

Descon Chemicals Limited

The background of the cover is a vibrant landscape. A large, full-canopied green tree stands on the left side of a bright green field. The field is filled with numerous white dandelion heads, some in bloom and some as seed heads. In the upper right, several dandelion seeds are shown floating in the air, with their long, thin stems trailing behind them. The sky is a clear, bright blue with a few wispy white clouds. A series of curved, semi-transparent white lines sweep across the sky from the right side towards the center, adding a sense of motion and modernity to the scene.

QUARTERLY REPORT

September 30, 2012 (Un-Audited)

Descon Chemicals Limited



QUARTERLY REPORT
September 30, 2012 (Un-Audited)

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COMPANY INFORMATION

Board of Directors

Abdul Razak Dawood
Chairman

Taimur Saeed
Chief Executive Officer

Dr. Salman Zakaria
Farooq Nazir
Syed Zamanat Abbas
Taimur Dawood
Muhammad Sadiq
Faisal Dawood

Chief Financial Officer

Yasir Siddique Sheikh

Company Secretary

Abdul Sohail

Auditors

Horwath Hussain Chaudhary & Co.
Chartered Accountants

Internal Auditors

M/s KPMG Taseer Hadi & Co.
Chartered Accountants

Legal Advisors

Hassan & Hassan
Advocates

Bankers

Bank Al Habib Limited
Askari Bank Limited
United Bank Limited
Habib Metropolitan Bank Limited

Share Registrar

M/s Corplink (Pvt.) Limited
Wings Arcade, I-K Commercial Area
Model Town, Lahore - 53000
Tel: 92 42 35887262, 35839182
Fax: 92 42 35869037

Registered Office

Descon Headquarters
18-km Ferozpur Road
Lahore - 53000 Pakistan.
Tel: 92 42 35923721-9
Fax: 92 42 35923749

Plant Site

Site 1: 14.5-km Lahore - Sheikhpura Road,
Lahore, Pakistan.

Tel: 92 42 37970962
Fax: 92 42 37970229

Site 2: 14.8-km, Sheikhpura -Faisalabad Road
Mouza Bhikki District Sheikhpura Pakistan.

Tel: 92 56 3090955, 3091294
Fax: 92 56 3882189

Karachi Office

Business Avenue, 26/A, 9th Floor, Block 6,
PECHS, Shakra-e-Faisal, Karachi, Pakistan

Tel: 92-21-34544485-6
Fax: 92-21-34382674

Web Presence

Updated Company's Information together with
the latest Annual Report can be accessed at
Descon's website,
www.descon.com

DIRECTORS REPORT TO THE SHAREHOLDERS

For the quarter ended September 30, 2012

Ladies and Gentlemen

The Board presents to you the financial statements for the three months ended on September 30 2012, being a quarter which had more than its fair share of challenges. The macroeconomic environment in Pakistan have created conditions that are not very friendly for business, however, the Company has managed to develop effective strategies to mitigate risks posed by the economic challenges. Despite tough circumstances, the Company has managed to effectively reduce overheads through sharing of resources. Management's priority is continuous product development, innovation and optimization of resources, to provide competitive advantage in a challenging business environment. The dwindling of demand due to shortages of energy resources along with rise in prices of inputs is having a negative impact on sales volume and margins. Despite volume and margin constraints, your Company is exploring new technologies and taking measures to continue to be relevant for our customers. The Management and the Board are fully aware of the necessity and urgency to continue to innovate and provide solutions and we have the plans and resources in place to achieve our very ambitious goals.

Financial Highlights


	Quarter ended	
	September 30, 2012	September 30, 2011
	Rupees '000'	
Sales	598,377	649,955
Gross profit	47,615	51,910
Operating Profit	20,513	26,635
Loss for the period	(21,642)	(4,832)
Loss per share (PKR)	(0.11)	(0.02)

The sales for the quarter decreased by 8%, compared to the same period last year; however, our margins have remained stable, despite severe volatility in input costs. Plant management has been successful in optimizing plant efficiency to produce the highest quality products at the most competitive prices. Focus on working capital continues to further reduce finance cost which has already dropped down by 18% as compared to the same period last year. Administrative expenses have also decreased by 6%. With a slight improvement in the macroeconomic fundamentals, your Company will return to profitability.

