# LOTTE PPTA
# REPORT FOR THE QUARTER & SIX MONTHS ENDED 30 JUNE 2010

A NEW IDENTITY
A NEW BEGINNING

Lotte Pakistan PTA Ltd
Formerly Pakistan PTA Limited

# Contents

# Company information

**Board of Directors**

| | |
|---|---|
| Soon Hyo Chung | Chairman-Non executive |
| M Asif Saad | Chief Executive |
| Soo Young Huh | Non-executive |
| Neon Jung Kim | Executive |
| Oh Hun Im | Executive |
| Mohammad Qasim Khan | Non-executive |
| Aliya Yusuf | Non-executive |
| Tajammal Hussain Bokharee | Non-executive |

**Audit Committee**

| | |
|---|---|
| Tajammal Hussain Bokharee | Chairman |
| Neon Jung Kim | Member |
| Aliya Yusuf | Member |

**Senior Remuneration Sub Committee**

| | |
|---|---|
| Soon Hyo Chung | Chairman |
| Soo Young Huh | Member |
| Neon Jung Kim | Member |
| Oh Hun Im | Member |

**Shares Sub Committee**

| | |
|---|---|
| Neon Jung Kim | Chairman |
| Mohammad Qasim Khan | Member |
| Oh Hun Im | Member |

**Chief Financial Officer and Company Secretary**
Ali Aamir

**Executive Management Team**

| | |
|---|---|
| M Asif Saad | Chief Executive |
| Ali Aamir | Chief Financial Officer & Company Secretary |
| Qamar Haris Manzoor | General Manager Manufacturing |
| Mohammad Wasim | General Manager Projects |
| Humair Ijaz | General Manager Commercial |
| Waheed U Khan | Corporate Human Resource Manager |
| Adnan W Samdani | Corporate Strategy Manager |

**Bankers**

| | |
|---|---|
| Askari Bank Limited | HSBC Bank Middle East Limited |
| Barclays Bank PLC, Pakistan | MCB Bank Limited |
| Citibank NA | National Bank of Pakistan |
| Habib Bank Limited | Standard Chartered Bank (Pakistan) Limited |

**Internal Auditors**
Ernst & Young Ford Rhodes Sidat Hyder
Chartered Accountants

**External Auditors**
A. F. Ferguson & Co.,
Chartered Accountants

**Legal Advisor**
Djaleh Akber
148, 18th East Street, Phase 1, DHA, Karachi

**Registered Office**
EZ/1/P-4, Eastern Industrial Zone, Port Qasim, Karachi

**Shares Registrar**
Famco Associates (Pvt) Limited
State Life Building No. 1-A, 1st Floor,
I.I. Chundrigar Road, Karachi - 74000

# Report of the Directors

For the second quarter ended 30 June 2010

The Directors are pleased to present their report for the second quarter ended 30 June 2010 together with the un-audited condensed interim financial statements of the Company for the second quarter and six months ended 30 June 2010

## BUSINESS OVERVIEW

The price of crude oil crossed the US$ 85 per barrel mark in Q2 2010 for the first time in the current year peaking at US$ 86.64 per barrel in April 2010. This was led mainly by economic data that continued to show a positive outlook of the world economy with China leading the way. The strength of the US dollar and the financial crisis in Europe, however, kept the crude oil price rise in check, averaging around US$ 78 per barrel during the quarter.

Paraxylene (Px) prices largely followed the crude oil trend during Q2 2010. The market continued to be well supplied in the region with new capacities in Kuwait and China running at full rates and most end users remaining comfortably covered with contract volumes. The spot Px price averaged US$ 975 per tonne CFR China for the quarter with a high of US$ 1,075 per tonne CFR China in May and a low of US$ 880 per tonne CFR China in June.

PTA spot prices also increased to a high of US$ 1,000 per tonne CFR China levels earlier in April but retreated to US$ 800 per tonne CFR China by the end of June. PTA demand was closely linked with downstream conditions in China as lower sales volumes in the polyester market and the Chinese government's decision to slow down the flow of credit mid way through the quarter, exerted downward pressure on PTA prices, which averaged US$ 918 per tonne CFR China during the quarter. The anti-dumping duties imposed by the Chinese government during Q1 2010 on PTA from Thailand and Korea continued to adversely affect the PTA price from these countries resulting in discounts of US$ 15 to US$ 20 per tonne on Taiwanese PTA. Mitsubishi's new 800,000 tonnes per annum PTA plant in Haldia continued to struggle in stabilizing its operations as a result of which Indian polyester manufacturers were often forced to import the product.

