Annual Report 2013

MOVING AT THE SPEED OF INNOVATION

Descon Chemicals Limited

COVER CONCEPT

At Descon Chemicals Limited (DCH) our progress is synonymous with innovation. It is our aim to focus on improvising things essential to human progress. Therefore, we continue with our incessant efforts to create chemistry, for a sustainable future through our chemicals that are used in multiple industries worldwide, to not only meet their current and future needs, but, that of our civilization as well.

It is innovation that lies at the core of our competitiveness and sets DCH apart from the mediocre players of the industry. Like always, we remain committed to creating solutions that will make lives healthier, safer, easier and more enjoyable.

Today, the DCH business acknowledges its role as a vital player that influences and assists a wide variety of industries across the globe in keeping pace with the ever-changing demands of the society. This is what motivates us to improve our existing product portfolio.

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VISION & MISSION

VISION

To become a leading chemical solutions provider to industry worldwide.

MISSION

To provide competitive chemical solutions through technological innovation to form the basis of better life.

STATEMENT OF ETHICS & BUSINESS PRACTICES

We believe in a stimulating and challenging team oriented work environment that encourages develops and rewards excellence. We are committed to diligently serving our community and stakeholders, while maintaining high standards of moral and ethical values.

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 Chaudhury & Co.
Chartered Accountants

Internal Auditors
M/s KPMG Taseer Hadi & Co.
Chartered Accountants

Legal Advisors
M/s Hassan & Hassan
Advocates

Bankers
Bank Al Habib Limited
Habib Metropolitan Bank Limited

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

Registered Office
Descon Headquarters
18-KM Ferozepur Road
Lahore - 53000 Pakistan.
Tel: +92 42 35923721-9
Fax: +92 42 35923749

Plant Site
Site 1:
14.5-KM
Lahore - Sheikhupura Road,
Lahore, Pakistan.
Tel: +92 42 37970 962
Fax: +92 42 37970 229

Site 2:
14.8 Km
Sheikhupura - Faisalabad Road
Mouza Bhikki District, Sheikhupura
Pakistan.
Tel: +92 56 3090 955, 3091 294
Fax: +92 56 3882 189

Karachi Office
Business Avenue, 26/A, 9th Floor,
Block 6, PECHS, Shahra-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

BOARD AND MANAGEMENT COMMITTEES

Audit Committee

Audit committee has been constituted by the Board in compliance with the Listing Regulations. The committee oversees the Internal Audit function, and also reviews internal audit plans and reports. The committee conducts its meetings as and when required. The committee apprises the Board about the significant discussions and decisions at its meetings and recommendations in respect of Company's operations and financial results.

The committee comprises of four members, of whom three are non-executive directors, including the Chairman of the committee. This committee is constituted of the following members:

Farooq Nazir	Chairman
Taimur Dawood	Member
Syed Zamanat Abbass	Member
Muhammad Sadiq	Member

Enterprise Risk Management Committee

Enterprise Risk Management Committee was constituted to assist Audit Committee of the Board of Directors in overseeing and reviewing information regarding the enterprise Risk Management framework, including the significant policies, procedures and practices employed to manage all risks affecting the Company. The committee at minimum meets on a quarterly basis or as frequently as necessary. The committee is constituted of the following members:

Farooq Nazir	Chief Risk Officer
Taimur Dawood	Board Nominee
Taimur Saeed	Chief Executive Officer
Abdul Sohail	Company Secretary
Ather Mahmood Khan	Head Shared Services
Ahmad Ali Masood	Finance Manager
Saima Momin	Head HR

Human Resource & Remuneration Committee

The Committee has been constituted by the Board to recommend human resource management policies to the Board and fulfill the requirements of the Code of Corporate Governance. It comprises of three members, of whom two are non-executive directors including the Chairman of the committee who is a non-executive director.

Taimur Dawood	Chairman
Farooq Nazir	Member
Taimur Saeed	Member

Compliance Committee

Compliance Committee was constituted to oversee Company's compliance with applicable legal and regulatory requirements, industry standards, and the Company's Code of Ethics and Business Conduct. The committee is constituted of the following members:

Taimur Saeed	Chief Executive Officer
Abdul Sohail	Company Secretary
Ather Mahmood Khan	Head Shared Services
Tarriq Jabbar	Plant Manager
Ahmad Ali Masood	Finance Manager
Saima Momin	Head HR

PROFILE OF THE CHAIRMAN AND CEO

Abdul Razak Dawood
Chairman

Taimur Saeed
Chief Executive Officer

Abdul Razak Dawood is the Chairman of Descon, which is involved in Engineering, Chemicals and Power businesses.

He started his career as Managing Director of Lawrencepur Woolen Mills, before assuming responsibility of Managing Director at Dawood Hercules Chemicals Limited.

In 1977, he started Descon Engineering Limited and since then has been associated with it. Currently, he is the Chairman of Descon Engineering Limited, the premier Pakistani multinational company, which is operating in five countries, and holding four overseas manufacturing units. It has more than 25000 employees, 50% of them based overseas.

He is one of the founders of Lahore University of Management Sciences (LUMS) and has been its Rector since inception. He has also served the Lahore Chapter of Management Association of Pakistan as Chairman. He is a former trustee of Shaukat Khanam Memorial Cancer Hospital.

He has graduated in Engineering from Newcastle University, UK and obtained his MBA from Columbia University, USA.

Taimur Saeed is the Chief Executive Officer of the Company, while also serving on the board of Descon Oxychem Limited as Chief Executive Officer.

He had an illustrious career of over 18 years at BOC Pakistan, (Linde Group, Germany), where he last held the position of Head of Sales & Customer Services and also was Business Manager Industrial Products in Malaysia, Indonesia, India, Bangladesh and Pakistan. He joined Descon Chemicals Limited as GM Sales & Marketing before his appointment as CEO.

He has attended management Leadership course at INSEAD, Singapore. He is an MBA from Mercer University, Atlanta, USA and a B.Com, from Karachi University.

CHAIRMAN'S STATEMENT

The macroeconomic challenges in Pakistan have impacted all businesses in the country and we are no exception, however, your Company has managed to develop and implement effective strategies to mitigate risks posed by these challenges. I am pleased to share that your Company succeeded in introducing new products with higher contribution margin endeavoring to change the product mix to provide a sustainable platform for profitable growth. The new product portfolio faces the challenges of utility shortages not only in our production facilities but also at the manufacturing facilities of our customers.

Management is continuously focusing on product development to add new products to its existing range and at the same time exit the products that are not performing. Our objective is product diversification through new technology to continue to be relevant for our customers. Management is confident that continuous innovation and the use of technology in the development of cost effective recipes shall help stabilize the Company's financial position. The Management and the Board are fully aware of the necessity and urgency to continue to innovate and provide solutions and we have plans and resources in place to achieve this ambitious goal. We have invested not only in products but also in providing application support to our customers. This has repositioned your Company in the market as a solution provider as opposed to a manufacturer only.

The Company with its existing product portfolio and continuous innovation is fully equipped to capture a significant share of the market. Despite proliferation in the market with competition from the undocumented sector which puts your company at a disadvantage in the short term yet we are determined to compete with quality chemical solutions by continuously introducing winning products and ideas in the market. Our contribution to society is not limited to delivering profitability to stakeholders but envisages a wider scope which among other things includes gainful employment, technical advice for our customers and savings of foreign exchange by providing credible alternatives for imports.

The Company has a strong governance structure, based on integrity, business ethics and honesty, driven by strong sense of duty to our colleagues, stakeholders and ourselves. The Board of Directors has procedures and policies in place to evaluate performance of the Company, so that it delivers exceptional results within the sphere of its challenges.

I would like to thank my fellow Directors and all stakeholders, particularly our customers, shareholders and lenders for their assistance and commitment throughout the year. I congratulate the Management and employees for performing in a very hostile economic condition and wish them growth and success in future.

Abdul Razak Dawood
Chairman

September 30, 2013

CEO's REVIEW

Descon Chemicals Limited maintained a steady conversion of its product portfolio to high margin technologically superior products. The Company invested in various cost efficiency projects as well to remain competitive in its existing product portfolio and to provide cost effective solutions to our customers. Economic slowdown of the country coupled with increased energy shortages decreased demand for many of our products as our customers continue to suffer utility shortages. Demand is also greatly affected by unorganized small players in the industry against which innovation is the only differentiating strategy for profitable growth in the long run.

Product development through innovation to provide customers with products developed with cutting edge scheme is gradually being transformed into reality. We have launched numerous new products while paper and pulp remained under greater focus. We are also providing application support to our customers to highlight the value addition our products can bring to their processes. We aim to continue fighting challenging economic climate by internal strength that we have built over a period of time.

Increase in raw material prices has placed significant pressures on our margins. The management has taken various initiatives to reduce overheads through efficient utilization of resources. We have increased our focus on timely collection of outstanding receivables and aim to reduce investment in working capital in light of expected increase in interest rates. Challenging economic environment in the country has negatively impacted vulnerable businesses within our customer base which precludes our ability to solicit a wide range of customers and restricts us to few financially strong ones to protect our receivables.

We thank all our stakeholders, especially our shareholders and lenders, and request them for continued support, for persevering with us, while we continue to strive to meet the challenges in the future. I would also like to appreciate the efforts of Management and employees for their hard work and grit to take us through these tough times.

Taimur Saeed
Chief Executive Officer

September 30, 2013

DIRECTORS' REPORT

The Directors of the Company are pleased to present the Annual Report along with the Audited Financial Statements for the year ended June 30, 2013.

Financial Review

	2013	2012
	(Rupees in thousands)	
Sales	2,402,440	2,560,856
Gross profit	216,361	219,154
EBITDA	106,383	163,207
Operating profit	106,633	118,305
Finance cost	110,466	125,670
(Loss) / profit before tax and share of loss of associated undertaking	(37,908)	9,035
Share of net loss of associate	(5,409)	(13,299)
Loss before tax	(43,318)	(4,264)
Loss after tax	(42,101)	(61,704)
EPS - (Rupees)	(0.21)	(0.31)

The financial year was challenging for the Company as it had more than its fair share of challenges. The adverse effects of macroeconomic environment reduced demand of our products and ultimately affected Company's profitability. The Company suffered net loss of PKR 42 mln which is PKR 19 mln less than last year. We sold 16,095 MTs, a decrease of 2,050 MTs or 13% less compared to the previous year. An increase of price by 6% completely off-set the increase in cost of raw materials consumed. Consequently, gross profit margin remained flat at 9%.

Operating profit of the Company registered a decrease of approximately PKR 12 mln or 10% over last year mainly due to the additional expenditure on research and development for new products. However, the finance cost of the Company decreased by 12% due to reduction in KIBOR and tight control over working capital. Challenging economic environment in the country has negatively impacted vulnerable businesses within our customer base which could not survive hence increase in other operating expenses by PKR 34 mln represents provisions against outstanding receivables.

Management's focus on working capital continues with stringent working capital controls, reducing the investment in trade debts and inventories.

The Company's investment in Descon Oxychem Limited, a related party, suffered a loss during the year, giving a share of loss of PKR 5 mln to the Company against a loss of PKR 13 mln last year contributing to the increase of loss after taxation and share of net loss of associate to PKR 42 mln as compared to PKR 61 mln last year.

Cash Flow Management

The Company has a strong working capital management system, which is regularly monitored through rolling forecasts. Receipts and payments of cash and other liquid assets, including investments, are diligently managed to achieve optimal working capital cycle.

Furthermore, working capital management has been institutionalized through controls built in the ERP system, which helps coordinate the activities amongst various departments including marketing, supply chain and finance. This cash focused strategy has enabled the Company to survive through difficult times when both sales volumes and profit margins are under immense pressure. Moreover, this strategy has also kept the overall credit risk of the Company under check.

Risk Management

The Company's activities expose it to a variety of risks, operational and financial. The Company's overall risk management program focuses on the uncertainties of these risks and seeks to minimize potential adverse effects on the financial performance, through appropriate strategies for their mitigation. Risk management is an ongoing process involving assessing and identifying individual risks posed to the Company, and evaluating the potential impact, while devising appropriate course of action to counter them.

Economic, political and environmental uncertainties of a business environment and inherent risks within the nature of a business expose even the strongest of companies to a certain level of external risk. The Board manages these risks through its Risk Management Committee, and is confident that we have sufficient mitigating factors in place to respond to these risks, as they arise.

Subsequent Events

There are no subsequent events to report after the year-end.

Sales and Marketing

With over 30 years experience, Descon Chemicals Limited prides itself for providing its customers the best possible chemical solutions in the industry. Catering to a multitude of industrial sectors, our solutions and services provide the best value and quality that our customers deserve.

Innovation is an integral part of Descon Chemicals business philosophy. Descon Chemicals is a technology leader for new development in commercial and advanced application. We are constantly redefining ourselves in terms of products and services that we offer to meet the growing and changing needs of our customers. Our product offerings are categorized under five Business Lines, which cater to specific sectors of the industry as detailed below:

Coatings and Emulsions
Polyester Resins
Pulp & Paper
Textile
Trading

Coating & Emulsions

Our range of chemicals includes a wide assortment of Binders and Additives for the Paints & Coatings industry. In spotlight are Long Oil-based medium viscosity and low viscosity enamels with the highest quality in hardness, water-resistance and durability for decorative paints.

Coatings & Emulsions form the backbone of our Company, and form almost half of the total turnover. Market share of low cost manufacturers has increased rendering this industry as extremely price sensitive and exerting pressure on our margins. Imposition of various taxation measures has also affected demand of our products in a negative manner. These continued developments have resulted in reorganization of some major players in the industry.

We continuously strive to improve our current products in terms of quality, suitability, and economy. Additionally our dedicated team of experts fights hard to develop new products, which can bring success in the world of cut throat competition. Moreover, the efficient and timely, sourcing and procurement, lead us to be competitive in prices. The focus of our endeavors is to provide the best-suited, efficient and cost-effective solutions to the coatings and emulsions industry. It is for this reason that we lay so much emphasis on collaborating with our customers in technical development.

Polyester Resins

Descon Chemicals Limited is one of Pakistan's major supplier of unsaturated polyester and vinyl ester resins for composites applications. Company offers the broadest manufacturing presence to produce a complete line of resin products, Gel-coats and bonding pastes for customers who fabricate composite products rang-ing from bathtubs to sewerage pipes.

Innovation is the key to Company's success. Company is a technology leader for development of new materials for both conventional and advanced composites applications. Company offers resin systems that meet and exceed customer expectations of application properties, environmental compliance and end use performance. Introduction of new version of general-purpose resins in combination with high performance properties shows the dedication of Company's commitment to development of customized solutions for the industry.

Textile

The Textile Auxiliaries Business provides special chemicals for pre-treatment, dyeing and finishing of textiles. We no longer only sell a single product to our customers; whenever possible we strive to be their partner by helping them select the best package or a process for their needs. Our customer segments include Woven, Knitwear, and Denim & Towel manufacturers. We have also added optical brightener product series to textile segment this year whose sale is growing. We focus strongly on our technical expertise and countrywide presence so that we can meet the needs of our customers and be close to them.

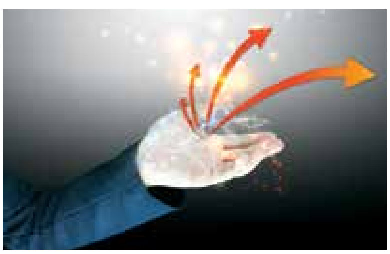
Pulp & Paper

Descon Chemicals Limited is a leading producer of Optical Brightener and Fortified Resins. Both these products are widely used by the leading Paper and

Board manufacturers of Pakistan. Additionally, Company's Fortified Rosen is an ideally suited option for controlling the roughness and spreading of ink on paper.

