

BOOK POST

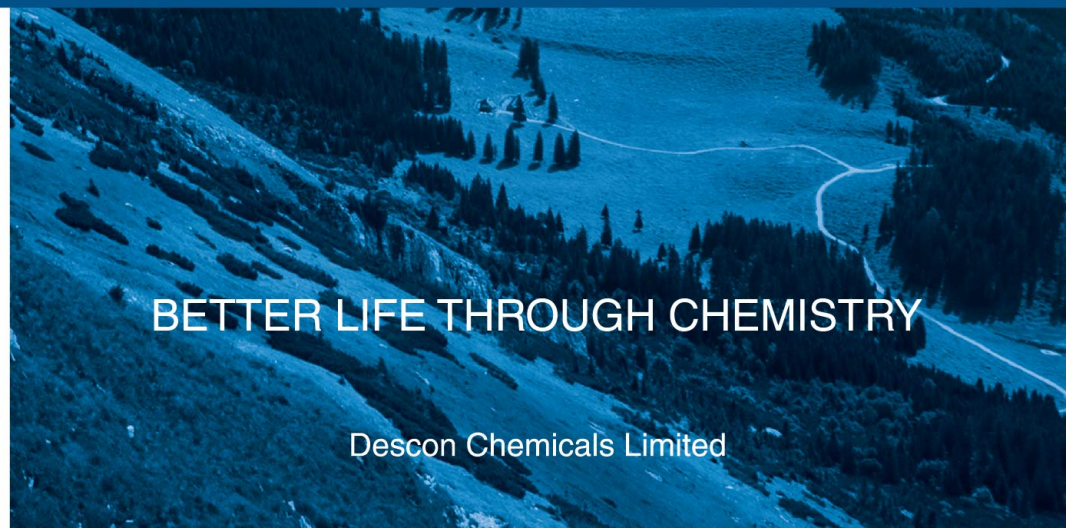
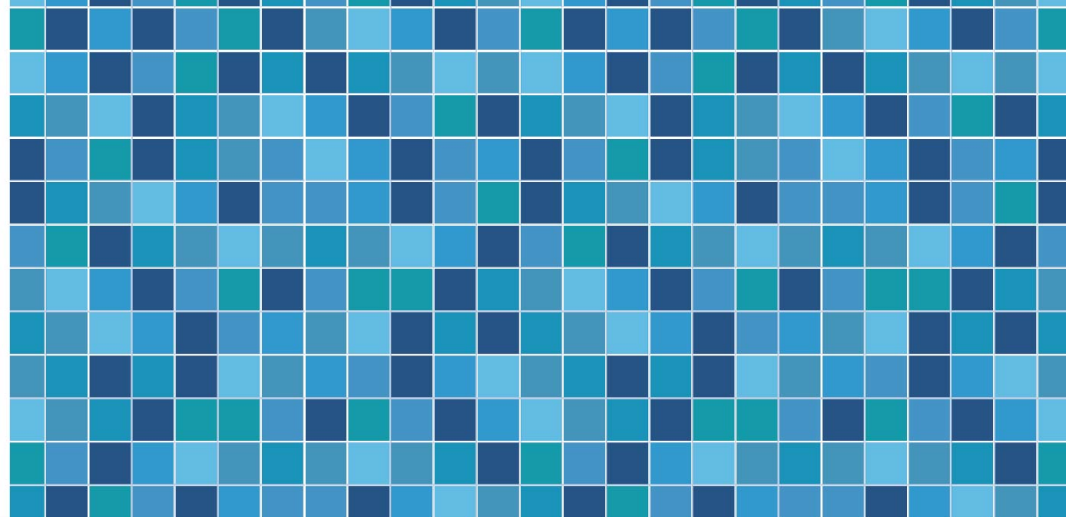


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DESCON CHEMICALS LIMITED

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BETTER LIFE THROUGH CHEMISTRY

Descon Chemicals Limited

Descon Chemicals Limited



QUARTERLY REPORT

September 30, 2015 (Un-Audited)

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Company Information

Board of Directors

Abdul Razak Dawood
Chairman

Aamir Niazi
Chief Executive Officer

Farooq Nazir
Taimur Dawood
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 Ferozpur Road
Lahore - 53000 Pakistan.
Tel: +92 42 35923721-9
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Plant Site

Site 1:

14.5-KM
Lahore - Sheikhpura Road,
Lahore, Pakistan.
Tel: +92 42 37970 962
Fax: +92 42 37970 229

Site 2:

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Sheikhpura - Faisalabad Road
Mouza Bhikki District, Sheikhpura
Pakistan.
Tel: +92 56 3090 955, 3091 294
Fax: +92 56 3882 189

Karachi Office

Business Avenue, 26/A, 9th Floor,
Block 6, PECHS, Shakra-e-Faisal,
Karachi, Pakistan.
Tel: +92 21 34544485-6
Fax: +92 21 34382674

Web Presence

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

DIRECTORS' REPORT TO THE SHAREHOLDERS

For the quarter ended September 30, 2015

The Directors are pleased to present the financial statements of the Company for the three months ended September 30, 2015.