Future Outlook

Product development will be the main thrust in the short term which is the corner-stone of our turnaround strategy enabling us to bring to market, products that are relevant for our customers. Management has taken steps to enhance product development and innovation with technical collaboration within and outside Pakistan, which will help optimize resources and provide the competitive advantage. The Board is confident that we have made significant changes in our organization, resulting in improved efficiency and productivity to be the chosen destination for our customers. We are grateful to all our stakeholders for their support, and have no doubt, that we will continue to strive successfully for profitable growth.

For and on behalf of the Board



Taimur Saeed
Chief Executive Officer

Lahore
October 22, 2012

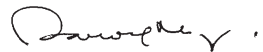
CONDENSED INTERIM BALANCE SHEET AS AT SEPTEMBER 30, 2012 (UNAUDITED)

	Unaudited September 30, 2012	Audited June 30, 2012
Note Rupees. '000'	
CAPITAL AND LIABILITIES		
Share Capital and Reserves		
Authorized capital: 230,000,000 (June 30, 2012: 230,000,000) ordinary shares of Rs.5 each	1,150,000	1,150,000
Issued, subscribed and paid up capital	997,789	997,789
Reserves	2,017	2,003
Accumulated losses	(635,792)	(614,150)
	364,014	385,642
Surplus on Revaluation of Property, Plant and Equipment	5 38,509	38,527
Non Current Liabilities		
Long term financing	283,250	287,000
Deferred liabilities	51,171	50,059
	334,421	337,059
Current Liabilities		
Trade and other payables	316,939	272,163
Accrued mark up	23,401	23,731
Short term borrowings	494,465	474,351
Current portion of long term financing	20,000	23,000
Provision for taxation	28,506	25,514
	883,311	818,759
Contingencies and Commitments	6 -	-
	1,620,255	1,579,987
ASSETS		
Non Current Assets		
Property, plant and equipment	7 543,511	548,457
Intangible assets	31,190	32,345
Long term investments	64,159	70,034
Long term deposits and advances	747	747
	639,607	651,583
Current Assets		
Stores and spares	9,737	10,337
Stock in trade	378,304	337,753
Trade debts	416,955	417,265
Loans and advances	133,955	111,434
Short term prepayments and other receivables	24,353	26,402
Cash and bank balances	17,344	25,213
	980,648	928,404
	1,620,255	1,579,987

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



CHIEF EXECUTIVE



DIRECTOR

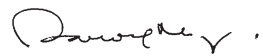
CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UNAUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2012

	Note	Quarter ended	
		September 30, 2012	September 30, 2011
		Rupees. '000'	
Sales - net		598,377	649,955
Cost of sales	8	(550,762)	(598,045)
Gross Profit		47,615	51,910
Operating expenses:			
- Distribution costs		(16,283)	(13,813)
- Administrative expenses		(10,819)	(11,461)
		(27,102)	(25,274)
Operating Profit		20,513	26,635
Other operating expenses		(8,252)	(335)
Finance cost		(29,794)	(36,526)
Other operating income		4,754	11,524
(Loss) / profit before taxation		(12,779)	1,299
Share of net (loss) / profit of associated undertaking		(5,871)	369
(Loss) / profit before taxation		(18,650)	1,668
Taxation		(2,992)	(6,500)
Loss after taxation for the period		(21,642)	(4,832)
Loss per share - basic and diluted	9	(0.11)	(0.02)

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



CHIEF EXECUTIVE



DIRECTOR

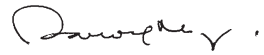
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2012

	Quarter ended	
	September 30, 2012	September 30, 2011
Note Rupees. '000'	
Loss after taxation for the period	(21,642)	(4,832)
Other comprehensive income		
Deficit on revaluation of available for sale investment	(4)	-
Share of un-realized gain on available for sale investment of associate	-	103
Transfer from surplus on revaluation of property, plant and equipment in respect of incremental depreciation charged in current period	18	31
Total comprehensive loss for the period	<u><u>(21,628)</u></u>	<u><u>(4,698)</u></u>

