



www.descon.com

Quarterly Report

September 30, 2014 (Un-Audited)

IF UNDELIVERED PLEASE RETURN TO
DESCON CHEMICALS LIMITED

LAHORE

DESCON HEADQUARTERS,
18 KM FERAZEPUR ROAD,
LAHORE, PAKISTAN.

T: +92 42 3 5923721-7

F: +92 42 3 5923732

E: info@desconchemicals.com

W: www.desconchemicals.com



DESCON CHEMICALS LIMITED

Descon Chemicals Limited



QUARTERLY REPORT
September 30, 2014 (Un-Audited)

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

M/s Howarth Hussain Chaudhary & 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 Register

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 37970962
Fax: 92 42 37970229

Site 2: 14.8-km, Sheikhupura - Faisalabad Road
Mouza Bhikki, District Sheikhupura, Pakistan.
Tel: 92 56 3090955, 3091294
Fax: 92 56 3882189

Karachi Office

Business Avenue, 26/A, 9th Floor, Block 6,
PECHS, Shahra-e-Faisal, Karachi, Pakistan
Tel: 92 21 34544485-6
Fax: 92 21 3482674

Web Presence

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

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 Statement of Changes in Equity	6
Condensed Interim Cash Flow Statement	7
Notes to and Forming Part of the Condensed Interim Financial Information	8

DIRECTORS' REPORT TO THE SHAREHOLDERS
For the quarter ended September 30, 2014

Ladies and Gentlemen

The Board presents to you the financial statements for the three months ended on September 30, 2014. While the adverse external economic environment has resulted in a loss, however, the management has taken a number of steps to mitigate the impact of uncontrollable macro-economic challenges faced by the Company. The demand of products has also been affected due to utility shortages being faced by our customers.

Financial Highlights

	Quarter ended	
	September 30, 2014	September 30, 2013
	----- Rupees '000' -----	
Sales	484,753	577,891
Gross profit	50,255	56,036
Gross profit %age of sales	10.36%	9.70%
Operating profit	26,365	28,232
Loss for the period	(18,206)	(8,124)
Loss per share (PKR)	(0.09)	(0.04)
Sales volume (MT's)	2,862	3,823

The sales for the quarter decreased by 16%, compared to the same period last year, however, margins increased slightly despite the relentless increase in input costs. Your Company is moving into new products with better margins on one hand and on the other hand making efforts to keep it cost in check resulting in very minor increase in expenses from the same period last year. Stringent control over working capital kept the finance cost under control.

The Company has obtained PKR 40 Million as director's loan during this period, which reflects the commitment of the Sponsors to support the Company in challenging times.

Future Outlook

We are making rapid progress in developing new products and have a full innovation funnel and cutting the costs to mitigate the effects. Management is committed to deliver quality chemical solutions by introducing winning products and ideas in the market. We are confident that with continuous focus on product development, your Company will return to profitability.

We thank all our stakeholders for their continued support in delivering the best solutions to the industry worldwide.

For and on behalf of the Board



Taimur Saeed
 Chief Executive Officer

Lahore
 October 27, 2014

CONDENSED INTERIM BALANCE SHEET
AS AT SEPTEMBER 30, 2014 (UNAUDITED)

	September 30, 2014 Unaudited	June 30, 2014 Audited
Note	----- Rupees '000' -----	
EQUITY AND LIABILITIES		
Share Capital and Reserves		
Authorized share capital: 230,000,000 (June 30, 2014: 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, 2014: 199,557,856) ordinary shares of Rs. 5 each	997,789 (740,317)	997,789 (721,985)
Reserves and accumulated losses	257,472	275,804
Surplus on Revaluation of Property, Plant and Equipment 4	47,034	47,059
Non Current Liabilities		
Long term financing	138,167	179,333
Director's loan	40,000	-
Deferred tax liabilities	27,247	27,247
	205,414	206,580
Current Liabilities		
Trade and other payables	210,381	175,630
Accrued mark up	23,832	22,391
Short term borrowings	783,926	652,062
Current portion of long term financing	89,667	89,667
Provision for taxation	26,843	21,995
	1,134,648	961,745
Contingencies and Commitments 6	-	-
	1,644,568	1,491,189
ASSETS		
Non Current Assets		
Property, plant and equipment	507,706	515,068
Intangible assets	21,949	23,104
Long term investments	50,080	56,945
Long term deposits	8,397	8,297
Retirement benefit asset - prepayments	2,024	2,063
	590,156	605,477
Current Assets		
Stores and spares	13,451	11,951
Stock in trade	492,502	296,484
Trade debts	393,118	410,343
Loans and advances	122,916	150,488
Short term prepayments and other receivables	13,529	7,555
Bank balances	18,896	8,891
	1,054,411	885,712
	1,644,568	1,491,189

The annexed notes 1 to 13 form an integral part of this condensed interim financial information.



