
Present value of funded obligations	358,066	180,341	-
Fair value of plan assets	(401,942)	(203,855)	-
Deficit / (Surplus)	(43,876)	(23,514)	-
Present value of unfunded obligations	-	-	3,495
Unrecognized actuarial gain	43,876*	23,964	-
Net liability at the end of the year	-	450	3,495

* The actuarial gain on defined benefit plan (curtailed) will be recognized once the certainty of recovery is established.

7.2 Movements in net liability recognized:

Net liability at the beginning of the year	-	(5,520)	25,480
Expense recognized	5,661	12,027	2,764
Reversals made	-	-	(24,749)
	5,661	12,027	(21,985)
Contributions made	(5,661)	(6,057)	-
Net liability at the end of the year	-	450	3,495

(AMOUNTS IN THOUSAND)

7.3 The following amounts have been charged in the profit and loss account in respect of retirement benefit schemes.

	2005	2004
Defined benifit plans	(Rupees)	
Current service cost	27,641	38,146
Interest cost	44,691	52,649
Reversal made	(24,749)	-
Expected return on plan assets	(52,297)	(38,237)
Net actuarial gain recognized in current year	417	204
	(4,297)	52,762
Defined contribution plan	43,720	26,551

7.4 Actual returns on funded plan assets during 2004 were Rs. 140,120.

7.5 Principal actuarial assumptions

Projected unit credit method, based on the following significant assumptions, was used for valuation of the schemes mentioned above:

- discount rate at 9% p.a;
- expected long term rate of increase in salaries for employees at 9% per annum in case of Non management employees long range rate is 8% whereas for the first 3 years the increase has been assumed at 13%;
- expected post ertirement pension increase rate at 5% per annum; and
- expected long term rate of return on investment at 9% per annum.

7.6 During the year, the Company has setup a Defined Contribution Pension Scheme known as Engro Chemical Pakistan Limited MPT Employees Defined Contribution Pension Fund (the Fund) for the benefit of management employees. Employees joining the Company from July 1, 2005 will become members of the new Fund. Members of the existing pension fund (a defined benefit plan) were given a one-time option, exercisable upto June 15, 2005 to join the new Fund effective from July 1, 2005. The actuarially accrued liability in respect of past services of those members who have exercised this option has been transfered to the new Fund on the effective date. The Fund has been approved under the provision of the Income Tax Ordinance, 2001, effective July 1, 2005.

8. SHORT TERM BORROWINGS - Secured

The facility for short term running finance available from various banks amounts to Rs. 2,400,000 (2004: Rs. 2,400,000).

The rates of mark-up range from 5% to 10.59% (2004: 1.4% to 9.5%) and the facilities are secured by floating charge upon all current and future moveable property of the Company.

(AMOUNTS IN THOUSAND)

	2005	2004
	(Rupees)	
9. TRADE AND OTHER PAYABLES		
Creditors	839,395*	296,915
Accrued liabilities	327,537	281,531
Payable to gratuity fund (note 7)	450	-
Advances from customers	655,883	582,654
Financial charges accrued on secured		
- redeemable capital and long term loan	61,377	40,363
- short term borrowings	26,813	2,095
Deposits from dealers refundable on termination of dealership	7,486	6,957
Contractors' deposits and retentions	11,282	8,560
Workers' profits participation fund (note 9.1)	6,716	1,594
Workers' welfare fund	27,297	16,121
Other	4,765	-
	1,969,001	1,236,790

* This includes payable of Rs. 155,908 to Engro Eximp (Private) Limited.

9.1 Workers' profits participation fund

	2005	2004
Balance at the beginning of the year	1,594	4,607
Interest on funds utilised in the Company's business (note 27)	82	30
Allocation for the year (note 26)	171,716	123,565
Less: Amount paid to the Trustees of the Fund	166,676	126,608
	6,716	1,594

(AMOUNTS IN THOUSAND)

10. CONTINGENCIES AND COMMITMENTS

Contingencies

10.1 Claims, including pending lawsuits, against the Company not acknowledged as debts amounted to Rs. 48,911 (2004: Rs. 45,412).

10.2 Corporate guarantee of Rs. 153,850 (2004: Rs. 143,682) have been issued to banks in favour of subsidiary companies.

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

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

Commitments

	2005	2004
	(Rupees)	
10.5 Capital commitments outstanding		
Plant and machinery	25,104	111,425

(AMOUNTS IN THOUSAND)

11. PROPERTY, PLANT AND EQUIPMENT

	Land		Building		Plant and	Catalyst	Furniture	Vehicles		2005	2004
	Freehold	Leasehold	Freehold	Leasehold	Machinery		Fixtures and Equipment	Own	Leased		
	(Rupees)										
Cost											
At January 1	12,820	187,396	503,973	271,972	9,226,399	160,409	363,981	143,114	6,600	10,876,664	10,373,831
Additions	-	-	30,404	1,861	303,724	54,722	23,635	44,772	-	459,118	406,885
Disposals	-	-	-	-	(13,993)	-	(6,603)	(17,444)	-	(38,040)	(64,461)
Transfers	-	-	-	-	-	-	-	-	-	-	160,409
At December 31	12,820	187,396	534,377	273,833	9,516,130	215,131	381,013	170,442	6,660	11,297,742	10,876,664
Depreciation											
At January 1	-	37,593	199,720	24,844	3,744,153	88,134	215,387	84,743	330	4,394,904	3,822,381
Accumulated depreciation	-	-	-	-	-	-	-	-	-	-	48,233
Charge for the year	-	3,982	21,870	6,853	455,470	36,850	47,846	25,539	1,320	599,730	573,105
Disposals	-	-	-	-	(8,216)	-	(6,151)	(11,188)	-	(25,555)	(46,577)
Transfers	-	-	-	-	-	-	-	-	-	-	(2,238)
At December 31	-	41,575	221,590	31,697	4,191,407	124,984	257,082	99,094	1,650	4,969,079	4,394,904
Net book value	12,820	145,821	312,787	242,136	5,324,723	90,147	123,931	71,348	4,950	6,328,663	6,481,760
Annual rate of depreciation %	-	2 to 3.33	2.5 to 10	2.5	5 to 10	20 to 33.33	10 to 25	12 to 20	20		
Capital work-in-progress (note 11.4)										511,395	614,570
Total										6,840,058	7,096,330

11.1 Depreciation and amortisation have been allocated as follows:

	2005	2004
	(Rupees)	
Depreciation for the year (note 11)	599,730	573,105
Amortisation for the year (note 12)	9,449	9,206
	609,179	582,311
Cost of sales (note 23)	584,153	559,711
Selling and distribution expenses (note 24)	25,026	22,600
	609,179	582,311

(AMOUNTS IN THOUSAND)

11.2 The Collector of Customs had disallowed exemption from custom duty and sales tax amounting to Rs. 48,236 in prior years in respect of first catalyst and other items being part and parcel of the expansion plant on the contention that these items do not fall under the definition of "plant and machinery" which is exempt under the relevant SRO. The Company challenged the Department's contention through a constitutional petition in the High Court of Sindh which stayed the recovery of the amount claimed and in December 1994 decided the petition in favour of the Company. The Department filed an appeal in the Supreme Court. During the year, the Supreme Court of Pakistan dismissed the appeal and upheld the Sindh High Court judgement in Company's favour. Payments totalling Rs. 22,207 made to the Department during the pendency of the petition in the High Court of Sindh on their contention that the stay order had expired, are now refundable to the Company, for which an application has been filed with the Department and disclosed as receivable (note 19).

11.3 Particulars of disposal of fixed assets:

Description and method of disposal	Sold to	Cost	Accumulated depreciation	Net book value	Sale proceeds
		(Rupees)			
Vehicles					
By Company policy	Mr. Naveed A. Hashmi	535	437	98	155
to existing/separating	Mr. Irfan Nadeem Khan	795	172	623	634
executives	Mr. Shahid A. Hakim	849	71	778	774
	Mr. Majid Hasan	555	435	120	160
	Mr. Salim Azhar	1,169	565	604	615
	Mr. Azhar Iqbal Farooq	879	80	799	801
	Mr. Pervez Ghias	1,225	1,021	204	319
	Mr. Tahir Jawaid	849	212	637	681
	Mr. Ahsan Zafar Syed	795	145	650	674
	Mr. Mohammad Salim	849	241	608	600
	Mr. Ahmad Abbas Mirza	555	481	74	162
	Mr. Inamullah Naveed Khan	849	269	580	610
Insurance claim	New Hampshire Insurance Company	555	111	444	495
		10,459	4,240	6,219	6,680
Items having book value upto Rs. 50		6,985	6,948	37	1,102
		17,444	11,188	6,256	7,782
Furniture, fixtures & equipment and Plant & machinery					
By Auction	Al Noor Trading Corporation	13,931	8,184	5,747	1,624
		13,931	8,184	5,747	1,624
Items having book value upto Rs. 50		6,665	6,183	482	1,617
		20,596	14,367	6,229	3,241
		38,040	25,555	12,485	11,023

(AMOUNTS IN THOUSAND)

		2005	2004
		(Rupees)	
11.4	Capital work-in-progress		
	Plant and machinery	361,150	463,992
	Building and civil works	96,184	109,536
	Furniture, fixtures and equipment	47,595	24,985
	Advances to suppliers	6,466	16,057
		511,395	614,570
12.	INTANGIBLE ASSETS		
	Cost		
	At 1st January	64,431	62,213
	Additions	21,129	2,218
	At 31st December	85,560	64,431
	Amortisation		
	At 1st January	54,493	45,287
	Charge for the year	9,449	9,206
	At 31st December	63,942	54,493
	Net book value at 31st December	21,618	9,938
13.	LONG TERM INVESTMENTS		
	Unquoted		
	Subsidiary companies - at cost (note 13.1)	832,757	84,557
	Joint venture companies - at cost (note 13.2)	1,340,000	1,340,000
	Other associated company		
	Arabian Sea Country Club Limited		
	500,000 Ordinary shares of Rs. 10 each	5,000	5,000
	Less: Provision for diminution in value of investment	5,000	5,000
		-	-
		2,172,757	1,424,557

(AMOUNTS IN THOUSAND)

13.1 Subsidiary Companies

Name of the Company and description of interest	Equity % held 2005	Investment at cost - 2005 (Rupees)	Equity % held 2004	Investment at cost - 2004 (Rupees)
Engro Eximp (Private) Limited 10,000 Ordinary shares of Rs. 10 each	100	100	100	100
Engro Management Services (Private) Limited 250,000 Ordinary shares of Rs. 10 each	100	2,500	100	2,500
Engro Foods (Private) Limited (note 13.1.1) - 15,000,000 Ordinary shares of Rs. 10 each	100	150,000	-	-
- Advance against issue of share capital		598,200	-	-
Innovative Automation & Engineering (Private) Limited 1,020,000 Ordinary shares of Rs. 10 each	51	81,957	51	81,957
		832,757		84,557

13.1.1 During the year, the Company has incorporated a wholly owned subsidiary with the objective to undertake food business.