We have added new products to our portfolio in paper segment namely AKD, SP-30, De-Ink, De-Polyresil 3, De-Fix to meet the needs of pulp & paper industry. These products are also being exported. Although we are a market leader in Optical Brightener technology, but we don't stop here, we have improved our operating efficiency by introducing Nano-Filteration technology to Optical Brightener category which has also improved the product quality. Our motivation is to provide cost effective solutions to our valued customers along with consistent improvement to existent products and adding new products to portfolio. We hope and feel confident that in the coming years pulp & paper segment will add considerable value to our company.

Trading



Due to the Company being a substantial user of speciality and commodity chemicals, it also trades in selected chemicals after adding significant value to the products, for which it is a substantial player in the market. The idea is to leverage our sourcing and buying efficiencies and earn a healthy margin. We continuously endeavor to develop strong sources for supply with which we can serve our valuable customers. Petrochemicals have been our key focus area where we have been working extremely hard for the last three years. We are growing a Company, which introduces high quality product range and a staunch commitment to excellent customer service.

Trading business has always been a profitable segment for the Company for the past few years. Although business ability to perform on consistent basis has been a challenge, due to external challenges like market demand, pricing, and product availability, but still trading has been able to cope with these challenges in a timely manner.

Exports

The company is exporting some of its products, where it has significant regional competitive advantage.

Domestic Chemical Market

The chemical sector in Pakistan is made up of large multinationals, large to medium sized local companies and small companies, mostly in the unorganized sector. The market is highly fragmented with competition for specific products, instead of business lines. The companies are working in niche products, and the competitive advantage is only maintained by investing resources and energy in innovation, and continuous improvement of a product line. Due to the general macroeconomic conditions in the country, coupled with the energy shortages, the chemical sector has suffered a slowdown, which affected demand throughout 2013.

Marketing

The Sales and Marketing Department is well-organized, managed by competent and experienced employees, committed towards the success and growth of the Company. The year brought new challenges for your Company, as the competition in the market grew stronger due to the flagging of demand and the significant instability in prices.

Human Resource and Social Responsibility

An engaged workforce and an inclusive work environment are vital to our success and are aligned with our core values of honesty, integrity and respect for people.

At Descon Chemicals Limited, HR is focused at enabling our Human Capital to add value to the Organization. We strive to groom leaders for the future by providing competency based career progression and challenge our people to display exceptional results through performance.

HR's foremost objective is to foster a performance driven culture, which supports and values employee contribution while providing them opportunities for career growth and development.

Human Resource Development

At Descon Chemicals Limited, HR's aim is to partner with the business and provide the Organization with a strategic edge by focusing on the following

- Evolve as an Employer of Choice
- Inculcate a performance driven culture
- Develop a talent pipeline for future leaders
- Induct talent development initiatives aligned with business goals

Career Progression

We believe that business growth is dependent upon the potential and caliber of our employees. It is therefore essential for the Company's growth and its obligation towards its employees that they are provided full opportunity and resources to grow in the organization to their maximum potential.

We provide our employees with professional training and development programs. We have established career road-maps for high potential incumbents through support and a sustained succession planning program. We encourage creativity and out of the box thinking and provide our employees the opportunity to face new challenges and to take on increased responsibility.

Our top performers are offered career opportunities (within and outside the Company with other Group companies) that help to provide exposure and further develop talent for future leadership roles.

Awards & Recognition

There are a number of awards and recognition programs offered at Descon Chemicals Limited, based entirely on performance. Among these awards, is the “Des-Icon” Employee of the Quarter award that acknowledges exceptional effort of an employee in an assigned project or in the normal course of work.

Kaizen award acknowledges new ideas that may have value adding impact. Kaizen encourages and engages employees to share their ideas and take ownership of continuous development. Moreover, Long Service Award is also granted based on an employee's service tenure and productive input.

In order to inculcate the concept of the “Descon Family, HR continually takes initiatives to arrange events and activities to promote employee engagement. Events such as “Team Building Day”, “Family Day”, “Green Day” and various sporting activities are arranged to instill the values of team work, collaboration and recognition of employees' contribution.

Employee Benefits

We believe in providing equal opportunity & see ourselves as an institution where employees are treated as one family, given opportunity to learn, challenged and rewarded for optimum performance.

We recognize and reward individual achievement through competitive remuneration and benefits package. We offer competitive levels of annual leave entitlements and maternity leave. We also accommodate career breaks if possible and our employees are encouraged to participate in social responsibility projects.

We intend to continuously build better reward structure for our employees. Long service award, Hajj & Umrah Award, Des-Icon and Variable Pay Policies are some of the few examples.

Retirement Benefit Plans

Our policies such as Provident Fund & Gratuity Fund cover for employee retirement benefit plan. The value of investments of Provident fund as at June 30, 2013 is as follows:

	(PKR) 2013 (Un-audited)	(PKR) 2012 (Audited)
Provident Fund	38,928,725	14,884,475
Gratuity Fund	8,011,562	4,998,228

Code of Ethics for Employees

The Company works hard every day to earn a reputation of trust, honesty and candor, while being mindful of its responsibilities to shareholders, customers, partners and each other. The Code describes what acting with integrity means at the Company and how it relates to core beliefs and leadership. The Code and each employee's commitment to it, is an essential component of the plan for catapulting the company to world-class one and we:

- Are committed to Ethical Behavior:
- Embrace the Company Code, Policies, and other applicable laws.
- Report suspected non-compliance.
- Value and safeguard relationship with our customers.
- Value and safeguard employee relationships.
- Comply with Health, Safety, Security and Environmental Laws.
- Value and safeguard our relationships with Suppliers and contractors.
- Protect our property and property of others.
- Use our electronic communications and internet accesses for Company purposes.
- Protect Company Confidential information
- Gather Processes information ethically and lawfully
- Avoid conflicts of interest.
- Award contracts fairly and without prejudice.
- Do not speak on behalf of the Company without specific approval.
- Protect the Company's documents and proprietary information

Safety and Health

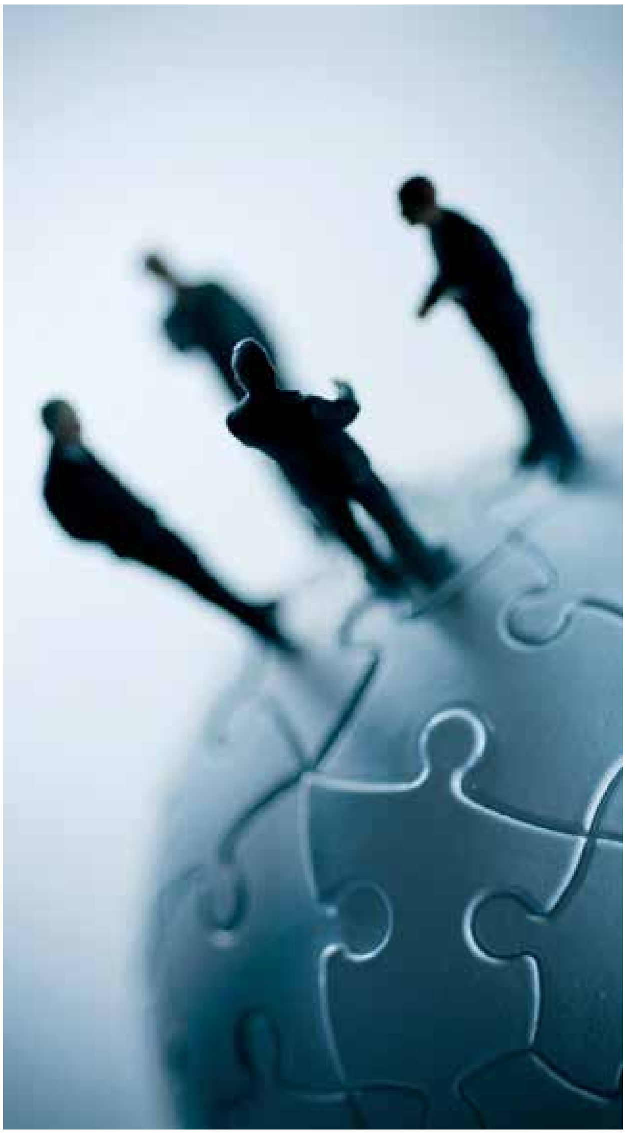
Company's dedication to meeting the principles of safety and environment is a key component in our

commitment to sustainable development and are committed to:

- Develop and supply products and services that best meet the needs of our customers, are safe, and have minimal impacts on health and the environment throughout their life cycle.
- Run our plants and transport our products safely, protecting our neighbors and employees, and minimizing the impact of our activities on our environment.
- Inform and debate with all stakeholders on matters affecting health, safety and the environment, in a spirit of openness and mutual respect.
- Encouraging our subcontractors, suppliers and customers to adopt a policy on health, safety and environment equivalent to our own.
- Comply with all relevant local, national and international regulations relating to health, safety and environment

Environment

The Company manages its impact on environment by minimizing harmful effects of its emissions, both gaseous and liquid. Strict monitoring of plant effluents is done on continuous basis to control their disposal within National Environmental Quality Standards [NEQS] limits. The Company continues to introduce most modern and environmental friendly technologies in its manufacturing processes.



Corporate Governance

Your Company is pleased to inform you that its Directors and management are fully conversant with the responsibilities as formulated in Code of Corporate Governance 2012, issued by SECP and incorporated in the Listing Regulations of the Stock Exchanges. The Company ensures best practices of Corporate Governance by adopting a set of processes, customs and policies, to help us direct and control management activities with good business sense, objectivity, accountability and integrity. We have made corporate governance a system of structuring, operating and controlling the Company with a view to achieve long term strategic goals to satisfy shareholders, creditors, employees, customers and suppliers.

The prescribed practices are effectively under implementation in the Company and there has been no material departure from the best practices of Corporate Governance as detailed in the listing regulations.

Best Corporate Practices

The Company surpasses the minimum legal requirements for good corporate governance imposed by applicable laws and regulations. Company encourages adherence to best corporate practices. During the year, all periodic financial statements of the Company were circulated well in time to the Directors duly endorsed by the Chief Executive and the Chief Financial Officer prior to circulation. The Quarterly financial statements of the Company were approved, published and circulated to shareholders within one month of the closing date, while Half Yearly financial statements of the Company were reviewed by the external auditors, approved by the Board, published and circulated to shareholders within the permitted time period of two months after closing. Other non-financial information to be circulated to governing bodies and other stakeholders were also delivered in an accurate and timely manner. The annual financial statements have also been audited by the external auditors and approved by the Board and will be presented to the shareholders in the forthcoming Annual General Meeting for their approval.

Composition of the Board of Directors

Keeping in mind the Legal and Regulatory framework defining the factors regarding qualification and composition of the Board of Directors, the Company has on its Board highly capable and dedicated personnel with vast experience, knowledge, integrity, and strong sense of responsibility for safe guarding of shareholders' interest. The Board consists of 8 Directors including the Chief Executive Officer, effectively representing the interest of shareholders. There are six (6) non-executive Directors and two Executive Directors, including the CEO.

Meetings of the Board

The Board is legally required to meet at least once every quarter to monitor the Company's performance aimed at effective and timely accountability of its management. The Board held 5 such meetings during the year, agendas of which were circulated in a timely manner. The decisions made by the Board during the meetings were minuted, and were duly circulated to all the Directors for endorsement and were approved in the following Board meetings. All meetings of the Board had minimum quorum for attendance prescribed by the Code of Corporate Governance and were also attended by the Chairman and the Company Secretary. Details of attendance by Directors at each Board meeting are as follows:

Name of Director	Meetings Attended	Remarks
Abdul Razak Dawood	5	–
Salman Zakaria	2	Leave for absence was granted in three meetings
Taimur Dawood	5	–
Farooq Nazir	3	Leave for absence was granted in two meetings
Muhammad Sadiq	4	Leave for absence was granted in one meeting
Syed Zamanat Abbas	2	Leave for absence was granted in three meetings
Faisal Dawood	0	Leave for absence was granted in five meetings
Taimur Saeed	5	–

Training of the Board

As per requirements of the listing regulations, each member of the Board shall be subject to orientation and training for enhancing their directors' skills. The Board has arranged Corporate Governance Leadership Skills (CGLS) training program from Pakistan Institute of Corporate Governance for its directors. Four directors have obtained certification of CGLS.

Changes to the Board

There were no changes to the Board during the year.

Directors' Statement

The Directors are pleased to make statements as required by the Code of Corporate Governance as given below:

i. Presentation of Financial Statements

The financial statements, prepared by the management of the Company, fairly present its state of affairs, the results of its operations, cash flows and changes in equity.

ii. Books of Accounts

The Company has maintained proper books of accounts.

iii. Accounting Policies

Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.

iv. International Financial Reporting Standards (IFRS)

International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.

v. Accounting Year

The accounting year of the Company is from 1st July to 30th June.

vi. Safety and Environments

The Company strictly complies with the standards of the safety rules and regulations. It also follows environmental friendly policies.

vii. Going Concern

There is no significant doubt upon the Company's ability to continue as a going concern.

viii. Internal Control System

The system of internal control is sound in design and has been effectively implemented and monitored. The review will continue in future for the improvement in controls.

ix. Trading Company's Shares

During the year under review no Director, CEO, CFO, Company Secretary and their spouses and minor children has sold or purchased any shares of the Company.

x. Outstanding Statutory Dues

There are no outstanding statutory dues.

xi. Dividends

The Company could not declare any dividend.

xii. Quality Control

To ensure implementation of the Management System, Internal Quality Audits, Surveillance Audits and Management Review meetings are conducted regularly.

xiii. Communication

Communication with the shareholders is given high priority. Annual, Half Yearly and Quarterly Accounts are distributed to them within the time specified in the Companies Ordinance, 1984. Every opportunity is given to the individual shareholders to attend and freely ask questions about the Company's operations at the Annual General Meeting.

xiv. Board of Directors

The details of the meetings are given above.

xv. Auditors

In pursuance of the Code of Corporate Governance, the Audit Committee has recommended the re-appointment of M/s. Horwath Hussain Chaudhury & Co., Chartered Accountants, as Auditors of the Company for the year ending June 30, 2014.

xvi. Audit Committee

The Board of Directors in compliance to the Code of Corporate Governance has established an audit committee comprising majority of non-executive Directors. During the year, four audit committee meetings were held. The following are the members of the Audit Committee:

Name of Director	Designation
Farooq Nazir	Chairman
Taimur Dawood	Member
Syed Zamanat Abbas	Member
Muhammad Sadiq	Member

Internal audit function of the Company is outsourced to M/s. KPMG Taseer Hadi and Co., Chartered Accountants. During the year under review, the Audit Committee has performed its functions satisfactorily and in accordance with the Code of Corporate Governance.

Acknowledgements

In the end, the management would like to take this opportunity to express their appreciation and thank all employees for their commitment, loyalty and hard work in meeting targets for the year. We also acknowledge the support and cooperation received from our esteemed customers, suppliers, bankers and stakeholders towards the development of the Company.

