

QUARTERLY REPORT

September 30, 2013 (Un-Audited)



MOVING AT THE
SPEED OF INNOVATION



Descon Chemicals Limited

Descon Chemicals Limited



QUARTERLY REPORT
September 30, 2013 (Un-Audited)

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COMPANY INFORMATION

Board of Directors

Abdul Razak Dawood
Chairman

Taimur Saeed
Chief Executive Officer

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

Chief Financial Officer

Yasir Siddique Sheikh

Company Secretary

Abdul Sohail

Auditors

M/s Horwath 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 Registrar

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

Registered Office

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

Plant Site

Site 1: 14.5-km Lahore - Sheikhpura Road, Lahore,
Pakistan.
Tel: 92 42 37970962
Fax: 92 42 37970229

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

Karachi Office

Business Avenue, 26/A, 9th Floor, Block 6, PECHS,
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,

DIRECTORS REPORT TO THE SHAREHOLDERS

For the quarter ended September 30, 2013

Ladies and Gentlemen

The Board presents to you the financial statements for the three months ended on September 30 2013. While the challenges in the business environment continue to exist, however, the results for the quarter ended September 30, 2013 are encouraging as the Company earned profit before taxation of PKR 3 million as opposed to a loss of PKR 12 million compared with the same period last year. This is the result of management's continuous efforts in revamping its product portfolio adding high margin innovative products. However, demand of our products remains affected due to the challenges of utility shortages being faced by our customers.

Financial Highlights

	Quarter ended	
	September 30, 2013	September 30, 2012
	(Rupees in thousand)	
Sales	577,891	598,377
Gross profit	57,213	46,459
Gross profit %age of sales	9.90%	7.76%
Operating Profit	27,201	20,513
Loss for the period	(8,124)	(21,642)
Loss per share (PKR)	(0.04)	(0.11)
Sales Volume(MT's)	3,823	4,131

The sales for the quarter decreased by 3%, compared to the same period last year, however, our margins increased by 23% despite severe volatility in input costs due to the introduction of value added products and application support. Operating profit increased by 33% as compared to the same period last year thereby giving a turnaround in profit before tax of PKR 15 million. Management was successful in reducing other operating expenses by 73% as compared to same period last year. Finance cost reduced by 14% as a result of reduction in KIBOR rates and due to improved controls around working capital management.

Management continues to focus on reducing its investment in working capital by better managing outstanding receivables and obtaining supplier's credit whenever possible.

Future Outlook

While macroeconomic conditions remain adverse, the key to sustainable profitability is continuous addition of new high margin products. Management promises to deliver quality chemical solutions by introducing winning products and ideas in the market. For this purpose, management has collaboration with technology partners across the border to provide cost effective solutions for our customers. We are confident that with continuous focus on product development, your Company will sustain its return to profitability.

We thank our shareholders 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

CONDENSED INTERIM BALANCE SHEET AS AT SEPTEMBER 30, 2013 (UNAUDITED)

	Unaudited September 30, 2013	Audited June 30, 2013
Note	----- (Rupees in thousand) -----	
CAPITAL AND LIABILITIES		
Share Capital and Reserves		
Authorized capital: 230,000,000 (June 30, 2012: 230,000,000) ordinary shares of Rs.5 each	1,150,000	1,150,000
Issued, subscribed and paid up capital	997,789	997,789
Reserves	(662,395)	(654,273)
	335,394	343,516
Surplus on Revaluation of Property, Plant and Equipment	5 38,390	38,416
Non Current Liabilities		
Long term financing	260,250	269,000
Deferred tax liabilities	36,603	36,603
	296,853	305,603
Current Liabilities		
Trade and other payables	183,588	211,310
Accrued mark up	22,701	22,126
Short term borrowings	592,701	583,175
Current portion of long term financing	18,000	18,000
Provision for taxation	17,767	11,988
	834,758	846,599
Contingencies and Commitments	6 -	-
	1,505,395	1,534,134
ASSETS		
Non Current Assets		
Property, plant and equipment	7 527,331	534,998
Intangible assets	26,569	27,724
Long term investments	59,011	64,489
Long term deposits and advances	1,712	1,712
Retirement benefit asset - prepayments	590	554
	615,213	629,477
Current Assets		
Stores and spares	12,736	10,205
Stock in trade	300,930	343,559
Trade debts	384,091	374,229
Loans and advances	156,439	158,385
Short term prepayments and other receivables	13,046	6,841
Cash and bank balances	22,940	11,438
	890,182	904,657
	1,505,395	1,534,134