13.2 Joint Venture Companies

Name of the Company and description of interest	Equity % held 2005	Investment at cost - 2005 (Rupees)	Equity % held 2004	Investment at cost - 2004 (Rupees)
Engro Vopak Terminal Limited 45,000,000 Ordinary shares of Rs. 10 each	50	450,000	50	450,000
Engro Asahi Polymer & Chemicals Limited 89,000,000 Ordinary shares of Rs. 10 each	50	890,000	50	890,000
		1,340,000		1,340,000

13.3 Value of the above investments, based on the net assets of the investee companies as at December 31, 2005 was as follows:

	2005 (Rupees)	2004 (Rupees)
Engro Eximp (Private) Limited	85,649	15,802
Engro Management Services (Private) Limited	2,371	2,388
Engro Foods (Private) Limited (including advance against equity amounting to Rs. 598,200)	731,975	-
Innovative Automation & Engineering (Private) Limited	55,423	55,269
Engro Vopak Terminal Limited	457,951	509,186
Engro Asahi Polymer & Chemicals Limited	999,214	980,319
Arabian Sea Country Club Limited (June 30, 2005)	4,193	2,946

(AMOUNTS IN THOUSAND)

	2005	2004
	(Rupees)	
14. LONG TERM LOANS, ADVANCES AND OTHER RECEIVABLES		
Considered good		
Executives	57,182	69,805
Other employees	6,372	34,516
	63,554	104,321
Less: Installments recoverable within twelve months (note 18)	31,029	52,393
Fair value of interest rate SWAP (note 4.5 & 4.6)	65,117	-
Less: Current portion (note 19)	32,000	-
	33,117	-
	65,642	51,928

14.1 Reconciliation of the carrying amount of loans and advances to Executives:

	2005	2004
Balance at the beginning of the year	69,805	92,670
Disbursements	39,112	15,556
Repayment	(51,735)	(38,421)
Balance at the end of the year	57,182	69,805

14.2 This includes interest free services incentive loans to executives of Rs. 43,464 (2004: Rs. 43,366) repayable in equal monthly installments over a three years period or in one lump sum at the end of such period and interest free loans given to workers of Rs. 2,910 (2004: Rs. 15,936) pursuant to Collective Labour Agreement. It also includes advances of Rs. 10,734 (2004: Rs. 38,883) to employees for the purchase of Company's shares and these advances are repayable by 2006.

14.3 The maximum amount outstanding at the end of any month from the executives aggregated to Rs. 78,955 (2004: Rs. 114,751).

	2005	2004
	(Rupees)	
15. STORES, SPARES AND LOOSE TOOLS		
Consumable stores	95,130	97,381
Spares	584,822	543,476
Loose tools	3,260	3,565
	683,212	644,422
Less: Provision for surplus and slow moving items	17,310	57,134
	665,902	587,288

(AMOUNTS IN THOUSAND)

		2005	2004
		(Rupees)	
16.	STOCK-IN-TRADE		
	Raw materials	810,712	241,424
	Work-in-process	1,032	2,720
	Finished goods - own manufactured product	318,675	140,262
	- purchased product	792,563	100,342
		1,111,238	240,604
		1,922,982	484,748
17.	TRADE DEBTS		
	Considered good	543,316	522,608
	Considered doubtful	7,923	7,923
		551,239	530,531
	Less: Provision for doubtful debts	7,923	7,923
		543,316	522,608
18.	LOANS, ADVANCES, DEPOSITS AND PREPAYMENTS		
	Current portion of long term loans and advances to executives and other employees - considered good (note 13)	31,029	52,393
	Sub-ordinated loan to Engro Eximp (Private) Limited (note 18.1)	190,000	200,000
	Advances and deposits	89,393	46,689
	Margins against letters of credit	185	135,519
	Prepayments	51,134	43,853
	Less: Provision for doubtful receivables	818	818
		360,923	477,636

18.1 The loan carries mark-up at rates not being lower than the mark-up payable by the Company for ordinary commercial finance of like maturities, presently at 9% per annum (2004: 5% per annum).

The loan is subordinated to the facilities provided to the subsidiary by its banking creditors and is repayable on demand, taking into account the financing requirements of the subsidiary. Due to the nature of the transaction, the sale and repurchase of underlying assets has not been recorded in the financial statements.

(AMOUNTS IN THOUSAND)

	2005	2004
	(Rupees)	
19. OTHER RECEIVABLES		
Receivable from Government for:		
- custom duty and sales tax (note 11.2)	22,207	22,207
- others	13,560	13,560
	35,767	35,767
Accrued income on deposits / other financial assets	5,857	10,179
Receivable from gratuity funds (note 7)	-	5,520
Sales tax refundable	6,609	1,744
Current portion of fair value of interest rate swap (note 14)	32,000	-
Due from:		
- Subsidiary companies		
- Engro Eximp (Private) Limited	10,450	-
- Engro Foods (Private) Limited	1,835	-
- Innovative Automation & Engineering (Private) Ltd.	432	5,108
- Engro Management Services (Private) Limited	15	-
- Joint ventures		
- Engro Asahi Polymer & Chemicals Limited	2,739	215
- Engro Vopak Terminal Limited	135,006*	41
Claims on foreign suppliers	7,307	6,075
Less: Provision for doubtful receivables	295	295
	7,012	5,780
Others	258	357
Less: Provision for doubtful receivables	49	49
	209	308
	237,931	64,662

* This includes dividend receivable of Rs. 135,000.

19.1 The maximum amounts due from joint ventures / subsidiary companies at the end of any month during the year aggregated as follows:

	2005	2004
- Subsidiary companies		
- Engro Eximp (Private) Limited (advance against purchases)	779,330	779,994
- Engro Foods (Private) Limited	29,397	-
- Innovative Automation & Engineering (Private) Limited	432	5,108
- Engro Management Services (Private) Limited	15	114
- Joint ventures		
- Engro Asahi Polymer & Chemicals Limited	4,472	1,933
- Engro Vopak Terminal Limited	135,006	1,669

(AMOUNTS IN THOUSAND)

	2005	2004
	(Rupees)	
20. SHORT TERM INVESTMENTS		
Financial assets at fair value through profit or loss		
Government of Pakistan Special US Dollar Bonds	-	686,682
Certificates of investments	-	25,000
Certificates of deposits (note 20.1)	25,000	50,000
Fixed income / money market funds (note 20.2)	113,016	102,541
	138,016	864,223

20.1 The investments carry a return @ 11% per annum.

20.2 These represents investments in open end mutual funds and are valued at their respective redemption / repurchase price.

	2005	2004
21. CASH AND BANK BALANCES		
With banks		
- on deposit accounts	829,544	1,113,068
- on current accounts	171,547	149,368
In hand		
- cheques / demand drafts	138,644	175,712
- cash	2,750	3,000
	1,142,485	1,441,148
22. NET SALES		
Own manufactured product	10,693,873	9,502,588
Less: Sales tax	966,635	1,017,902
	9,727,238	8,484,686
Purchased product	9,123,314	4,592,093
Less: Sales tax	574,275	279,117
	8,549,039	4,312,976
Net Sales	18,276,277	12,797,662

Sales are net of marketing allowances of Rs. 72,967 (2004: Rs. 60,314).

(AMOUNTS IN THOUSAND)

23. COST OF SALES

	2005	2004
	(Rupees)	
Raw materials consumed	3,025,095	2,287,659
Salaries, wages and staff welfare	543,705	542,305
Fuel and power	1,655,614	1,460,233
Repairs and maintenance	283,577	236,462
Depreciation / amortization (note 11.1)	584,153	559,711
Consumable stores	74,824	76,143
Staff recruitment, training, safety and other expenses	31,938	23,869
Purchased services	101,542	98,569
Travel	22,862	21,245
Communication, stationery and other office expenses	28,971	29,368
Insurance	51,343	53,756
Rent, rates and taxes	4,817	4,817
Other expenses	43,197	26,371
Manufacturing cost	6,451,638	5,420,508
Add: Opening stock of work-in-process	2,720	9,668
Less: Closing stock of work-in-process	1,032	2,720
	1,688	6,948
Cost of goods manufactured	6,453,326	5,427,456
Add: Opening stock of finished goods manufactured	140,262	156,342
Less: Closing stock of finished goods manufactured	318,675	140,262
	(178,413)	16,080
Cost of goods sold - own manufactured product	6,274,913	5,443,536
- purchased product	8,089,375	4,084,679
	14,364,288	9,528,215

(AMOUNTS IN THOUSAND)

		2005	2004
		(Rupees)	
24.	**SELLING AND DISTRIBUTION EXPENSES**		
	Salaries, wages and staff welfare	202,972	210,857
	Staff recruitment, training, safety and other expenses	24,680	17,618
	Product transportation and handling	802,649	594,812
	Repairs and maintenance	10,697	13,330
	Advertising and sales promotion	62,893	60,770
	Rent, rates and taxes	38,563	30,287
	Communication, stationery and other office expenses	20,447	26,485
	Travel	22,462	21,503
	Depreciation / amortization (note 11.1)	25,026	22,600
	Purchased services	13,434	11,990
	Other expenses	46,880	26,257
		1,270,703	1,036,509
25.	**OTHER INCOME**		
	Dividend income (note 25.1)	963,600	491,021
	Income on deposits / other financial assets	59,172	45,242
	Service charges	19,507	5,825
	Fair Value of interest rate swap	65,117	-
	Reversal of resignation gratuity provision (note 7.2)	24,749	-
	Profit on disposal of fixed assets	-	12,644
	Net foreign exchange gain (note 25.2)	1,322	3,422
	Others	11,520	-
		1,144,987	558,154
25.1	Dividend income		
	Subsidiry companies		
	- Engro Eximp (Private) Limited	55,000	228,221
	- Innovative Automation & Engineering (Private) Limited	5,100	15,300
	Joint ventures		
	- Engro Vopak Terminal Limited	270,000	247,500
	- Engro Asahi Polymer & Chemical Limited	133,500	-
		963,600	491,021
25.2	Net foreign exchange gain / (loss)		
	Foreign exchange gain on Government of Pakistan Special US Dollar Bonds - Rs. 1,908 (2004: Rs. 23,822) and foreign currency bank accounts	1,223	23,922
	Foreign exchange gain / (loss) on foreign currency loan	99	(20,500)
		1,322	3,422

(AMOUNTS IN THOUSAND)

	2005	2004
	(Rupees)	
26. OTHER OPERATING CHARGES		
Workers' profits participation fund (note. 9.1)	171,716	123,565
Workers' welfare fund	43,067	32,674
Research and development (including salaries and wages)	68,790	31,937
Loss on sale of fixed assets	1,462	-
Auditors' remuneration		
- statutory audit	1,000	1,000
- fee for other other services	603	1,025
- reimbursement of expenses	129	247
	1,732	2,272
Less: Shown under intangible assets / capital work-in-progress	(315)	(820)
	1,417	1,452
Professional tax	200	700
	286,652	190,328
27. FINANCIAL CHARGES		
Interest on workers' profits participation fund (note 9.1)	82	30
Mark-up / interest on - redeemable capital and long term loans	238,033	279,853
- short term borrowings	40,676	2,745
Others	1,279	3,083
	280,070	285,711
28. TAXATION		
Current - for the year	863,587	586,906
Deferred	36,882	117,572
	900,469	704,478

28.1 The income tax assessments of the Company has been finalized up to and including the income year ended December 31, 2002. For the income years 1995 and 1996 the assessments were setaside by Commissioner (Appeals) wiping off the additional tax demand of Rs. 211,155. The appeals in 1996 (later 6 months), 1997 and 1998 have been decided in favour of the Company by appellate authorities. However, in 1998 the Commissioner has rejected the Company's appeal on the issue of incorporating correct turnover numbers in assessment. The Company is in appeal before the Income Tax Appellate Tribunal (ITAT) which the Company is confident of winning.

In 1999, 2000, 2001 and 2002 the Company has filed appeals before the Commissioner (Appeals) of which appeals in 2000 and 2001 has been decided in favour of the Company on most of the issues except on the issue of apportionment of the gross profit and selling and distribution expenses while appeals in 1999 and 2002 are pending. In 2000 and 2001 the Company is filing appeals before the ITAT which it is confident of winning. The Company's management is confident that in view of the positive outcomes from the appeals process the issues will be ultimately decided in favour of the Company and there would not be any additional tax liability relating to the prior years. Therefore, no additional tax charge has been made in that respect during the year.