For and on behalf of the Board

Lahore
September 30, 2013

Taimur Saeed
Chief Executive Officer

KEY OPERATING AND FINANCIAL DATA

	2013	2012	2011	2010	2009	2008
	(Rupees in '000)					
Summary of Profit and Loss						
Sales	2,402,440	2,560,856	2,601,734	2,383,950	2,769,953	3,109,803
Cost of goods sold	(2,186,080)	(2,341,702)	(2,287,690)	(2,072,600)	(2,551,882)	(2,681,459)
Gross profit	216,361	219,155	314,044	311,350	218,071	428,345
Operating profit	106,633	118,305	151,084	136,970	38,057	264,946
Finance cost	(110,466)	(125,670)	(159,160)	(159,606)	(186,708)	(111,953)
Profit / (loss) before tax	(43,318)	(4,264)	1,222	(53,183)	(164,927)	173,650
Profit / (loss) after tax	(42,101)	(61,704)	(19,280)	(49,409)	(134,694)	162,581
Financial Position						
Share capital	997,789	997,789	997,789	997,789	315,670	363,408
Reserves including un-appropriated profit	(654,273)	(612,147)	(550,718)	(531,642)	199,631	37,761
Long term borrowings	269,000	287,000	33,500	100,375	128,185	162,495
Property, plant and equipment	534,998	548,457	581,143	625,230	708,264	495,664
Net current assets	58,058	109,645	(126,420)	(64,078)	(45,571)	159,386
Investor Information						
Gross profit margin (%)	9.01%	8.56%	12.07%	13.06%	7.87%	13.77%
Pre-tax margin (%)	(1.80%)	(0.17%)	0.05%	(2.23%)	(5.95%)	5.58%
Net profit margin (%)	(1.75%)	(2.41%)	(0.74%)	(2.07%)	(4.86%)	5.23%
Return on equity (%)	(12.26%)	(16.00%)	(4.31%)	(10.60%)	(26.14%)	40.53%
Return on capital employed (%)	9.77%	15.95%	27.86%	16.06%	2.89%	32.16%
Current ratio	1.07	1.13	0.89	0.95	0.96	1.13
Quick ratio	0.66	0.72	0.55	0.55	0.60	0.60
Debtors turnover (days)	57	59	62	74	63	71
Inventory turnover (days)	57	53	66	94	55	88
Creditors turnover (days)	35	42	43	54	27	32
Operating cycle (days)	79	70	85	114	92	127
Debt: Equity (ratio)	72%	67%	67%	70%	66%	73%
Interest cover (times)	0.61	0.97	1.01	0.67	0.12	2.55
Earnings / (loss) per share (pre tax) (Rupees)	(0.22)	(0.02)	0.01	(0.27)	(2.61)	2.39
Earnings / (loss) per share (after tax) (Rupees)	(0.21)	(0.31)	(0.10)	(0.25)	(2.13)	2.2

HORIZONTAL ANALYSIS OF THE BALANCE SHEET

	2013 Rs. '000	13 Vs. 12 %	2012 Rs. '000	12 Vs. 11 %	2011 Rs. '000	11 Vs. 10 %
EQUITY AND LIABILITIES						
EQUITY						
Share capital	997,789	–	997,789	–	997,789	–
Reserves	(654,273)	6.9%	(612,147)	11.2%	(550,718)	3.6%
	343,516	(10.9%)	385,643	(13.7%)	447,071	(4.1%)
Surplus on revaluation of property, plant & equipment	38,416	(0.3%)	38,527	(0.3%)	38,643	(0.3%)
NON-CURRENT LIABILITIES						
Long term financing	269,000	(6.3%)	287,000	756.7%	33,500	(66.6%)
Deferred tax liability	36,603	(26.5%)	49,807	41.0%	35,312	(13.4%)
Retirement benefit obligation	–	–	252	(98.8%)	21,093	25.8%
	305,603	(9.3%)	337,059	274.9%	89,906	(43.1%)
CURRENT LIABILITIES						
Trade and other payables	211,310	(22.4%)	272,163	1.7%	267,542	(13.5%)
Accrued mark up	22,126	(6.8%)	23,731	(20.8%)	29,961	(17.5%)
Short term borrowings	583,175	22.9%	474,351	(41.0%)	803,513	(15.4%)
Current portion of long term borrowings	18,000	(21.7%)	23,000	(66.4%)	68,375	133.3%
Provision for taxation	11,988	(53.0%)	25,514	(1.8%)	25,989	118.7%
	846,599	3.4%	818,759	(31.5%)	1,195,380	(10.5%)
	1,534,135	**(2.9%)**	**1,579,988**	**(10.8%)**	**1,770,999**	**(11.4%)**
ASSETS						
NON-CURRENT ASSETS						
Property, plant and equipment	534,998	(2.5%)	548,457	(5.6%)	581,143	(7.1%)
Intangible assets	27,724	(14.3%)	32,345	(12.5%)	36,966	(11.1%)
Long term investments	64,489	(7.9%)	70,034	(15.8%)	83,173	42.9%
Long term deposits and advances	1,712	129.1%	747	(1.3%)	757	(60.4%)
Retirement benefit asset – prepayments	554	–	–	–	–	–
	629,478	(3.4%)	651,583	(7.2%)	702,040	(3.4%)
CURRENT ASSETS						
Stores, spares and loose tools	10,205	(1.3%)	10,337	(30.4%)	14,849	36.0%
Stock in trade	343,559	1.7%	337,753	(18.9%)	416,375	(21.7%)
Trade debts	374,229	(10.3%)	417,265	(5.0%)	439,262	(9.6%)
Loans and advances	158,385	42.1%	111,434	(14.6%)	130,434	(20.7%)
Short term prepayments and other receivables	6,841	(74.1%)	26,402	26.2%	20,913	(44.1%)
Cash and bank balances	11,438	(54.6%)	25,213	(46.5%)	47,128	14.4%
	904,657	(2.6%)	928,404	(13.1%)	1,068,960	(16.0%)
	1,534,135	**(2.9%)**	**1,579,988**	**(10.8%)**	**1,770,999**	**(11.4%)**

VERTICAL ANALYSIS OF THE BALANCE SHEET

	2013 Rs. '000	%	2012 Rs. '000	%	2011 Rs. '000	%
EQUITY AND LIABILITIES						
EQUITY						
Share capital	997,789	65.0%	997,789	63.2%	997,789	56.3%
Reserves	(654,273)	(42.6%)	(612,147)	(38.7%)	(550,718)	(31.1%)
	343,516	29.8%	385,643	33.4%	447,071	34.8%
Surplus on revaluation of property, plant & equipment	38,416	2.5%	38,527	2.4%	38,643	2.2%
NON-CURRENT LIABILITIES						
Long term financing	269,000	17.5%	287,000	18.2%	33,500	1.9%
Deferred liability	36,603	2.4%	49,807	3.2%	35,312	2.0%
Retirement benefit obligation	–	–	252	–	21,093	1.2%
	305,603	19.9%	337,059	21.3%	89,906	5.1%
CURRENT LIABILITIES						
Trade and other payables	211,310	13.8%	272,163	17.2%	267,542	15.1%
Accrued mark up	22,126	1.4%	23,731	1.5%	29,961	1.7%
Short term borrowings	583,175	38.0%	474,351	30.0%	803,513	45.4%
Current portion of long term borrowings	18,000	1.2%	23,000	1.5%	68,375	3.9%
Provision for taxation	11,988	0.8%	25,514	1.6%	25,989	1.5%
	846,599	55.2%	818,759	51.8%	1,195,380	67.5%
	1,534,135	**100.0%**	**1,579,988**	**100.0%**	**1,770,999**	**100.0%**
ASSETS						
NON-CURRENT ASSETS						
Property, plant and equipment	534,998	34.9%	548,457	34.7%	581,143	32.8%
Intangible assets	27,724	1.8%	32,345	2.0%	36,966	2.1%
Long term investments	64,489	4.2%	70,034	4.4%	83,173	4.7%
Long term deposits and advances	1,712	0.1%	747	–	757	–
Retirement benefit asset – prepayments	554	–	–	–	–	–
	629,478	41.0%	651,583	41.2%	702,040	39.6%
CURRENT ASSETS						
Stores, spares and loose tools	10,205	0.7%	10,337	0.7%	14,849	0.8%
Stock in trade	343,559	22.4%	337,753	21.4%	416,375	23.5%
Trade debts	374,229	24.4%	417,265	26.4%	439,262	24.8%
Loans and advances	158,385	10.3%	111,434	7.1%	130,434	7.4%
Short term prepayments and other receivables	6,841	0.4%	26,402	1.7%	20,913	1.2%
Cash and bank balances	11,438	0.7%	25,213	1.6%	47,128	2.7%
	904,657	59.0%	928,404	58.8%	1,068,960	60.4%
	1,534,135	**100.0%**	**1,579,988**	**100.0%**	**1,770,999**	**100.0%**

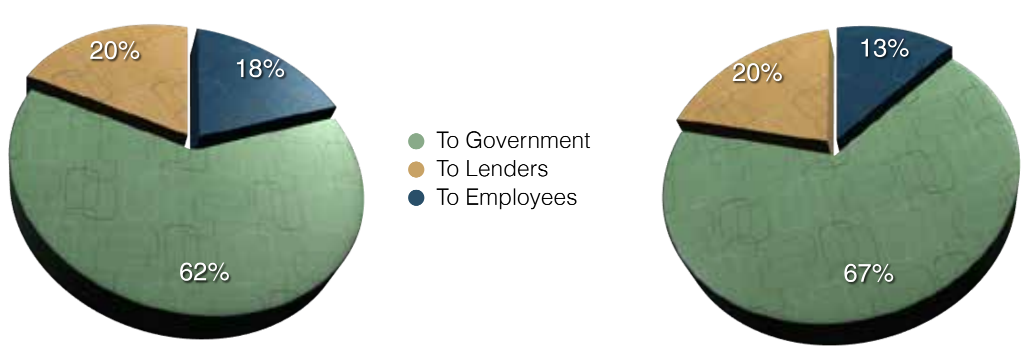
HORIZONTAL AND VERTICAL ANALYSIS OF THE PROFIT AND LOSS ACCOUNT

	2013 Rs. '000	13 Vs. 12 %	2012 Rs. '000	12 Vs. 11 %	2011 Rs. '000	11 Vs. 10 %
HORIZONTAL ANALYSIS						
Sales	2,402,440	(6%)	2,560,856	(2%)	2,601,734	9%
Cost of sales	(2,186,080)	(7%)	(2,341,702)	2%	(2,287,690)	10%
Gross profit	216,361	(1%)	219,155	(30%)	314,044	1%
Administration and general expenses	(44,596)	10%	(40,408)	(48%)	(77,940)	(23%)
Distribution cost	(57,742)	(2%)	(58,892)	(29%)	(83,020)	13%
Research and development expenses	(7,390)	377%	(1,550)	(23%)	(2,000)	–
Operating profit	106,633	(10%)	118,305	(22%)	151,084	10%
Other operating charges	(41,431)	519%	(6,691)	(81%)	(35,599)	122%
Finance cost	(110,466)	(12%)	(125,670)	(21%)	(159,160)	–
Other operating income	7,357	(68%)	23,090	(15%)	27,124	93%
Share of net (loss) / profit of associate	(5,409)	(59%)	(13,299)	(175%)	17,773	(162%)
Loss before taxation	(43,318)	916%	(4,264)	(449%)	1,222	(102%)
Taxation	1,216	(102%)	(57,439)	180%	(20,502)	(643%)
Net profit after taxation	**(42,101)**	**(32%)**	**(61,704)**	**220%**	**(19,280)**	**(61%)**
VERTICAL ANALYSIS						
Sales	2,402,440	100%	2,560,856	100%	2,601,734	100%
Cost of sales	(2,186,080)	(91%)	(2,341,702)	(91%)	(2,287,690)	(88%)
Gross profit	216,361	9%	219,155	9%	314,044	12%
Administration and general expenses	(44,596)	(1.9%)	(40,408)	(1.6%)	(77,940)	(3.0%)
Distribution cost	(57,742)	(2.4%)	(58,892)	(2.3%)	(83,020)	(3.2%)
Research and development expenses	(7,390)	(0.3%)	(1,550)	(0.1%)	(2,000)	(0.1%)
Operating profit	106,633	4.4%	118,305	4.6%	151,084	5.8%
Other operating charges	(41,431)	(1.7%)	(6,691)	(0.3%)	(35,599)	(1.4%)
Finance cost	(110,466)	(4.6%)	(125,670)	(4.9%)	(159,160)	(6.1%)
Other operating income	7,357	0.3%	23,090	0.9%	27,124	1.0%
Share of net (loss) / profit of associate	(5,409)	(0.2%)	(13,299)	(0.5%)	17,773	0.7%
Net profit before taxation	(43,318)	(1.8%)	(4,264)	(0.2%)	1,222	0.0%
Taxation	1,216	0.1%	(57,439)	(2.2%)	(20,502)	(0.8%)
Net profit after taxation	**(42,101)**	**(1.8%)**	**(61,704)**	**(2.4%)**	**(19,280)**	**(0.7%)**

STATEMENT OF WEALTH CREATION & ITS DISTRIBUTION

	2013 (Rupees in '000)	%	2012 (Rupees in '000)	%
Wealth Generated / Value Added:				
Turnover (including sales tax)	2,731,314		2,924,362	
Less: Purchased materials & services	(2,201,004)		(2,325,456)	
Value added	530,310		598,906	
Other income	7,357		23,090	
Net wealth generated	537,667		621,996	
Depreciation, amortization and loss retained by the Company	10,662		(7,892)	
	548,329	**100%**	**614,104**	**100%**
Wealth Distribution:				
To Government:				
Income tax, sales tax, excise & custom duty, WWF & WPPF	340,862	62%	407,151	66%
To Lenders:				
Interest on borrowed funds	110,466	20%	125,670	20%
To Employees:				
Salaries, wages and other benefits	96,999	18%	81,283	13%
	548,329	**100%**	**614,104**	**100%**

Wealth Distribution 2013 **Wealth Distribution 2012**



STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance (the "Code") contained in Regulation No. 35 of listing regulations of Stock Exchanges in Pakistan 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 the representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the board includes:

Category	Names
Independent Director *	–
Non-Executive Directors	Mr. Abdul Razak Dawood
	Mr. Salman Zakaria
	Syed Zamanat Abbas
	Mr. Farooq Nazir
	Mr. Taimur Dawood
	Mr. Faisal Dawood
Executive Directors	Muhammad Sadiq
	Mr. Taimur Saeed

* *Currently, the Board does not have any independent Director. The company will adhere with this clause at the time of next election of directors due on December 30, 2013. Moreover, there is no representation of minority shareholders on the Board.*

2. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Company (excluding the listed subsidiaries of listed holding company where applicable).

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

4. No casual vacancy occurred on the Board during the year under review.

5. The Company has prepared a "Code of Conduct", which has been approved by the Board of Directors and signed by the senior executives and employees of the Company, and has ensured that appropriate steps have been taken to disseminate it throughout the Company along with its supporting policies and procedures.

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 Chief Executive Officer and other executive directors have been taken by the board of directors/shareholders.

8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose, the Board met at least once in every quarter or when deemed necessary. Written notices of the Board meetings, along with agenda and working papers were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated. The Chief Financial Officer and the Company Secretary also attended the meetings of the Board.

9. The Board has arranged Corporate Governance Leadership Skills (CGLS) training program from Pakistan Institute of Corporate Governance for its directors. The majority of directors has obtained certification of CGLS and has familiarized themselves on their responsibilities with the Code.

10. The Board has approved appointment of Chief Financial Officer and Head of Internal Audit including their remuneration and terms and conditions of employment.

11. The Director's 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 Chief Executive Officer and Chief Financial Officer have duly endorsed the financial statements of the Company before its approval from the Board.

13. The Directors, Chief Executive Officer 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 the applicable corporate and financial reporting requirements of the Code.

15. The Board has formed an Audit Committee. It comprises of four members, of whom three are non-executive directors, including the Chairman of the Committee.

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 Audit Committee have been formulated and communicated to the Committee for compliance.

17. The Board has formed an HR and Remuneration Committee. It comprises of three members, of whom two are non-executive directors and the Chairman of the Committee is a non-executive director.

18. The Board has outsourced the internal audit function to M/s. KPMG Taseer Hadi and Co., Chartered Accountants, who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company.

19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan (ICAP), 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 (ICAP).

20. 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.

21. The 'closed period' prior to the announcement of interim/final results and business decisions which may materially affect the market price of Company's securities, was determined and intimated to directors, employees and stock exchange(s).

22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange(s).

23. We confirm that all other material principles enshrined in the Code have been complied with.

For and on behalf of the Board

Lahore
September 30, 2013

Taimur Saeed
Chief Executive Officer

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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 Descon Chemicals Limited to comply with the Listing Regulation No. 35 (Chapter XI) of both the Karachi Stock Exchange and Lahore Stock Exchange, where the Company is listed.

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

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal controls 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.

Further, Sub-Regulation (x) of Listing Regulation 35 of Karachi and Lahore Stock Exchanges requires the Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price, recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended June 30, 2013.

Horwath Hussain Chaudhury & Co.