CHIEF EXECUTIVE



DIRECTOR

**CONDENSED INTERIM PROFIT AND LOSS ACCOUNT
FOR THE QUARTER ENDED SEPTEMBER 30, 2014 (UNAUDITED)**

	Note	Quarter ended	
		September 30, 2014	September 30, 2013
		----- Rupees '000' -----	
Sales - net		484,753	577,891
Cost of sales	8	(434,498)	(521,855)
Gross Profit		50,255	56,036
Operating Expenses:			
- Distribution and selling expenses		(15,054)	(18,099)
- Administrative expenses		(8,836)	(9,705)
		(23,890)	(27,804)
Operating Profit		26,365	28,232
Finance cost		(26,862)	(25,647)
Other operating expenses		(8,854)	(3,289)
Other operating income		2,708	3,812
		(33,009)	(25,123)
(Loss)/profit before share of associate and taxation		(6,644)	3,109
Share of net loss of associated undertaking		(6,714)	(5,454)
Loss before taxation		(13,358)	(2,345)
Taxation		(4,848)	(5,779)
Loss after taxation		(18,206)	(8,124)
Loss per share - basic and diluted (Rupees)		(0.09)	(0.04)

The annexed notes 1 to 13 form an integral part of this condensed interim financial information.

**CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME
FOR THE QUARTER ENDED SEPTEMBER 30, 2014 (UNAUDITED)**

	Quarter ended	
	September 30, 2014	September 30, 2013
		----- Rupees '000' -----
Loss after taxation for the period	(18,206)	(8,124)
Other comprehensive income		
Deficit on revaluation of available for sale investment	(75)	(24)
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	25	26
Total comprehensive loss for the period	(18,332)	(8,122)

The annexed notes 1 to 13 form an integral part of this condensed interim financial information.



CHIEF EXECUTIVE



DIRECTOR



CHIEF EXECUTIVE



DIRECTOR

**CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE QUARTER ENDED SEPTEMBER 30, 2014 (UNAUDITED)**

	Share Capital	Share Premium	Fair value Reserve	Revaluation Reserve	Accumulated Loss	Total
Balance as on July 1, 2013 as previously reported	997,789	1,281	84	613	(656,252)	343,516
Effect of change in accounting policy	-	-	-	-	1,908	1,908
Balance as on July 1, 2013 as restated	997,789	1,281	84	613	(654,344)	345,424
----- Rupees '000' -----						
Net loss for the period	-	-	-	-	(8,124)	(8,124)
Other comprehensive income for the period	-	-	(24)	-	-	(24)
Incremental depreciation for the period on surplus on revaluation of fixed assets	-	-	(24)	-	(8,124)	(8,148)
	-	-	-	26	-	26
Balance as at September 30, 2013	997,789	1,281	60	639	(662,468)	337,302
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)
	-	-	106	743	-	25
Balance as at September 30, 2014	997,789	1,281	106	743	(742,447)	257,472

The annexed notes 1 to 13 form an integral part of this condensed interim financial information.



CHIEF EXECUTIVE



DIRECTOR

**CONDENSED INTERIM CASH FLOW STATEMENT
FOR THE QUARTER ENDED SEPTEMBER 30, 2014 (UNAUDITED)**

CASH FLOW FROM OPERATING ACTIVITIES

(Loss) / profit before share of associate and taxation

Adjustments:

- Depreciation
- Amortization of intangible asset
- Provision for gratuity
- Provision for doubtful debt
- Exchange gain
- Gain on disposal of property, plant and equipment
- Finance cost

Operating profit before working capital changes

(Increase) / decrease in current assets:

- Stores and spares
 - Stock in trade
 - Trade debts
 - Loans and advances
 - Trade deposits, short term prepayments and other receivables
- Increase / (decrease) in current liabilities:
- Trade and other payables

Cash (used in) / generated from operations

Finance cost paid
Gratuity paid
Income tax received/(paid)

Net cash (used in) / generated from operating activities

CASH FLOW FROM INVESTING ACTIVITIES

Purchase of property, plant and equipment
Capital work in progress
Proceeds from sale of property, plant and equipment
Long term deposits

Net cash generated from investing activities

CASH FLOW FROM FINANCING ACTIVITIES

Repayment of long term financing
Loan from director
Short term borrowings

Net Cash generated from financing activities

Net Increase in cash and cash equivalents

Cash and cash equivalents at the beginning of the period

Cash and cash equivalents at the end of the period

The annexed notes 1 to 13 form an integral part of this condensed interim financial information.