(AMOUNTS IN THOUSAND)

28.2 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 rate as follows:

	2005	2004
	(Rupees)	
Profit before tax	3,219,551	2,315,053
Tax calculated at the rate of 35%	1,126,843	810,269
Depreciation on exempt assets not deductible for tax purposes	33,599	34,495
Effect of applicability of lower tax rate/exemption on certain income and other tax credits/debits	(259,973)	(142,286)
Tax under final regime	-	2,000
Tax charge for the year	900,469	704,478

29. EARNINGS PER SHARE

There is no dilutive effect on the basic earnings per share of the Company, which is based on:

	2005	2004
Profit after taxation (Rupees)	2,319,082	1,160,575
Weighted average number of Ordinary shares (in thousand)	152,940	152,940

30. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amounts charged in the financial statements for remuneration, including all benefits, to chief executive, directors and executives of the Company are given below:

	2005			2004		
	Directors			Directors		
	Chief Executive	Others	Executives	Chief Executive	Others	Executives
	(Rupees)					
Managerial remuneration	9,688	3,909	363,106	7,688	4,581	335,337
Retirement benefit funds	1,065	231	36,739	548	373	22,554
Other benefits	2,559	257	17,273	1,592	666	19,281
Fees	-	202	-	-	16	-
Total	13,312	4,599	417,118	9,828	5,636	377,172
Number of persons, including those who worked part of the year	1	9	281	2	9	279

(AMOUNTS IN THOUSAND)

30.1 The Company also makes contributions based on actuarial calculations to pension and gratuity funds and provides certain household items for use of some employees. Cars are also provided for use of some employees and directors.

30.2 Technical advisory fees paid to one non-executive director (2004: one) during the year amounted to Rs. 900 (2004: Rs. 900).

	2005	2004
	(Rupees)	
31. CASH GENERATED FROM OPERATIONS		
Profit before taxation	3,219,551	2,315,053
Adjustment for non-cash charges and other items:		
- Depreciation and amortisation	609,179	582,311
- Loss/(profit) on disposal of fixed assets	1,462	(12,644)
- Provision for retirement and other service benefits	39,423	97,380
- Income on deposits/other financial assets	(59,172)	(45,242)
- Dividend income	(963,600)	(491,021)
- Financial charges	280,070	306,211
- Working capital changes (note 31.1)	(777,575)	(329,813)
	2,349,338	2,422,235
31.1 Working capital changes		
(Increase)/decrease in current assets		
- Stores, spares and loose tools	(78,614)	(20,366)
- Stock-in-trade	(1,438,234)	(99,166)
- Trade debts	(20,708)	117,635
- Loans, advances, deposits and prepayments	116,713	(352,868)
- Other receivables (net)	(42,761)	3,859
	(1,463,604)	(350,906)
Increase/(decrease) in current liabilities		
- Trade and other payables including other service benefits (net)	686,029	21,093
	(777,575)	(329,813)
32. CASH AND CASH EQUIVALENTS		
Cash and bank balances (note 21)	1,142,485	1,441,148
Short term investments (note 20)	138,016	864,223
	1,280,501	2,305,371

(AMOUNTS IN THOUSAND)

33. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

33.1 Financial assets and liabilities

	Effective interest/ mark-up rate (%)	Interest/mark-up bearing				Non-Interest/mark-up bearing			
		Maturity upto one year	Maturity from one to five years	Maturity more than five years	Total	Maturity upto one year	Maturity from one to five years	Maturity more than five years	Total
		(Rupees)							
Financial Assets									
Loans and advances	9	190,000	-	-	190,000	31,029	65,642	-	96,671
Trade debts		-	-	-	-	543,316	-	-	543,316
Other receivables		-	-	-	-	163,540	-	-	163,540
Short term investments	11	25,000	-	-	25,000	113,016	-	-	113,016
Cash and bank balances	3 to 13	829,544	-	-	829,544	312,941	-	-	312,941
		1,044,544	-	-	1,044,544	1,163,842	65,642	-	1,229,484
Financial Liabilities									
Redeemable capital	3.75 to 10.30	687,500	2,462,500	425,000	3,575,000	-	-	-	-
Liability against asset subject to finance lease	6	2,226	2,289	-	4,515	-	-	-	-
Trade and other payables		-	-	-	-	1,308,353	-	-	1,308,353
Unclaimed Dividends		-	-	-	-	77,870	-	-	77,870
		689,726	2,464,789	425,000	3,579,515	1,386,223	-	-	1,386,223

a) Financial liabilities exposed to floating interest rate risk included above amount to Rs. 3,575,000.

33.2 Financial risk management

Overall, risks arising from the Company's financial assets and liabilities are limited. The Company manages its exposure to financial risk in the following manner:

a) Foreign exchange risk

This exists due to the Company's exposure resulting from outstanding import payments. A foreign exchange risk management policy has been developed and approved by the Management Committee. The policy allows the Company to take currency exposure for limited periods within predefined limits and open exposure is rigorously monitored. The Company ensures that it has options available to exit or hedge any exposure, either through forward contracts or prepayments, etc.

b) Interest / mark-up rate risk

The Company has long term Rupee based loans at variable rates. Variable rate loans have a prepayment option, which can be exercised upon any adverse movement. Rates on short term loans are effectively fixed.

(AMOUNTS IN THOUSAND)

c) Credit risk

The Company is exposed to a concentration of credit risk on its trade debts amounting to Rs. 543,316 by virtue of all its customers being agri-based businesses in Pakistan. However, this risk is mitigated by applying individual credit limits and by securing the majority of trade debts against bank guarantees from reputable banks.

Concentration of credit risk on cash based financial assets is minimised by dealing with a variety of major banks.

d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding to an adequate amount of committed credit facilities and the 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.

33.3 Fair value of financial assets and liabilities

The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair values.

34. TRANSACTIONS WITH RELATED PARTIES

34.1 Related parties comprise subsidiaries, joint venture companies, other companies with common directors, retirement benefit funds, directors and key management personnel.

34.2 Details of transactions with related parties during the year, other than those which have been disclosed elsewhere in these financial statements, are as follows:

	2005	2004
	(Rupees)	
Subsidiary companies		
Purchases and services	7,871,594	3,790,158
Service rendered	1,311	1,242
Associated companies		
Purchases and services	71,289	76,582
Service rendered	5,865	3,481
Dividend paid	612,974	330,859
Others		
Dividend paid	12,719	10,175

34.3 Associated companies held 63,857,402 (2004: 41,357,402) Ordinary shares in the Company at year end.

(AMOUNTS IN THOUSAND)

35. DONATIONS

Donations include the following in which a director or his spouse is interested:

	Interest in Donee	Name and address of Donee	2005	2004
			(Rupees)	
Mr. Zaffar Ahmad Khan	Member	Patients Welfare Program Aga Khan University Hospital, Karachi	40	50
Spouse of Mr. Parvez Ghias	Member	Citizen's Education Development Foundation, Karachi	25	25
Mr. Zaffar Ahmad Khan	Member	Oncology Unit Project, Aga Khan University Hospital, Karachi	2,000	2,000
Mr. Asad Umar	Member	Engro Community Welfare Foundation, Karachi	1,795	-
Mr. Asad Umar	Member	Lahore University of Management Sciences, Lahore	100	100
Spouse of Mr. Asad Umar	Member	Book Group, Karachi	195	-
			4,155	2,175

36. PRODUCTION CAPACITY

	Designed Annual Capacity Metric Tons	Actual Production 2005	Actual Production 2004
		Metric Tons	
Urea	850,000	911,672	870,321
NPK	100,000	157,013	120,566

37. NON-ADJUSTING EVENT AFTER BALANCE SHEET DATE

The board of Directors in its meeting held on January 31, 2006 has proposed a final cash dividend of Rs. 5 per share (2004: Rs. 4 per share final cash dividend) for approval of the members at the Annual General Meeting to be held on March 30, 2006. The financial statements for the year ended December 31, 2005 do not include the effect of the proposed cash dividends which will be accounted for in the financial statements for the year ending December 31, 2006.

38. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on January 31, 2006 by the Board of Directors of the Company.

S. Naseem Ahmad
Chairman

Asad Umar
President and Chief Executive

GR

Consolidated Financial Statements

KPMG

KPMG Taseer Hadi & Co.
Chartered Accountants

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Auditors' Report to the Members

We have audited the annexed consolidated financial statements comprising consolidated balance sheet of Engro Chemical Pakistan Limited and its subsidiary companies as at 31 December 2005 and the related consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity together with notes forming part thereof, for the year then ended. We have also expressed separate opinions on the financial statements of Engro Chemical Pakistan Limited and its subsidiary companies except for Innovative Automation & Engineering (Private) Limited, which was audited by other firm of auditors, whose report has been furnished to us, and our opinion, in so far as it relates to the amounts included for such company, is based solely on the report of such other auditors.

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 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 financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing accounting policies and significant estimates made by management, as well as, evaluting the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements examined by us present fairly the financial position of Engro Chemical Pakistan Limited and its subsidiary companies as at 31 December 2005 and the results of their operations, their cash flows and changes in equity for the year then ended in accordance with approved accounting standards as applicable in Pakistan.

Karachi
Dated: January 31, 2006

KPMG Taseer Hadi & Co.
Chartered Accountants

Consolidated Balance Sheet as at December 31, 2005

(AMOUNTS IN THOUSAND)

SHARE CAPITAL AND RESERVES	Note	2005	2004
		(Rupees)	
Share Capital			
Authorised			
200,000,000 Ordinary shares of Rs.10 each		2,000,000	2,000,000
Issued, subscribed and paid-up	3	1,529,400	1,529,400
Reserves - revenue		4,429,240	4,429,240
Unappropriated profit		1,529,146	779,566
		5,958,386	5,208,806
		7,487,786	6,738,206
MINORITY INTEREST		53,004	53,101
		7,540,790	6,791,307
NON CURRENT LIABILITIES			
Redeemable Capital	4	2,900,000	2,592,500
Liabilities against assets subject to finance lease	5	8,086	4,515
Deferred taxation	6	994,441	966,295
Retirement and other service benefits	7	46,297	68,514
		3,948,824	3,631,824
CURRENT LIABILITIES			
Current portion of			
- redeemable capital	4	692,500	1,089,000
- long term loan		-	594,500
- liabilities against assets subject to finance lease	5	4,215	2,311
- other service benefits	7	20,230	22,471
Short term borrowings	8	94,161	31,825
Trade and other payables	9	1,961,864	1,327,128
Taxation		56,551	-
Unclaimed Dividends		77,870	47,703
		2,907,391	3,114,938
CONTINGENCIES AND COMMITMENTS	10		
		14,397,005	13,538,069

(AMOUNTS IN THOUSAND)

	Note	2005	(Rupees)	2004
FIXED ASSETS				
Property, plant and equipment	11	7,567,515		7,121,724
Intangible assets	12	40,932		38,220
		7,608,447		7,159,944
LONG TERM INVESTMENTS	13	1,457,163		1,489,504
LONG TERM LOANS, ADVANCES, DEPOSITS AND OTHER RECEIVABLES	14	69,963		52,290
CURRENT ASSETS				
Stores, spares and loose tools	15	665,902		587,288
Stock-in-trade	16	1,914,711		518,160
Trade debts	17	687,650		613,817
Loans, advances, deposits and prepayments	18	235,791		294,324
Other receivables	19	254,943		67,335
Taxation		-		162,399
Short term investments	20	138,016		889,223
Cash and bank balances	21	1,364,419		1,703,785
		5,261,432		4,836,331
		14,397,005		13,538,069

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

S. Naseem Ahmad
Chairman

Asad Umar
President and Chief Executive

Consolidated Profit and Loss Account for the Year Ended December 31, 2005

(AMOUNTS IN THOUSAND EXCEPT FOR EARNINGS PER SHARE)