Lahore
September 30, 2013

Horwath Hussain Chaudhury & Co.
Chartered Accountants

(Engagement Partner: Muhammad Nasir Muneer)

Crowe Horwath™

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Descon Chemicals Limited as at June 30, 2013 and the related profit and loss account, statement of comprehensive income, 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 the accounting policies consistently applied;

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

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

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, 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 June 30, 2013 and of the loss, total comprehensive loss, its cash flows and changes in equity for year then ended; and

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

Horwath Hussain Chaudhury & Co.

Lahore
September 30, 2013

Horwath Hussain Chaudhury & Co.
Chartered Accountants

(Engagement Partner: Muhammad Nasir Muneer)

BALANCE SHEET
AS AT JUNE 30, 2013

	Note	2013 Rupees	2012 Rupees
ASSETS			
Non Current Assets			
Property, plant and equipment	4	534,998,469	548,457,070
Intangible assets	5	27,724,463	32,345,206
Long term investments	6	64,488,804	70,033,769
Long term deposits and loans	7	1,712,063	747,263
Retirement benefit asset - prepayments	17	554,276	–
		629,478,075	651,583,308
Current Assets			
Stores and spares		10,204,768	10,337,304
Stock in trade	8	343,559,463	337,753,292
Trade debts	9	374,229,068	417,264,757
Loans and advances	10	158,384,547	111,433,998
Short term prepayments and other receivables	11	6,841,180	26,402,247
Bank balances	12	11,437,764	25,212,894
		904,656,790	928,404,492
Total Assets		**1,534,134,865**	**1,579,987,800**

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

CHIEF EXECUTIVE

DIRECTOR

	Note	2013 Rupees	2012 Rupees
EQUITY AND LIABILITIES			
Share Capital and Reserves			
Authorized share capital 230,000,000 (2012: 230,000,000) Ordinary shares of Rs. 5 each		1,150,000,000	1,150,000,000
Issued, subscribed and paid up share capital	13	997,789,280	997,789,280
Reserves	14	(654,273,063)	(612,146,518)
		343,516,217	385,642,762
Surplus on Revaluation of Property, Plant and Equipment	15	38,416,493	38,526,824
Non Current Liabilities			
Long term financing	16	269,000,000	287,000,000
Retirement benefit obligation	17	-	251,746
Deferred tax liability	18	36,602,985	49,807,300
		305,602,985	337,059,046
Current Liabilities			
Trade and other payables	19	211,310,366	272,163,211
Accrued mark up	20	22,125,687	23,730,918
Short term borrowings	21	583,174,977	474,350,860
Current portion of long term financing	16	18,000,000	23,000,000
Provision for taxation	22	11,988,140	25,514,179
		846,599,170	818,759,168
Contingencies and Commitments	23	–	–
Total Equity and Liabilities		**1,534,134,865**	**1,579,987,800**

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

CHIEF EXECUTIVE

DIRECTOR

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2013

	Note	2013 Rupees	2012 Rupees
Sales	24	2,402,440,493	2,560,856,250
Cost of sales	25	(2,186,079,779)	(2,341,701,743)
Gross Profit		216,360,714	219,154,507
Distribution cost	26	(57,742,114)	(58,891,540)
Administrative expenses	27	(44,595,913)	(40,408,116)
Research and development expenses	28	(7,389,570)	(1,549,662)
		(109,727,597)	(100,849,318)
Operating Profit		106,633,117	118,305,189
Other operating expenses	29	(41,431,467)	(6,690,783)
Finance cost	30	(110,466,241)	(125,669,614)
Other income	31	7,356,505	23,089,715
Share of net loss of associate		(5,409,466)	(13,298,842)
Loss before Taxation		(43,317,552)	(4,264,335)
Taxation	32	1,216,175	(57,439,294)
Net Loss for the Year		**(42,101,377)**	**(61,703,629)**
Loss per Share - Basic and Diluted	**33**	**(0.21)**	**(0.31)**

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

CHIEF EXECUTIVE

DIRECTOR

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2013

	2013 Rupees	2012 Rupees
Net Loss for the Year	(42,101,377)	(61,703,629)
Other comprehensive income		
Unrealized gain on available for sale investment	192,600	36,300
Share of unrealized (loss) / gain on available for sale investment of associate	(328,099)	122,918
Transfer from surplus on revaluation of property, plant and equipment in respect of incremental depreciation charged in current year	110,331	116,138
Other comprehensive (loss) / income for the year	(25,168)	275,356
Total Comprehensive Loss for the Year	**(42,126,545)**	**(61,428,273)**

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

CHIEF EXECUTIVE

DIRECTOR

CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2013

	Note	2013 Rupees	2012 Rupees
CASH GENERATED FROM OPERATIONS	34	92,015,322	281,281,396
Finance cost paid		(112,071,472)	(131,899,683)
Gratuity paid		(1,095,317)	(21,928,633)
Income tax paid		(58,283,591)	(29,713,250)
Long term deposits and loans		(964,800)	10,000
		(172,415,180)	(183,531,566)
Net Cash (used in) / generated from Operating Activities		(80,399,858)	97,749,830
CASH FLOWS FROM INVESTING ACTIVITIES			
Property, plant and equipment purchased		(10,608,163)	(3,519,069)
Capital work-in-progress		(11,116,894)	(3,830,634)
Proceeds from disposal of property, plant and equipment		1,572,728	6,552,369
Interest income received		952,940	2,170,242
Net Cash (used in) / generated from Investing Activities		(19,199,389)	1,372,908
CASH FLOWS FROM FINANCING ACTIVITIES			
Long term financing repaid		(23,000,000)	(66,875,116)
Long term financing acquired		–	275,000,000
Short term borrowings acquired / (repaid) - net		108,824,117	(329,162,309)
Net Cash generated from / (used in) Financing Activities		85,824,117	(121,037,425)
Net Decrease in Cash and Cash Equivalents		(13,775,130)	(21,914,687)
Cash and cash equivalents at the beginning of the year		25,212,894	47,127,581
Cash and Cash Equivalents at the end of the Year		**11,437,764**	**25,212,894**

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

CHIEF EXECUTIVE

DIRECTOR

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2013

Particulars	Share Capital	Reserves				Total
		Share Premium Reserve	Fair Value Reserve	Revaluation Reserve	Accumulated Loss	
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Balance as at June 30, 2011	997,789,280	1,281,303	60,687	386,393	(552,446,628)	447,071,035
Total comprehensive loss for the year ended June 30, 2012	–	–	159,218	116,138	(61,703,629)	(61,428,273)
Balance as at June 30, 2012	997,789,280	1,281,303	219,905	502,531	(614,150,257)	385,642,762
Total comprehensive loss for the year ended June 30, 2013	–	–	(135,499)	110,331	(42,101,377)	(42,126,545)
Balance as at June 30, 2013	**997,789,280**	**1,281,303**	**84,406**	**612,862**	**(656,251,634)**	**343,516,217**

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

CHIEF EXECUTIVE

DIRECTOR

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

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 with the name of Nimir Resins Limited. The name of the Company was changed to Descon Chemicals Limited on April 01, 2010 when the Company entered into a scheme of arrangement for merger / amalgamation with Descon Chemicals (Private) Limited.

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

2. Basis of Preparation

2.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention except to the extent of following:

Certain property, plant and equipment	Note 4	Revalued / Fair value
Investment in quoted companies	Note 6	Fair value
Employee retirement benefits (Gratuity)	Note 17	Present value

2.3 Functional and presentation currency

These financial statements are prepared and presented in Pak Rupees which is the Company's functional and presentation currency. All the figures have been rounded off to the nearest rupee, unless otherwise stated.

2.4 Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and related assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances.

These estimates and related assumptions are reviewed on an ongoing basis. Accounting estimates are revised in the period in which such revisions are made. Significant management estimates in these financial statements relate to the useful life and residual values of property, plant and equipment, amortization of intangible assets, provisions for doubtful receivables, provisions for defined benefit plans, slow moving inventory, obsolescence of inventory and taxation. However, the management believes that the change in outcome of estimates would not have a material effect on the amounts disclosed in these financial statements.

2.5 New and revised standards and interpretations

Since June 30, 2012, International Accounting Board (IASB) has made certain amendments into the existing standards and introduced one new interpretation (IFRIC 20). These amendments seek to enhance the disclosure requirements in the financial statements and do not have any significant effect on the Company's financial statements other than presentation / disclosures. These amendments are as under:

Revision / improvements / ammendments to IFRS and interpretations

	Effective Date (Period beginning on or after)
- IAS 32: Financial instruments: Presentation - *Offsetting Financial Assets and Financial Liabilities*	January 1, 2014
- IFRS 1: First-time Adoption of International Financial Reporting Standards - *Government Loans*	January 1, 2013
- IFRS 7: Financial instruments: Disclosures - *Offsetting Financial Assets and Financial Liabilities*	January 1, 2013
- IFRS 9: Financial Instruments - Mandatory *Effective Date and Transition Disclosures*	January 1, 2015
- IFRS 10: Consolidated Financial Statements - *Transition Guidance*	January 1, 2013
- IFRS 11: Joint Arrangements - *Transition Guidance*	January 1, 2013
- IFRS 12: Disclosures of Interest in Other Entities - *Transition Guidance*	January 1, 2013
- Annual Improvements 2009-2011 Cycle	January 1, 2013
- IFRIC 20: Stripping Costs in the Production Phase of a Surface Mine	January 1, 2013

3. Significant Accounting Policies

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied, unless stated otherwise.

3.1 Property, plant and equipment

Owned

Property, plant and equipment are stated at cost / revalued amounts less accumulated depreciation and identified impairment losses, if any, except freehold land which is stated at revalued amount. Cost of property, plant and equipment consists of historical cost, borrowing cost pertaining to the construction and erection period and directly attributable cost of bringing the assets to working condition.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

Depreciation is charged to income on reducing balance method except vehicles that are depreciated using straight line method at the rates specified in Note 4. Full month's depreciation is charged on additions during the month, whereas no depreciation is charged on assets disposed off during the month. Where an impairment loss is recognised, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

Maintenance and normal repairs are charged to income as and when incurred. Major renewals and replacements are capitalised. Gains or losses on disposal of property, plant and equipment are included in the current year's income.

Capital work-in-progress

Capital work-in-progress is stated at cost less any identified impairment loss.

3.2 Intangible asset

An intangible asset is recognised as an asset if it is probable that future economic benefits attributable to the asset will flow to the Company and the cost of such asset can be measured reliably. Cost of intangible assets i.e. ERP software includes purchase cost and directly attributable expenses incidental to bring the software for its intended use.

Costs that are directly associated with identifiable software and have probable economic benefits beyond one year, are recognised as an intangible asset. However, costs associated with the maintenance of software are recognised as an expense.

All intangibles are measured initially at cost and subsequently stated at cost less accumulated amortisation and identified impairment losses, if any. Amortisation is charged to income using the straight line method so as to write off cost of an asset over its estimated useful life. The amortisation period and the amortisation method for an intangible asset are reviewed, at each balance sheet date, and adjusted if impact on the amortisation is significant. ERP software is being amortised over 10 years based on estimated useful life.

3.3 Investment in associate

An enterprise is considered to be the associate of the Company in which the Company has ownership of not less than 20% and not more than 50% of the voting power and / or has significant influence but not control. Investments in associates are accounted for using the equity method. The equity method is applied from the date when significant influence is established until the date when that significant influence ceases.

3.4 Stores and spares

These are valued at lower of moving average cost and net realizable value; whilst items considered obsolete are carried at nil value. Cost of items in transit comprises invoice value plus incidental charges paid thereon.

3.5 Stock in trade

These are valued at lower of cost and net realizable value. Cost is determined as follows:

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

Raw and packing materials	- Moving average cost
Materials in transit	- Cost and incidental charges
Work in process	- Estimated manufacturing cost
Finished goods	- Average manufacturing cost
Wastes	- At net realizable value

Manufacturing cost in relation to work in process and finished goods comprises cost of material, labour and appropriate manufacturing overheads. Net realizable value signifies the estimated selling price in the ordinary course of business less necessary cost to make the sale.

3.6 Trade debts

Trade debts are recognised at fair value less provision for impairment. A provision for impairment of trade debts 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 the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial re-organisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. Debts, considered irrecoverable, are written off, as and when identified.

3.7 Cash and cash equivalents

Cash and cash equivalents are carried at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand and cash at banks in current and saving accounts.

3.8 Provisions

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

3.9 Staff retirement benefits

Defined benefits plan

The Company operates a funded gratuity scheme for employees whose period of service is seven years or more. Under this scheme, gratuity is paid to retiring employees on the basis of their last drawn basic salary for each completed year of service by applying the following factor:

Service period in the Company	Factor
Less then 7 years	Nil
7 years or more but less than 10 years	50%
10 years or more but less than 15 years	60%
15 years or more but less than 20 years	72%
20 years or more but less then 25 years	85%
25 years or more (Maximum of 25 Basic Salaries)	100%

A recognised fund for gratuity scheme of employees was established during the year 2012 and related liabilities and assets were transferred to that fund.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

The policy for the recognition of actuarial gains / losses used in this report is based on the “minimum 10% corridor” approach mentioned under paragraph 92 of IAS-19.

Defined contribution plan

The Company operates an approved provident fund scheme for all its permanent employees. The Company and employees make equal monthly contributions to the fund at the rate of 10% of basic salary.

3.10 Taxation

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax expense is recognised in the profit and loss account except to the extent that relates to items recognised directly in equity, in which case it is recognised in equity.

Current

The charge for current tax is based on taxable income for the year determined in accordance with the prevailing laws of taxation. All tax credits and tax rebates are taken into account in calculating this charge. However, in the case of loss for the year, income tax expense is recognised as minimum tax liability on turnover of the Company in accordance with the provisions of the Income Tax Law.

Deferred

Deferred tax is recognised using the balance sheet liability method on all temporary differences between the carrying amount of the assets and liabilities and their tax bases.

Deferred tax liabilities are recognised for all major taxable temporary differences.

Deferred tax assets are recognised for all major deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

The carrying amount of the deferred tax asset is reviewed at each balance sheet date and is recognised only to the extent that it is probable that future taxable profits will be available against which the assets may be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent of probable future taxable profit available that will allow deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply to the year when the asset is utilised or the liability is settled, based on the tax rates that have been enacted or substantially enacted at the balance sheet date.

3.11 Trade and other payables

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid or given in future for goods and services received or to be delivered or for any other amount, whether or not billed to the Company.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

3.12 Contingent liabilities

Contingent liability is disclosed when there is a possible obligation that arises from past events and whose existence is confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company.

A contingent liability is also disclosed when there is present obligation that arises from past events but it is not probable that an outflow of resources embodying economic benefits would be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

3.13 Borrowing cost

Borrowing cost is charged to income as and when incurred except costs directly attributable to acquisition, construction or production of qualifying assets that are capitalised as part of the cost of assets.

3.14 Foreign currency transactions

Transactions denominated in foreign currencies are initially recorded at Pak Rupees by applying the foreign exchange rate ruling on the date of transaction. All monetary assets and liabilities in foreign currencies are translated into Pak Rupees at exchange rate prevailing at the balance sheet date except for balances covered under forward exchange contracts, which are converted at the contracted rates. Exchange differences are included in income currently.

3.15 Revenue recognition

- Local sales are recorded on dispatch of goods to customers.
- Export sales are recorded on the receipt of bills of lading.
- Profit on bank deposits is recognised on a time proportion basis that takes into account the effective yield on deposits.

3.16 Related party transactions

Transactions in relation to sales, purchases and services with related parties are made at arm's length prices determined in accordance with the Company's policy except for the allocation of expenses such as utilities, rental and common overheads relating to the corporate office shared with related parties, which are on actual basis.

3.17 Financial instruments

3.17.1 Financial assets

The classification depends on the purpose for which the financial assets were acquired. The management determines the classification of its financial assets at the time of initial recognition. The Company classifies its financial assets in the following categories:

At fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. A financial asset is

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

classified as held for trading if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are included in current assets, except for maturities greater than twelve months after the balance sheet date, which are classified as non-current assets. Loans and receivables comprise advances, deposits and other receivables in the balance sheet.