On the back of a slower than expected recovery in the U.S. and the continued credit squeeze by the Chinese government, the regional polyester market remained sluggish during the quarter with downstream demand and prices, after rising to their highest levels for the year in the early part of Q1 2010, went into a declining trend during most of May and June 2010. Polyester Staple Fibre (PSF) prices remained higher than the previous quarter, averaging US$ 1.48 per kg CFR China, while PET averaged US$ 1,263 per tonne FOB Korea which was marginally lower than Q1 2010. In the domestic market, due to the continued closure of the largest PSF manufacturer in the country, the remaining producers operated their plants at full rates and PSF prices averaged around Rs 130 per kg during the quarter, which were slightly higher than in Q1 2010.

Despite the Company's best efforts to convince the Government of Pakistan (GoP) to maintain the customs duty on PTA at 7.5%, it was reduced to 3% with effect from 1 July 2010. This rate is now the lowest compared to Pakistan's closest competitors in the textile industry such as China and India (6.5% and 5% respectively) where the PTA industry has not only achieved the scale necessary to be self sufficient but is much more developed than in Pakistan. Concurrently, the zero rating of this duty for PTA users was also discontinued by the GoP and, in compensation, customs duty on PSF and PET was increased from 4.5% and 7.5% to 6% and 9% respectively. As stated at a number of forums and in previous Directors' reports, the reduction in customs duty on PTA will not only have an adverse impact on the Company's future profits but will also discourage further investment and growth in Pakistan of the PTA industry in particular and the petrochemical industry in general.

The European Union (EU) imposed 'countervailing duties' on exports of PET from Pakistan, Iran and the United Arab Emirates at various rates, with effect from 2 June 2010. Pakistan's provisional rate of duty was originally determined at Euros 84 per tonne but was subsequently revised down to Euros 44 per tonne after the GoP discontinued the zero rating of customs duty on PTA. This matter is being vigorously contested jointly by the GoP and the local PET manufacturer and the full impact of this duty will become clearer on final determination of the rate by the EU.

The Directors are pleased to report that the contract for the procurement of the gas turbine for the Company's co-generation power project approved by the Board in Q1 2010, has been signed and delivery of the equipment is expected by end March 2011. Negotiations are in progress with the contractor selected for the engineering and construction work and the entire project is expected to be completed by the end of Q1 2012.

# Report of the Directors
For the second quarter ended 30 June 2010

## OPERATIONS

Sales volume for Q2 at 137,063 tonnes was 13% higher than the corresponding quarter last year and included 96% domestic off-take. This was primarily due to better market positioning by the Company which led to a higher share in the domestic consumption of PTA versus imported product.

Production during the quarter at 129,830 tonnes was the best quarterly production to-date and was 7% higher than the corresponding period last year. As a result, conversion efficiencies also improved over the same period last year.

## PROFIT, FINANCE & TAXATION

With continued favourable trading conditions in the Middle East and Asia Pacific regions during Q2 2010, PTA margin over Px was higher than the same period last year. As a result, the Company generated a gross profit of Rs 1,935 million during the quarter as compared to Rs 1,254 million in Q2 2009.

Distribution and selling expenses for the quarter were higher than the corresponding quarter last year mainly due to higher outward freight and handling charges borne by the Company and higher export sales. Administration charges were also higher than the corresponding quarter last year mainly due to annual increments in management staff salaries and wages and the overall impact of a high inflation rate. Other operating income was higher than Q2 2009 mainly due to interest income of Rs 189 million (2009: Rs 32 million) earned on surplus cash generated from operations. Other operating expenses for the quarter were significantly lower than the corresponding quarter last year mainly due to lower exchange losses on the back of a relatively stable Rs/US$ exchange rate. As a result of the above, the Company generated profit before taxation of Rs 1,805 million compared to Rs 925 million in Q2 last year.