	Note	2005	2004
		(Rupees)	
Net sales		18,756,820	13,067,656
Cost of sales	22	(14,072,832)	(9,331,091)
GROSS PROFIT		4,683,988	3,736,565
Selling and distribution expenses	23	(1,375,778)	(1,094,367)
		3,308,210	2,642,198
Other income	24	166,737	69,152
Other operating charges	25	(294,137)	(197,763)
Financial charges	26	(291,249)	(287,794)
		(585,386)	(485,557)
Share of income from Joint Ventures	27	371,159	374,264
PROFIT BEFORE TAXATION		3,260,720	2,600,057
Taxation	28	(976,937)	(869,243)
PROFIT AFTER TAXATION		2,283,783	1,730,814
Attributable to			
-Equity holders of Holding Company		2,278,980	1,719,253
- Minority interest		4,803	11,561
		2,283,783	1,730,814
Earnings per share - Basic and diluted	29	Rs.14.90	Rs.11.24

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

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

S. Naseem Ahmad
Chairman

Asad Umar
President and Chief Executive

Consolidated Statement of Changes in Equity for the Year Ended December 31, 2005

(AMOUNTS IN THOUSAND)

	Share Capital	Revenue Reserve General	Revenue Reserve Unappro-priated Profit	Sub Total	Minority Interest	Total
	(Rupees)					
Balance as at January 1, 2004	1,529,400	4,129,240	583,833	6,242,473	56,240	6,298,713
Final dividend for the year ended December 31, 2003 @ Rs.3.50 per share	-	-	(535,290)	(535,290)	-	(535,290)
Dividend for the year ended December 31, 2003 pertaining to minority interest	-	-	-	-	(9,800)	(9,800)
Profit for the year ended December 31, 2004	-	-	1,719,253	1,719,253	11,561	1,730,814
Interim dividends :						
1st @ Rs. 2.50 per share	-	-	(382,350)	(382,350)	-	(382,350)
2nd @ Rs. 2.00 per share	-	-	(305,880)	(305,880)	-	(305,880)
Dividend pertaining to minority interest	-	-	-	-	(4,900)	(4,900)
Transfer to general reserve	-	300,000	(300,000)	-	-	-
Balance as at December 31, 2004	1,529,400	4,429,240	779,566	6,738,206	53,101	6,791,307
Final Dividend for the year ended December 31, 2004 @ Rs.4.00 per share	-	-	(611,760)	(611,760)	-	(611,760)
Profit for the year ended December 31, 2005	-	-	2,278,980	2,278,980	4,803	2,283,783
Interim dividends :						
1st @Rs. 3.00 per share	-	-	(458,820)	(458,820)	-	(458,820)
2nd @ Rs.3.00 per share	-	-	(458,820)	(458,820)	-	(458,820)
Dividend pertaining to minority interest	-	-	-	-	(4,900)	(4,900)
	1,529,400	4,429,240	1,529,146	7,487,786	53,004	7,540,790

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

S. Naseem Ahmad
Chairman

Asad Umar
President and Chief Executive

Consolidated Cash Flow Statement for the Year Ended December 31, 2005

(AMOUNTS IN THOUSAND)

	Note	2005	2004
		(Rupees)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	31	2,837,093	3,035,539
Retirement and other service benefits paid		(67,055)	(267,981)
Financial charges paid		(242,754)	(306,466)
Taxes paid		(729,841)	(1,073,000)
Long term loans and advances		(17,673)	23,283
Net cash inflow from operating activities		1,779,770	1,411,375
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure		(1,088,032)	(523,527)
Sale proceeds on disposal of fixed assets		11,067	21,001
Income on deposits/other financial assets		53,044	44,308
Dividends received		268,500	247,500
Net cash (outflow) from investing activities		(755,421)	(210,718)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from redeemable capital		1,000,000	1,020,000
Repayment of redeemable capital		(1,089,000)	(587,500)
Asset subject to finance lease-net		5,475	6,410
Repayment of long term loan		(594,500)	-
Dividends paid		(1,499,233)	(1,229,817)
Net cash (outflow) from financing activities		(2,177,258)	(790,907)
Net (decrease)/increase in cash and cash equivalents		(1,152,909)	409,750
Cash and cash equivalents at the beginning of the year		2,561,183	2,151,433
Cash and cash equivalents at the end of the year	32	1,408,274	2,561,183

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

S. Naseem Ahmad
Chairman

Asad Umar
President and Chief Executive

Notes to the Consolidated Financial Statements for the Year Ended December 31, 2005

1. STATUS AND NATURE OF BUSINESS

The "Group" consists of:

Holding Company

Engro Chemical Pakistan Limited (ECPL)

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

- Engro Foods (Private) Limited;
- Engro Eximp (Private) Limited;
- Engro Management Services (Private) Limited; and
- Innovative Automation & Engineering (Private) Limited.

1.1 ECPL is a public listed company incorporated in Pakistan. The principal activity of the Holding Company is manufacturing, purchasing and marketing of fertilizers. The Company is also involved in the production and marketing of seeds and as part of its diversification strategy has invested in joint ventures engaged in chemical related activities. Engro Foods (Private) Limited has been incorporated during the year with the objective to undertake food business. Engro Eximp (Private) Limited is involved in importing and exporting fertilizers. Engro Management Services (Private) Limited has been formed for acting as a modaraba management company to assist in the future diversification plans of ECPL. Innovative Automation & Engineering (Private) Limited offers industrial solutions in automation and control. All subsidiary companies are incorporated in Pakistan.

The registered office of the Holding Company is situated at 8th floor, PNSC Building, Moulvi Tamizuddin Khan Road, Karachi.

Engro Foods (Private) Limited, Engro Eximp (Private) Limited and Engro Management Services (Private) Limited are wholly owned subsidiaries of ECPL while the controlling interest in Innovative Automation & Engineering (Private) Limited is 51%.

1.2 Basis of consolidation

i) The consolidated financial statements include the financial statements of ECPL - Holding Company and its subsdiary companies - "the Group".

ii) Subsidiary companies are consolidated from the date on which more than 50% voting rights are transferred to the Group and are excluded from consolidation from the date of disposal.

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

iv) Material intra-group balances and transactions have been eliminated.

v) Minority interests are that part of the net results of operations and of net assets of subsidiary companies attributable to interest which are not owned by the Holding Company.

vi) Where necessary, accounting policies for subsidiary companies have been changed to ensure consistency with the policies adopted by the Holding company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of compliance

These consolidated financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance) and approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Accounting Standards (IASs) 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 take precedence.

2.2. Basis of preparation

2.2.1. These consolidated financial statements have been prepared under the historical cost convention, except for the remeasurement of 'financial assets at fair value through profit or loss' including derivative financial instruments, at fair value and recognition of certain staff retirement benefits at present value.

2.2.2. The preparation of consolidatad financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The estimates / judgements and associated assumptions used in the preparation are 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 / judgements / assumptions will, by definition, seldom equal the related actual results. The estimates / judgements and associated assumption are reviewed on an ongoing basis. Revision to the accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in period of revision and future periods if the revision affects both current and future periods. The estimates, judgements and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of these assets and liabilities within the next financial year are discussed in respective notes.

2.3 Taxation

Current Taxation

Provision for current taxation is based on the taxable income for the year determined in accordance with the prevailing law for taxation on income. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years, arising from assessments framed during the year for such years.

Deferred Taxation

Deferred tax has been provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purpose and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefit will be realized.

2.4 Retirement and Other Service Benefits

Defined contribution plans

The Holding Company and a subsidiary company operate:

- defined contribution provident fund for its permanent employees. Monthly contributions are made both by the employer and employees to the fund at the rate of 10% of basic salary.

The Holding Company operates:

- defined contribution pension fund for the benefit of management employees. Monthly contributions are made by the Holding Company to the fund at the rate ranging from 12.5% to 13.75% of basic salary (note 7.6).

Defined benefit plans and other service benefits

The Holding Company operates:

- defined benefit funded pension scheme for its management employees (note 7.1 and 7.6).

- defined benefit funded gratuity schemes for its management and non-management employees.

The pension scheme provides life time pension to retired employees or to their spouses. Contributions are made annually to these funds on the basis of acturial recommendations. The pension scheme has been curtailed and effective from July 1, 2005, no new members are inducted in this scheme (note 7.6).

- The Holding Company also operates unfunded scheme for resignation gratuity of certain management employees.

- The Holding Company recognizes acturial gains/losses over the expected future services of current members, using the recommended approach under IAS 19, Employee Benefits.

- Acturial valuations of the schemes are undertaken at appropriate regular intervals and the latest valuation was carried out at December 31, 2005.

- Provision is also made under a service incentive plan for certain category of experienced employees to continue in the Holding Company's employment.

Employees' compensated absences

- The Holding Company and its subsidiary companies account for compensated absences on the basis of unavailed leave balance of each employee at the end of the year.

2.5 Financial Liabilities

All financial liabilities are recognized initially at fair value plus directly attributable transaction costs, if any, and subsequently measured at amortized cost using effective interest rate method.

2.6 Property, plant and equipment

Owned

- Operating assets are stated at cost less accumulated depreciation and impairment losses, if any, whereas capital work-in-progress is stated at cost. Borrowing and other related cost specific to a project during its construction period are capitalized.

- Depreciation is charged to income using the straight-line method whereby the cost of an operating asset is written off over its estimated useful life. Depreciation on additions is charged from the months following the one in which the asset is put to use and on disposal upto the month the asset is in use. The rates of depreciation are stated in note 11.

- Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipments.

- Maintenance and repairs are charged to income as and when incurred. Major renewals and betterments are capitalized and the assets so replaced, if any, other than those kept as standby items are retired.

- Gains and losses on disposal of asets are included in income currently.

- The residual value, if not insignificant, is reassessed annually.

Leased

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership, are classified as finance lease. Assets subject to finance lease are stated at the lower of present value of minimum lease payments under the lease agreement and the fair value of the assets acquired on lease. Outstanding obligations under the lease less finance charges allocated to future periods are shown as a liability. Value of leased assets is depreciated over the useful life of the asset using the straight line method. Depreciation on leased assets is charged to income.

Finance charges under lease agreements are allocated to the periods during the lease terms so as to produce a constant periodic rate of financial cost on the remaining balance of principal liability for each period.

2.7 Intangible assets

2.7.1 Goodwill

Goodwill represents the difference between the consideration paid for acquiring interests in a subsidiary company and the value of the Group's share of its net assets at the date of acquisition.

2.7.2 Research and development costs

Research and development costs are charged to income as and when incurred except for certain development costs which are recognised as intangible assets when it is probable that a development project will be a success and certain criteria, including commercial and technological feasibility, have been met.

2.7.3 Other intangible assets

Costs that are directly associated with identifiable software products controlled by the Group and have probable economic benefit beyond one year are recognized as intangible assets.

Intangible assets are stated at cost less accumulated amortization and impairment losses, if any. Intangible assets are amortized on a straight-line basis over their estimated useful lives.

Cost associated with maintaining computer software products are recognized as an expense as incurred.

2.8 Investments

Joint venture companies

The Group's interest in jointly controlled entities in these consolidated financial statements has been accounted for using Equity Method.

Held-to-maturity investments

Investments with a fixed maturity where the Group has the intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are carried at amortized cost using the effective interest rate method.

Financial assets at fair value through profit or loss

Investments are designated as 'financial assets at fair value through profit or loss' by the Group either at initial recognition or as per transitional provisions of International Accounting Standard 39, Financial Instruments: Recognition and Measurement. Surplus/deficit arising from re-measurement is taken to profit and loss account.

Investments are treated as current assets where the intention is to hold these for less than twelve months from the balance sheet date. Otherwise investments are treated as long term assets.

2.9 Stores, spares and loose tools

Stores, spares and loose tools are valued at weighted average cost except for items in transit which are stated at cost. A provision is made for any excess book value over estimated realizable value of items identified as surplus to the Group's requirements. Adequate provision is also made for slow moving items.

2.10 Stock-in-trade

Stock-in-trade is valued at the lower of cost and net realizable value. Cost is determined using weighted average method except for raw material in transit which are stated at cost. Cost includes applicable purchase cost and manufacturing expenses. The cost of work in process includes material and proportionate conversion costs.