Held to maturity

Held to maturity are financial assets with fixed or determinable payments and fixed maturity, where management has the intention and ability to hold till maturity are carried at amortised cost.

Available-for-sale

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the management intends to dispose off the investments within twelve months from the balance sheet date, in which case these financial assets are classified as short term investments in the balance sheet.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised directly in equity are included in the profit and loss account as gains and losses from investment securities. Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit and loss account. Dividends on available-for sale equity instruments are recognised in the profit and loss account when the Company's right to receive payments is established.

Measurement criteria

All financial assets are recognised at the time when the company becomes a party to the contractual provisions of the instrument. Regular purchases and sales of investments are recognised at trade date that is the date on which the Company commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the profit and loss account.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. 'Loans and receivables' and 'held to maturity' investments are carried at amortised cost using effective interest rate method.

The fair values of quoted investments are based on current prices. If the market for a financial asset is not active (for unlisted securities), the Company measures the investments at cost less impairment in value, if any.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired.

3.17.2 Financial liabilities

All financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instrument.

Financial liabilities, other than those at fair value through profit or loss, are measured at amortised cost using the effective yield method.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange and modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in respective carrying amounts is recognised in the profit and loss account.

3.17.3 Off-setting of financial assets and financial liabilities

A financial asset and a financial liability is offset and the net amount is reported in the financial statements if the Company has a legally enforceable right to set-off the transaction and also intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

3.18 Impairment

Carrying amounts of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. In the absence of any information about the fair value, the recoverable amount is determined to be the value in use. Impairment losses are recognised as expense in the profit and loss account.

3.19 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (the Chief Executive Officer of the Company). Segment results, assets and liabilities include items directly attributable to a segment. Segment capital expenditure is the total cost incurred during the year to acquire property, plant and equipment and intangible assets.

3.20 Dividend

Dividends are recognised as a liability in the period in which these are declared.

4. Property, Plant and Equipment

	Note	2013 Rupees	2012 Rupees
Operating fixed assets	4.1	525,048,758	547,125,460
Capital work in progress	4.5	9,949,711	1,331,610
		534,998,469	**548,457,070**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

4.1 Operating fixed assets

Description	Freehold land	Buildings on freehold land	Plant and machinery	Office equipment, furniture and fixtures	IT equipment	Laboratory equipment	Vehicles	Total
Year Ended June 30, 2013								
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Owned assets								
Cost								
Balance as at July 01, 2012	178,365,000	164,605,955	520,766,943	20,143,516	29,249,578	6,921,470	12,120,469	932,172,931
Additions	-	-	3,273,793	581,318	5,968,004	-	3,283,841	13,106,956
Disposals	-	-	(373,199)	(178,508)	(818,595)	-	(2,079,372)	(3,449,674)
Balance as at June 30, 2013	178,365,000	164,605,955	523,667,537	20,546,326	34,398,987	6,921,470	13,324,938	941,830,213
Accumulated depreciation								
Balance as at July 01, 2012	-	38,662,249	302,300,840	10,359,863	19,687,134	5,131,402	8,905,983	385,047,471
Charge for the year	-	6,297,185	22,018,721	1,011,656	2,996,927	268,511	2,021,065	34,614,065
Disposals	-	-	(218,322)	(105,420)	(575,550)	-	(1,980,789)	(2,880,081)
Balance as at June 30, 2013	-	44,959,434	324,101,239	11,266,099	22,108,511	5,399,913	8,946,259	416,781,455
Total as at June 30, 2013	**178,365,000**	**119,646,521**	**199,566,298**	**9,280,227**	**12,290,476**	**1,521,557**	**4,378,679**	**525,048,758**
Year Ended June 30, 2012								
Owned assets								
Cost								
Balance as at July 01, 2011	178,365,000	164,605,955	523,374,719	19,549,800	27,252,370	6,491,607	15,905,369	935,544,820
Additions	-	-	2,133,812	661,216	2,166,508	429,863	790,000	6,181,399
Disposals	-	-	(4,741,588)	(67,500)	(169,300)	-	(4,574,900)	(9,553,288)
Balance as at June 30, 2012	178,365,000	164,605,955	520,766,943	20,143,516	29,249,578	6,921,470	12,120,469	932,172,931
Accumulated depreciation								
Balance as at July 01, 2011	-	32,033,633	280,183,562	9,610,165	16,886,847	4,828,113	11,022,774	354,565,094
Charge for the year	-	6,628,616	24,133,823	786,180	2,931,613	303,289	2,397,751	37,181,272
Disposals	-	-	(2,016,545)	(36,482)	(131,326)	-	(4,514,542)	(6,698,895)
Balance as at June 30, 2012	-	38,662,249	302,300,840	10,359,863	19,687,134	5,131,402	8,905,983	385,047,471
Total as at June 30, 2012	**178,365,000**	**125,943,706**	**218,466,103**	**9,783,653**	**9,562,444**	**1,790,068**	**3,214,486**	**547,125,460**
Depreciation rates	-	5%	10%	10%	25%	15%	20% to 25	

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

	Note	2013 Rupees	2012 Rupees
4.2 Apportionment of depreciation charge for the year			
Depreciation charge for the year has been apportioned as follows:			
Cost of sales	25	25,960,549	28,110,851
Administrative expenses	27	8,653,516	9,070,421
		34,614,065	**37,181,272**

4.3 Disposal of property, plant and equipment

Detail of property, plant and equipment disposed off during the year is as follows:

Particulars	Cost	Accumulated depreciation	Written down value	Sale proceeds	Gain / (Loss) on disposal	Buyer Name	Mode of sale
	Rupees	Rupees	Rupees	Rupees	Rupees		
Assets with book value exceeding Rs. 50,000							
IT equipment:							
Data Servers	666,704	468,756	197,948	227,210	29,262	Descon Oxychem Limited	At Arm's Length
Plant and machinery:							
Lathe Machine	132,199	69,447	62,752	70,198	7,446	Descon Oxychem Limited	At Arm's Length
Vehicles:							
Suzuki Liana RXI	845,000	746,417	98,583	568,965	470,382	Syed Ishrat Ali	Negotiation
Suzuki Cultus VXR	647,000	647,000	-	111,552	111,552	Mr. Sajjad Hassan (Employee)	Company Policy
Suzuki Aulto	521,000	521,000	-	461,207	461,207	Nadeem International	Negotiation
Sub-total	2,811,903	2,452,620	359,283	1,439,132	1,079,849		
Assets with book value of less than Rs. 50,000	637,771	427,461	210,310	133,596	(76,714)	Various	Company Policy
Total 2013	**3,449,674**	**2,880,081**	**569,593**	**1,572,728**	**1,003,135**		
Total 2012	**9,553,288**	**6,698,895**	**2,854,393**	**6,552,369**	**3,697,976**		

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

4.4 Cost, accumulated depreciation and book value of revalued assets, had there been no revaluation

Latest revaluation of land and buildings was carried out by an independent valuer as at June 30, 2011. Had there been no revaluation, the cost, accumulated depreciation and book values of revalued assets would have been as follows:

	As at June 30, 2013		
	Cost	Accumulated Depreciation	Written Down Value
	Rupees	Rupees	Rupees
Freehold land	142,044,797	-	142,044,797
Factory buildings on freehold land	158,295,923	41,933,874	116,362,049

	Note	2013 Rupees	2012 Rupees
4.5 Capital Work in Progress			
Plant and machinery			
Opening balance		1,331,610	163,306
Additions during the year		11,116,894	3,830,634
Transferred to operating fixed assets		(2,498,793)	(2,662,330)
Closing balance		**9,949,711**	**1,331,610**
5. Intangible Assets			
Net Carrying Value			
Net carrying value - opening balance		32,345,206	36,965,949
Additions during the year		-	-
		32,345,206	36,965,949
Amortization during the year		(4,620,743)	(4,620,743)
Net carrying value as at June 30,		**27,724,463**	**32,345,206**
Gross Carrying Value			
Cost		46,207,435	46,207,435
Accumulated amortization		(18,482,972)	(13,862,229)
Net book value		**27,724,463**	**32,345,206**
Amortization rate		10%	10%
5.1 Apportionment of amortization charge for the year			
Amortization charge for the year has been apportioned as follows:			
Cost of sales	25	3,493,507	3,493,507
Administrative expenses	27	1,127,236	1,127,236
		4,620,743	**4,620,743**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

	Note	2013 Rupees	2012 Rupees
6. Long Term Investments			
Related Parties (Associates)			
Quoted - Measured using the Equity Method	6.1		
Descon Oxychem Limited			
- Cost of investment		107,737,000	107,737,000
- Post acquisition loss brought forward - net		(40,016,331)	(26,840,407)
		67,720,669	80,896,593
- Share of net loss for the year		(5,409,466)	(13,298,842)
- Share of un-realised (loss) / gain on available-for-sale investment of associate		(328,099)	122,918
		61,983,104	**67,720,669**
Unquoted - Measured at cost			
Jotun Powder Coatings Pakistan (Private) Limited	6.3		
- 220,000 (2012: 220,000) fully paid ordinary shares of Rs. 10 each		2,200,000	2,200,000
- Equity holding 1.10% (2012: 3.67%)			
Others - Quoted (Available-for-Sale)	6.4		
TRG Pakistan Limited			
- 30,000 (2012: 30,000) fully paid ordinary shares of Rs. 10 each		305,700	113,100
- Cost of investment - Rs. 300,000 (2012: Rs. 300,000)			
- Market value Rs. 10.19 (2012: 3.57) per share			
		64,488,804	**70,033,769**

6.1 The Company's investment in Descon Oxychem Limited is less than 20% but this is considered to be an associate because the Company has significant influence over the financial and operating policies of the investee company through common directorship.

6.2 The summarised audited financial results of Descon Oxychem Limited are as follows:

	2013	2012
	Rupees in million	
Total assets	2,911.95	3,082.59
Total liabilities	2,354.23	2,470.53
Sales	1,369.55	1,192.44
Net loss for the year	(51.23)	(125.94)
Equity held	10.56%	10.56%

6.3 Jotun Powder Coatings Pakistan (Private) Limited is an associate as per the Companies Ordinance, 1984. However, for the purpose of measurement, this investment has been classified as available-for-sale and measured at cost which is considered to be the fair value in the absence of publicly available information.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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6.4 This investment is measured at fair value and any change in the fair value resulting in gain or loss is recognised directly into equity through the statement of comprehensive income.

	Note	2013 Rupees	2012 Rupees
7. Long Term Deposits and Loans			
Security deposits		1,712,063	747,263
Loans to employees (Secured - Considered good)	7.1	-	10,000
Less: Current portion		-	(10,000)
		-	-
		1,712,063	**747,263**

7.1 This represents interest free loans given to employees for purchase of motor vehicles and construction of houses as per the Company's policy. The entire loan has been recovered during the year.

	Note	2013 Rupees	2012 Rupees
8. Stock in Trade			
Raw and packing materials		147,231,937	194,439,040
Work in process		2,054,015	940,355
Raw materials in transit		95,274,302	53,256,316
Finished goods		99,380,170	89,117,581
		343,940,424	337,753,292
Less: Provision for obsolescence of stock	8.1	(380,961)	-
		343,559,463	**337,753,292**
8.1 Provision for obsolescence of stock			
Opening balance		-	13,258,371
Provision for the year		5,457,270	750,882
		5,457,270	14,009,253
Less: Obsolete stocks written off		(5,076,309)	(14,009,253)
		380,961	**-**

8.2 Certain long term financing and short term borrowings are secured against stocks of raw materials and finished goods as disclosed in Note 16 to these financial statements.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

	Note	2013 Rupees	2012 Rupees
9. Trade Debts			
Unsecured			
Considered good		374,229,068	414,309,449
Considered doubtful		52,661,761	20,377,647
Secured			
Foreign debtors		-	2,955,308
		426,890,829	437,642,404
Less: Provision for doubtful debts	9.3	(52,661,761)	(20,377,647)
		374,229,068	**417,264,757**

9.1 Trade debts include receivables of Rs. 63.809 million (2012: 23.812 million) that are under lien against long term financing and short term borrowings provided by a banking company.

9.2 Trade debts do not include any amount due from related parties (2012: Nil).

	Note	2013 Rupees	2012 Rupees
9.3 Provision for doubtful debts			
Opening balance		20,377,647	17,230,308
Provision for the year		34,539,318	4,316,672
		54,916,965	21,546,980
Less: Bad debts written off		(2,255,204)	(1,169,333)
		52,661,761	**20,377,647**
10. Loans and Advances			
Advances (Unsecured - Considered good):			
- Suppliers and contractors		4,990,851	4,999,435
- Employees	10.1	1,636,126	946,696
- Letters of credit		293,119	448,142
Short term loans to employees (Secured - Considered good)	10.2	822,360	893,019
Income tax deducted at source and advance tax		136,916,118	104,146,706
Sales tax refundable - Net		13,725,973	-
		158,384,547	**111,433,998**

10.1 Advances to employees include Rs. 179,250 (2012: Rs. 126,500) given to directors and executives of the Company for business travel purposes as per the Company's policy.

10.2 This represents interest-free loans given to employees as per the Company's policy. These loans are recoverable in monthly instalments from salary and are secured against provident fund balances of employees.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

	Note	2013 Rupees	2012 Rupees
11. Short Term Prepayments and Other Receivables			
Prepayments		3,517,533	5,489,990
Due from associates / related parties	11.1	2,277,420	20,797,985
Imprest with employees		53,677	51,462
Other receivables		992,550	62,810
		6,841,180	**26,402,247**

11.1 This represents amounts due from associates / related parties as under:

	2013 Rupees	2012 Rupees
Descon Oxychem Limited	191,948	3,565,529
Gray Mackenzie Engineering Services LLC	428,867	1,576,812
Gray Mackenzie Engineering Services WLL Qatar	463,923	1,320,060
Inspectest (Private) Limited	206,220	2,601,431
Inspectest Industrial Solutions LLC	674,098	1,300,479
Rousch Pakistan (Private) Limited	-	260,198
Descon Power Solutions (Private) Limited	287,247	10,017,857
Interworld Travels (Private) Limited	25,117	45,509
Descon Integrated Projects (Private) Limited	-	46,998
Presson Descon International (Private) Limited	-	8,662
Olyan Descon Industrial Company Limited	-	54,450
	2,277,420	**20,797,985**

11.1.1 These balances represent receivables on account of sharing of common expenses.

11.1.2 These balances do not represent any amount which is past due (2012: Nil).

	Note	2013 Rupees	2012 Rupees
12. Bank Balances			
Cash at bank - in current accounts		5,360,234	9,938,238
Cash at bank - in saving accounts	12.1	6,077,530	15,274,656
		11,437,764	**25,212,894**

12.1 It carries interest at the rates ranging from 1.25% to 10.5% (2012: 4% to 10%) per annum.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

13. Issued, Subscribed and Paid up Capital

2013 No. of Shares	2012 No. of Shares		2013 Rupees	2012 Rupees
23,825,648	23,825,648	Ordinary shares of Rs. 5 each fully paid in cash	119,128,240	119,128,240
33,550,588	33,550,588	Ordinary shares of Rs. 5 each issued at 60 % discount	167,752,940	167,752,940
2,699,247	2,699,247	Ordinary shares of Rs. 5 each issued for consideration other than cash	13,496,235	13,496,235
3,058,595	3,058,595	Ordinary shares of Rs. 5 each issued as fully paid bonus shares	15,292,975	15,292,975
143,689,875	143,689,875	Ordinary shares of Rs. 5 each issued pursuant to the scheme of amalgamation	718,449,375	718,449,375
(7,266,097)	(7,266,097)	Ordinary shares of Rs. 5 each cancelled pursuant to the scheme of amalgamation	(36,330,485)	(36,330,485)
199,557,856	**199,557,856**		**997,789,280**	**997,789,280**

	Note	2013 Rupees	2012 Rupees
13.1 Reconciliation of the number of shares outstanding at the beginning and at the end of the year.			
Opening balance		199,557,856	199,557,856
Issued / cancelled during the year		-	-
Closing balance		**199,557,856**	**199,557,856**

13.2 There are no shares of the Company held by its associates.

	Note	2013 Rupees	2012 Rupees
14. Reserves			
Capital reserves:			
- Share premium reserve		1,281,303	1,281,303
- Fair value reserve	14.1	84,406	219,905
		1,365,709	1,501,208
Revenue reserves:			
- Revaluation reserve	14.2	612,862	502,531
- Accumulated loss		(656,251,634)	(614,150,257)
		(655,638,772)	(613,647,726)
		(654,273,063)	**(612,146,518)**

14.1 Fair value reserve represents the cumulative gains and losses arising on the revaluation of long term investments of the Company (both available-for-sale and through equity method) that have been recognised in other comprehensive income.