The taxation charge for the quarter is based on the estimated annual tax rate expected for the full financial year 2010. The Company has re-evaluated its position on accounting for deferred tax liability arising from the depreciation for tax purposes being significantly lower than the depreciation charged in the financial statements, related to the time of the Company's demerger from ICI Pakistan Limited. As a result of this re-evaluation, the deferred tax liability has been recognised in the Company's financial statements by re-stating the previous year's accumulated loss in the condensed interim statement of changes in equity for the half year ended 30 June 2010.

## FUTURE OUTLOOK

Given the continuing uncertainty over the U.S. economy's future performance and growth rate, the price of crude oil is expected to remain range bound at current levels. However, this may be tempered by downward pressure during Q3 2010 from the expected slowdown of the Chinese economy as a result of the government's squeeze on credit expansion.

With excess Px capacity in the region, Px prices are expected to remain under pressure during most of H2 2010 and production cutbacks by Px manufacturers seem likely in order to balance the market. PTA is expected to follow this trend in the second half of the year and margins are also expected to remain under pressure. Despite managing to carve out a larger share of the market versus imports in Q2 2010, the Company continues to face competition from foreign suppliers, particularly those based in Thailand, due to the anti dumping duties imposed by the Chinese government on Thai and Korean PTA producers in Q1 2010. It is unfortunate to note that at a time when other countries are levying anti dumping duties ranging from 6% ~ 8%, in addition to the current tariff level of 6.5% (in China), the GoP has decided to reduce the import duty on PTA in Pakistan to 3%. The management of Lotte PPTA believes this decision to be against the interests of the domestic PTA industry and continues to make representations to the GoP for its rectification. Sales to the local PET sector could also be adversely affected by the elimination of the zero rating mechanism with effect from 1 July 2010.

| | |
|---|---|
| **Soon Hyo Chung** | **M Asif Saad** |
| Chairman | Chief Executive |

Karachi: 25 August 2010

# Auditors' Report to the Members on Review of Interim Financial Information

## Introduction

We have reviewed the accompanying condensed interim balance sheet of Lotte Pakistan PTA Limited (Formerly Pakistan PTA Limited) as at June 30, 2010 and the related condensed interim profit and loss account, condensed interim statement of comprehensive income, condensed interim cash flow statement, condensed interim statement of changes in equity and notes to the accounts for the half year then ended (here-in-after referred to as the "interim financial information"). Management is responsible for the preparation and presentation of this interim financial information in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting. Our responsibility is to express a conclusion on this interim financial information based on our review. The figures of the condensed interim profit and loss account for the quarters ended June 30, 2010 and 2009 have not been reviewed, as we are required to review only the cumulative figures for the half year ended June 30, 2010.

## Scope of Review

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

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information as of and for the half year ended June 30, 2010 is not prepared, in all material respects, in accordance with approved accounting standards as applicable in Pakistan for interim financial reporting.

Date: 25 August 2010
Karachi

A. F. Ferguson & Co.
Chartered Accountants
Name of the engagement partner: Farrukh Rehman

# Condensed interim balance sheet
## As at 30 June 2010

Amounts in Rs '000

| | Note | 30 June 2010 (Unaudited) | 31 December 2009 (Re-stated) |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 6 | **8,855,021** | 9,335,514 |
| Long-term loans and advances | | **40,591** | 34,497 |
| Long-term deposits and prepayments | | **68,110** | 62,586 |
| **Total non-current assets** | | **8,963,722** | 9,432,597 |
| **Current assets** | | | |
| Stores and spares | | **478,864** | 400,715 |
| Stock-in-trade | | **2,375,271** | 1,273,922 |
| Trade debts | | **2,475,908** | 1,800,772 |
| Loans and advances | | **30,537** | 26,233 |
| Deposits and short-term prepayments | | **116,311** | 49,150 |
| Other receivables | | **683,539** | 555,031 |
| Cash and bank balances | 7 | **8,070,034** | 5,437,940 |
| **Total current assets** | | **14,230,464** | 9,543,763 |
| **Total assets** | | **23,194,186** | 18,976,360 |
| **Share capital and reserves** | | | |
| Authorised capital | | | |
| 2,000,000,000 (31 December 2009: 2,000,000,000) ordinary shares of Rs 10 each | | **20,000,000** | 20,000,000 |
| Issued, subscribed and paid-up capital | | | |
| 1,514,207,208 (31 December 2009: 1,514,207,208) ordinary shares of Rs 10 each | | **15,142,072** | 15,142,072 |
| Capital reserves | | **2,345** | 2,345 |
| Accumulated loss | | **(7,893,716)** | (9,312,691) |
| **Total equity** | | **7,250,701** | 5,831,726 |
| Surplus on revaluation of property, plant and equipment | | **85,992** | 85,992 |
| **Non-current liabilities** | | | |
| Long-term loans | 8 | **5,390,752** | 5,322,397 |
| Deferred tax liability | | **1,511,396** | 1,623,823 |
| Liability against assets subject to finance lease | | **278,278** | 351,796 |
| Deferred liability | | **9,956** | 9,999 |
| **Total non-current liabilities** | | **7,190,382** | 7,308,015 |
| **Current liabilities** | | | |
| Trade and other payables | | **7,466,602** | 4,972,671 |
| Accrued interest / mark-up on loans | | **139,740** | 137,175 |
| Unclaimed dividend | | **11,496** | 2,374 |
| Taxation payable | | **920,146** | 519,114 |
| Current portion of liability against assets subject to finance lease | | **129,127** | 119,293 |
| **Total current liabilities** | | **8,667,111** | 5,750,627 |
| **Contingencies and commitments** | 9 | | |
| **Total equity and liabilities** | | **23,194,186** | 18,976,360 |