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

2.11 Trade and other receivables

Trade and other receivables are recognized initially at fair value plus directly attributable transaction costs, if any, and subsequently measured at amortized cost using effective interest rate method less provision for impairment, if any. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

2.12 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of cash flow statements, cash and cash equivalents comprise cash in hand, balances with banks and short term placements readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Cash and cash equivalents also include bank overdrafts/short term borrowings that are repayable on demand and form an integral part of the Group's cash management.

2.13 Provisions

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

2.14 Foreign currency translation

Transactions in the foreign currencies are accounted for in Pak Rupees at the exchange rates prevailing at the date of the transactions. Monetary assets and liabilities in foreign currencies are translated into Pak Rupees at rates of exchange prevailing at the balance sheet date. Foreign exchange differences are recognized in the profit and loss account.

(AMOUNTS IN THOUSAND)

2.15 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the financial statements only when the Group has a legally enforceable right to offset the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

2.16 Revenue recognition

- Sales are recognized when product is dispatched to customers
- Income on deposits and other financial assets is recognized on accrual basis.
- Dividend income is recognized when the Group's right to receive the payment has been established.

2.17 Derivative financial instruments

Derivatives that do not qualify for hedge accounting are recognized in the balance sheet at fair value with corresponding effect to profit and loss. Derivative financial instruments are carried as assets when fair value is positive and liabilities when fair value is negative.

2.18 Transactions with related parties

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

2.19 Impairment losses

The carrying amount of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment loss. If such indications exist, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment losses are recognized as expense in the profit and loss account.

2.20 Dividend distribution

Dividend distribution to the shareholders is recognized as a liability in the period/year in which the dividends are approved.

3. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2005	2004		2005	2004
(Numbers)			(Rupees)	
40,352,000	40,352,000	Ordinary shares of Rs.10 each fully paid in cash	403,520	403,520
112,588,079	112,588,079	Ordinary shares of Rs.10 each issued as fully paid bonus shares	1,125,880	1,125,880
152,940,079	152,940,079		1,529,400	1,529,400

(AMOUNTS IN THOUSAND)

4. REDEEMABLE CAPITAL
- Secured (Non-participatory)

Long term finance utilised
under mark-up arrangements:

	Installments		2005	2004
	Number	Commencing from	(Rupees)	
- National Bank of Pakistan (1)	2 half yearly	December 15, 2006	400,000	400,000
- National Bank of Pakistan (2)	8 half yearly	June 17, 2004	175,000	262,500
- United Bank Limited	5 half yearly	September 30, 2006	920,000	920,000
- MCB Bank Limited (1)	5 half yearly	September 30, 2006	680,000	680,000
- Standard Chartered Bank	5 half yearly	September 30, 2006	400,000	400,000
- National Bank of Pakistan (3)	8 quarterly	November 1, 2009	600,000	-
- MCB Bank Limited (2)	8 quarterly	March 12, 2010	400,000	-
- MCB Bank Limited (3)	16 quarterly	September 30, 2005	17,500	20,000
Term Finance Certificates (TFCs)			3,592,500	2,682,500
- 2nd Tranche			-	999,000
			3,592,500	3,681,500
Less: Current portion shown under current liabilities			692,500	1,089,000
			2,900,000	2,592,500

4.1 The long term finance carry mark-up ranging between 1.0% - 1.05% (2004: 1.0% - 1.05%) over six months Government Treasury Bills, except for National Bank of Pakistan (3) and MCB Bank Limited (2) on which mark-up is 1.3% over three month Karachi Interbank Offered Rate (KIBOR).

4.2 The MCB (3) loan obtained by a subsidiary company carries a mark-up @4% for 1st year and 6 months KIBOR plus 1.25% thereafter. The loan is secured by corporate guarantee of the Holding Company and personal guarantee of the directors representing minority interest of the subsidiary company in addition to the security referred to in note 4.4.

4.3 During the year, the Group redeemed 2nd Tranche of Term Finance Certificates amounting to Rs. 1 billion (amount of Rs. 999,000 outstanding at December 31, 2004) by exercising the call option for early redemption.

4.4 The above finances are secured by an equitable mortgage upon the immovable property and floating charge over current and future fixed assets of the Group.

4.5 In view of the substance of the transactions, the sale and repurchase of assets under long term finance have not been recorded in these financial statements.

4.6 The Group has entered into an interest rate swap agreement with Citibank Pakistan to manage its interest rate exposure on floating rate borrowing for a notional amount of Rs. 1 billion, amortizing upto September 2008. Under swap arrangement, the Group would receive average of last three cut-off yields of six months Government Treasury Bills from Citibank on notional amount and pay fixed 5.47% which will be settled semi-annually. The Group has the option of unwinding whole or part of the swap transaction at any semi-annual settlement date with prior notice to the bank.

(AMOUNTS IN THOUSAND)

4.7 As interest rates were peaking during the year, the Group entered into a matching swap with United Bank Limited, effective from March 2006 to perfectly offset the earlier swap of Citibank. Under this arrangement, the Group will pay average of last three cut-off yields of six months Government Treasury Bills on notional amount of Rs. 1 billion and receive fixed at 9.5% which will be settled semi-annually.

The fair value of the above swaps in Rs. 65,117 (note 14).

5 LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

5.1 The Group has lease agreements with financial institutions for lease of vehicles and office equipment. The liabilities under these agreements are payable by the year 2009 and are subject to finance charge ranging between 6% to 15.75% per annum used as the discount factor. The Group intends to exercise its option to purchase the leased assets upon completion of the lease period.

5.2 The amount of future payments for the finance leases and the periods in which these payments will become due are as follows :

	2005	2004
	(Rupees)	
Year		
2005	-	2,654
2006	4,957	2,400
2007	4,957	2,400
2008	2,557	-
2009	812	-
	13,283	7,454
Less: Finance charges not due	982	628
	12,301	6,826
Less: Current portion shown under current liabilities	4,215	2,311
	8,086	4,515

6. DEFERRED TAXATION

Credit / (debit) balances arising on account of:

	2005	2004
Accelerated depreciation allowance	1,036,710	1,026,353
Business losses relating to Engro Foods (Private) Limited	(9,149)	-
Provision for - retirement benefits	(22,132)	(31,845)
- slow moving stores and spares / doubtful receivables	(6,058)	(23,176)
Others	(4,930)	(5,037)
	994,441	966,295

(AMOUNTS IN THOUSAND)

	2005	2004
	(Rupees)	
7. RETIREMENT AND OTHER SERVICE BENEFITS		
Retirement benefits:		
Opening balance	19,960	177,475
Expense recognized - net (note 7.3)	(4,297)	52,762
Contributions made	(11,718)	(210,277)
Closing balance	3,945	19,960
Less: Payable to / (receivable from) gratuity funds (notes 9 & 19)	450	(5,520)
	3,495	25,480
Other service benefit plan	63,032	65,505
Less: Current portion shown under current liabilities	20,230	22,471
	42,802	43,034
	46,297	68,514

7.1 The amounts recognized in the balance sheet are as follows:

	Defined Benefit Pension Plan Funded (Curtailed)	Defined Benefit Gratuity Plans Funded	Defined Benefit Separation Gratuity Plan Un-funded
		(Rupees)	
Present value of funded obligations	358,066	180,341	-
Fair value of plan assets	(401,942)	(203,855)	-
(Surplus) / Deficit	(43,876)	(23,514)	-
Present value of unfunded obligation	-	-	3,495
Unrecognised actuarial gain	43,876*	23,964	-
Net liability at the end of the year	-	450	3,495

* The actuarial gain on defined benefit plan (curtailed) will be recognized by the Group once the certainty of recovery is established.

(AMOUNTS IN THOUSAND)

7.2 Movements in net liability recognized:

	Defined Benefit Pension Plan Funded (Curtailed)	Defined Benefit Gratuity Plans Funded	Defined Benefit Separation Gratuity Plan Un-funded
	(Rupees)		
Net liability at the beginning of the year	-	(5,520)	25,480
Expense recognized	5,661	12,027	2,764
Reversals made (note 24)	-	-	(24,749)
	5,661	12,027	(21,985)
Contributions made	(5,661)	(6,057)	-
Net liability at the end of the year	-	450	3,495

7.3 The following amounts have been charged in the profit and loss account in respect of retirement benefit schemes:

	2005	2004
	(Rupees)	
Defined benefit plans		
Current service cost	27,641	38,146
Interest cost	44,691	52,649
Reversal made	(24,749)	-
Expected return on plan assets	(52,297)	(38,237)
Net actuarial gain recognized in current year	417	204
	(4,297)	52,762
Defined contribution plans	49,367	33,442

7.4 Actual returns on funded plan assets during 2004 were Rs. 140,120.

7.5 Principal actuarial assumptions

Projected unit credit method, based on the following significant assumptions, was used for valuation of the schemes mentioned above:

- discount rate at 9% per annum;
- expected long term rate of increase in salaries for employees at 9% per annum, in case of Non-management employees long range rate is 8% whereas for the first 3 years the increase has been assumed at 13%.
- expected post retirement pension increase rate at 5% per annum; and
- expected long term rate of return on investment at 9% per annum.

(AMOUNTS IN THOUSAND)

7.6 During the year the Holding Company has setup a Defined Contribution Pension Scheme known as Engro Chemical Pakistan Limited MPT Employees Defined Contribution Pension Fund (the Fund) for the benefit of management employees. Employees joining the Holding Company from July 1, 2005 will become members of the new Fund. Members of the existing pension fund (a defined benefit plan) were given a one time option exercisable upto June 15, 2005 to join the new Fund effective from July 1, 2005. The actuarially accrued liability in respect of past services of those members who have exercised this option has been transferred to the new Fund on the effective date. The Fund has been approved under the provisions of the Income Tax Ordinance, 2001, effective July 1, 2005.

	2005	2004
	(Rupees)	
8. SHORT TERM BORROWING - Secured		
Running finance utilised from banks (note 8.1)	94,161	31,825

8.1 The facility for short term running finance available to the Group from various banks amounts to Rs. 2,647,000 (2004: Rs. 2,440,000).

The rates of mark-up range from 5% to 10.59% (2004: 1.4% to 9.5%) and the facilities are secured by floating charge upon all current and future moveable property of the Group.

8.2 The facilities of a subsidiary company are secured by corporate guarantee of the Holding Company and personal guarantees of the directors representing minority interest in the subsidiary company in addition to the security referred to in note 8.1.

	2005	2004
	(Rupees)	
9. TRADE AND OTHER PAYABLES		
Creditors	728,680	336,538
Accrued liabilities	401,199	322,732
Payable to gratuity fund (note 7)	450	-
Advances from customers	672,980	592,168
Financial charges accrued on secured		
- redeemable capital and long term loan	64,154	40,363
- short term borrowings	26,813	2,095
Deposits from dealers refundable on termination of dealership	7,486	6,957
Contractors' deposits and retentions	11,282	8,560
Workers' profits participation fund (note 9.1)	6,716	1,594
Workers' welfare fund	27,297	16,121
Sales tax payable	5,544	-
Other	9,263	-
	1,961,864	1,327,128

(AMOUNTS IN THOUSAND)

		2005	2004
		(Rupees)	
9.1	Workers' profits participation fund		
	Balance at the beginning of the year	1,594	4,607
	Interest on funds utilised in the Holding Company's business (note 26)	82	30
	Allocation for the year (note 25)	171,716	123,565
	Less: Amount paid to the Trustees of the Fund	166,676	126,608
		6,716	1,594

10. CONTINGENCIES AND COMMITMENTS

Contingencies

10.1 Claims, including pending lawsuits, against the Group not acknowledged as debts amounted to Rs. 48,911 (2004: Rs. 45,412).