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



CHIEF EXECUTIVE



DIRECTOR

CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2012

	Quarter ended	
	September 30,	September 30,
	2012	2011
 Rupees. '000'	
CASH FLOW FROM OPERATING ACTIVITIES		
(Loss) / profit before taxation	(12,779)	1,299
Adjustments:		
- Depreciation	8,488	6,537
- Amortisation of intangible asset	1,155	1,155
- Provision for gratuity	575	484
- Provision for doubtful debt	8,018	-
- Gain on disposal of property, plant and equipment	(425)	(1,769)
- Finance cost	29,794	36,526
	<u>47,605</u>	<u>42,933</u>
Operating profit before working capital changes	34,826	44,232
(Increase) / decrease in current assets:		
- Stores and spares	600	1,378
- Stock in trade	(40,551)	20,118
- Trade debts	(7,709)	26,918
- Loans and advances	(7,899)	(24,584)
- Trade deposits, short term prepayments and other receivables	2,049	8,378
Increase / (decrease) in current liabilities:		
- Trade and other payables	45,797	72,844
	<u>(7,712)</u>	<u>105,052</u>
Cash generated from operations	27,114	149,284
Finance cost paid	(30,125)	(37,104)
Gratuity paid	(483)	(20,257)
Income tax paid	(14,622)	(11,100)
Net cash (used in) / generated from operating activities	(18,116)	80,823
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(3,295)	(364)
Capital work in progress	(766)	(900)
Proceeds from sale of property, plant and equipment	944	6,583
Long term deposits	-	10
Net cash (used in) / generated from investing activities	(3,117)	5,329
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of long term financing	(6,750)	(6,000)
Short term borrowings	20,114	(60,640)
Net Cash generated from / (used in) financing activities	13,364	(66,640)
Net (decrease) / Increase in cash and cash equivalents	(7,869)	19,512
Cash and cash equivalents at the beginning of the period	25,213	47,127
Cash and cash equivalents at the end of the period	17,344	66,639

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


CHIEF EXECUTIVE


DIRECTOR

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED) FOR THE QUARTER ENDED SEPTEMBER 30, 2012

	Share Capital	Share Premium	Fair value Reserve	Revaluation Reserve	Accumulated Loss	Total
	Rupees. '000'					
Balance as on July 1, 2011	997,789	1,281	61	387	(552,447)	447,071
Total comprehensive income for the period ended September 30, 2011						
Loss after tax for the period	-	-	-	-	(4,832)	(4,832)
Other comprehensive income for the period:						
Share of unrealized gain on available for sale investment of associate	-	-	103	-	-	103
Transfer from surplus on revaluation of property plant and equipment	-	-	-	31	-	31
Total comprehensive income / (loss) for the period						
	-	-	103	31	(4,832)	(4,698)
Total contributions by and distributions to owners of the Company recognized directly in equity						
Balance as at September 30, 2011	997,789	1,281	164	418	(557,279)	442,373
Balance as on July 1, 2012	997,789	1,281	220	502	(614,150)	385,642
Total comprehensive income for the period ended September 30, 2012						
Loss after tax for the period	-	-	-	-	(21,642)	(21,642)
Other comprehensive income for the year						
Un-realized gain on available for sale investment	-	-	(4)	-	-	(4)
Transfer from surplus on revaluation of property plant and equipment	-	-	-	18	-	18
Total comprehensive income / (loss) for the period						
	-	-	(4)	18	(21,642)	(21,628)
Total contributions by and distributions to owners of the Company recognized directly in equity						
Balance as at September 30, 2012	997,789	1,281	216	520	(635,792)	364,014

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



CHIEF EXECUTIVE



DIRECTOR

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM UNAUDITED FINANCIAL STATEMENTS FOR THE QUARTER ENDED SEPTEMBER 30, 2012

1. The Company and its Operations

Descon Chemicals Limited (the Company) was initially incorporated in Pakistan on December 17, 1964 as a Private Limited Company under the Companies Act, 1913 (now the Companies Ordinance, 1984) and was converted into Public Limited Company on August 19, 1991 under the name of Nimir Resins Limited. The name of the Company was changed to Descon Chemicals Limited on April 01, 2010 consequent to the scheme of arrangement for merger / amalgamation with Descon Chemicals (Private) Limited (DCPL).

The shares of the Company are quoted on the Karachi and Lahore Stock Exchanges. The registered office of the Company is situated at Descon Headquarters, 18 KM, Ferozpur Road, Lahore. The principal activity of the Company is to manufacture surface coating resins and polyesters for paint industry and optical brightener and textile auxiliaries for textile industry.