CHIEF EXECUTIVE

	Quarter ended	
	September 30, 2014	September 30, 2013
	----- Rupees '000' -----	
(Loss) / profit before share of associate and taxation	(6,644)	3,109
Adjustments:		
- Depreciation	7,542	8,085
- Amortization of intangible asset	1,155	1,155
- Provision for gratuity	39	107
- Provision for doubtful debt	4,833	1,816
- Exchange gain	(422)	-
- Gain on disposal of property, plant and equipment	(296)	(617)
- Finance cost	26,862	25,647
	39,714	36,193
Operating profit before working capital changes	33,070	39,301
(Increase) / decrease in current assets:		
- Stores and spares	(1,500)	(2,531)
- Stock in trade	(196,018)	42,629
- Trade debts	12,814	(11,678)
- Loans and advances	(8,514)	6,418
- Trade deposits, short term prepayments and other receivables	(5,974)	(6,205)
Increase / (decrease) in current liabilities:		
- Trade and other payables	34,751	(27,722)
	(164,440)	912
Cash (used in) / generated from operations	(131,370)	40,213
Finance cost paid	(25,423)	(25,072)
Gratuity paid	-	(143)
Income tax received/(paid)	36,086	(4,473)
Net cash (used in) / generated from operating activities	(120,707)	10,526
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(180)	(851)
Capital work in progress	-	(272)
Proceeds from sale of property, plant and equipment	296	1,323
Long term deposits	(100)	-
Net cash generated from investing activities	15	200
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of long term financing	(41,167)	(8,750)
Loan from director	40,000	-
Short term borrowings	131,864	9,526
Net Cash generated from financing activities	130,697	776
Net Increase in cash and cash equivalents	10,005	11,502
Cash and cash equivalents at the beginning of the period	8,891	11,438
Cash and cash equivalents at the end of the period	18,896	22,940



DIRECTOR

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION FOR THE QUARTER ENDED SEPTEMBER 30, 2014 (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.

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.

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, 2014.

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, 2014.

4. Surplus on Revaluation of Property, Plant and Equipment

	September 30, 2014	June 30, 2014
	----- Rupees '000' -----	
Land		
Opening balance	43,088	36,320
Add: Surplus on revaluation arisen during the year	-	6,768
	43,088	43,088
Building		
Opening balance	3,971	2,096
Add: Surplus on revaluation arisen during the year	-	2,955
Less: Related deferred taxation	-	(975)
	3,971	4,076
Incremental depreciation (net of deferred tax) charged on revalued property, plant and equipment during the year transferred to statement of comprehensive income	(25)	(105)
	<u>47,034</u>	<u>47,059</u>

5. Director's loan

This represents the loan from Director of the Company. The total amount of loan will be repayable over a period of three years including the moratorium of two years on the principal and interest amount, starting from the date of disbursement of loan.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION FOR THE QUARTER ENDED SEPTEMBER 30, 2014 (UN-AUDITED)

6. Contingencies and Commitments

6.1 Contingencies

- 6.1.1** 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 (June 2014: 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.
- 6.1.2** 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.

- 6.1.3** 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. The Company expects a favourable outcome of these suits, therefore, no provision has been made in these financial statements.

6.2 Guarantees

	September 30, 2014	June 30, 2014
	----- Rupees '000' -----	
Sui Northern Gas Pipelines Limited	3,090	3,090

6.3 Commitments

	September 30, 2014	June 30, 2014
	----- Rupees '000' -----	
Irrevocable letters of credit	119,107	160,961

7. Property, Plant and Equipment

		September 30, 2014	June 30, 2014
	Note	----- Rupees '000' -----	
Operating fixed assets	7.1	506,575	513,937
Capital work in progress		1,131	1,131
		<u>507,706</u>	<u>515,068</u>

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION FOR THE QUARTER ENDED SEPTEMBER 30, 2014 (UN-AUDITED)

	September 30, 2014	June 30, 2014
	----- Rupees '000' -----	
7.1 Operating fixed assets		
Opening written down value	513,937	525,049
Revaluation surplus	-	9,722
Additions during the period / year	180	12,861
Deletion during the period / year	7.1.1 -	(821)
	<u>514,117</u>	<u>546,811</u>
Depreciation charge for the period / year	<u>(7,542)</u>	<u>(32,874)</u>
Closing written down value	<u>506,575</u>	<u>513,937</u>

7.1.1 During the period, the company sold company provided car having book value nil to CEO of the Company as per approved Company's vehicle policy.