14.2 Revaluation reserve arises on the revaluation of land and buildings. When revalued land or buildings are sold, or recovered through use / depreciation the relevant portion of the revaluation reserve that relates to that asset is transferred directly to retained earnings.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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	2013 Rupees	2012 Rupees
15. Surplus on Revaluation of Property, Plant and Equipment		
Land - freehold	36,320,203	36,320,203
Buildings on freehold land	2,206,621	2,322,759
	38,526,824	38,642,962
Incremental depreciation charged on revalued property, plant and equipment in current year - net of deferred tax	(110,331)	(116,138)
	38,416,493	**38,526,824**

15.1 The latest revaluation was carried out as on June 30, 2011 by an approved independent valuer using the replacement value method that resulted in net revaluation surplus of Rs. 4,865,549 which being immaterial was not incorporated in the financial statements. Previously, the revaluation of land and buildings was carried out as on December 31, 2006 by an approved independent valuer using the replacement value method that resulted in revaluation surplus of Rs. 40,819,989.

15.2 Incremental depreciation charged on revalued building on freehold land during the year has been transferred to the statement of comprehensive income to record realization of surplus to the extent of incremental depreciation.

	Note	2013 Rupees	2012 Rupees
16. Long Term Financing			
Banking companies - Secured			
Bank Al-Habib Limited	16.1	225,000,000	225,000,000
Bank Al-Habib Limited	16.2	15,000,000	35,000,000
Habib Metropolitan Bank Limited	16.4	47,000,000	50,000,000
		287,000,000	310,000,000
Less: Current portion		(18,000,000)	(23,000,000)
		269,000,000	**287,000,000**

16.1 This represents term finance of Rs. 225 million obtained from Bank Al-Habib Limited to meet the long term / working capital requirements of the Company. The amount is repayable in 5 years in 6 equal half-yearly instalments with two years' grace period from the date of disbursement. The loan carries mark-up at 6 months KIBOR + 2% (2012: 6 months average KIBOR + 2%) per annum and is payable on quarterly basis in arrears on the outstanding principal amount.

16.2 This represents term finance of Rs. 100 million obtained from Bank Al-Habib Limited for the installation of new machinery. The amount is repayable in 6 years in 10 equal half-yearly instalments with one year grace period from the date of disbursement. The loan carries mark-up at 6 months average KIBOR + 2% (2012: 6 months average KIBOR + 2%) per annum and is payable on quarterly basis in arrears on outstanding principal amount.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

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16.3 Financing from Bank Al-Habib Limited (both long term and short term) is secured against the following securities:

	2013	2012
	Rupees in million	
- Pari passu charge over current assets of the Company	500	230
- Pari passu charge over present and future fixed assets of the Company	230	230
- Ranking charge over current assets of the Company	334	1,004
- Joint pari passu charge over current assets of the Company	3,050	700
- Pari passu mortgage charge over factory	105	105
- First mortgage charge over factory	163	163
- Personal guarantees of directors of the Company	3,450	3,450
- Lien over certain local bills / receivables / shipping documents etc.	–	–

16.4 This represents financing of Rs. 50 million obtained from Habib Metropolitan Bank Limited to meet the working capital requirements of the Company. The amount is repayable in 5 years in 60 monthly instalments starting from July 1, 2012. The loan carries mark-up at 3 months KIBOR + 2% (2012: 3 months KIBOR + 2%) per annum and is payable on quarterly basis in arrears on outstanding principal amount.

Financing from Habib Metropolitan Bank Limited (both long term and short term) is secured against the following securities:

	2013	2012
	Rupees in million	
- Joint pari passu charge over present and future current assets of the Company	650	650
- Ranking charge over present and future fixed assets of the Company	170	170
- Personal guarantees of directors of the Company		
- Lien over certain local bills/shipping documents/trust receipts		

	Note	2013 Rupees	2012 Rupees
17. Retirement Benefit Obligation			
Retirement benefit obligation - Gratuity	17.1	(554,276)	251,746
Transferred to retirement benefit asset - prepayment	17.2	554,276	-
		-	**251,746**

17.1 As stated in note 3.9, the Company operates an approved gratuity scheme for its permanent employees subject to attainment of retirement age and minimum service of prescribed period. Actuarial valuation of the scheme is carried out every year by an independent actuary and the latest actuarial valuation was carried out as at June 30, 2013. The disclosures made in note 17.3 are based on the information included in that actuarial report.

17.2 Acturial valuation of the scheme resulted in retirement benefit asset in current year which has been presented under the heading of non current assets.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

		Note	2013 Rupees	2012 Rupees
17.3	**Actuarial assumptions**			
	Discount rate		10.5%	13%
	Expected rate of salary increase in future years		9.5%	12%
	Expected rate of return on plan assets during 2012-2013		10.5%	13%
	Expected rate of return on plan assets during 2013-2014		10.5%	–
	Average expected remaining working life of employees		13 years	
	Actuarial valuation method		Projected Unit Credit Method	
	Mortality rate		Based on EFU 61-66 mortality table	
17.3.1	**Reconciliation of the funded status**			
	Present value of defined benefit obligation	17.3.3	4,609,720	4,458,879
	Unrecognised actuarial loss		2,847,566	791,095
	Fair value of plan assets	17.3.4	(8,011,562)	(4,998,228)
			(554,276)	**251,746**
17.3.2	**Company's liability**			
	Opening balance		251,746	21,093,469
	Charge for the year	17.3.7	289,295	1,086,910
			541,041	22,180,379
	Transferred to the fund		(1,095,317)	(21,550,213)
	Benefits paid to outgoing employees		-	(378,420)
	Closing balance		**(554,276)**	**251,746**
17.3.3	The movement in present value of defined obligation is as follows:			
	Opening balance		4,458,879	22,139,149
	Current service cost for the year		380,216	1,775,227
	Interest cost for the year		579,654	3,099,481
	Payable to staff		-	(17,350,006)
	Gain due to settlement made during the year		-	(2,441,171)
	Benefits paid during the year		(895,753)	(1,211,299)
	Actuarial loss / (gain) on present value of defined benefit obligation		86,724	(1,552,502)
	Closing balance		**4,609,720**	**4,458,879**
17.3.4	The movement in fair value of plan assets is as follows:			
	Opening balance		4,998,228	-
	Expected return on plan assets		649,770	1,346,627
	Contributions made during the year		1,095,317	21,550,213
	Payable to staff		-	(17,350,006)
	Benefits paid during the year		(895,753)	(832,879)
	Actuarial gain on plan assets		2,164,000	284,273
	Closing balance		**8,011,562**	**4,998,228**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

		2013 Rupees	2012 Rupees
17.3.5	**Plan assets comprise:**		
	Investment in treasury bills	6,030,550	-
	Investment in listed shares	1,184,374	-
	Investment in term finance certificates	360,562	-
	Cash at bank	161,678	4,998,228
	Other assets	274,398	-
		8,011,562	**4,998,228**
17.3.6	**Actual return on plan assets**		
	Expected return on plan assets	649,770	1,346,627
	Actuarial gain on plan assets	2,164,000	284,273
		2,813,770	**1,630,900**
17.3.7	**Charge for the year**		
	Current service cost	380,216	1,775,227
	Interest cost	579,654	3,099,481
	Curtailment / settlement	-	(2,441,171)
	Expected return on plan assets	(649,770)	(1,346,627)
	Gain recognised during the year	(20,805)	-
		289,295	**1,086,910**

17.3.8 Comparison of last five years

	2013 Rupees	2012 Rupees	2011 Rupees	2010 Rupees	2009 Rupees
Present value of defined benefit obligation	4,609,720	4,458,879	21,093,469	16,768,015	16,040,249
Fair value of plan assets	(8,011,562)	(4,998,228)	-	-	-
Actuarial gain	2,847,566	791,095	-	-	-
	(554,276)	**251,746**	**21,093,469**	**16,768,015**	**16,040,249**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

	Note	2013 Rupees	2012 Rupees
18. Deferred Tax Liability			
Taxable temporary differences			
- Accelerated tax depreciation		93,530,664	102,427,612
- Surplus on revaluation of property, plant and equipment		1,188,182	1,250,717
		94,718,846	103,678,329
Deductible temporary differences			
- Share of net loss of associate		(4,575,390)	(4,001,633)
- Recognised losses	18.1	(35,694,400)	(42,649,302)
- Provisions and others		(17,846,071)	(7,220,094)
		(58,115,861)	(53,871,029)
		36,602,985	**49,807,300**

18.1 Being prudent, the management has not recognised deferred tax asset on account of tax credit on minimum tax paid amounting to Rs. 63.491 million. Breakup of this amount is as follows:

	Tax Year	Amount Rupees in million
	2013	11.988
	2012	25.514
	2011	25.989
		63.491

	Note	2013 Rupees	2012 Rupees
19. Trade and Other Payables			
Creditors	19.1	132,840,405	110,122,893
Bills payable		62,098,836	140,667,443
Accrued liabilities		5,726,491	6,237,458
Advances from customers		4,768,989	7,960,575
Workers' (profit) participation fund	19.2	541,975	475,500
Provident fund payable		18,795	745,872
Unclaimed dividends		292,819	292,819
Sales tax payable - net		-	2,178,254
Due to associate / related parties		5,022,056	3,482,397
		211,310,366	**272,163,211**

19.1 Creditors include due to related parties amounting to Rs. 141,016 (2012: Rs. 331,102) arising in the normal course of business.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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	2013 Rupees	2012 Rupees
19.2 Workers' (profit) participation fund		
Opening balance	475,500	-
Provision for the year	-	475,500
Interest on funds utilised in Company's business	66,475	-
	541,975	475,500
Payments / adjustments	-	-
	541,975	**475,500**

20. Accrued Mark up

	2013 Rupees	2012 Rupees
Long term financing	8,342,676	9,381,997
Short term borrowings - Banking companies	13,783,011	14,348,921
	22,125,687	**23,730,918**

21. Short Term Borrowings

	2013 Rupees	2012 Rupees
Banking companies - Secured		
- Running finance	148,249,214	203,721,543
- Borrowings / FATRs	434,925,763	270,629,317
	583,174,977	**474,350,860**

21.1 Terms and conditions of borrowings

Purpose

These facilities have been obtained from various banking companies with sanctioned limit, funded and unfunded, of Rs. 1,275 million (2012: 1,500 million) for working capital requirements, retirement of local and foreign LCs, discounting local bills / receivables and loan against trust receipts etc.

Mark-up

Mark-up on short term borrowings is charged using 3 to 6 Months KIBOR + 1% to 1.5% (2012: 1 to 6 Months KIBOR + 1% to 2.75%) per annum. Mark up is payable on quarterly basis in arrears. Further, some limits carry commission against foreign and local LCs at 0.1% to 0.25% (2012: 0.1% to 0.25%) per quarter.

Securities against short term borrowings have been disclosed in Note 16.3 and 16.4 to the financial statements. All these facilities are renewable latest by January 31, 2014.

22. Provision for Taxation

	2013 Rupees	2012 Rupees
Opening balance	25,514,179	25,988,561
Add: Charge for the year	11,988,140	25,514,179
	37,502,319	51,502,740
Less: Payment / adjustments against advance tax	(25,514,179)	(25,988,561)
	11,988,140	**25,514,179**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

22.1 Income tax assessments are deemed finalised by the management up to the Tax Year 2012 as tax returns were filed under the self assessment scheme.

23. Contingencies and Commitments

23.1 Contingencies

23.1.1 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 (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.

23.1.2 The Income Tax Department has adjusted 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.

The return for Tax Year 2011 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 been not completed yet.

23.1.3 The Company has filed a suit against a material supplier and certain customers for the recovery of advance and trade debts amounting to Rs. 38.379 million. The Company expects a favourable outcome of the suit, therefore, no provision has been made in these financial statements.

23.2 Guarantees:

	2013	2012
	Rupees in million	
- Sui Northern Gas Pipelines Limited	6.640	6.065
- Shipping guarantees	-	37.271
	6.640	**43.336**

23.3 Commitments

	2013	2012
Letters of credit	**178.565**	**164.864**

	2013 Rupees	2012 Rupees
24. Sales		
Local sales	2,712,065,431	2,914,923,417
Less: Sales tax	(328,874,007)	(363,505,534)
	2,383,191,424	2,551,417,883
Export sales	19,249,069	9,347,600
Export rebate	-	90,767
	2,402,440,493	**2,560,856,250**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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	Note	2013 Rupees	2012 Rupees
25. Cost of Sales			
Raw materials consumed	25.1	2,033,813,698	2,183,070,191
Chemicals consumed		2,867,856	3,049,116
Packing material consumed		1,908,590	2,798,188
Stores and spares consumed		20,721,067	19,717,629
Fuel and power		32,403,530	33,679,936
Salaries, wages and benefits	25.2	53,622,651	46,448,990
Services through contract		12,247,053	10,698,249
Repairs and maintenance		2,222,798	2,182,496
Travelling and entertainment		2,832,740	1,852,619
Insurance		6,163,271	6,157,793
Transportation		7,775,700	7,428,124
Communication		448,184	429,905
Miscellaneous		867,967	820,408
Amortization	5.1	3,493,507	3,493,507
Depreciation	4.2	25,960,549	28,110,851
		2,207,349,161	2,349,938,002
Work in process			
- Opening work in process		940,355	-
- Closing work in process		(2,054,015)	(940,355)
		(1,113,660)	(940,355)
Cost of goods manufactured		2,206,235,501	2,348,997,647
Finished goods			
- Opening finished goods		79,224,448	71,928,544
- Closing finished goods		(99,380,170)	(79,224,448)
		(20,155,722)	(7,295,904)
		2,186,079,779	**2,341,701,743**

	2013 Rupees	2012 Rupees
25.1 Raw materials consumed:		
- Opening stock	189,660,026	312,307,060
- Purchases	1,991,385,609	2,060,423,157
	2,181,045,635	2,372,730,217
- Closing stock	(147,231,937)	(189,660,026)
	2,033,813,698	**2,183,070,191**

25.2 This includes Rs. 1,735,301 (2012: Rs. 2,006,868) in respect of employee benefits.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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	Note	2013 Rupees	2012 Rupees
26. Distribution Cost			
Salaries, wages and benefits	26.1	19,170,066	16,652,390
Travelling, boarding and lodging		2,951,474	2,526,105
Insurance and license fee		1,747,280	2,148,417
Entertainment		218,226	229,468
Communication		752,544	770,406
Sampling		1,637,125	1,984,369
Packing, carriage and forwarding		21,760,476	24,213,608
Rent, rates and taxes		1,269,080	1,742,105
Electricity charges / Generator running expenses		3,185,042	2,348,782
Water and gas charges		139,755	178,839
Repairs and maintenance		41,312	187,851
Vehicles' running cost		3,452,924	2,457,141
Advertisement		88,683	80,968
Public relations		676,998	2,683,215
Miscellaneous		651,129	687,876
		57,742,114	**58,891,540**