2. Basis of Preparation

This condensed interim financial information is unaudited and has been prepared and is being submitted to the shareholders in accordance with section 245 of the Companies Ordinance, 1984 and International Accounting Standard (IAS) 34 - 'Interim Financial Reporting'. This condensed interim financial information does not include all the information required for annual financial statements and therefore should be read in conjunction with the annual financial statements for the year ended June 30, 2012.

3. Significant Accounting Policies

The accounting policies adopted for the preparation of this condensed interim financial information are the same as those applied in the preparation of preceding annual published financial statements of the company for the year ended June 30, 2012.

4. Taxation

The provision for taxation for the quarter ended September 30, 2012 has been made using the tax rate that would be applicable to expected total annual earnings.

5. Surplus on Revaluation of Property, Plant and Equipment

	September 30, 2012	June 30, 2012
	Rupees. '000'	
Land	36,320	36,320
Building	2,207	2,323
	<u>38,527</u>	<u>38,643</u>
Incremental depreciation (net of deferred tax) charged on revalued property, plant and equipment during the year transferred to statement of comprehensive income	(18)	(116)
	<u><u>38,509</u></u>	<u><u>38,527</u></u>

6. Contingencies and Commitments

Contingencies

The Custom Department passed an order under Section 25 of the Customs Act in the case of Ravi Resins Limited (previous name of the Company) creating a demand of Rs. 1.02 million (June 30, 2012: Rs. 1.02 million). The Tribunal has dismissed the appeal filed against this order and the management has filed an appeal in the Lahore High Court that is pending adjudication. The Company has also filed an application before Alternate Dispute Resolution Committee for the resolution of this pending issue. Furthermore, Customs Department raised a demand of Rs. 3.190 million against the Company during the year 2011 to cater for difference in valuation of certain imported raw materials. No provision has been made in these financial statements in respect of these demands as the management believes that these cases would be decided in its favour.

The Income Tax Department has adjusted Rs. 20.163 million (June 30, 2012: Rs. 20.163 million) in respect of demands raised against the Tax Years 2003, 2004, 2005 and 2006. The Company has not admitted these demands and filed appeals against these adjustments. No provision has been incorporated in these financial statements as the management is confident that these matters would be settled in the favour of the Company.

Furthermore, one departmental appeal in respect of Tax Year 2003 is pending in the Appellate Tribunal having a tax impact Rs. 2.04 million (June 30, 2012: Rs. 2.04 million). The management has not provided against this case as it is confident that the case would be settled in the favour of the Company

The return for Tax Year 2009 has been selected for audit u/s 177 of the Income Tax Ordinance, 2001; proceedings in this respect have been initiated by the Income Tax Department that have not been completed yet.

Guarantees

	September 30, 2012	June 30, 2012
	----- Rupees. '000' -----	
Sui Northern Gas Pipelines Limited	6,065	6,065

Commitments

	September 30, 2012	June 30, 2012
	----- Rupees. '000' -----	
Irrecoverable letters of credit	174,164	164,864

7. Property, Plant and Equipment

	September 30, 2012	June 30, 2012
Note	----- Rupees. '000' -----	
Opening written down value	548,457	581,143
Additions during the period / year	7.1 4,061	7,350
Deletion during the period / year	(519)	(9,553)
	551,999	578,940
Depreciation charge for the period / year	(8,488)	(30,483)
	543,511	548,457

7.1 Additions during the period

	September 30, 2012	June 30, 2012
	----- Rupees. '000' -----	
Plant & machinery	533	1,269
Vehicles	2,287	790
Office equipment	204	661
IT equipment	272	2166
Tools and equipment	-	865
Laboratory equipment	-	430
	3,295	6,181
Capital work in progress	766	1,169
	4,061	7,350

8. Cost of Sales

	Quarter ended	
	September 30, 2012	September 30, 2011
	----- Rupees. '000' -----	
Raw materials consumed	511,101	545,783
Stores and spares consumed	812	1,977
Fuel and power	18,401	12,460
Salaries, wages and benefits	14,917	14,967
Repairs and maintenance	650	1,547
Travelling and entertainment	439	532
Insurance	26	180
Communication	103	135
Miscellaneous	460	814
Depreciation	7,274	8,020
Cost of goods manufactured	554,182	586,413
Finished goods		
- Opening	89,118	71,929
- Closing	(92,537)	(60,297)
	(3,420)	11,632
	550,762	598,045