8. Cost of sales

	Quarter ended	
	September 30, 2014	September 30, 2013
	----- Rupees '000' -----	
Raw materials consumed	409,737	462,986
Fuel and power	16,089	15,087
Salaries, wages and benefits	6,101	8,663
Services through contract	4,459	4,720
Transportation	1,363	2,217
Repairs and maintenance	1,142	1,594
Depreciation	6,230	6,638
Amortization	1,155	1,155
Insurance	1,173	1,190
Travelling and entertainment	622	524
Stores and spares consumed	523	619
Miscellaneous	359	367
Cost of goods manufactured	<u>448,952</u>	<u>505,760</u>
Finished goods		
- Opening	96,428	99,380
- Closing	(110,882)	(83,285)
	<u>(14,454)</u>	<u>16,095</u>
	<u>434,498</u>	<u>521,855</u>

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION FOR THE QUARTER ENDED SEPTEMBER 30, 2014 (UN-AUDITED)

9. Segment Information

	Coating and Emulsion	Polyester	Textile and Paper	Trading	Total
	----- Rupees '000' -----				
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	<u>12,799</u>	<u>(98)</u>	<u>10,977</u>	<u>2,687</u>	<u>26,365</u>
Finance costs					(26,862)
Other operating expenses					(8,854)
Other operating income					2,708
Net loss before tax and share of loss of associate					<u>(6,644)</u>

Segment results for the period ended September 30, 2013

Revenue	281,887	18,332	138,612	139,060	577,891
Segment results as at September 30, 2014	<u>15,480</u>	<u>(685)</u>	<u>6,483</u>	<u>6,954</u>	<u>28,232</u>
Finance costs					(25,647)
Other operating expenses					(3,289)
Other operating income					3,812
Net profit before tax and share of loss of associate					<u>3,109</u>

Segment asset and liabilities as at September 30, 2014

Segment assets	450,246	130,470	275,845	234,421	1,090,982
Segment liabilities	<u>73,764</u>	<u>6,316</u>	<u>63,585</u>	<u>69,193</u>	<u>212,857</u>

Segment asset and liabilities as at June 30, 2014

Segment assets	448,492	136,433	226,222	106,340	917,487
Segment liabilities	<u>99,049</u>	<u>11,439</u>	<u>50,314</u>	<u>10,984</u>	<u>171,786</u>

	September 30, 2014	June 30, 2014
	----- Rupees '000' -----	

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

Segment assets for reportable segments	1,090,982	917,487
Corporate assets unallocated	323,499	336,933
Cash and bank balances	18,896	8,891
Others	211,191	227,877
Total assets as per the balance sheet	<u>1,644,568</u>	<u>1,491,189</u>

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

Segment liabilities for reportable segments	212,857	171,786
Corporate liabilities unallocated	1,047,232	921,062
Trade and other payables	53,130	53,482
Taxation - net	26,843	21,995
Total liabilities as per the balance sheet	<u>1,340,062</u>	<u>1,168,325</u>

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM FINANCIAL INFORMATION FOR THE QUARTER ENDED SEPTEMBER 30, 2014 (UN-AUDITED)

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 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, 2014	September 30, 2013
		----- Rupees '000' -----	
i. Associated undertakings	Purchase of goods and services	1,004	1,117
	Sale of goods and services	-	2,251
	Managerial services and expenses charged - net	15,978	15,352
ii. Post employment benefit plans	Company's contribution to Employees' Provident Fund Trust	957	1,072
	Gratuity	39	107
		September 30, 2014	June 30, 2014
Period-end balances		----- Rupees '000' -----	
Associated undertakings	Trade and other payables	2,856	4,787
	Trade debts	233	233
	Other receivables	10,074	2,769
	Director's loan	40,000	-

11. Date of Authorization for Issue

This condensed interim financial information was authorized for issue on October 27, 2014 by the Board of Directors of the Company

12. Corresponding Figures

Corresponding figures have been re-arranged and reclassified, wherever necessary, for the purposes of comparison and better presentation as per reporting framework. During the period, the following reclassifications were made in these condensed interim financial information:

Description	Rupees "000"	Head of account in condensed interim financial information for the period September 30, 2014	Head of account in condensed interim financial information for the period September 30, 2013
Profit and loss account			
Insurance expenses	1,177	Cost of sales	Administrative expenses
Legal & professional expenses	1,031	Other operating expenses	Administrative expenses

The effect of other reclassifications is not material.

13. General

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



CHIEF EXECUTIVE



DIRECTOR