The annexed notes 1 to 17 form an integral part of this condensed interim financial information.

**Soon Hyo Chung**
Chairman

**M Asif Saad**
Chief Executive

# Condensed interim profit and loss account (unaudited)

## For the quarter and six months ended 30 June 2010

Amounts in Rs '000

| | Note | Quarter ended 30 June | | Six months ended 30 June | |
|---|---|---|---|---|---|
| | | **2010** | 2009 (Re-stated) | **2010** | 2009 (Re-stated) |
| **Turnover** | 10 | **11,951,711** | 9,442,211 | **21,689,116** | 17,642,599 |
| Price settlements and discounts | | **(478,443)** | (423,604) | **(892,948)** | (1,508,264) |
| **Net sales** | | **11,473,268** | 9,018,607 | **20,796,168** | 16,134,335 |
| Cost of sales | 11 | **(9,538,350)** | (7,764,825) | **(17,511,307)** | (14,126,622) |
| **Gross profit** | | **1,934,918** | 1,253,782 | **3,284,861** | 2,007,713 |
| Distribution and selling expenses | | **(31,660)** | (19,799) | **(55,431)** | (36,650) |
| Administration expenses | | **(65,532)** | (48,727) | **(124,889)** | (102,625) |
| Other operating income | 12 | **193,895** | 46,457 | **451,799** | 52,170 |
| Other operating expenses | 13 | **(155,555)** | (235,858) | **(197,179)** | (337,249) |
| | | **(58,852)** | (257,927) | **74,300** | (424,354) |
| | | **1,876,066** | 995,855 | **3,359,161** | 1,583,359 |
| Financial charges | | **(70,684)** | (71,332) | **(129,212)** | (179,400) |
| **Profit before taxation** | | **1,805,382** | 924,523 | **3,229,949** | 1,403,959 |
| Taxation | 14 | **(549,990)** | (287,097) | **(1,053,870)** | (195,375) |
| **Profit after taxation** | | **1,255,392** | 637,426 | **2,176,079** | 1,208,584 |
| | | **Amount in Rupees** | | | |
| Earnings per share - basic and diluted | | **0.83** | 0.42 | **1.44** | 0.80 |

Amounts in Rs '000

# Condensed interim statement of comprehensive income (unaudited)

## For the quarter and six months ended 30 June 2010

| | | | | |
|---|---|---|---|---|
| **Profit after taxation** | **1,255,392** | 637,426 | **2,176,079** | 1,208,584 |
| Other comprehensive income | - | - | - | - |
| **Total comprehensive income** | **1,255,392** | 637,426 | **2,176,079** | 1,208,584 |

The annexed notes 1 to 17 form an integral part of this condensed interim financial information.