26.1 This includes Rs. 262,859 (2012: Rs. 866,698) in respect of employee benefits.

	Note	2013 Rupees	2012 Rupees
27. Administrative Expenses			
Salaries, wages and benefits	27.1	24,206,974	18,181,518
Travelling and conveyance		2,634,604	1,674,064
Vehicles' running cost		1,567,426	464,577
Repairs and maintenance		1,339,552	610,529
Insurance		248,375	1,569,279
Printing and stationery		1,957,191	1,417,521
Communication		917,863	1,139,368
Fees and subscription		2,391,080	2,094,767
Advertisement		39,000	45,300
Entertainment		848,363	756,654
Manpower development		747,640	672,336
Legal and professional charges		3,405,960	7,308,000
Miscellaneous		1,149,903	1,060,126
Amortization	5.1	1,127,236	1,127,236
Depreciation	4.2	8,653,516	9,070,421
		51,234,683	47,191,696
Less: Recovery from associates		(6,638,770)	(6,783,580)
		44,595,913	**40,408,116**

27.1 This includes Rs. 1,072,939 (2012: Rs. 861,308) in respect of employee benefits.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

	Note	2013 Rupees	2012 Rupees
28. Research and Development Expenses			
Consultancy		4,092,563	-
Travelling, boarding and lodging		1,445,557	-
Royalty fee		1,851,450	1,549,662
		7,389,570	**1,549,662**
29. Other Operating Expenses			
Auditors' remuneration	29.1	922,000	922,000
Tax penalties		-	225,729
Workers' profit (participation) fund		-	475,500
Provision for doubtful debts / bad debts written off		34,539,318	4,316,672
Provision for obsolescence of stock / stocks written off		5,457,270	750,882
Advances written off		512,879	-
		41,431,467	**6,690,783**
29.1 Auditors' remuneration			
Audit fee		550,000	550,000
Half yearly review and corporate governance certifications		330,000	330,000
Out of pocket expenses		42,000	42,000
		922,000	**922,000**
30. Finance Cost			
Markup on long term financing		37,939,846	17,749,645
Markup on short term borrowings from banking companies		70,882,037	105,877,096
Interest on workers' (profit) participation fund		66,475	-
Bank charges		1,577,883	2,042,873
		110,466,241	**125,669,614**
31. Other Income			
Income from financial assets			
Profit on bank accounts		952,940	2,169,523
Exchange gain		772,233	918,767
Profit on investments		-	719
		1,725,173	3,089,009
Income from non - financial assets			
Sale of waste material / scrap		3,870,240	10,073,891
Gain on disposal of property, plant and equipment		1,003,135	3,697,976
		4,873,375	13,771,867
Others			
Liabilities written back		-	4,891,169
Indenting commission		757,957	1,337,670
		757,957	6,228,839
		7,356,505	**23,089,715**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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	Note	2013 Rupees	2012 Rupees
32. Taxation			
Current	32.1	11,988,140	42,944,207
Deferred		(13,204,315)	14,495,087
		(1,216,175)	**57,439,294**

32.1 This includes Rs. Nil (2012: 17.430 million) on account of prior year taxation.

32.2 Numerical reconciliation between the average effective tax rate and the applicable tax rate is not given due to accounting and tax losses.

		2013	2012
33. Loss per Share			
Net loss for the year	Rupees	(42,101,377)	(61,703,629)
Weighted average number of ordinary shares outstanding during the year	Numbers	199,557,856	199,557,856
Loss per share - basic	Rupees	(0.21)	(0.31)

33.1 Diluted earnings per share

There is no dilution effect on the basic earnings per share of the Company as the Company has no such commitments that would result in dilution of earnings of the Company.

	2013 Rupees	2012 Rupees
34. Cash Generated from Operations		
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss) / profit before taxation and share of loss of associate	(37,908,086)	9,034,507
Adjustments for:		
- Depreciation	34,614,065	37,181,272
- Amortization of intangible asset	4,620,743	4,620,743
- Provision for gratuity	289,295	1,086,910
- Provision for obsolescence of stock	5,457,270	750,882
- Provision for doubtful debts	34,539,318	4,316,672
- Liabilities written back	-	(4,891,169)
- Gain on disposal of property, plant and equipment	(1,003,135)	(3,697,976)
- Exchange gain	(772,233)	(918,767)
- Finance cost	110,466,241	125,669,614
- Interest income	(952,940)	(2,170,242)
	187,258,624	161,947,939
Operating profit before working capital changes	149,350,538	170,982,446

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	2013 Rupees	2012 Rupees
Decrease / (increase) in current assets		
- Stores and spares	132,536	4,511,480
- Stock in trade	(11,263,441)	77,870,803
- Trade debts	9,268,604	18,598,994
- Loans and advances	(14,181,137)	5,294,607
- Short term prepayments and other receivables	19,561,067	(5,489,349)
(Decrease) / increase in current liabilities		
- Trade and other payables	(60,852,845)	9,512,415
	(57,335,216)	110,298,950
Cash generated from operations	**92,015,322**	**281,281,396**

35. Remuneration of Chief Executive, Directors and Executives

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

	Chief Executive		Executive Director		Non-Executive Director		Executives	
	2013	2012	2013	2012	2013	2012	2013	2012
				(Rupees in thousand)				
Managerial remuneration	2,145	1,320	750	1,000	643	818	9,103	14,970
House rent allowance	1,560	960	300	400	257	327	5,960	7,998
Utilities	195	120	37	101	32	80	1,400	1,656
Car and other allowances	328	359	-	-	-	-	4,750	3,431
Staff retirement benefits	209	264	-	-	-	-	910	1,561
	4,437	**3,023**	**1,087**	**1,501**	**932**	**1,225**	**22,123**	**29,616**
Number of persons	1	1	1	1	1	1	19	18

35.1 An executive is defined as an employee, other than the chief executive and directors, whose basic salary exceeds Rs. 500,000 in a financial year.

35.2 Chief executive, two directors and three executives are provided with free use of Company maintained vehicles.

35.3 No meeting fee has been paid to any director of the Company.

35.4 There has been no increase in the salary of chief executive officer / directors. The variation is due to time allocation of the chief executive officer / directors in group companies.

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36. Transaction with Related Parties

Related parties and associated companies comprise related group companies, associated companies, staff retirement funds, directors and key management personnel. The Company in the normal course of business carries out transactions with various related parties. The Company enters into transactions with related parties on the basis of mutually agreed terms. Significant balances and transactions with related parties are as follows:

Sale of goods, services provided and reimbursement of expenses	**Relationship with the Company**	**2013**	**2012**
		Rupees in thousands	
Descon Oxychem Limited	Associate	26,708	48,328
Descon Power Solutions (Private) Limited	Associate	11,977	4,975
Inspectest (Private) Limited	Associate	9,736	6,733
Descon Engineering Limited	Associate	3,888	2,825
Gray Mackenzie Engineering Services LLC	Associate	3,227	5,780
Gray Mackenzie Engineering Services WLL Qatar	Associate	2,648	-
Inspectest Industrial Solutions LLC	Associate	2,537	-
Interworld Travels (Private) Limited	Associate	1,514	678
Rousch Pakistan (Private) Limited	Associate	1,316	1,131
Descon Corporation (Private) Limited	Associate	8	67
		63,559	**70,517**
Rent expense			
Descon Corporation (Private) Limited	Associate	2,879	2,793

Purchase of goods, services received and reimbursement of expenses	**Relationship with the Company**	**2013**	**2012**
		Rupees in thousands	
Descon Oxychem Limited	Associate	9,890	6,334
Descon Engineering Limited	Associate	5,435	5,190
Interworld Travels (Private) Limited	Associate	2,224	1,777
Descon Corporation (Private) Limited	Associate	717	176
Gray Mackenzie Engineering Services LLC	Associate	426	1,057
Inspectest (Private) Limited	Associate	258	287
Descon Power Solutions (Private) Limited	Associate	34	11
		18,984	**14,832**
Contribution to staff retirement benefits			
Descon Chemicals Limited Employees' Provident Fund	Employee Fund	3,509	2,648
Descon Chemicals Limited Employees' Gratuity Fund	Employee Fund	1,095	1,087
		4,604	**3,735**

There were no transactions with key management personnel other than undertaken as per terms of their employment as disclosed in Note 35.

Sale and purchase transactions have been carried out on commercial terms and conditions as per the Company's Policy.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

37. Segment Reporting

37.1 A business segment is a group of assets and operations engaged in providing products that are subject to risks and returns that are different from those of other business segments. The management has determined the operating segments based on the information that is presented to the Chief Executive Officer for allocation of resources and assessments of performance. Based on internal management reporting structure and products produced and sold, the Company is organized into following four operating segments:

- Coating and Emulsion
- Polyester
- Textile and Paper
- Trading

The management monitors the operating results of its business units separately for the purpose of making decision about resource allocation and performance assessment. Segment performance is generally evaluated based on certain key performance indicators including business volume, gross profit, profit from operations, reduction in operating cost and free cash flows.

Segment assets include all operating assets used by a segment and consist principally of receivables, inventories and property, plant and equipment, net of impairment and provisions but do not include deferred taxes. Segment liabilities include all operating liabilities and consist principally of trade and bills payable.

37.2 Segment analysis

The segment information for the reportable segments for the year ended June 30, 2013 is as follows:

	Coating and Emulsion	Polyester	Textile and Paper	Trading	Total
			Rupees in thousands		
Segment results for the year ended June 30, 2013					
Revenue	1,212,993	107,549	523,772	558,126	2,402,440
Segment results	61,045	(6,402)	48,399	3,591	106,633
Other operating expenses					(41,432)
Finance costs					(110,467)
Other income					7,357
Share of net loss of associate					(5,409)
Loss before taxation					**(43,318)**
Segment results for the year ended June 30, 2012					
Revenue	1,214,678	155,725	541,557	648,896	2,560,856
Segment results June 30, 2012	23,623	5,905	63,473	25,305	118,306
Other operating expenses					(6,691)
Finance costs					(125,670)
Other income					23,090
Share of net loss of associate					(13,299)
Loss before taxation					**(4,264)**

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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	Coating and Emulsion	Polyester	Textile and Paper	Trading	Total
			Rupees in thousands		
Segment assets and liabilities as at June 30, 2013					
Segment assets	568,946	117,468	290,740	111,139	1,088,293
Segment liabilities	96,280	12,910	76,049	7,856	193,095
Segment assets 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

	2013	2012
	Rupees in thousands	
Reportable segments' assets are reconciled to total assets as follows:		
Segment assets for reportable segments	1,088,293	1,070,130
Corporate assets unallocated	335,941	346,062
Cash and bank balances	11,438	25,213
Others	98,463	138,583
Total assets as per the balance sheet	**1,534,135**	**1,579,988**
Reportable segments' liabilities are reconciled to total liabilities as follows:		
Segment liabilities for reportable segments	193,095	250,673
Corporate liabilities unallocated	870,175	784,351
Trade and other payables	76,944	95,280
Taxation - net	11,988	25,514
Total liabilities as per the balance sheet	**1,152,202**	**1,155,818**

37.3 Entity-wide disclosures regarding reportable segment are as follows:

- Information about products
  One product of the Company comprises 11.89% (2012: 10.64%) of total sales for the year.
- Information about major customers
  One customer of the Company accounts for 16.04% (2012: 21.61%) of total sales for the year.
- Information about geographical area
  - All non-current assets of the Company are located in Pakistan as at the reporting date.
  - Revenue from external customers attributed to foreign countries in aggregate is not material.

38. Financial Risk Management

38.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, other price risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
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management policies focus on the unpredictability of financial markets and seek to minimize potential adverse effects on the financial performance.

Risk management is carried out by the Board of Directors (the Board). The Board provides principles for overall risk management as well as policies covering specific areas such as currency risk, other price risk, interest rate risk, credit risk and liquidity risk.

(a) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign currency, interest rate, commodity price and equity price that will affect the Company's income or the value of its holdings of financial instruments.

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises mainly from future commercial transactions or receivables and payables that exist due to transactions in foreign currencies.

The Company is exposed to currency risk arising from various currency exposures, primarily with respect to foreign receivables and payables. Currently, the Company's foreign exchange risk exposure is restricted to the amounts receivable from / payable to foreign entities. The Company's exposure to currency risk is as follows:

	2013	
	Rupees	**USD**
Trade debts	14,373,491	145,481
Outstanding letters of credit	(99,280,800)	(1,004,866)
Net exposure	**(84,907,309)**	**(859,385)**

	2012	
	Rupees	**USD**
Trade debts	2,955,308	31,356
Outstanding letters of credit	(106,875,165)	(1,133,954)
Net exposure	**(103,919,857)**	**(1,102,598)**

The following exchange rates were applied during the year:

	2013	**2012**
Rupees per foreign currency rate		
Average rate - Rupees per US Dollar	99.26	89.93
Reporting date rate - Rupees per US Dollar	98.80	94.25

If the functional currency, at reporting date, had weakened / strengthened by 5% against the foreign currencies with all other variables held constant, the impact on profit before taxation for the year would have been Rs. 4.245 million (2012: Rs. 5.196 million) respectively higher / lower, mainly as a result of exchange gains / losses on translation of foreign exchange denominated financial instruments.

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(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises mainly from future commercial transactions or receivables and payables that exist due to transactions in foreign currencies.

(ii) Other price risk

Other price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instrument traded in the market. The Company is exposed to equity / commodity price risk in respect of long term investments in quoted companies.

Sensitivity analysis

A change of 5% in the value of investments available for sale would have increased / decreased equity investments by Rs. 15,285 (2012: Rs. 5,655) on the basis that all other variables remain constant.

(iii) Interest rate risk

This represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company has no significant long-term interest-bearing assets. The Company's interest rate risk arises from long term financing and short term borrowings. As the borrowings are obtained at variable rates, these expose the Company to cash flow interest rate risk.

As at the balance sheet date, the interest rate profile of the Company's interest bearing financial instruments was as follows:

	2013 Rupees	2012 Rupees
Floating rate instruments		
Financial liabilities		
Long term financing	287,000,000	310,000,000
Short term borrowings	583,174,977	474,350,860
Financial assets		
Bank balances - saving accounts	6,077,530	15,274,656

Cash flow sensitivity analysis for variable rate instruments

If interest rates at the balance sheet date fluctuate by 1% higher / lower with all other variables held constant, loss before taxation for the year would have been Rs. 8.641 million (2012: Rs. 7.691 million) higher / lower, mainly as a result of higher / lower interest expense on floating rate borrowings. This analysis is prepared assuming the amounts of liabilities outstanding at the balance sheet date are outstanding for the whole year.

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(b) Credit risk

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Carrying amounts of financial assets represent the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	2013 Rupees	2012 Rupees
Long term investments	2,505,700	2,313,100
Long term deposits and advances	1,712,063	757,263
Trade debts	374,229,068	417,264,757
Other receivables	3,269,970	20,860,795
Bank balances	11,437,764	25,212,894
The aging of trade debts as at balance sheet date is as follows:		
Past due 1 - 30 days	132,665,357	162,802,032
Past due 31 - 60 days	104,671,729	107,429,539
Past due 61 - 120 days	73,521,032	31,625,319
More than 120 days	63,370,950	115,407,867
	374,229,068	**417,264,757**

The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. The Company believes that it is not exposed to major concentration of credit risk as its exposure is spread over a large number of counter parties and trade debts are subject to specific credit ceilings based on customer credit history.

The credit quality of bank balances that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rate:

	Rating Short term	Rating Long term	Agency	2013 Rupees	2012 Rupees
Habib Metropolitan Bank Limited	A1+	AA+	PACRA	6,094,706	10,342,405
KASB Bank Limited	A3	BBB	PACRA	49	99
Bank Al-Habib Limited	A1+	AA+	PACRA	5,343,009	14,870,390
				11,437,764	**25,212,894**

Due to the Company's long standing business relationships with these counterparties and after giving due consideration to their strong financial standing, management does not expect non-performance by these counter parties on their obligations to the Company. Accordingly, the credit risk is minimal.