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


CHIEF EXECUTIVE


DIRECTOR

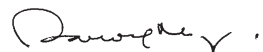
CONDENSED INTERIM PROFIT AND LOSS ACCOUNT (UNAUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2013

	Note	Quarter ended	
		September 30, 2013	September 30, 2012
----- (Rupees in thousand) -----			
Sales - net		577,891	598,377
Cost of sales	8	<u>(520,678)</u>	<u>(551,917)</u>
Gross Profit		57,213	46,459
Operating expenses:			
- Distribution costs		<u>(18,099)</u>	<u>(16,283)</u>
- Administrative expenses		<u>(11,913)</u>	<u>(9,664)</u>
		<u>(30,012)</u>	<u>(25,947)</u>
Operating Profit		27,201	20,513
Other operating expenses		(2,258)	(8,252)
Finance cost		(25,647)	(29,794)
Other operating income		<u>3,812</u>	<u>4,754</u>
Profit / (loss) before taxation		3,109	(12,780)
Share of net loss of associated undertaking		<u>(5,454)</u>	<u>(5,871)</u>
Loss before taxation		(2,345)	(18,650)
Taxation		(5,779)	(2,992)
Loss after taxation for the period		<u>(8,124)</u>	<u>(21,642)</u>
Loss per share - basic and diluted	9	<u>(0.04)</u>	<u>(0.11)</u>

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CHIEF EXECUTIVE



DIRECTOR

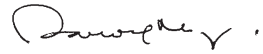
CONDENSED INTERIM STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2013

	Quarter ended	
	September 30, 2013	September 30, 2012
	----- (Rupees in thousand) -----	
Loss after taxation for the period	(8,124)	(21,642)
Other comprehensive income		
Deficit on revaluation of available for sale investment	(24)	(4)
Share of un-realized gain on available for sale investment of associate	-	-
Transfer from surplus on revaluation of property, plant and equipment in respect of incremental depreciation charged in current period	26	18
Total comprehensive loss for the period	<u>(8,122)</u>	<u>(21,628)</u>

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



CHIEF EXECUTIVE



DIRECTOR

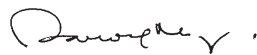
CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED)
FOR THE QUARTER ENDED SEPTEMBER 30, 2013

	Quarter ended	
	September 30, 2013	September 30, 2012
	----- (Rupees in thousand) -----	
CASH FLOW FROM OPERATING ACTIVITIES		
Profit / (loss) before taxation	3,109	(12,780)
Adjustments:		
- Depreciation	8,085	8,488
- Amortization of intangible asset	1,155	1,155
- Provision for gratuity	107	575
- Provision for doubtful debt	1,816	8,018
- Gain on disposal of property, plant and equipment	(617)	(425)
- Finance cost	25,647	29,794
- Gain on available for sale investments	36,193	47,605
Operating profit before working capital changes	39,301	34,826
(Increase) / decrease in current assets:		
- Stores and spares	(2,531)	600
- Stock in trade	42,629	(40,551)
- Trade debts	(11,678)	(7,709)
- Loans and advances	6,418	(7,899)
- Trade deposits, short term prepayments and other receivables	(6,205)	2,049
Increase / (decrease) in current liabilities:		
- Trade and other payables	(27,722)	45,797
	913	(7,712)
Cash generated from operations	40,213	27,114
Finance cost paid	(25,072)	(30,125)
Gratuity paid	(143)	(483)
Income tax paid	(4,473)	(14,622)
Net cash generated from / (used in) operating activities	10,526	(18,116)
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(851)	(3,295)
Capital work in progress	(272)	(766)
Proceeds from sale of property, plant and equipment	1,323	944
Long term deposits	-	-
Net cash generated from / (used in) investing activities	200	(3,117)
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of long term financing	(8,750)	(6,750)
Short term borrowings	9,526	20,114
Net Cash generated from financing activities	776	13,364
Net Increase / (decrease) in cash and cash equivalents	11,502	(7,869)
Cash and cash equivalents at the beginning of the period	11,438	25,213
Cash and cash equivalents at the end of the period	22,940	17,344