10.2 Performance guarantees of Rs. 56,000 (2004: Rs. 45,077) have been issued by various banks on behalf of the Group.

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

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

Commitments

		2005	2004
		(Rupees)	
10.5	Capital commitments outstanding		
	Plant and machinery	106,167	123,425

(AMOUNTS IN THOUSAND)

11. PROPERTY, PLANT AND EQUIPMENT

	Land		Building		Plant and Machinery	Catalyst	Furniture, Fixtures and Equipment		Vehicles		2005	2004
	Freehold	Leasehold	Freehold	Leasehold			Own	Leased	Own	Leased		
						(Rupees)						
Cost												
At January 1	20,194	187,396	503,973	271,972	9,226,399	160,409	374,758	300	153,872	6,924	10,906,197	10,395,127
Additions	1,285	16,581	30,404	1,861	303,714	54,722	27,269	-	78,818	8,686	523,340	416,669
Disposals /transfers	-	-	-	-	(13,993)	-	(6,619)	-	(17,444)	-	(38,056)	(61,026) (4,982)
Transfers	-	-	-	-	-	-	-	-	-	-	-	160,409
At December 31	21,479	203,977	534,377	273,833	9,516,120	215,131	395,408	300	215,246	15,610	11,391,481	10,906,197
Depreciation												
At January 1	-	37,593	199,720	24,844	3,744,152	88,134	218,119	105	86,568	444	4,399,679	3,823,886
Accumulated depreciation / transfers	-	-	-	-	-	-	-	-	-	-	-	48,233
Charge for the year	-	3,982	21,870	6,853	455,470	36,850	51,485	90	29,524	2,296	608,420	576,844
Disposals	-	-	-	-	(8,216)	-	(6,154)	-	(11,188)	-	(25,558)	(47,046)
Transfers	-	-	-	-	-	-	-	-	-	-	-	(2,238)
At December 31	-	41,575	221,590	31,697	4,191,406	124,984	263,450	195	104,904	2,740	4,982,541	4,399,679
Net book value	21,479	162,402	312,787	242,136	5,324,714	90,147	131,958	105	110,342	12,870	6,408,940	6,506,518
Annual rate of depreciation%	-	2 to 3.33	2.5 to 10	2.5	5 to 10	20 to 33.33	10 to 25	20	12 to 20	20		
Capital work in progress (note 11.4)											1,158,575	615,206
Total											7,567,515	7,121,724

11.1 Depreciation and amortization have been allocated as follows :

	2005	2004
	(Rupees)	
Depreciation for the year (note 11)	608,420	576,844
Amortization for the year (note 12)	18,611	18,659
	627,031	595,503
Cost of sales (note 22)	592,006	560,912
Selling and distribution expenses (note 23)	26,958	27,559
Amortization of goodwill (note 25)	7,032	7,032
Capital Work in Progress (note 11.4)	1,035	-
	627,031	595,503

(AMOUNTS IN THOUSAND)

11.2 The Collector of Customs had disallowed exemption from custom duty and sales tax amounting to Rs.48,236 in prior years in respect of first catalyst and other items being part and parcel of the expansion plant on the contention that these items do not fall under the definition of "plant and machinery" which is exempt under the relevant SRO. The Holding Company challenged the Department's contention through a constitutional petition in the High Court of Sindh which stayed the recovery of the amount claimed and in December 1994 decided the petition in favour of the Holding Company. The Department filed an appeal in the Supreme Court. During the year, the Supreme Court of Pakistan dismissed the appeal and upheld the Sindh High Court judgement in Holding Company's favour. Payments totalling Rs. 22,207 made to the Department during the pendency of the petition in the High Court of Sindh on their contention that the stay order had expired, are now refundable to the Holding Company, for which an application has been filed with the Department and disclosed as receivable (note 19).

11.3 Particulars of disposal of fixed assets:

Description and method of disposal	Sold to	Cost	Accumulated depreciation	Net book value	Sale proceeds
			(Rupees)		
Vehicles					
By Holding Company policy to existing/separating executives	Mr. Naveed A. Hashmi	535	437	98	155
	Mr. Irfan Nadeem Khan	795	172	623	634
	Mr. Shahid A. Hakim	849	71	778	774
	Mr. Majid Hasan	555	435	120	160
	Mr. Salim Azhar	1,169	565	604	615
	Mr. Azhar Iqbal Farooq	879	80	799	801
	Mr. Pervez Ghias	1,225	1,021	204	319
	Mr. Tahir Jawaid	849	212	637	681
	Mr. Ahsan Zafar Syed	795	145	650	674
	Mr. Mohammad Salim	849	241	608	600
	Mr. Ahmad Abbas Mirza	555	481	74	162
	Mr. Inamullah Naveed Khan	849	269	580	610
Insurance claim	New Hampshire Insurance Company	555	111	444	495
		10,459	4,240	6,219	6,680
Items having book value upto Rs. 50		6,985	6,948	37	1,102
		17,444	11,188	6,256	7,782
Furniture, fixtures & equipment and Plant & machinery					
By Auction	Al Noor Trading Corporation	13,931	8,184	5,747	1,624
		13,931	8,184	5,747	1,624
Items having book value upto Rs.50		6,681	6,186	495	1,661
		20,612	14,370	6,242	3,285
		38,056	25,558	12,498	11,067

(AMOUNTS IN THOUSAND)

	2005	2004
	(Rupees)	
11.4 Capital work-in-progress		
Plant and machinery	834,216	463,992
Building and civil works	167,270	110,172
Information technology-hardware and software	6,413	-
Furniture, fixture and equipment	47,595	24,985
Infrastructure cost*	72,888	-
Advances to surplus	30,193	16,057
	1,158,575	615,206

*Includes depreciation pertaining to a subsidiary Company amounting to Rs. 1,035

12. INTANGIBLE ASSETS

	Software	Development Cost	Goodwill	2005	2004
			(Rupees)		
Cost					
At January 1	68,095	6,000	35,160	109,255	107,037
Addition	21,323	-	-	21,323	2,218
At December 31	89,418	6,000	35,160	130,578	109,255
Amortisation					
At January 1	56,629	2,100	12,306	71,035	52,376
Charge for the year	10,379	1,200	7,032	18,611	18,659
At December 31	67,008	3,300	19,338	89,646	71,035
Net book value	22,410	2,700	15,822	40,932	38,220

13. LONG TERM INVESTMENTS

	2005	2004
	(Rupees)	
Unquoted		
Joint venture companies - (note 13.1)	1,457,163	1,489,504
Other associated company		
Arabian Sea Country Club Limited		
500,000 Ordinary shares of Rs. 10 each	5,000	5,000
Less: Provision for diminution in value of investment	5,000	5,000
	-	-
	1,457,163	1,489,504

(AMOUNTS IN THOUSAND)

	2005	2004
	(Rupees)	
13.1 Details of Investment in Joint Venture companies		
Engro Vopak Terminal Limited		
At the beginning of the year	509,185	564,870
Add: Share of income after tax for the year	218,764	191,815
Less:		
- Dividend received during the year	135,000	-
- Dividend receivable	135,000	247,500
	457,949	509,185
Engro Asahi Polymer & Chemicals Limited		
At the beginning of the year	980,319	797,870
Add: Share of income after tax for the year	152,395	182,449
Less: Dividend received during the year	133,500	-
	999,214	980,319
	1,457,163	1,489,504

13.2 Interest in Joint Venture companies

Name of Company	No. of Ordinary Shares of Rs. 10 each	Equity % held
Engro Vopak Terminal Limited	4,500,000	50
Engro Asahi Polymer & Chemicals Limited	8,900,000	50

14. LONG TERM LOANS, ADVANCES, DEPOSITS AND OTHER RECEIVABLES

	2005	2004
	(Rupees)	
Considered good		
Executives	57,699	71,783
Other employees	14,910	34,878
	72,609	106,661
Less: Installments recoverable within twelve months (note 18)	35,763	54,371
	36,846	52,290
Fair value of interest rate SWAP (note 4.6 & 4.7)	65,117	-
Less: Current portion (note 19)	32,000	-
	33,117	-
	69,963	52,290

(AMOUNTS IN THOUSAND)	2005	2004
	(Rupees)	

14.1 Reconciliation of the carrying amount of loans and advances to Executives:

	2005	2004
Balance at the beginning of the year	71,783	92,670
Disbursements	41,414	17,534
Repayments	(55,498)	(38,421)
Balance at the end of the year	57,699	71,783

14.2 This includes interest free services incentive loans to executives of Holding Company amounting to Rs. 43,464 (2004: Rs. 43,366) repayable in equal monthly installments over a three years period or in one lump sum at the end of such period and interest free loans given to workers of Holding Company amounting to Rs. 2,910 (2004: Rs. 15,936) pursuant to Collective Labour Agreement. It also includes advances of Rs. 10,734 (2004: Rs. 38,883) to employees of Holding Company for the purchase of the Holding Company's shares and are repayable by 2006.

14.3 The maximum amount outstanding at the end of any month from the executives aggregated Rs. 78,955 (2004: Rs. 114,751).

	2005	2004
	(Rupees)	
15. STORES, SPARES AND LOOSE TOOLS		
Consumable stores	95,130	97,381
Spares	584,822	543,476
Loose tools	3,260	3,565
	683,212	644,422
Less: Provision for surplus and slow moving items	17,310	57,134
	665,902	587,288
16. STOCK-IN-TRADE		
Raw materials	810,712	241,424
Work-in-process	1,032	2,720
Finished goods - own manufactured product	318,675	140,262
- purchased product	784,292	133,754
	1,102,967	274,016
	1,914,711	518,160
17. TRADE DEBTS		
Considered good	687,650	613,817
Considered doubtful	8,447	8,431
	696,097	622,248
Less: Provision for doubtful debts	8,447	8,431
	687,650	613,817

(AMOUNTS IN THOUSAND)

	2005	2004
	(Rupees)	
18. LOANS, ADVANCES, DEPOSITS AND PREPAYMENTS		
Current portion of long term loans and advances to executives and other employees - considered good (note 14)	35,763	54,371
Advance and deposits with:		
- Statutory authorities	15,210	-
- Others	125,277	60,800
Margins against letters of credit	3,074	135,590
Prepayments	57,285	44,381
Less: Provision for doubtful receivables	818	818
	235,791	294,324

	2005	2004
19. OTHER RECEIVABLES		
Receivable from Government for:		
- customs duty and sales tax (note 11.2)	22,207	22,207
- others	13,560	13,560
	35,767	35,767
Accrued income on deposits / other financial assets	5,857	10,179
Receivable from gratuity funds (note 7)	-	5,520
Sales tax refundable	-	2,530
Current portion of fair value of interest rate swap (note 14)	32,000	-
Due from:		
Joint ventures		
- Engro Asahi Polymer & Chemicals Limited	2,739	215
- Engro Vopak Terminal Limited	135,006	41
Claims on foreign suppliers and insurance companies	36,689	10,815
Less: Provision for doubtful receivables	295	295
	36,394	10,520
Others	7,229	2,612
Less: Provision for doubtful receivables	49	49
	7,180	2,563
	254,943	67,335

(AMOUNTS IN THOUSAND)

19.1 The maximum amounts due from joint venture at the end of any month during the year aggregated as follows:

	2005	2004
	(Rupees)	
Joint ventures		
- Engro Asahi Polymer & Chemicals Limited	4,472	1,933
- Engro Vopak Terminal Limited	135,006	1,669

20. SHORT TERM INVESTMENTS

	2005	2004
Held-to-Maturity		
Certificates of Investments	-	25,000
Financial assets at fair value through profit or loss		
Government of Pakistan Special US Dollar Bonds	-	686,682
Certificate of investments	-	25,000
Certificate of deposits (note 20.1)	25,000	50,000
Fixed income / money market funds (note 20.2)	113,016	102,541
	138,016	889,223

20.1 The investments carry a return @ 11% per annum.

20.2 These represents investments in open end mutual funds and are valued at their respective redemption/repurchase price.

