

CONTENTS

Company Information	1
Directors' Report	2
Condensed Interim Balance Sheet	3
Condensed Interim Profit and Loss Account	4
Condensed Interim Statement of Comprehensive Income	5
Condensed Interim Cash Flow Statement	6
Condensed Interim Statement of Changes in Equity	7
Notes to and Forming Part of the Condensed Interim Unaudited Financial Statements	8



COMPANY INFORMATION

Board of Directors

Abdul Razak Dawood

Chairman

Taimur Saeed

Chief Executive Officer

Dr. Salman Zakaria

Farooq Nazir

Chief Financial Officer

Syed Zamanat Abbasi

Taimur Dawood

Muhammad Sadiq

Faisal Dawood

Audit Committee

Abdul Razak Dawood

Chairman

Taimur Dawood

Member

Syed Zamanat Abbas

Member

Muhammad Sadiq

Member

Company Secretary

Abdul Sohail

Auditors

Horwath Hussain Chaudhary & Co.

Chartered Accountants

Internal Auditors

M/s KPMG Taseer Hadi & Co.

Chartered Accountants

Legal Advisors

Hassan & Hassan

Advocates

Bankers

Allied Bank Limited

Bank Al Habib Limited

Habib Bank Limited

Askari Bank Limited

United Bank Limited

Standard Chartered Bank Ltd

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

Fax : 92 42 35923749

Plant Site

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

Tel : 92 42 37970962

Fax : 92 42 37970229

Site 2: 14.8 Km Lahore-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,

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

DESCON CHEMICALS LIMITED
DIRECTORS REPORT TO THE SHAREHOLDERS
For the Nine Months Ended March 31, 2012

Ladies and Gentlemen

The Board presents to you the financial statements for the nine months ended March 31, 2012. Your company had an encouraging quarter and made an operating profit of PKR 30.3m, an increase of PKR 13.5m over the previous quarter. As the availability of gas improves in spring, so does the demand for our products, which has resulted in higher volumes and improved margins. Furthermore, volumes and margins are expected to improve steadily.

The management has acquired new technologies and has improved the delivery of service, resulting in sales growth. Margins improved mainly due to efficient and cost effective recipes. The company feels more confident to innovate and has launched new products in the existing categories and will soon add new categories to its portfolio. Increase in the price of commodities and utilities have impacted our margins negatively, however, the buying function has been strengthened within the company which is now taking advantage of the available opportunities in the market.

We have also converted PKR 225m of short term financing into long term to correct the mismatch of the maturity profile of the assets and liabilities. This has resulted in a significant improvement in current ratios.

Financial Highlights

	Quarter ended		Nine Months ended	
	March 31, 2012	March 31, 2011	March 31, 2012	March 31, 2011
	Rupees '000		Rupees '000	
Sales	583,932	668,623	1,847,858	1,984,795
Gross profit / (loss)	59,494	76,103	153,308	238,373
Operating Profit / (loss)	30,257	44,228	73,733	121,125
Profit / (loss) for the period	(8,198)	(3,303)	(51,233)	(14,880)
Earnings / (loss) per share (PKR)	(0.04)	(0.02)	(0.26)	(0.07)

Sales have decreased by 13% as compared to the same period last year, owing to the gas shortages in January and February. Gross margins have shown an upward trend through the nine months, and stand at around 10.2% this quarter, as opposed to 11.4% last year. Our emphasis on building a cost effective organization and an efficient manufacturing environment has reduced the distribution and administration costs by a third during the nine months. Effective working capital management has also contributed to decreasing finance cost by 23%. All the initiatives taken by management are finally showing results. Profit before tax this quarter is PKR 4m more than the same period last year which is negatively impacted by the share of the loss of an associated undertaking resulting in a net loss for the quarter.

Future Outlook

The company is fully prepared to launch new products and enter new markets with innovative and more efficient variants of the current and new portfolios. Plans are in place to procure new technologies, which will enhance the revenue and profitability in the coming quarters. Our focus on cost cutting has yielded significant savings which we plan to continue in the future. We envisage consistent volume growth in all products. We are grateful to all our key stakeholders for their support, and have no doubt that we will successfully continue the journey to profitable growth.