**Soon Hyo Chung**
Chairman

**M Asif Saad**
Chief Executive

# Condensed interim cash flow statement (unaudited)

## For the six months ended 30 June 2010

Amounts in Rs '000

| | Six months ended 30 June 2010 | Six months ended 30 June 2009 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit before taxation | **3,229,949** | 1,403,959 |
| Adjustments for: | | |
| Depreciation | **622,456** | 606,921 |
| Loss on sale/retirement of property, plant & equipment | **9,529** | - |
| Financial charges | **129,212** | 179,400 |
| Unrealised exchange loss | **47,608** | 228,187 |
| Profit on bank deposits | **(365,790)** | (35,711) |
| | **3,672,964** | 2,382,756 |
| Movement in: | | |
| Working capital | **476,827** | 2,363,074 |
| Long-term loans and advances | **(6,094)** | (5,582) |
| Long-term deposits and prepayments | **(5,524)** | (335) |
| | **465,209** | 2,357,157 |
| Cash generated from operations | **4,138,173** | 4,739,913 |
| Payments for: | | |
| Financial charges | **(112,293)** | (481,333) |
| Staff retirement benefit scheme - unfunded | **(43)** | (48) |
| Taxation | **(765,265)** | (180,554) |
| | **(877,601)** | (661,935) |
| Profit received on bank deposits | **328,287** | 35,711 |
| Net cash generated from operating activities | **3,588,859** | 4,113,689 |
| **Cash flows from investing activities** | | |
| Payments for capital expenditure | **(151,493)** | (9,273) |
| Net cash used in investing activities | **(151,493)** | (9,273) |
| **Cash flows from financing activities** | | |
| Payment for liability against assets subject to finance lease | **(57,291)** | (40,892) |
| Dividend paid | **(747,981)** | (4) |
| Net cash used in financing activities | **(805,272)** | (40,896) |
| **Net increase in cash and cash equivalents** | **2,632,094** | 4,063,520 |
| Cash and cash equivalents at 1 January | **5,437,940** | (1,238,178) |
| **Cash and cash equivalents at 30 June** | **8,070,034** | 2,825,342 |
| **Movement in working capital** | | |
| (Increase) / decrease in current assets: | | |
| Stores and spares | **(78,149)** | (22,356) |
| Stock-in-trade | **(1,101,349)** | (528,505) |
| Trade debts | **(675,136)** | (357,100) |
| Loans and advances | **(4,304)** | (685) |
| Deposits and short-term prepayments | **(67,161)** | (28,270) |
| Other receivables | **(91,005)** | 1,177,462 |
| | **(2,017,104)** | 240,546 |
| Increase in current liabilities: | | |
| Trade and other payables | **2,493,931** | 2,122,528 |
| | **476,827** | 2,363,074 |

The annexed notes 1 to 17 form an integral part of this condensed interim financial information.

**Soon Hyo Chung**
Chairman

**M Asif Saad**
Chief Executive

# Condensed interim statement of changes in equity (unaudited)

For the six months ended 30 June 2010

Amounts in Rs '000

| | Issued, subscribed and paid-up capital | Capital reserves | Accumulated loss | Total |
|---|---|---|---|---|
| **Balance as on 1 January 2009 - as previously reported** | 15,142,072 | 2,345 | (11,077,282) | 4,067,135 |
| Impact of re-statement - note - 5 | - | - | (1,809,115) | (1,809,115) |
| **Balance as on 1 January 2009 - as re-stated** | 15,142,072 | 2,345 | (12,886,397) | 2,258,020 |
| Total comprehensive income for the six months ended 30 June 2009 | - | - | 1,208,584 | 1,208,584 |
| **Balance as on 30 June 2009** | 15,142,072 | 2,345 | (11,677,813) | 3,466,604 |
| **Balance as on 31 December 2009 - as previously reported** | 15,142,072 | 2,345 | (7,694,009) | 7,450,408 |
| Impact of re-statement - note - 5 | - | - | (1,618,682) | (1,618,682) |
| **Balance as on 1 January 2010 - as re-stated** | 15,142,072 | 2,345 | (9,312,691) | 5,831,726 |
| Dividend @ Rs 0.50 per share relating to 2009 | - | - | (757,104) | (757,104) |
| Total comprehensive income for the six months ended 30 June 2010 | - | - | 2,176,079 | 2,176,079 |
| **Balance as on 30 June 2010** | **15,142,072** | **2,345** | **(7,893,716)** | **7,250,701** |

The annexed notes 1 to 17 form an integral part of this condensed interim financial information.