21. CASH AND BANK BALANCES

	2005	2004
	(Rupees)	
With banks		
- on deposit accounts	832,445	1,349,045
- on current accounts	243,520	175,695
In hand		
- cheques / demand drafts	284,944	175,712
- cash	3,510	3,333
	1,364,419	1,703,785

(AMOUNTS IN THOUSAND)

22. COST OF SALES

		2005	2004
		(Rupees)	
Raw materials consumed		3,025,095	2,287,659
Salaries, wages and staff welfare		543,705	542,305
Fuel and power		1,655,614	1,460,233
Repairs and maintenance		283,577	236,462
Depreciation / amortization (note 11.1)		592,006	560,912
Consumable stores		74,824	76,143
Staff recruitment, training, safety and other expenses		31,938	23,869
Purchased services		101,542	98,569
Travel		22,862	21,245
Communication, stationery and other office expenses		28,971	29,368
Insurance		51,343	53,756
Rent, rates and taxes		4,817	4,817
Other expenses		43,197	25,170
Manufacturing cost		6,459,491	5,420,508
Add: Opening stock of work-in-process		2,720	9,668
Less: Closing stock of work-in-process		1,032	2,720
		1,688	6,948
Cost of goods manufactured		6,461,179	5,427,456
Add: Opening stock of finished goods manufactured		140,262	156,342
Less: Closing stock of finished goods manufactured		318,675	140,262
		(178,413)	16,080
Cost of goods sold	- own manufactured product	6,282,766	5,443,536
	- purchased product	7,441,100	3,703,230
	- others	348,966	184,325
		14,072,832	9,331,091

(AMOUNTS IN THOUSAND)

	2005	2004
	(Rupees)	
23. SELLING AND DISTRIBUTION EXPENSES		
Salaries, wages and staff welfare	259,342	243,531
Staff recruitment, training, safety and other expenses	24,680	17,618
Product transportation and handling	802,649	594,812
Repairs and maintenance	19,068	13,607
Advertising and sales promotion	62,893	61,532
Rent, rates and taxes	42,411	32,068
Communication, stationery and other office expenses	27,978	30,919
Travel	34,140	26,017
Depreciation / amortization (note 11.1)	26,958	27,559
Purchased services	24,353	17,388
Other expenses	51,306	29,316
	1,375,778	1,094,367
24. OTHER INCOME		
Income on deposits / other financial assets	48,722	47,162
Service charges	15,307	5,653
Fair value of interest rate swap	65,117	-
Reversal of resignation gratuity provision (note 7.2)	24,749	-
Profit on disposal of property, plant and equipment	-	12,816
Net foreign exchange gain (note 24.1)	1,425	3,501
Others	11,417	20
	166,737	69,152
24.1 Net foreign exchange gain / (loss)		
Foreign exchange gain on Government of Pakistan Special US Dollar Bonds - Rs.1,908 (2004: Rs. 23,822) and foreign currency bank accounts	1,223	23,922
Foreign exchange gain / (loss) on foreign currency loan	202	(20,421)
	1,425	3,501

(AMOUNTS IN THOUSAND)

25. OTHER OPERATING CHARGES

	2005	2004
	(Rupees)	
Workers' profits participation fund (note 9.1)	171,716	123,565
Workers' welfare fund	43,067	32,674
Research and development (including salaries and wages)	68,790	31,937
Loss on sale of fixed assets	1,431	-
Amortisation of Goodwill (note 11.1)	7,032	7,032
Auditors' remuneration		
- statutory audit (note 25.1)	1,424	1,403
- fee for other services	603	1,025
- reimbursement of expenses	189	247
	2,216	2,675
Less: Shown under intangible assets/ capital work-in-progress	(315)	(820)
	1,901	1,855
Professional tax	200	700
	294,137	197,763

25.1 Includes Rs. 240 relating to Fakhruddin Yousafali & Co., Chartered Accountants, and Rs. 129 relating to Sajjad Haider & Co., Chartered Accountants, statutory auditors of subsidiary companies.

26. FINANCIAL CHARGES

	2005	2004
	(Rupees)	
Interest on workers' profits participation fund (note 9.1)	82	30
Mark-up / interest on - redeemable capital and long term loans	246,955	279,853
- short term borrowings	42,947	3,947
Others	1,265	3,964
	291,249	287,794

27. SHARE OF INCOME FROM JOINT VENTURES

	2005	2004
Share of income before taxation		
Engro Vopak Terminal Limited	346,752	319,525
Engro Ashai Polymer & Chemicals Limited	174,424	265,915
	521,176	585,440
Less: Share of provision for taxation		
Engro Vopak Terminal Limited	127,988	127,710
Engro Ashai Polymer & Chemicals Limited	22,029	83,466
	150,017	211,176
	371,159	374,264

(AMOUNTS IN THOUSAND)

	2005	2004
	(Rupees)	
28. TAXATION		
Current - for the year	948,791	751,671
Deferred	28,146	117,572
	976,937	869,243

28.1 The income tax assessments of the Holding Company has been finalized up to and including the income year ended December 31, 2002. For the income years 1995 and 1996 the assessments were set-aside by Commissioner (Appeals) wiping off the additional tax demand of Rs. 211,155. The appeals in 1996 (later 6 months), 1997 and 1998 have been decided in favour of the Holding Company by appellate authorities. However, in 1998 the Commissioner has rejected the Holding Company's appeal on the issue of incorporating correct turnover numbers in assessment. The Holding Company is in appeal before the Income Tax Appellate Tribunal (ITAT) which the Holding Company is confident of winning.

In 1999, 2000, 2001 and 2002 the Holding Company has filed appeals before the Commissioner (Appeals) of which appeals in 2000 and 2001 has been decided in favour of the Holding Company on most of the issues except on the issue of apportionment of the gross profit and selling and distribution expenses while appeals in 1999 and 2002 are pending. In 2000 and 2001 the Holding Company is filing appeals before the ITAT which it is confident of winning. The Holding Company's management is confident that in view of the positive outcomes from the appeals process the issues will be ultimately decided in favour of the Holding Company and there would not be any additional tax liability relating to the prior years. Therefore, no additional tax charge has been made in that respect during the year.

28.2 Relationship between tax expense and accounting profit :

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

	2005	2004
	(Rupees)	
Profit before tax	3,260,720	2,600,057
Tax calculated at the rate of 35%	1,141,252	910,020
Depreciation on exempt assets not deductible for tax purposes	33,599	34,495
Effect of applicability of lower tax rate / exemption on certain income and other tax credits / debits	(218,344)	(95,818)
Tax under final regime	20,430	20,546
Tax charge for the year	976,937	869,243

(AMOUNTS IN THOUSAND)

		2005	2004
29. EARNINGS PER SHARE			

There is no dilutive effect on the basic earnings per share of the Holding Company, which is based on:

		2005	2004
Profit after taxation (attributable to the shareholders of Holding Company)	(Rupees)	2,278,980	1,719,253
Weighted average number of Ordinary shares (in thousand)		152,940	152,940

30. RUMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amounts charged in the consolidated financial statements for remuneration, including all benefits, to chief executives, directors and executives of the Group are given below:-

	2005			2004		
	Directors			Directors		
	Chief Executives	Others	Executives	Chief Executives	Others	Executives
	(Rupees)					
Managerial remuneration	12,923	3,909	393,420	11,043	4,581	343,479
Retirement benefit funds	1,328	231	39,618	786	373	22,922
Other benefits	3,078	257	18,654	1,873	666	19,402
Fees	-	217	-	-	16	-
Total	17,329	4,614	451,692	13,702	5,636	385,803
Number of persons including those who worked part of the year	5	21	301	4	15	290

30.1 The Holding Company also makes contributions based on actuarial calculations to pension and gratuity funds and provides certain household items for use of some employees. Cars are also provided for use of some employees and directors.

30.2 Technical advisory fees paid to one non-executive director (2004: one) during the year amounted to Rs. 900 (2004: Rs. 900).

(AMOUNTS IN THOUSAND)

		2005	2004
		(Rupees)	
31.	CASH GENERATED FROM OPERATIONS		
	Profit before taxation	3,260,720	2,600,057
	Adjustment for non-cash charges and other items:		
	- Depreciation and amortization (note 11.1)	627,031	595,503
	- Loss/ (profit) on disposal of fixed assets	1,431	(12,816)
	- Provision for retirement and other service benefits	45,070	104,271
	- Income on deposits / other financial assets (note 24)	(48,722)	(47,162)
	- Share of income from joint venture companies (note 27)	(371,159)	(374,264)
	- Financial charges	291,249	308,294
	- Working capital changes (note 31.1)	(968,527)	(138,344)
		2,837,093	3,035,539
31.1	Working capital changes		
	(Increase) / decrease in current assets		
	- Stores, spares and loose tools	(78,614)	(20,366)
	- Stock-in-trade	(1,396,551)	(111,282)
	- Trade debts	(73,833)	81,423
	- Loans, advances, deposits and prepayments	58,533	(146,015)
	- Other receivables (net)	(56,930)	(4,779)
		(1,547,395)	(201,019)
	Increase / (decrease) in current liabilities		
	- Trade and other payables including other service benefits (net)	578,868	62,675
		(968,527)	(138,344)
32.	CASH AND CASH EQUIVALENTS		
	Cash and bank balances (note 21)	1,364,419	1,703,785
	Short term investments (note 20)	138,016	889,223
	Less: Short-term borrowings (note 8)	94,161	31,825
		1,408,274	2,561,183

(AMOUNTS IN THOUSAND)

33. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

33.1 Financial assets and liabilities

	Effective interest/ mark-up rate (%)	Interest/mark-up bearing				Non-Interest/mark-up bearing			
		Maturity upto one year	Maturity from one to five years	Maturity more than five years	Total	Maturity upto one year	Maturity from one to five years	Maturity more than five years	Total
		(Rupees)							
Financial Assets									
Loans and advances	9	-	-	-	-	35,763	69,963	-	105,726
Trade debts		-	-	-	-	687,650	-	-	687,650
Other receivables		-	-	-	-	187,176	-	-	187,176
Short term investments	11	25,000	-	-	25,000	113,016	-	-	113,016
Cash and bank balances	3 to 13	832,445	-	-	832,445	531,974	-	-	531,974
		857,445	-	-	857,445	1,555,579	69,963	-	1,625,542
Financial Liabilities									
Redeemable capital	3.75 to 10.30	692,500	2,475,000	425,000	3,592,500	-	-	-	-
Liabilities against assets subject to finance lease	6	4,215	8,086	-	12,301	-	-	-	-
Trade and other payable		-	-	-	-	1,279,621	-	-	1,279,621
Unclaimed dividends		-	-	-	-	77,870	-	-	77,870
		696,715	2,483,086	425,000	3,604,801	1,357,491	-	-	1,357,491

a) Financial liabilities exposed to floating interest rate risk included above amount to Rs. 3,592,500.

33.2 Financial risk management

Overall, risks arising from the Group's financial assets and liabilities are limited. The Group manages its exposure to financial risk in the following manner :

a) Foreign exchange risk

This exists due to the Group's exposure resulting from outstanding import payments. A foreign exchange risk management policy has been developed and approved by the Management Committee. The policy allows the Group to take currency exposure for limited periods within predefined limits and open exposure is rigorously monitored. The Group ensures that it has options available to exit or hedge any exposure, either through forward contracts or prepayments, etc.

b) Interest / mark-up rate risk

The Group has long term Rupee based loans at variable rates. Variable rate loans have a prepayment option, which can be exercised upon any adverse movement. Rates on short term loans are effectively fixed.

(AMOUNTS IN THOUSAND)

c) Credit risk

The Group is exposed to a concentration of credit risk on its trade debts amounting to Rs. 543,316 by virtue of all the customers of Holding company being agri-based businesses in Pakistan. However, this risk is mitigated by applying individual credit limits and by securing the majority of trade debts against bank guarantees from reputable banks.