For and on behalf of the Board



Taimur Saeed
Chief Executive Officer

Lahore
April 25, 2012

DESCON CHEMICALS LIMITED
CONDENSED INTERIM BALANCE SHEET
AS AT MARCH 31, 2012

	Note	Unaudited March 31, 2012	Audited June 30, 2011
		(Rupees in thousand)	
CAPITAL AND LIABILITIES			
Share Capital and Reserves			
Authorized capital: 230,000,000 (June 30, 2011: 230,000,000) ordinary shares of Rs.5 each		1,150,000	1,150,000
Issued, subscribed and paid up capital		997,789	997,789
Reserve		1,698	1,728
Accumulated losses		(603,679)	(552,446)
		395,808	447,071
Surplus on Revaluation of Property, Plant and Equipment	5	38,555	38,643
Non Current Liabilities			
Long term financing		243,500	33,500
Deferred liabilities		48,674	56,406
		292,174	89,906
Current Liabilities			
Trade and other payables		426,663	267,542
Accrued mark up		29,811	29,961
Short term borrowings		561,224	803,513
Current portion of long term financing		20,500	68,375
Provision for taxation		43,940	25,989
		1,082,138	1,195,380
Contingencies and Commitments	6	-	-
		1,808,675	1,771,000
ASSETS			
Non Current Assets			
Property, plant and equipment	8	555,681	581,143
Intangible assets		33,500	36,966
Long term investments		71,243	83,173
Long term deposits and advances		747	757
		661,171	702,039
Current Assets			
Stores and spares		11,774	14,849
Stock in trade		509,851	416,375
Trade debts		388,384	439,262
Loans and advances		169,298	130,434
Short term prepayments and other receivables		24,482	20,913
Cash and bank balances		43,715	47,128
		1,147,504	1,068,961
		1,808,675	1,771,000

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


CHIEF EXECUTIVE


DIRECTOR

DESCON CHEMICALS LIMITED
CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UNAUDITED)
FOR THE QUARTER AND NINE MONTHS ENDED MARCH 31, 2012

	Note	Quarter Ended March 31,		Nine Months Ended March 31,	
		2012	2011	2012	2011
(Rupees in thousand)					
Sales - net		583,932	668,623	1,847,858	1,984,795
Cost of sales	9	(524,438)	(592,520)	(1,694,550)	(1,746,422)
Gross Profit / (Loss)		59,494	76,103	153,308	238,373
Operating expenses:					
- Distribution costs		(14,380)	(20,856)	(44,700)	(65,507)
- Administrative expenses		(14,857)	(11,019)	(34,875)	(51,741)
		(29,237)	(31,875)	(79,575)	(117,248)
Operating Profit / (Loss)		30,257	44,228	73,733	121,125
Other operating expenses		1,385	(2,282)	(1,178)	(3,291)
Finance cost		(33,222)	(43,317)	(97,500)	(126,836)
Other operating income		6,006	1,567	16,135	11,040
Profit / (Loss) before Taxation		4,425	196	(8,811)	2,038
Share of net profit / (loss) of associated undertaking		(7,266)	1,341	(11,812)	5,136
Profit / (Loss) before Taxation		(2,841)	1,537	(20,623)	7,174
Taxation		(5,357)	(4,840)	(30,610)	(22,054)
Profit / (Loss) after Taxation for the Period		(8,198)	(3,303)	(51,233)	(14,880)
Earning per Share - Basic		(0.04)	(0.02)	(0.26)	(0.07)

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


CHIEF EXECUTIVE


DIRECTOR

DESCON CHEMICALS LIMITED

**CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR THE QUARTER AND NINE MONTHS ENDED MARCH 31, 2012**

	Quarter Ended March 31, 2012	2011	Nine Months Ended March 31, 2012	2011
	(Rupees in thousand)			
Profit / (Loss) after Taxation for the Period	(8,198)	(3,303)	(51,233)	(14,880)
<i>Other comprehensive income</i>				
Unrealised (deficit) /gain on remeasurement of investment available for sale	-	39	(40)	23
Share of un-realized gain on available for sale investment of associate	(521)	(15)	(78)	37
Transfer from surplus on revaluation of property, plant and equipment in respect of incremental depreciation charged in current period	30	31	88	92
Total Comprehensive Income / (Loss) for the Period	(8,689)	(3,248)	(51,263)	(14,728)

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



CHIEF EXECUTIVE



DIRECTOR

DESCON CHEMICALS LIMITED

CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED) FOR THE NINE MONTHS ENDED MARCH 31, 2012

Nine Months Ended March 31,
2012 **2011**
(Rupees in thousand)

CASH FLOW FROM OPERATING ACTIVITIES

Loss before taxation (8,811) 2,038

Adjustments:

- Depreciation	21,607	27,266
- Amortisation of intangible asset	3,466	4,441
- Provision for gratuity	1,450	4,699
- Provision for doubtful debts	1,500	1,500
- Provision for workers profit participation fund	-	215
- Gain on disposal of property, plant and equipment	(3,604)	(1,529)
- Exchange gain	(440)	(18)
- Finance cost	97,500	126,836
- Gain on available for sale investments	-	(619)
- Interest income	(1,688)	-
	119,791	162,791

Operating profit before working capital changes

110,981 164,829

(Increase) / decrease in current assets:

- Stores and spares	3,075	(3,474)
- Stock in trade	(93,476)	87,861
- Trade debts	49,818	(53,305)
- Loans and advances	(17,617)	(24,967)
- Trade deposits, short term prepayments and other receivables	(3,569)	11,900

Increase / (decrease) in current liabilities:

- Trade and other payables	157,538	42,377
	95,770	60,392

Cash generated from operations

206,750 225,221

Finance cost paid

(97,650) (124,188)

Gratuity paid

(20,257) (1,869)

Profits on deposit received

1,688

Income tax paid

(21,248) 35,016

Net Cash (used in) / generated from Operating Activities

69,282 134,180

CASH FLOW FROM INVESTING ACTIVITIES

Purchase of property, plant and equipment

(2,222) (974)

Capital work in progress

(3,114) (4,196)

Proceeds from sale of property, plant and equipment

12,795 3,899

Long term deposits

10 224

Net investment in available for sale investments

- (10,000)

Net Cash used in Investing Activities

7,468 (11,047)

CASH FLOW FROM FINANCING ACTIVITIES

Net Long term financing

162,125 (23,810)

Repayment of short term borrowings

(242,289) (100,997)

Net Cash generated from / (used in) Financing Activities

(80,164) (124,807)

Net Increase in Cash and Cash Equivalents

(3,413) (1,674)

Cash and cash equivalents at the beginning of the period

47,128 41,210

Cash and Cash Equivalents at the End of the Period

43,715 39,536

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



CHIEF EXECUTIVE



DIRECTOR

DESCON CHEMICALS LIMITED
CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED MARCH 31, 2012

Particulars	Share Capital	Reserves				Accumulated Loss	Total
		Shares to be Issued - net	Share Premium	Fair value Reserve	Revaluation Reserve		
(Rupees in thousand)							
Balance as at June 30, 2010	997,789	-	1,281	(21)	264	(430,135)	569,178
Total comprehensive income / (loss) for nine months period ended March 31, 2011	-	-	-	60	92	(14,880)	(14,728)
Balance as at March 31, 2011	<u>997,789</u>	<u>-</u>	<u>1,281</u>	<u>39</u>	<u>356</u>	<u>(445,015)</u>	<u>554,450</u>
Balance as at June 30, 2011	997,789	-	1,281	61	386	(552,446)	447,071
Total comprehensive income / (loss) for nine months period ended March 31, 2012				(118)	88	(51,233)	(51,263)
Balance as at March 31, 2012	<u>997,789</u>	<u>-</u>	<u>1,281</u>	<u>(57)</u>	<u>474</u>	<u>(603,679)</u>	<u>395,808</u>

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



CHIEF EXECUTIVE



DIRECTOR

DESCON CHEMICALS LIMITED

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM UNAUDITED FINANCIAL STATEMENTS FOR THE QUARTER AND NINE MONTHS ENDED MARCH 31, 2012

Note 1

The Company and its Operations

- 1.1 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).
- 1.2 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, Ferozepur 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.

Note 2

Amalgamation of Descon Chemicals (Private) Limited with and into the Company

The Honourable Lahore High Court, Lahore through its order dated December 03, 2009 approved the scheme of merger / amalgamation and granted sanction order for the amalgamation of DCPL with and into the Company with effect from July 01, 2008. Pursuant to the scheme of merger, the entire undertaking of DCPL including property, assets, liabilities and the rights and obligations of DCPL as at July 01, 2008 were merged into and vested in the Company. In consideration for the amalgamation, the Company was required to issue and allot 143,689,875 fully paid ordinary shares of Rs. 5 each to registered holders of the ordinary shares of DCPL in the ratio of 301 (three hundred and one) ordinary shares of the Company for 1 (one) ordinary share of Rs. 100 each of DCPL.

Note 3

Basis of Preparation

These accounts have been prepared in accordance with the requirements of the Companies Ordinance, 1984 and International Accounting Standard, IAS 34 (Interim Financial Reporting).

Note 4

Significant Accounting Policies

The accounting policies and methods of computation of the interim financial statements are the same as those followed in the preparation of annual financial statements for the preceding financial year ended June 30, 2011.