**Soon Hyo Chung**
Chairman

**M Asif Saad**
Chief Executive

# Notes to the condensed interim financial information (unaudited)

For the six months ended 30 June 2010

**1.** Lotte Pakistan PTA Limited, formerly Pakistan PTA Limited, ("the company") is incorporated in Pakistan and is listed on Karachi, Lahore and Islamabad Stock Exchanges. The company is engaged in the manufacture and sale of Pure Terephthalic Acid (PTA). The company's registered office is situated at EZ/1/P-4, Eastern Industrial Zone, Port Qasim, Karachi.

**2.** This condensed interim financial information of the company for the six months ended 30 June 2010 has been prepared in accordance with the requirements of the International Accounting Standard 34 - 'Interim Financial Reporting' and provisions of and directives issued under the Companies Ordinance, 1984. In case where requirements differ, the provisions of or directives issued under the Companies Ordinance, 1984 have been followed.

This condensed interim financial information do not include all the information required for full financial statements and should be read in conjunction with the annual financial statements as at and for the year ended 31 December 2009.

**3. Significant accounting policies**

The accounting policies and methods of computation used in the preparation of this condensed interim financial information are the same as those applied in preparation of the financial statements for the preceding year ended 31 December 2009.

**4. Accounting estimates, judgments and financial risk management**

**4.1** The preparation of this condensed interim financial information in conformity with approved accounting standards requires management to make estimates, assumptions and use judgments that affect the application of policies and reported amounts of assets and liabilities and income and expenses. Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Revisions to accounting estimates are recognised prospectively commencing from the period of revision.

Judgments and estimates made by the management in the preparation of this condensed interim financial information are the same as those that were applied to the financial statements as at and for the year ended 31 December 2009, except as stated in note 5 below.

**4.2** The company's financial risk management objective and policies are consistent with those disclosed in the financial statements as at and for the year ended 31 December 2009.

**5. Re-statement**

During the period, the company reviewed its position regarding the recognition of a deferred tax liability on the initial difference between the carrying value and the tax base of property, plant and equipment and concluded that in the light of the requirements of International Accounting Standard 12 - 'Income Taxes', such difference is a taxable temporary difference on which deferred tax liability is required to be accounted for. This liability was not previously recognised as a taxable temporary difference and instead was being accounted for as tax expense over the life of related assets. Accordingly, the company has re-stated the financial information retrospectively in accordance with International Accounting Standard - 8 'Accounting Policies, Changes in Accounting Estimates and Errors' by adjusting the opening balance of deferred tax liability and accumulated loss for the earliest prior period presented.

# Notes to the condensed interim financial information (unaudited)

For the six months ended 30 June 2010

Amounts in Rs '000

Effects of the re-statement are as follows:

| | As at 1 January 2009 | | | As at 31 December 2009 | | |
|---|---|---|---|---|---|---|
| | As previously stated | As re-stated | Re-statement | As previously stated | As re-stated | Re-statement |
| **Effect on balance sheet** | | | | | | |
| Deferred tax asset / (liability) | 34,307 | (1,774,808) | (1,809,115) | (5,141) | (1,623,823) | (1,618,682) |
| Accumulated loss | 11,077,282 | 12,886,397 | 1,809,115 | 7,694,009 | 9,312,691 | 1,618,682 |
| Decrease in equity | | | 1,809,115 | | | 1,618,682 |

| | For the quarter ended 30 June 2009 | | | For the six months ended 30 June 2009 | | |
|---|---|---|---|---|---|---|
| | As previously stated | As re-stated | Re-statement | As previously stated | As re-stated | Re-statement |
| **Effect on profit and loss account** | | | | | | |
| Taxation | 334,705 | 287,097 | (47,608) | 290,592 | 195,375 | (95,217) |
| Increase in profit after taxation | | | 47,608 | | | 95,217 |
| **Effect on earnings per share** | | | **Amount in rupees** | | | |
| Earnings per share - basic and diluted | 0.39 | 0.42 | 0.03 | 0.74 | 0.80 | 0.06 |

There was no cash flow impact as a result of the re-statement.