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk by maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. As at the balance sheet date, the Company had Rs. 1,275 million (2012: Rs. 1,500 million) worth short term borrowing limits available from financial institutions and Rs. 11.438 million (2012: Rs. 25.213 million) cash and bank balances. Following are the contractual maturities of financial liabilities, including interest payments.

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Contractual maturities of financial liabilities as at June 30, 2013:

Description	Carrying Amount	Contractual cash flows	Within 1 year	1-2 Years	2-5 Years	Above 5 Years
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Long term finances	287,000,000	319,827,100	20,058,900	16,357,733	283,410,467	-
Trade and other payables	205,687,788	205,687,788	205,687,788	-	-	-
Accrued mark up	22,125,687	22,125,687	22,125,687	-	-	-
Short term borrowings	583,174,977	645,986,726	645,986,726	-	-	-
	1,097,988,452	**1,193,627,301**	**893,859,101**	**16,357,733**	**283,410,467**	**-**

Contractual maturities of financial liabilities as at June 30, 2012:

Description	Carrying Amount	Contractual cash flows	Within 1 year	1-2 Years	2-5 Years	Above 5 Years
	Rupees	Rupees	Rupees	Rupees	Rupees	Rupees
Long term finances	310,000,000	351,600,850	24,510,350	20,520,000	306,570,500	-
Trade and other payables	260,510,191	260,510,191	260,510,191	-	-	-
Accrued mark up	23,730,918	23,730,918	23,730,918	-	-	-
Short term borrowings	474,350,860	537,879,637	537,879,637	-	-	-
	1,068,591,969	**1,173,721,596**	**846,631,096**	**20,520,000**	**306,570,500**	**-**

The contractual cash flows relating to the above financial liabilities have been determined on the basis of interest rates / mark up rates effective as at June 30, 2013. The rates of interest / mark up have been disclosed in relevant notes to these financial statements.

(d) Fair value of financial instruments

Fair value is an amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently, differences may arise between the carrying value and the fair value estimates.

As at June 30, 2013 the net fair value of all financial assets and financial liabilities are estimated to approximate their carrying values.

Financial assets which are tradable in an open market are revalued at the market prices prevailing on the balance sheet date. The fair values of all other financial assets and liabilities are not considered to be significantly different from their carrying values.

The Company classifies the financial instruments measured in the balance sheet at fair value in accordance with the following fair value measurement hierarchy:

Level 1 Quoted market prices
Level 2 Valuation techniques (market observable)
Level 3 Valuation techniques (non market observable)

The Company held following financial instruments measured at fair value:

	2013			
	Total	Level 1	Level 2	Level 3
	Rupees	Rupees	Rupees	Rupees
Financial assets - Available for sale investments				
- TRG Pakistan Limited	305,700	305,700	-	-
- Jotun Powder Coatings Pakistan (Pvt.) Limited	2,200,000	-	2,200,000	-
	2,505,700	**305,700**	**2,200,000**	**-**

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	2012			
	Total	Level 1	Level 2	Level 3
	Rupees	Rupees	Rupees	Rupees
Financial assets - Available for sale investments				
- TRG Pakistan Limited	113,100	113,100	-	-
- Jotun Powder Coatings Pakistan (Pvt.) Limited	2,200,000	-	2,200,000	-
	2,313,100	**113,100**	**2,200,000**	**-**

38.2 Financial instruments by categories

	Cash and Cash Equivalents	Loans and advances	Available-for-sale	Total
	Rupees in Thousands			
Financial assets as at June 30, 2013				
Long term investments	-	-	2,506	2,506
Long term deposits and advances	-	1,712	-	1,712
Trade debts	-	374,229	-	374,229
Other receivables	-	3,270	-	3,270
Bank balances	11,438	-	-	11,438
	11,438	**379,211**	**2,506**	**393,155**

	Cash and Cash Equivalents	Loans and advances	Available-for-sale	Total
	Rupees in Thousands			
Financial assets as at June 30, 2012				
Long term investments	-	-	2,313	2,313
Long term deposits and advances	-	757	-	757
Trade debts	-	417,265	-	417,265
Other receivables	-	20,861	-	20,861
Bank balances	25,213	-	-	25,213
	25,213	**438,883**	**2,313**	**466,409**

	2013	2012
	Rupees in thousands	
Financial liabilities at amortized cost		
Long term finances	287,000	310,000
Trade and other payables	205,688	260,510
Accrued mark up	22,126	23,731
Short term borrowings	583,175	474,351
	1,097,989	**1,068,592**

38.3 Fair values of financial assets and liabilities

Carrying values of all financial assets and liabilities reflected in these financial statements approximate to their fair values. Fair value is determined on the basis of objective evidence at each reporting date.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

39. Capital Risk Management

While managing capital, the objectives of the Company are to ensure that it continues to meet the going concern assumption, enhance shareholders' wealth and meets stakeholders' expectations. The Company ensures its sustainable growth viz. maintaining optimal capital structure, keeping its finance cost low, exercising the option of issuing right shares or repurchase shares, if possible, selling surplus property, plant and equipment without affecting the optimal operating level and regulating its dividend payout thus maintaining smooth capital management.

In line with the industry norm, the Company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non current) less cash and cash equivalents. Total capital is calculated as equity as shown in the balance sheet plus net debt.

As at the balance sheet date, the gearing ratio of the Company was worked out as under:

	2013 Rupees	2012 Rupees
Total borrowings	870,174,977	784,350,860
Cash and bank balances	(11,437,764)	(25,212,894)
Net debt	858,737,213	759,137,966
Equity	343,516,217	385,642,762
Total capital employed	**1,202,253,430**	**1,144,780,728**
Gearing ratio	71.43%	66.31%

40. Plant Capacity and Production

	2013 Metric Ton	2012 Metric Ton
Actual production	16,095	14,384

The plant production capacity is indeterminable because it is a multi-product plant involving varying processes of manufacturing.

41. Provident Fund Related Disclosures

The Company runs a recognized provident fund (Descon Chemicals Limited Staff Provident Fund Trust) established on April 30, 1987 in which equal contributions are made by the Company and employees.

The fund has been formed to accumulate certain sums to the benefit of employees of Descon Chemicals Limited and their families in the event of employees' termination of service, retirement or death as provided by the fund rules. Following information is based on un-audited financials of the Fund as at June 30, 2013 and audited financials of June 30, 2012:

	Note	2013 Rupees	2012 Rupees
Total assets of the fund		40,135,777	40,991,573
Fair value of the investments	41.2	38,928,725	14,884,475
Percentage of the investments made		96.99%	36.31%

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013

41.1 The cost of above investments amounted to Rs. 38.44 million (2012: Rs. 17.43 million)

41.2 The break-up of fair value of investments is as follows:

	2013 Percentage	2012 Percentage	2013 Rupees	2012 Rupees
- Listed securities	30%	10%	11,521,531	1,428,220
- GOP treasury bills	46%	-	18,055,523	-
- National Saving Certificates	12%	32%	4,725,000	4,725,000
- Term finance certificates	7%	26%	2,535,750	3,946,893
- Unit trust schemes	5%	32%	2,090,921	4,784,362
	100%	**100%**	**38,928,725**	**14,884,475**

41.3 The investments out of the provident fund have been made in accordance with the provisions of Section 227 of the Companies Ordinance, 1984 and the rules formulated for that purpose.

42. Number of Employees

	2013 Number	2012 Number
Employees as at June 30,		
- Permanent	164	168
- Contractual	26	30
Average employees during the year		
- Permanent	166	165
- Contractual	32	32

43. Authorization of Financial Statements

These financial statements were authorized for issue on September 30, 2013 by the Board of Directors of the Company.

44. General

Comparative figures are re-arranged / reclassified, wherever necessary, to facilitate comparison. Following re-arrangements / reclassifications have been made in these financial statements for better presentation:

Nature	From	To	Amount (Rupees)
Expenses shared with associates	Administrative Expenses (Salaries, wages and benefits)	Administrative Expenses (Recovery from Associates)	6,783,580
Royalty fee	Administrative Expenses (Research and development)	Research and Development (Royalty fee)	1,549,662

CHIEF EXECUTIVE DIRECTOR

PATTERN OF HOLDING OF THE SHARES HELD BY THE SHAREHOLDERS
AS AT JUNE 30, 2013

No. of Shareholders	Shareholding From	Shareholding To	Total Shares Held
771	1	100	28,851
621	101	500	181,471
525	501	1,000	450,556
679	1,001	5,000	1,989,318
209	5,001	10,000	1,815,031
69	10,001	15,000	916,178
50	15,001	20,000	926,329
41	20,001	25,000	969,682
18	25,001	30,000	512,920
8	30,001	35,000	265,600
12	35,001	40,000	466,430
9	40,001	45,000	398,195
28	45,001	50,000	1,390,629
6	50,001	55,000	329,000
9	55,001	60,000	528,524
5	60,001	65,000	311,600
6	65,001	70,000	406,000
4	70,001	75,000	291,147
2	75,001	80,000	152,000
6	80,001	85,000	500,500
4	85,001	90,000	349,730
2	90,001	95,000	183,500
11	95,001	100,000	1,098,931
2	100,001	105,000	207,500
2	105,001	110,000	216,628
2	110,001	115,000	225,572
2	120,001	125,000	241,605
1	130,001	135,000	133,000
1	140,001	145,000	140,270
3	145,001	150,000	448,000
2	155,001	160,000	317,009
1	160,001	165,000	165,000
1	170,001	175,000	174,500
1	185,001	190,000	188,000
1	190,001	195,000	190,500

No. of Shareholders	Shareholding From	Shareholding To	Total Shares Held
2	195,001	200,000	400,000
1	200,001	205,000	203,000
1	205,001	210,000	207,003
1	220,001	225,000	221,000
2	225,001	230,000	451,502
2	235,001	240,000	475,343
3	245,001	250,000	750,000
1	255,001	260,000	260,000
2	270,001	275,000	545,500
2	280,001	285,000	568,500
2	300,001	305,000	606,692
2	305,001	310,000	614,597
1	315,001	320,000	320,000
1	400,001	405,000	402,000
1	445,001	450,000	449,000
1	495,001	500,000	500,000
1	510,001	515,000	513,395
1	655,001	660,000	656,500
1	905,001	910,000	910,000
1	1,015,001	1,020,000	1,018,100
1	1,260,001	1,265,000	1,264,000
1	1,270,001	1,275,000	1,275,000
1	1,340,001	1,345,000	1,345,000
4	4,995,001	5,000,000	20,000,000
1	5,250,001	5,255,000	5,253,640
1	143,235,001	143,240,000	143,238,378
3,152			**199,557,856**

CATEGORIES OF SHAREHOLDERS

REQUIRED UNDER CODE OF CORPORATE GOVERNANCE AS ON JUNE 30, 2013

Categories of shareholders	Number of Shareholders	Shares Held	Percentage
Directors, Chief Executive Officer, and their spouses and minor children	8	164,134,021	82.249
NIT and ICP	4	523,208	0.262
Banks Development Financial Institutions, Non Banking Financial Institutions	5	241,613	0.121
Modarabas and Mutual Funds	1	58	0.000
General Public	3095	33,617,823	16.846
Joint Stock Companies	35	991,063	0.497
Investment Companies	2	796	0.000
Pension Funds	1	47,604	0.024
Others	1	1,670	0.001
Total	**3,152**	**199,557,856**	**100%**

SHAREHOLDING INFORMATION

REQUIRED UNDER CODE OF CORPORATE GOVERNANCE AS ON JUNE 30, 2013

Sr. No.	Name	No. of Shares Held	Percentage
Associated Companies, Undertakings and Related Parties		–	–
Mutual Funds			
1	PRODENTIAL STOCKS FUND LIMITED	58	0.0000
Directors and their Spouse and Minor Children			
1	MR. TAIMUR DAWOOD	5,314,252	2.6630
2	MR. ABDUL RAZZAK DAWOOD	148,492,018	74.4105
3	MR. FAISAL DAWOOD	5,270,750	2.6412
4	MR. MUHAMMAD SADIQ	15,001	0.0075
5	SYED ZAMANAT ABBAS (CDC)	1,000	0.0005
6	MR. SALMAN ZIKRIA (CDC)	40,000	0.0200
7	MR. FAROOQ NAZIR (CDC)	1,000	0.0005
8	MRS. BILQUIS DAWOOD W/O A. RAZZAK DAWOOD (CDC)	5,000,000	2.5055
Executives		–	0.0000
Public Sector Companies & Corporations		–	0.0000
Banks, Development Finance Institutions, Non Banking Finance Companies, Insurance Companies, Takaful, Modarabas and Pension Funds		289,217	0.1449
Shareholders holding five percent or more voting interest in the listed company			
1	MR. ABDUL RAZZAK DAWOOD	148,492,018	74.4105

Dealings in shares by Directors, Executives and their spouses and minor children **NIL**

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that 49th Annual General Meeting of Descon Chemicals Limited will be held on Wednesday, October 30, 2013 at 11.00 am, at Descon Headquarters, 18-Km Ferozepur Road, Lahore, to transact the following business:

ORDINARY BUSINESS

1. To confirm minutes of the last Annual General Meeting of the Company held on October 22, 2012.
2. To receive, consider and adopt the audited financial statements of the Company for the year ended June 30, 2013 together with the reports of Directors' and Auditors' thereon.
3. To appoint Auditors and fix their remuneration for the year ending June 30, 2014. (The present auditors M/s. Horwath Hussain Chaudhury & Co., Chartered Accountants, retire and have offered themselves for re-appointment.)
4. To consider and approve the transmission of quarterly accounts of the Company through website.
5. To transact any other business with the permission of the Chair.

By Order of the Board

Sohail

(ABDUL SOHAIL)
Company Secretary

Lahore
October 08, 2013

Notes:

1. The share transfer books of the Company shall remain closed from 21-10-2013 to 30-10-2013 (both days inclusive).
2. Member are requested to attend in person along with Computerized National Identity Card ("CNIC") or appoint some other member as proxy and send their proxy duly witnessed so as to reach the registered office of the Company not later than 48 hours before the time of holding the meeting.
3. Any individual Beneficial Owner of CDC, entitled to attend and vote at this meeting, must bring his / her original CNIC or passport, Account and participant's I.D. Numbers to prove his / her identity, and in case of proxy it must enclose an attested copy of his / her CNIC or passport. Representatives of corporate members should bring the usual documents required for such purpose.
4. Shareholders are requested to immediately notify change in address, if any, to the Company's Share Registrar, M/s. Corplink (Private) Limited, Wings Arcade, 1-K, Commercial, Model Town, Lahore and also furnish attested photocopy of their CNIC as per Listing Regulations, if not provided earlier.

NOTES

FORM OF PROXY
DESCON CHEMICALS LIMITED

IMPORTANT

This form of proxy, in order to be effective, must be deposited duly completed, at the Company's Registered Office at Descon Headquarters, 18-KM, Ferozepur Road, Lahore not less than 48 hours before the time of holding the meeting.

A Proxy must be member of the Company. Signature should agree with the specimen register with the Company.

Please quote registered Folio / CDC Account numbers

I/We ______________________________

of ______________________________

being a member of Descon Chemicals Limited entitled to vote and holder of ______________

ordinary shares, hereby appoint Mr./Mrs./Mst.______________________________

of ______________________________

who is also a member of the Company, as my/our proxy in my / our absence to attend and vote for me / us on my / our behalf at the Forty Ninth Annual General Meeting of the Company to be held at Descon Headquarters, 18-Km, Ferozepur Road, Lahore on Wednesday, October 30, 2013 at 11:00 hours and at any adjournment thereof.

As witness my / our hand this ______________ day of ______________ 2013

Signed by the said ______________________________ in the presence of

____

____
(Member's Signature)

Affix Rs. 5/-

Revenue Stamp which must be cancelled either by signature over it or by some other means

Place ______________

Date ______________

____
(Witness's Signature)

www.descon.com

IF UNDELIVERED PLEASE RETURN TO

DESCON CHEMICALS LIMITED

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