Concentration of credit risk on cash based financial assets is minimised by dealing with a variety of major banks.

d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding to an adequate amount of committed credit facilities and the ability to close out market positions due to the dynamic nature of the business. The Group treasury aims at maintaining flexibility in funding by keeping committed credit lines available.

33.3 Fair value of financial assets and liabilities

The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair values.

34. TRANSACTIONS WITH RELATED PARTIES

34.1 Related parties comprise joint venture companies, other companies with common directors, retirement benefit funds, directors and key management personnel.

34.2 Details of transactions with related parties during the year, other than those which have been disclosed elsewhere in these financial statements, are as follows:

	2005	2004
	(Rupees)	
Associated companies		
Purchases and services	71,289	76,583
Services rendered	5,865	3,481
Dividend paid	612,974	330,859
Others		
Dividend paid	12,719	10,175

34.3 Associated companies held 63,857,402 (2004: 41,357,402) ordinary shares in the Holding Company at year end.

(AMOUNTS IN THOUSAND)

35. DONATIONS

Donations include the following in which a director or his spouse is interested:

	Interest in Donee	Name and address of Donee	2005	2004
			(Rupees)	
Mr. Zaffar Ahmad Khan	Member	Patients Welfare Program Aga Khan University Hospital, Karachi	40	50
Spouse of Mr. Parvez Ghias	Member	Citizen's Education Development Foundation, Karachi	25	25
Mr. Zaffar Ahmad Khan	Member	Oncology Unit Project, Aga Khan University Hospital, Karachi	2,000	2,000
Mr. Asad Umar	Member	Engro Community Welfare Foundation, Karachi	1,795	-
Mr. Asad Umar	Member	Lahore University of Management Sciences, Lahore	100	100
Spouse of Mr. Asad Umar	Member	Book Group, Karachi	195	-
			4,155	2,175

36. PRODUCTION CAPACITY

	Designed Annual Capacity	Actual Production 2005	Actual Production 2004
	Metric Tons	Metric Tons	
Urea	850,000	911,672	870,321
NPK	100,000	157,013	120,566

37. LISTING OF SUBSIDIARY COMPANIES AND JOINT VENTURE

Name of subsidiaries	Year Ended
Engro Foods (Private) Limited	31 December
Engro Eximp (Private) Limited	31 December
Engro Management Services (Private) Limited	31 December
Innovative Automation & Engineering (Private) Limited	31 December

Name of Joint Venture	
Engro Vopak Terminal Limited	31 December*
Engro Asahi Polymer & Chemicals Limited	31 December*

* The audit of the financial statements of the entities were in the process of finalization at the time of authorisation of these financial statements. The management considers that no significant changes are expected as a result of finalization of financial statements of these entities.

38. NON-ADJUSTING EVENT AFTER BALANCE SHEET DATE

The Board of Directors of the Holding Company in its meeting held on January 31, 2006 has proposed a final cash dividend of Rs. 5 per share (2004: Rs. 4 per share final cash dividend) for approval of the members at the Annual General Meeting to be held on March 30, 2006. The financial statements for the year ended December 31, 2005 do not include the effect of the proposed cash dividends which will be accounted for in the financial statements for the year ending December 31, 2006.

39. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on January 31, 2006, by the Board of Directors of the Holding Company.

S. Naseem Ahmad	**Asad Umar**
Chairman	President and Chief Executive

Our Vision, Mission &

Leadership

We have leaders of high integrity, energy and enthusiasm who have the necessary managerial, professional and people skills to inspire a group or an organization to set high goals and achieve them willingly. We believe that leadership skills need to be strengthened at all levels within our organization and that managerial and professional competence is a necessary foundation.

Candid & Open Communications

We value communications that are courteous, candid and open and that enable each of us to do our jobs more effectively by providing information that contributes to the quality of our judgement and decision making. Effective commuication should also provide the means for gaining understanding of the company's overall objectives and plans and of the thinking behind them.

Ethics & Integrity

We do care how results are achieved and will demonstrate honest and ethical behavior in all our activities. Choosing the course of highest integrity is our intent and we will establish and maintain the highest professional and personal standards. A well-founded reputation for scrupulous dealing is itself a priceless asset.

Innovation

Success requires us to continually strive to produce break through ideas that result in improved solutions and services to customers. We encourage challenges to the status quo and seek organizational environments in which ideas are generated, nurtured and developed.

Teamwork & Partnership

We believe that high-performing teams containing appropriate diversity can achieve what individuals alone cannot. Consciously using the diversity of style, approach and skills afforded by teams is a strength we must continue building into our organization.

Diversity & International Focus

We value differences in gender, race, nationality, culture, personality and style because diverse solutions, approaches and structures are more likely to meet the needs of customers and achieve our business goals.


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1965 2005

Fertilizers -

Chemical Terminal & Storage -

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- PVC Resin
- Foods
- Plant automation & Controls


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ENGRO CHEMICAL PAKISTAN LTD.
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MEDICAL CAMP
ENGRO
Engro Vopak Terminal Ltd.
Engro Asahi Polymer & Chemicals Ltd.
ENGRO
ENGRO
ENGRO FOODS

Our Vision is
"To be the premier Pakistani enterprise with a global reach, passionately pursuing value creation for all stakeholders."

Our mission is two-fold:
*** to help farmers maximize their farm produce by providing quality plant nutrients and technical services upon which they can depend.**
*** To create wealth by building new businesses based on company and country strengths in Petrochemicals, Information Technology, Infrastructure and other Agricultural sectors. In pursuing the mission we shall at all times be guided in our conduct and decision making by our Core Values.**

Core Values

Quality & Continuous Improvement

We believe that quality and a relentless commitment to continuous improvement are essential to our ongoing success. To this end, we define quality as understanding the customer's expectations, agreeing on performance and value, and providing products and services that meet expectations 100 percent of the time. Our motto is, "Quality in all we do."

Safety, Health & Environment

We will manage and utilize resources and operations in such a way that the safety and health of our people, our neighbours, our customers and our visitors is ensured. We believe our safety, health and environmental responsibilities extend beyond protection and enhancement of our own facilities, and we are concerned about the distribution, use and after-use disposal of our products.

External & Community Involvement

We believe that society must have industrial organizations that it can trust. Trust and Confidence are earned by our performance, by open and direct communication, and by active involvement in the communities in which we live and conduct our business."

Individual Growth & Development

We strongly believe in the dignity and value of people. We must consistently treat each other with respect and strive to create an organizational environment in which individuals are encouraged and empowered to contribute, grow and develop themselves and help to develop each other.

Enthusiastic Pursuit of Profit

Successfully discharging our responsibilities to our shareholders to enhance the long-term profitability and growth of our company provides the best basis for our career security and meaningful personal growth. We can best accomplish this by consistently meeting the expectations of our customers and providing them with value.

Enjoyment & Fun

We believe that excitement, satisfaction and recognition are essential elements of a healthy, creative and high-performing work environment. Having fun in our work should be a normal experience for everyone.

Corporate Governance

Compliance Statement

The Board of Directors has throughout the year 2005 complied with the 'Code of Corporate Governance' contained in the listing requirements of the stock exchanges and the 'Corporate and Financial Reporting Framework' of the Securities & Exchange Commission of Pakistan.

Risk Management Process

In 2005, the Management Committee undertook a review of major financial and operating risks faced by the business.

Internal Control Framework

Responsibility: The Board is ultimately responsible for the Engro'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 and accountabilities, well-understood policies and procedures and budgeting and 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 Engro's financial performance, financial and operating budgets and forecasts, business growth and development plans, capital expenditure proposals and other key performance indicators.

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.

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.

Audit: Engro 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

Corporate Governance

Executive and the divisional management. All material issues are reported to the Board Audit Committee who approves the audit program, which is based on an annual risk assessment of the operating areas. To underpin the effectiveness of controls, it is Engro's policy to attract, retain and develop staff of high calibre 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

During 2005, the Board comprised of three executive and seven non-executive Directors who had the collective responsibility for ensuring that the affairs of Engro are managed competently and with integrity. 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.

An independent non-executive Director, Syed Naseem Ahmad, chairs the Board and the Chief Executive Officer is Asad Umar. Biographical details of the Directors are given on pages 7 and 8.

A Board of Directors meeting calendar is issued annually in January that schedules the matters reserved for discussion and approval. The full Board meets at least four times a year and, in addition, devotes two days 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.

Principal Board Committees

The Board has established two committees both of which are chaired by independent non-executive directors. The specific terms of references are as follows:

Board Compensation Committee is responsible for reviewing and recommending all the elements of the Compensation, Organization & Employee Development policies relating to the Board's and senior executives' remuneration and for approving all matters relating to the remuneration of Executive Directors and members of the Management Committee.

The Board Compensation Committee primarily consists of non-executive Directors except the Chief Executive. The Committee met 6 times during 2005.

Directors' Names
S. Naseem Ahmad (Chairman)
Hussain Dawood
Arshad Nasar
Asad Umar

The Secretary of the Committee is Tahir Jawaid, General Manager Human Resources.

Board Audit Committee assists the Board in fulfilling its oversight responsibilities, primarily in reviewing and reporting financial and non-financial information to shareholders, systems 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 auditor or their advisors as considered appropriate.

The Board Audit Committee comprises of independent non-executive Directors. The Chief Executive Officer and General Manager Finance attend the meetings by invitation. The Committee also privately meets with the external auditor at least once a year. After each meeting the Chairman of the Committee reports to the Board. The Committee met 4 times during 2005.

Directors' Names

Shahzada Dawood (Chairman)
Javed Akbar
Muhammad Ali
Hussain Dawood
Asif Qadir

The Secretary of the Committee is Naveed A. Hashmi, Corporate Audit Manager.

Principal Operation Committees


Asad Umar


Javed Akbar


Asif Qadir


Khalid S. Subhani


Khalid Mansoor


Khalid Mir


Andalib Alavi


S. Imran ul Haque


Ruhail Mohammed


Inamullah Naveed Khan


Tahir Jawaid

The following Committees act at the operation level in an advisory capacity to the Chief Executive Officer, providing recommendations relating to businesses and employee matters:

- **Management Committee** 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.
- **Corporate HSE Committee** is responsible for providing leadership and strategic guidance on all Health, Safety and Environment (HSE) improvement initiatives and has stewardship responsibility for monitoring compliance against regulatory standards and selected international benchmarks.
- **COED Committee** is responsible for the review of Compensation, Organization and Employee Development (COED) matters of all people excluding employee Directors and Senior executives.

Committee Members

Asad Umar (Chairman)
Javed Akbar
Asif Qadir
Khalid S. Subhani
Khalid Mansoor
Khalid Mir
Andalib Alavi (Except COED)
S. Imran ul Haque (Except COED)
Ruhail Mohammed
Inamullah Naveed Khan
Tahir Jawaid (Except COED)

Secretaries

Abdul Samad Khan	Management Committee
Jahangir Piracha	Corporate HSE Committee
Tahir Jawaid	COED Committee

Principal Operation Committees


Asad


Javed Akbar


Asif Qadir


Khalid S. Subhani


Khalid Mansoor


Khalid Mir


Andalib Alavi


S. Imran ul Haque


Ruhail Mohammed


Inamullah Naveed Khan


Tahir Jawaid

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Committee Members

Asad Umar (Chairman)
Javed Akbar
Asif Qadir
Khalid S. Subhani
Khalid Mansoor
Khalid Mir
Andalib Alavi (Except COED)
S. Imran ul Haque (Except COED)
Ruhail Mohammed
Inamullah Naveed Khan
Tahir Jawaid (Except COED)

Secretaries

Abdul Samad Khan	Management Committee
Jahangir Piracha	Corporate HSE Committee
Tahir Jawaid	COED Committee

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