Amounts in Rs '000

**6. Property, plant and equipment**

The following property, plant and equipment have been added / disposed of during the six months ended 30 June 2010:

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Additions cost** | **Disposals net book value** | Additions cost | Disposals net book value |
| Buildings on leasehold land | - | - | 2,001 | - |
| Plant and machinery | 72,739 | 9,511 | 103,045 | - |
| Furniture and equipment | 6,803 | 18 | 3,651 | - |
| Motor vehicles | 3,663 | - | 2,058 | - |

Amounts in Rs '000

**7. Cash and bank balances**

| | 30 June 2010 | 31 December 2009 |
|---|---|---|
| Short-term fixed deposits | **8,039,500** | 5,324,300 |
| Current accounts | **20,309** | 106,697 |
| Cash in hand | **10,225** | 6,943 |
| | **8,070,034** | 5,437,940 |

**8. Long-term loans - unsecured**

| Lender | Installments payable | Interest rate | Repayment period | 30 June 2010 | 31 December 2009 |
|---|---|---|---|---|---|
| **Loans from parent company** | | | | | |
| KP Chemical Corporation USD 63 million (31 December 2009: USD 63 million) | at maturity | 1% per annum above 6 months LIBOR | 2012 | **5,390,752** | 5,322,397 |
| | | | | **5,390,752** | 5,322,397 |

**9. Contingencies and commitments**

**9.1** Commitments in respect of capital expenditure as at 30 June 2010 - Rs 2,102.027 million (31 December 2009: Rs 48.443 million).

**9.2** Commitments for rentals under operating lease agreements / ijarah contracts in respect of vehicles are as follows:

| Year | 30 June 2010 | 31 December 2009 |
|---|---|---|
| 2010 | **7,550** | 14,236 |
| 2011 | **14,490** | 13,563 |
| 2012 | **12,208** | 10,838 |
| 2013 | **5,815** | 4,358 |
| 2014 | **488** | - |
| | **40,551** | 42,995 |

**9.3** Commitments for rentals under operating lease agreements in respect of goods and services are as follows:

| Year | 30 June 2010 | 31 December 2009 |
|---|---|---|
| 2010 | **566,022** | 1,114,832 |
| 2011 | **1,165,186** | 1,147,107 |
| 2012 | **1,041,255** | 1,023,364 |
| 2013 | **7,414** | 6,932 |
| | **2,779,877** | 3,292,235 |

# Notes to the condensed interim financial information (unaudited)

For the six months ended 30 June 2010

Amounts in Rs '000

**9.3.1** Commitments for rentals under operating lease agreements in respect of goods and services are stated at minimum lease payments. Some of these are linked to consumer price index (CPI) of UK / Pakistan, priced in foreign currency and payable in Pakistan rupees, converted at the exchange rates applicable on the date of payment.

**9.4** ICI Pakistan Limited has issued a guarantee in respect of operational obligations of the company amounting to Rs 2,190 million (31 December 2009: Rs 2,280 million) against which the company has issued a counter guarantee to ICI Pakistan Limited.

**9.5** Outstanding guarantees and letters of credit issued on behalf of the company as at 30 June 2010 were Rs 1,157.712 million (31 December 2009: Rs 1,057.494 million) and Rs 2,930 million (31 December 2009: Rs 2,151 million), respectively.

**9.6** The Income Tax Appellate Tribunal (ITAT) vide order no ITA.No.111/KB/2006 dated 20 April 2006 has set aside the Taxation Officer's assessment order for the assessment year 2002-2003 (income year ending 31 December 2001) whereby the assessing officer has been directed to re-examine the issue of allocation of cost of goods sold to export sales, strictly in accordance with Rule 216 of the Income Tax Rules, 1982. The taxation officer vide order no. DC20/106 dated 29 June 2007 has used volume basis to determine the allocation of cost of goods sold to export sales. The company has filed an appeal against the assessment. No provision has been made in this condensed interim financial information for the potential liability of Rs 818.383 million as the company is still confident of a favourable outcome from the appeal process and considers that the allocation basis used by the company is strictly in accordance with Rule 216 of Income Tax Rules, 1982.