Financial Highlights

	Quarter ended	
	September 30, 2015	September 30, 2014
Sales volume (MT's)	2,728	2,862
	Rupees '000	
Sales	394,768	484,753
Gross profit	47,573	50,255
Gross Margin	12%	10%
Operating profit	24,947	26,365
Profit / (Loss) before tax	10,743	(13,358)
Profit / (Loss) per share - PKR	0.03	(0.09)

Pakistan's GDP is expected to grow 4.5% in financial year 2016. This is based on the assumption of continued low prices for oil and other commodities, the expected pickup in growth in the advanced economies, and alleviation of energy shortages. There is also a fair measure of macroeconomic stabilization in the economy and inflation remains range bound within reasonable limits. Continued record remittances from Pakistani expatriates continue to provide a source of foreign exchange support to the economy.

Although quarter-on-quarter sales revenues were down by 19%, your company improved its gross margin by 2%. This was possible on the back of taking full benefit of purchased material cost reductions, materially supported by reduced global and local oil and key commodity prices. Further, considerably improved margins and profitability were supported by the successful implementation of a major operating and organizational restructuring plan. In addition, indirect overhead, administrative and selling cost were effectively controlled.

Your company took full benefit of the favorable interest rate environment, reducing its financial cost by 45%. Moreover, working capital was managed efficiently, and a long-term loan repayment. During the quarter, all lines of business kept prices robust, despite serious market and competitive pressures, improving their contributions towards stronger margins and profitability. This was one of the key determinants for assuring profitability during the quarter.

Consequently, your company delivered a profit before tax of PKR 10.7 million and profit after tax of PKR 6.7 million for the quarter, compared to a loss before tax of PKR 13.3 million and a loss after tax of PKR 18.2 million during the corresponding period last year. Management will build on these positive results through profitable sales coupled with strict control over costs.

The Company has received an offer for purchase of its major shareholding. The Board of Directors is considering this offer; however, any decision to accept / reject the offer has yet not been finalized.

The Board takes this opportunity to thank customers, shareholders, suppliers, bankers and all other stakeholders for their continued support. We also appreciate and acknowledge the continued commitment, loyalty and hard work of our employees.

For and on behalf of the Board



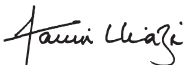
Amir Niazi
Chief Executive Officer

Lahore
October 20, 2015

CONDENSED INTERIM BALANCE SHEET AS AT SEPTEMBER 30, 2015 (UN-AUDITED)

	Note	September 30, 2015 Unaudited Rupees '000'	June 30, 2015 Audited Rupees '000'
EQUITY AND LIABILITIES			
Share Capital and Reserves			
Authorized share capital: 230,000,000 (June 30, 2015: 230,000,000) ordinary shares of Rs.5 each		1,150,000	1,150,000
Issued, subscribed and paid up share capital 199,557,856 (June 30, 2015: 199,557,856) ordinary shares of Rs. 5 each		997,789 (797,203)	997,789 (804,019)
Reserves		200,586	193,770
Surplus on Revaluation of Property, Plant and Equipment	4	47,115	47,149
Non Current Liabilities			
Long term financing from banking companies	5	48,500	89,667
Long term financing from director	6	31,610	31,610
Deferred revenue		-	1,048
Deferred tax liabilities		29,162	29,162
		109,272	151,487
Current Liabilities			
Trade and other payables		247,131	287,350
Accrued mark up		12,284	14,486
Short term borrowings		522,986	479,571
Current portion of long term financing		127,167	89,667
Current portion deferred revenue		8,389	7,341
Provision for taxation		22,150	18,189
		940,106	896,604
Contingencies and Commitments	7	-	-
		1,297,079	1,289,010
ASSETS			
Non Current Assets			
Property, plant and equipment	8	479,454	486,101
Intangible assets		17,328	18,483
Long term deposits		7,650	7,650
Retirement benefit asset - prepayments		2,389	2,438
		506,821	514,672
Current Assets			
Stores and spares		11,948	12,624
Stock in trade		302,795	310,962
Trade debts		322,640	321,962
Loans and advances		130,703	115,996
Short term prepayments and other receivables		15,666	10,847
Bank balances		6,508	1,947
		790,258	774,338
		1,297,079	1,289,010

The annexed notes 1 to 14 form an integral part of this condensed interim financial information.