Note 5

Surplus on Revaluation of Property, Plant and Equipment

	Unaudited March 31, 2012	Audited June 30, 2011
	(Rupees in thousand)	
Land	36,320	36,320
Building	2,323	2,445
	<u>38,643</u>	<u>38,765</u>
Incremental depreciation (net of deferred tax) charged on revalued property, plant and equipment during the year transferred to statement of comprehensive income	(88)	(122)
	<u>38,555</u>	<u>38,643</u>

DESCON CHEMICALS LIMITED

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM UNAUDITED FINANCIAL STATEMENTS FOR THE QUARTER AND NINE MONTHS ENDED MARCH 31, 2012

Note 6

Contingencies and Commitments

Contingencies

	Unaudited March 31, 2012	Audited June 30, 2011
	(Rupees in thousand)	
The Custom Department passed an order under Section 25 of the Customs Act not acknowledged by the company	1,020	1,020
Demand raised by the customs Department against the company to cater for difference in valuation of certain imported raw materials not acknowledged by the company	3,190	3,190
Bank guarantees issued in favour of Sui Northren Gas Pipelines Limited	6,065	6,065

Commitments

Commitments as at balance sheet date are as under:

Irrecoverable letters of credit	224,143	247,579
Capital Work in Progress	-	163
Contract against ERP	3,085	3,085

Note 7

Deferred liabilities

Gratuity

During the nine months ended March 31, 2012 the Company has transferred Rs. 21.76 million on account of staff retirement benefit to a separate gratuity fund recognized for the purpose.

Note 8

Property, Plant and Equipment

	Unaudited March 31, 2012	Audited June 30, 2011
	(Rupees in thousand)	
Opening written down value	581,143	623,197
Additions during the period / year	5,337	8,754
Deletion during the period / year	(9,191)	(7,989)
	577,289	623,962
Depreciation charge for the period / year	(21,607)	(42,819)
	555,681	581,143

DESCON CHEMICALS LIMITED

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM UNAUDITED FINANCIAL STATEMENTS FOR THE QUARTER AND NINE MONTHS ENDED MARCH 31, 2012

Note 9

Cost of Sales

	Quarter Ended March 31, 2012	2011	Nine Months Ended March 31, 2012	2011
	(Rupees in thousand)			
Raw materials consumed	499,453	554,087	1,608,088	1,591,250
Chemicals consumed	407	754	595	2,658
Packing material consumed	347	1,229	695	3,970
Stores and spares consumed	1,450	6,159	6,243	10,467
Fuel and power	16,632	10,674	36,437	28,814
Salaries, wages and benefits	9,533	11,175	36,717	43,163
Repairs and maintenance	276	156	2,057	1,376
Travelling and entertainment	143	370	841	1,134
Insurance	370	379	853	903
Transportation	1,786	1,797	5,611	5,430
Communication	144	88	331	372
Miscellaneous	101	2,406	1,301	4,539
Amortisation	1,719	874	3,466	2,621
Depreciation	6,320	6,863	20,481	21,175
	538,681	597,011	1,723,715	1,717,872
Work in process				
- Opening	416	6,199	6,199	6,096
- Closing	(0)	(26,636)	(0)	(26,636)
	416	(20,437)	6,199	(20,540)
Cost of goods manufactured	539,097	576,574	1,729,914	1,697,332
Finished goods				
- Opening	95,250	74,545	74,545	107,689
- Closing	(109,909)	(58,599)	(109,909)	(58,599)
	(14,659)	15,946	(35,364)	49,090
	524,438	592,520	1,694,550	1,746,422

Note 10

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

Nine Months Ended March 31, 2012 2011 (Rupees in thousand)

Associates and related parties

Purchase of material, goods and services	643	25,939
Sale of material and goods	216	12,077
Managerial services and expenses charged - net	27,128	22,542

Staff retirement fund

Company's contribution to Employees' Provident Fund Trust	2,550	3,068
Gratuity	1,450	3,900

DESCON CHEMICALS LIMITED

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM UNAUDITED FINANCIAL STATEMENTS FOR THE QUARTER AND NINE MONTHS ENDED MARCH 31, 2012

Note 11 General

- 11.1 These interim financial statements are authorized for issue on April 25, 2012 by the Board of Directors of the Company.
- 11.2 Corresponding figures have been re-arranged wherever necessary to facilitate comparison. However, no material rearrangements have been made in the condensed interim financial statements.
- 11.3 The figures have been rounded off to the nearest thousand rupee.



CHIEF EXECUTIVE



DIRECTOR