## 10. Turnover

Turnover includes export sales amounting to Rs 757.6 million (30 June 2009: Rs 665.0 million).

| | Quarter ended 30 June | | Six months ended 30 June | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| **11. Cost of sales** | | | | |
| Opening stock of raw and packing materials | **2,546,416** | 661,498 | **1,141,278** | 1,189,050 |
| Purchases | **7,654,094** | 7,796,013 | **16,651,485** | 12,846,748 |
| Closing stock of raw and packing materials | **(2,186,671)** | (1,480,650) | **(2,186,671)** | (1,480,650) |
| Raw and packing materials consumed | **8,013,839** | 6,976,861 | **15,606,092** | 12,555,148 |
| Manufacturing costs | **1,005,699** | 896,901 | **1,961,172** | 1,808,379 |
| Cost of goods manufactured | **9,019,538** | 7,873,762 | **17,567,264** | 14,363,527 |
| Opening stock of finished goods | **707,413** | 183,231 | **132,644** | 55,263 |
| | **9,726,951** | 8,056,993 | **17,699,908** | 14,418,790 |
| Closing stock of finished goods | **(188,601)** | (292,168) | **(188,601)** | (292,168) |
| | **9,538,350** | 7,764,825 | **17,511,307** | 14,126,622 |
| **12. Other operating income** | | | | |
| Scrap sales | **3,436** | 7,882 | **4,035** | 7,905 |
| Exchange gain | **-** | - | **80,195** | - |
| Profit on bank deposits | **188,680** | 31,583 | **365,790** | 35,710 |
| Others | **1,779** | 6,992 | **1,779** | 8,555 |
| | **193,895** | 46,457 | **451,799** | 52,170 |
| **13. Other operating expenses** | | | | |
| Donations | **1,692** | 846 | **10,714** | 1,349 |
| Exchange loss | **36,977** | 183,307 | **36,977** | 273,324 |
| Workers' profit participation fund | **67,401** | 37,076 | **89,566** | 37,076 |
| Workers' welfare fund | **39,973** | 14,629 | **50,393** | 14,629 |
| Loss on sale / retirement of property, plant & equipment | **9,512** | - | **9,529** | - |
| Provision for obsolete, slow moving & rejected items | - | - | - | 10,871 |
| | **155,555** | 235,858 | **197,179** | 337,249 |

# Notes to the condensed interim financial information (unaudited)
For the six months ended 30 June 2010

Amounts in Rs '000

**14. Taxation**

The tax charge for the six months ended 30 June 2010 is based on estimated annual effective tax rate expected for the full financial year.

**15. Transactions with related parties**

The related parties comprise parent company, related group companies, local associated company (up to 17 September 2009), directors of the company, companies where directors also hold directorships, key management personnel and staff retirement funds. Details of transactions with related parties, other than those which have been specifically disclosed elsewhere in this condensed inteirm financial information are as follows:

| Transactions | Quarter ended 30 June | | Six months ended 30 June | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| **Associates** | | | | |
| Sale of goods, materials and services | **-** | 2,038,393 | **-** | 3,850,653 |
| Purchase of goods | **-** | 345 | **161** | 345 |
| Financial charges to group companies | **23,256** | 39,602 | **43,007** | 91,194 |
| Purchase of services | **2,812** | 4,877 | **5,017** | 10,999 |
| **Others** | | | | |
| Payments to staff retirement benefit funds | **9,021** | 7,608 | **16,873** | 16,205 |

| Balances | 30 June 2010 | 31 December 2009 |
|---|---|---|
| Payable to associates | **139,713** | 137,175 |
| Receivable from staff retirement benefit funds | **31,621** | 30,826 |

**15.1 Transactions with key management personnel**

Loans to key management personnel as at 30 June 2010 amounted to Rs 3.481 million (31 December 2009: Rs 4.796 million) and are included in "loans and advances". No interest is payable on these loans in accordance with their terms of employment.

Key management personnel received compensation in the form of remuneration and short-term benefits of Rs 28.083 million (30 June 2009: Rs 21.361 million), expenses on company maintained cars of Rs 5.286 million (30 June 2009: Rs 5.093 million) and post-employment benefits of Rs 2.703 million (30 June 2009: Rs 1.887 million).

**16. General**

Figures have been rounded-off to the nearest thousand rupees except where stated otherwise.

**17. Date of authorisation**

This condensed interim financial information was authorised for issue in the Board of Directors meeting held on 25 August 2010.

**Soon Hyo Chung**
Chairman

**M Asif Saad**
Chief Executive

Lotte Pakistan PTA Ltd
Formerly Pakistan PTA Limited

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