Chief Executive

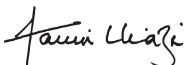


Director

**CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UN-AUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2015**

	Note	Quarter ended	
		September 30, 2015	September 30, 2014
		----- Rupees '000' -----	
Sales - net	9	394,768	484,753
Cost of sales		(347,195)	(434,498)
Gross Profit		<u>47,573</u>	<u>50,255</u>
Operating expenses:			
- Distribution and selling expenses		(12,178)	(15,054)
- Administrative expenses		(10,448)	(8,836)
		<u>(22,626)</u>	<u>(23,890)</u>
Operating Profit		<u>24,947</u>	<u>26,365</u>
Finance cost		(14,819)	(26,862)
Other operating expenses		(1,388)	(8,854)
Other income		2,003	2,708
		<u>(14,205)</u>	<u>(33,009)</u>
Profit/(Loss) before share of associate and taxation		<u>10,743</u>	<u>(6,644)</u>
Share of net loss of associated undertaking		-	(6,714)
Profit/(Loss) before taxation		<u>10,743</u>	<u>(13,358)</u>
Taxation		(3,961)	(4,848)
Profit/(Loss) after taxation		<u>6,782</u>	<u>(18,206)</u>
Profit/(Loss) per share - basic and diluted (Rupees)		<u>0.03</u>	<u>(0.09)</u>

The annexed notes 1 to 14 form an integral part of this condensed interim financial information.



Chief Executive

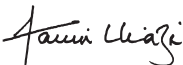


Director

**CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UN-AUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2015**

	Quarter ended	
	September 30, 2015	September 30, 2014
	----- Rupees '000' -----	
Profit/(Loss) after taxation for the period	6,782	(18,206)
<i>Other comprehensive income</i>		
Deficit on revaluation of available for sale investment	-	(75)
Share of un-realized gain / (loss) on available for sale investment of associate	-	(76)
Transfer from surplus on revaluation of property, plant and equipment in respect of incremental depreciation charged	34	25
Total comprehensive profit/(loss) for the period	<u>6,816</u>	<u>(18,332)</u>

The annexed notes 1 to 14 form an integral part of this condensed interim financial information.



Chief Executive

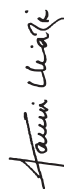


Director

**CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UN-AUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2015**

	Share Capital	Share Premium	Fair value Reserve	Revaluation Reserve	Accumulated Loss	Total
	-----'Rupees '000'-----					
Balance as on July 1, 2014	997,789	1,281	257	718	(724,241)	275,804
Net loss for the period	-	-	-	-	(18,206)	(18,206)
Other comprehensive income for the period	-	-	(151)	-	-	(151)
Incremental depreciation for the period on surplus on revaluation of fixed assets	-	-	(151)	-	(18,206)	(18,357)
	-	-	-	25	-	25
Balance as at September 30, 2014	997,789	1,281	106	743	(742,447)	257,472
Balance as on July 1, 2015	997,789	1,281	-	928	(806,228)	193,770
Net loss for the period	-	-	-	-	6,782	6,782
Other comprehensive income for the period	-	-	-	-	-	-
Incremental depreciation for the period on surplus on revaluation of fixed assets	-	-	-	-	6,782	6,782
	-	-	-	34	-	34
Balance as at September 30, 2015	997,789	1,281	-	962	(799,446)	200,586

The annexed notes 1 to 14 form an integral part of this condensed interim financial information.