9. Loss per share -basic and diluted

		Quarter ended	
		September 30, 2012	September 30, 2011
Loss for the period	Rupees in thousand	(21,642)	(4,832)
Weighted average number of ordinary shares in issue during the period	Number	199,557	199,557
Loss per share(PKR)		(0.11)	(0.02)

Diluted earnings per share has not been presented as the company doesn't have any convertible instrument in issue as at September 30, 2012 and September 30, 2011 which would have any effect on the earnings per share if the option to convert is exercised.

10. Segment Information

	Coating and Emulsion	Polyester	Textile and Paper	Trading	Total
	----- Rupees. '000' -----				
Segment results for the period ended September 30, 2012					
Revenue	311,981	30,782	117,638	137,983	598,384
Segment results as at					
September 30, 2012	9,389	(1,638)	6,872	5,890	20,513
Finance costs					(29,794)
Other operating expenses					(8,252)
Other operating income					4,754
Net loss before tax and share of loss of associate					<u>(12,779)</u>
Segment results for the period ended September 30, 2011					
Revenue	307,330	37,169	149,781	155,675	649,955
Segment results as at					
September 30, 2011	5,952	(93)	14,700	6,077	26,636
Finance costs					(36,526)
Other operating expenses					(335)
Other operating income					11,524
Net profit before tax and share of profit of associate					<u>1,299</u>
Segment asset and liabilities as at September 30, 2012					
Segment assets	565,808	127,891	300,458	71,603	1,065,760
Segment liabilities	118,128	19,096	100,100	48,797	286,121
Segment asset and liabilities as at June 30, 2012					
Segment assets	567,205	122,277	302,528	78,120	1,070,130
Segment liabilities	116,891	15,127	69,209	49,446	250,673

	September 30, 2012	June 30, 2012
	----- Rupees. '000' -----	
Reportable segments' assets are reconciled to total assets as follows:		
Segment assets for reportable segments	1,065,760	1,070,130
Corporate assets unallocated	378,095	346,062
Cash and bank balances	17,344	25,213
Others	159,056	138,583
Total assets as per the balance sheet	<u>1,620,255</u>	<u>1,579,988</u>
Reportable segments' liabilities are reconciled to total liabilities as follows:		
Segment liabilities for reportable segments	286,121	250,673
Corporate liabilities unallocated	797,715	784,351
Others	105,391	95,280
Taxation - net	28,506	25,514
Total liabilities as per the balance sheet	<u>1,217,733</u>	<u>1,155,818</u>

11. Transactions with Related Parties

The related parties and associated undertaking comprise related group companies, associated companies, staff retirement funds, directors and key management personnel. Transactions with related parties and associated companies, other than remuneration and benefits to key management personnel under the term of their employment are as follows:

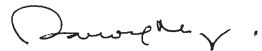
	Quarter ended	
	September 30, 2012	September 30, 2011
	----- Rupees. '000' -----	
Associates and related parties		
Purchase of material, goods and services	325	306
Sale of material and goods	435	111
Managerial services and expenses charged - net	10,130	10,447
Staff retirement fund		
Company's contribution to Employees' Provident Fund Trust	912	684
Gratuity	576	483

12. General

- 12.1** These interim financial statements are authorized for issue on October 22, 2012 by the Board of Directors of the Company.
- 12.2** Corresponding figures have been re-arranged wherever necessary to facilitate comparison. However, no material rearrangements have been made in the condensed interim financial statements.
- 12.3** The figures have been rounded off to the nearest thousand rupee.



CHIEF EXECUTIVE



DIRECTOR

descon.com

IF UNDELIVERED PLEASE RETURN TO

DESCON CHEMICALS LIMITED

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KARACHI

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PLANT

SITE 1: 14.5 KM
LAHORE - SHEIKHUPURA ROAD,
LAHORE, PAKISTAN.
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F : 92 42 3 7970229

SITE 2: 14.8 KM,
SHEIKHUPURA - FAISALABAD ROAD,
MOUZA BHIKKI DISTRICT,
SHEIKHUPURA, PAKISTAN.
T : 92 56 3 090955, 3 091294
F : 92 56 3 882189