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



CHIEF EXECUTIVE



DIRECTOR

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY (UNAUDITED) FOR THE QUARTER ENDED SEPTEMBER 30, 2013

	Share Capital	Share Premium	Fair value Reserve	Revaluation Reserve	Accumulated Loss	Total
Balance as on July 1, 2012	997,789	1,281	220	502	(614,150)	385,642
Total comprehensive income for the period ended September 30, 2012						
Loss after tax for the period	-	-	-	-	(21,642)	(21,642)
Other comprehensive income for the period:						
Share of unrealized gain on available for sale investment of associate	-	-	(4)	-	-	(4)
Transfer from surplus on revaluation of property plant and equipment	-	-	-	18	-	18
Total comprehensive income (loss) for the period	-	-	(4)	18	(21,642)	(21,628)
Total contributions by and distributions to owners of the Company recognized directly in equity	-	-	-	-	-	-
Balance as at September 30, 2012	997,789	1,281	216	520	(635,792)	364,014
Balance as on July 1, 2013	997,789	1,281	84	613	(656,252)	343,516
Total comprehensive income for the period ended September 30, 2013						
Loss after tax for the period	-	-	-	-	(8,124)	(8,124)
Other comprehensive income for the period:						
Un-realized gain on available for sale investment	-	-	(24)	-	-	(24)
Transfer from surplus on revaluation of property plant and equipment	-	-	-	26	-	26
Total comprehensive income (loss) for the period	-	-	(24)	26	(8,124)	(8,122)
Total contributions by and distributions to owners of the Company recognized directly in equity	-	-	-	-	-	-
Balance as at September 30, 2013	997,789	1,281	60	639	(664,376)	335,394

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



CHIEF EXECUTIVE



DIRECTOR

Notes to and Forming Part of the Condensed Interim Unaudited Financial Statements For the Quarter Ended September 30, 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 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, 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.

2. Basis of Preparation

This condensed interim financial information is unaudited and has been prepared and is being submitted to the shareholders in accordance with section 245 of the Companies Ordinance, 1984 and International Accounting Standard (IAS) 34 - 'Interim Financial Reporting'. This condensed interim financial information does not include all the information required for annual financial statements and therefore should be read in conjunction with the annual financial statements for the year ended June 30, 2013.

3. Significant Accounting Policies

The accounting policies adopted for the preparation of this condensed interim financial information are the same as those applied in the preparation of preceding annual published financial statements of the company for the year ended June 30, 2013.

4. Taxation

The provision for taxation for the quarter ended September 30, 2013 has been made using the tax rate that would be applicable to expected total annual earnings.

5. Surplus on Revaluation of Property, Plant and Equipment

	September 30, 2013	June 30, 2013
	----- (Rupees in thousand) -----	
Land	36,320	36,320
Building	2,096	2,206
	<u>38,416</u>	<u>38,526</u>
Incremental depreciation (net of deferred tax) charged on revalued property, plant and equipment during the year transferred to statement of comprehensive income	(26)	(110)
	<u>38,390</u>	<u>38,416</u>

6. Contingencies and Commitments

Contingencies

The Custom Department passed an order under Section 25 of the Customs Act in the case of Ravi Resins Limited (previous name of the Company) creating a demand of Rs. 1.02 million (30 June 2013: Rs.1.02 million). The Tribunal has dismissed the appeal filed against this order and the management has filed an appeal in the Lahore High Court that is pending adjudication. The Company has also filed an application before Alternate Dispute Resolution Committee for the resolution of this pending issue. Furthermore, Customs Department raised a demand of Rs. 3.190 million against the Company during the year 2011 to cater for difference in valuation of certain imported raw materials. No provision has been made in these financial statements in respect of these demands as the management believes that these cases would be decided in its favour.

The Income Tax Department has adjusted Rs. 20.163 million 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.

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 (30 June 2013: Rs. 38.379 million). The Company expects a favourable outcome of the suit, therefore, no provision has been made in these financial statements.

Guarantees

	September 30, 2013	June 30, 2013
	----- (Rupees in thousand) -----	
Sui Northern Gas Pipelines Limited	<u>6,640</u>	<u>6,640</u>

Commitments

	September 30, 2013	June 30, 2013
	----- (Rupees in thousand) -----	
Irrevocable letters of credit	<u>199,122</u>	<u>178,565</u>

7. Property, Plant and Equipment

	September 30, 2013	June 30, 2013
Note	----- (Rupees in thousand) -----	
Opening written down value	534,998	548,457
Additions during the period / year	7.1 1,124	21,725
Deletion during the period / year	(2,621)	(3,450)
	<u>533,501</u>	<u>566,732</u>
Depreciation charge for the period / year	(6,170)	(31,734)
	<u>527,331</u>	<u>534,998</u>