Chief Executive

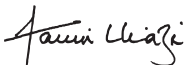


Director

**CONDENSED INTERIM CASH FLOW STATEMENT (UN-AUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2015**

CASH FLOW FROM OPERATING ACTIVITIES	Quarter ended	
	September 30, 2015	September 30, 2014
	----- Rupees '000' -----	
Profit / (Loss) before share of associate and taxation	10,743	(6,644)
Adjustments:		
- Depreciation	6,731	7,542
- Amortization of intangible asset	1,155	1,155
- Provision for gratuity	48	39
- Provision for doubtful debt	1,127	4,833
- Provision for obsolete stock	3,500	-
- Exchange (gain) / loss	11	(422)
- Gain on disposal of property, plant and equipment	-	(296)
- Finance cost	14,819	26,862
	27,390	39,714
Operating profit before working capital changes	38,133	33,070
(Increase) / decrease in current assets:		
- Stores and spares	676	(1,500)
- Stock in trade	4,667	(196,018)
- Trade debts	(1,815)	12,814
- Loans and advances	(5,183)	(8,514)
- Trade deposits, short term prepayments and other receivables	(4,819)	(5,974)
Increase / (decrease) in current liabilities:		
- Trade and other payables	(40,219)	34,751
	(46,692)	(164,441)
Cash used in operations	(8,559)	(131,371)
Finance cost paid	(17,023)	(25,423)
Income tax received / (paid)	(9,522)	36,086
Net cash used in operating activities	(35,104)	(120,708)
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(83)	(180)
Proceeds from sale of property, plant and equipment	-	296
Long term deposits	-	(100)
Net cash (used in) / generated from investing activities	(83)	16
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of long term financing	(3,667)	(41,167)
Loan from director	-	40,000
Short term borrowings	43,415	131,864
Net Cash generated from financing activities	39,748	130,697
Net Increase in cash and cash equivalents	4,561	10,005
Cash and cash equivalents at the beginning of the period	1,947	8,891
Cash and cash equivalents at the end of the period	6,508	18,896

The annexed notes 1 to 14 form an integral part of this condensed interim financial information.



Chief Executive



Director

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE QUARTER ENDED SEPTEMBER 30, 2015 (UN-AUDITED)

1. The Company and its operations

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

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

2. Basis of Preparation

This condensed interim financial information has been submitted to the shareholders in accordance with section 245 of the Companies Ordinance, 1984 and International Accounting Standard (IAS) 34 - 'Interim Financial Reporting'. This condensed interim financial information does not include all the information required for annual financial statements and therefore should be read in conjunction with the annual financial statements for the year ended June 30, 2015.

3. Significant Accounting Policies

The accounting policies adopted for the preparation of this condensed interim financial information are the same as those applied in the preparation of audited financial statements of the company for the year ended June 30, 2015.

4. Surplus on Revaluation of Property, Plant and Equipment	September 30, 2015 Rupees '000' Unaudited	June 30, 2015 Rupees '000' Audited
Land	43,088	43,088
Building	4,061	4,272
Incremental depreciation (net of deferred tax) charged on revalued property, plant and equipment during the period / year	(34)	(211)
	47,115	47,149
5. Long Term Financing from Banking Companies	September 30, 2015 Rupees '000' Unaudited	June 30, 2015 Rupees '000' Audited
Bank Al-Habib Limited	150,000	150,000
Habib Metropolitan Bank Limited	25,667	29,333
	175,667	179,333
Less: Current portion	(127,167)	(89,667)
	48,500	89,666

6. Financing from director - at amortized cost

This represents long term financing obtained from one of the directors of the Company. The total amount is repayable over a period of 3 years including a moratorium of 2 years on the principal and interest amount, starting from the date of disbursement of loan. The Company has granted option to the director to subscribe for upto 8,000,000 ordinary shares of Rs. 5 each of the Company at a subscription price of Rs. 5 per ordinary share against this loan during the period from October 1, 2017 upto the date of repayment of loan by the Company.

7. Contingencies and Commitments

7.1 Contingencies

7.1.1 The Customs 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 (2015: 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.

7.1.2 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 not been completed yet.

7.1.3 The Company has filed a suit against a material supplier and certain customers for the recovery of advance and trade debts amounting to Rs. 35.653 million (2015: Rs. 35.653 million). The Company expects a favourable outcome of these suits; therefore, no provision has been made in these financial statements.

7.2. Guarantees

	September 30, 2015	June 30, 2015
	Rupees '000'	Rupees '000'
	Unaudited	Audited
Sui Northern Gas Pipelines Limited	3,090	3,090

7.3. Commitments

	September 30, 2015	June 30, 2015
	Rupees '000'	Rupees '000'
	Unaudited	Audited
Irrevocable letters of credit	146,158	194,471

8. Property, Plant and Equipment

	Note	September 30, 2015 Rupees '000' Unaudited	June 30, 2015 Rupees '000' Audited
Operating fixed assets	8.1	479,355	486,003
Capital work in progress		98	98
		<u>479,454</u>	<u>486,101</u>

8.1. Operating fixed assets

	September 30, 2015 Rupees '000' Unaudited	June 30, 2015 Rupees '000' Audited
Opening written down value	486,003	513,936
Additions during the period / year	83	2,458
Deletion during the period / year	-	(2,849)
	<u>486,086</u>	<u>513,545</u>
Depreciation charge for the period / year	(6,731)	(27,542)
Closing written down value	<u>479,355</u>	<u>486,003</u>

Quarter ended

9. Cost of Sales

	September 30, 2015 Rupees '000' Unaudited	September 30, 2014 Rupees '000' Audited
Raw materials consumed	281,635	409,737
Fuel and power	9,708	16,089
Salaries, wages and benefits	4,718	6,101
Services through contract	3,661	4,459
Provision for obsolete stock	3,500	-
Transportation	411	1,363
Repairs and maintenance	2,683	1,142
Depreciation	5,720	6,230
Amortization	1,155	1,155
Insurance	1,109	1,173
Travelling and entertainment	247	622
Stores and spares consumed	79	523
Miscellaneous	478	359
Cost of goods manufactured	315,105	448,952
Finished goods		
- Opening	121,799	96,428
- Closing	(89,709)	(110,882)
	<u>32,091</u>	<u>(14,454)</u>
	<u>347,195</u>	<u>434,498</u>

10. Segment Information

	Coating and Emulsion	Polyester	Textile and Paper	Trading	Total
Rupees '000'					
Segment results for the period ended September 30, 2015					
Revenue	240,402	7,714	100,792	45,860	394,768
Segment results as at September 30, 2015	14,706	(3,724)	16,575	(2,611)	24,947
Finance costs					(14,819)
Other operating expenses					(1,388)
Other operating income					2,003
Net profit before tax and share of loss of associate					10,742
Segment results for the period ended September 30, 2014					
Revenue	282,281	12,565	127,083	62,824	484,753
Segment results as at September 30, 2014	12,799	(98)	10,977	2,687	26,365
Finance costs					(26,862)
Other operating expenses					(8,854)
Other operating income					2,708
Net loss before tax and share of loss of associate					(6,644)
Segment asset and liabilities as at September 30, 2015					
Segment assets	408,618	121,817	166,378	107,195	804,008
Segment liabilities	125,263	13,997	45,040	2,936	187,235
Segment asset and liabilities as at June 30, 2015					
Segment assets	393,972	121,311	182,727	127,613	825,623
Segment liabilities	124,591	11,978	70,081	5,601	212,251

	September 30, 2015	June 30, 2015
----- Rupees '000' -----		
	Unaudited	Audited

Reportable segments' assets are reconciled to total assets as follows:

Segment assets for reportable segments	804,008	825,623
Corporate assets unallocated	323,517	327,148
Cash and bank balances	6,508	1,947
Others	163,046	134,292
Total assets as per the balance sheet	1,297,079	1,289,010

Reportable segments' liabilities are reconciled to total liabilities as follows:

Segment liabilities for reportable segments	187,235	212,251
Corporate liabilities unallocated	698,653	658,905
Trade and other payables	141,340	158,746
Taxation	22,150	18,189
Total liabilities as per the balance sheet	1,049,378	1,048,091

11. Transactions with Related Parties

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

Relationship with the Company	Nature of Transaction	Quarter ended	
		September 30, 2015 Rupees '000'	September 30, 2014 Rupees '000'
i. Associated undertakings	Purchase of goods and services	504	1,004
	Managerial services and expenses charged - net	16,045	15,978
ii. Post employment benefit plans	Company's contribution to Employees' Provident Fund Trust	872	957
	Gratuity fund charge	48	39
Period-end balances		September 30, 2015 Rupees '000'	June 30, 2015 Rupees '000'
Associated undertakings	Trade and other payables	207	207
	Other receivables	12,542	7,943
	Director's loan - Unamortized amount	40,000	40,000

12. Date of Authorization for Issue

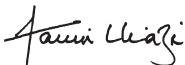
This condensed interim financial information was authorized for issue on October 20, 2015 by the Board of Directors of the Company.

13. Corresponding Figures

Corresponding figures have been re-arranged and reclassified, wherever necessary, for the purposes of comparison and better presentation as per reporting framework.

14. General

The figures have been rounded off to the nearest thousand rupee.



Chief Executive



Director