7.1 Additions during the period

	September 30, 2013	June 30, 2013
	----- (Rupees in thousand) -----	
Plant & machinery	430	3,274
Vehicles	-	3,284
Office equipment	-	581
IT equipment	394	5,968
Laboratory equipment	27	-
	<u>851</u>	<u>13,107</u>
Capital work in progress	273	8,618
	<u>1,124</u>	<u>21,725</u>

8. Cost of Sales

	Quarter ended	
	September 30, 2013	September 30, 2012
	----- (Rupees in thousand) -----	
Raw materials consumed	462,986	507,583
Stores and spares consumed	619	812
Fuel and power	15,087	18,401
Salaries, wages and benefits	12,325	14,917
Services through contractors	3,275	3,518
Repairs and maintenance	1,594	650
Travelling and entertainment	524	439
Insurance	13	26
Communication	134	103
Miscellaneous	232	460
Depreciation	6,638	7,274
Amortization	1,155	1,155
Cost of goods manufactured	504,583	555,338
Finished goods		
- Opening	99,380	89,118
- Closing	(83,285)	(92,537)
	16,095	(3,421)
	520,678	551,917

	Quarter ended	
	September 30, 2013	September 30, 2012

9. Loss per share -basic and diluted

Loss for the period	Rupees in thousand	(8,124)	(21,642)
Weighted average number of ordinary shares in issue during the period	Number	199,557	199,557
Loss per share(PKR)		(0.04)	(0.11)

Diluted earnings per share has not been presented as the company doesn't have any convertible instrument in issue as at September 30, 2013 and September 30, 2012 which would have any effect on the earnings per share if the option to convert is exercised.

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM UNAUDITED FINANCIAL STATEMENTS FOR THE QUARTER ENDED SEPTEMBER 30, 2013

10. Segment Information

	Coating and Emulsion	Polyester	Textile and Paper	Trading	Total
Rupees in thousand					
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, 2013	14,977	(718)	6,236	6,706	27,201
Finance costs					(25,647)
Other operating expenses					(2,258)
Other operating income					3,812
Net profit before tax and share of loss of associate					3,109
Segment results for the period ended September 30, 2012					
Revenue	311,981	30,782	117,631	137,983	598,377
Segment results as at September 30, 2012	9,389	(1,638)	6,872	5,890	20,513
Finance costs					(29,794)
Other operating expenses					(8,252)
Other operating income					4,754
Net loss before tax and share of loss of associate					(12,780)
Segment asset and liabilities as at September 30, 2013					
Segment assets	476,405	180,959	274,108	120,884	1,052,356
Segment liabilities	108,140	9,378	53,500	8,050	179,068
Segment asset 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

September 30, June 30,
2013 2013
----- (Rupees in thousand) -----

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

Segment assets for reportable segments	1,052,356	1,088,293
Corporate assets unallocated	335,821	335,941
Cash and bank balances	22,940	11,438
Others	94,278	98,462
Total assets as per the balance sheet	<u>1,505,395</u>	<u>1,534,134</u>

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

Segment liabilities for reportable segments	179,068	193,095
Corporate liabilities unallocated	870,951	870,175
Others	63,825	76,944
Taxation - net	17,767	11,988
Total liabilities as per the balance sheet	<u>1,131,610</u>	<u>1,152,203</u>

II. Transactions with Related Parties

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

Quarter ended
September 30, September 30,
2013 2012
----- (Rupees in thousand) -----

Associates and related parties

Purchase of material, goods and services	1,117	325
Sale of material and goods	2,251	435
Managerial services and expenses charged - net	15,352	10,130

Staff retirement fund

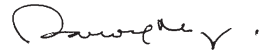
Company's contribution to Employees' Provident Fund Trust	1,072	912
Gratuity	107	576

12. General

- 12.1** These interim financial statements are authorized for issue on 21 October, 2013 by the Board of Directors of the Company.
- 12.2** Corresponding figures have been re-arranged wherever necessary to facilitate comparison. However, no material rearrangements have been made in the condensed interim financial statements.
- 12.3** The figures have been rounded off to the nearest thousand rupee.



CHIEF EXECUTIVE



DIRECTOR



www.descon.com

IF UNDELIVERED PLEASE RETURN TO
DESCON CHEMICALS LIMITED

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LAHORE, PAKISTAN.

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