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# COMPANY INFORMATION

## Board of Directors

Abdul Razak Dawood

### Chairman

Taimur Saeed

### Chief Executive Officer

Dr. Salman Zakaria

Farooq Nazir

### Chief Financial Officer

Syed Zamanat Abbas

Taimur Dawood

Muhammad Sadiq

Faisal Dawood

## 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 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 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](http://www.descon.com)

# DESCON CHEMICALS LIMITED

DIRECTORS' REPORT TO THE SHAREHOLDERS  
FOR THE QUARTER ENDED SEPTEMBER 30, 2011

## Ladies and Gentlemen

The Board is pleased to present to you the financial statements for the quarter ended September 30, 2011. The adverse macro economic conditions in Pakistan ranging from energy shortages to reduction in the demand have created unprecedented challenges. However the company through many difficult management choices has managed and the company has shown a profit before tax of PKR 1.7mln for the quarter.

The volatility in the raw material prices has continued in the quarter, which has eroded margins and market conditions do not allow us to pass these increases to our customers to recover margins. The focus has remained on product and technological improvement, enabling reduction in costs of product which helps to affect some margin. The company is working on technical collaboration agreements with internationally renowned chemical companies. The results of this cooperation would be seen in the coming quarters.

## Financial Highlights

	Quarter ended	
	September 30, 2011	September 30, 2010
	Rupees '000	
Sales	649,955	637,566
Gross profit /(loss)	51,910	84,016
Operating Profit / (loss)	26,636	41,425
Profit / (loss) for the period	(4,832)	(5,799)
Earnings / (loss) per share (PKR)	<b>(0.02)</b>	<b>(0.03)</b>

The sales for the quarter grew by 2%, compared to same period last year, inspite of a sharp reduction in the demand from our customer in Coating and Textiles. Margins have suffered due to the volatility in the costs of raw materials. The company has significantly reduced its distribution and administration expenses by PKR 17mln. Financial costs have also improved by PKR 7mln, due to stringent working capital controls, which has released cash of PKR 150mln.

## Future Outlook

The recent increase in the electricity rates would impact margins adversely. However recent reduction in KIBOR rate shall provide some relief. The current external environment in the country will continue to remain challenging. Your company will focus on product development and innovation, to provide competitive advantage. Management would appreciate the support from key stakeholders for their support, and assure them that we will continue to strive successfully for profitable growth.

For and on behalf of the Board



Taimur Saeed  
Chief Executive Officer

Lahore  
October 21, 2011

# DESCON CHEMICALS LIMITED

CONDENSED INTERIM BALANCE SHEET AS AT SEPTEMBER 30, 2011 (UNAUDITED)

	Note	Unaudited September 30, 2011 Rupees '000	Audited June 30, 2011 Rupees '000
<b>CAPITAL AND LIABILITIES</b>			
<b>Share Capital and Reserves</b>			
Authorized capital: 230,000,000 (June 30, 2009: 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		1,863	1,342
Accumulated losses		(557,279)	(552,060)
		442,374	447,071
<b>Surplus on Revaluation of Property, Plant and Equipment</b>	5	38,612	38,643
<b>Non Current Liabilities</b>			
Long term financing		28,500	33,500
Deferred liabilities		36,147	56,406
		64,647	89,906
<b>Current Liabilities</b>			
Trade and other payables		340,871	267,542
Accrued mark up		29,383	29,961
Short term borrowings		742,873	803,513
Current portion of long term financing		67,375	68,375
Provision for taxation		32,489	25,989
		1,212,991	1,195,380
<b>Contingencies and Commitments</b>	6	-	-
		<b>1,758,623</b>	<b>1,771,000</b>
<b>ASSETS</b>			
<b>Non Current Assets</b>			
Property, plant and equipment	7	571,056	581,143
Intangible assets		35,811	36,966
Long term investments		83,646	83,174
Long term deposits and advances		747	757
		691,260	702,040
<b>Current Assets</b>			
Stores and spares		13,471	14,849
Stock in trade		396,257	416,375
Trade debts		412,344	439,262
Loans and advances		166,117	130,434
Short term prepayments and other receivables		12,535	20,913
Cash and bank balances		66,639	47,127
		1,067,363	1,068,960
		<b>1,758,623</b>	<b>1,771,000</b>

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 ENDED SEPTEMBER 30, 2011

		<b>Quarter ended</b>	
		<b>September 30,</b>	<b>September 30,</b>
		<b>2011</b>	<b>2010</b>
<b>Note</b>		<b>Rupees '000</b>	
Sales - net		649,955	637,566
Cost of sales	8	(598,045)	(553,550)
<b>Gross Profit / (Loss)</b>		51,910	84,016
		7.99%	13.18%
Operating expenses:			
- Distribution costs		(13,813)	(25,035)
- Administrative expenses		(11,461)	(17,556)
		(25,274)	(42,591)
<b>Operating Profit / (Loss)</b>		26,635	41,425
Other operating expenses		(335)	(380)
Finance cost		(36,526)	(43,069)
Other operating income		11,524	2,600
		1,299	576
<b>Profit / (Loss) before Taxation</b>		1,299	576
Share of net profit / (loss) of associated undertaking		369	-
		1,668	576
<b>Profit / (Loss) before Taxation</b>		1,668	576
Taxation		(6,500)	(6,375)
		<b>(4,832)</b>	<b>(5,799)</b>
<b>Profit / (Loss) after Taxation for the Period</b>		<b>(4,832)</b>	<b>(5,799)</b>
<b>Earning per Share - Basic</b>		<b>(0.02)</b>	<b>(0.03)</b>

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 (UNAUDITED)  
FOR THE QUARTER ENDED SEPTEMBER 30, 2011

	Quarter ended	
	September 30, 2011	September 30, 2010
	----- Rupees '000 -----	
<b>Profit / (Loss) after Taxation for the Period</b>	(4,832)	(5,799)
<b><i>Other comprehensive income</i></b>		
Surplus / (Deficit) on revaluation of investment available for sale	-	(4)
Share of un-realized gain on available for sale investment of associate	103	-
Transfer from surplus on revaluation of property, plant and equipment in respect of incremental depreciation charged in current period	31	31
<b>Total Comprehensive Income / (Loss) for the Period</b>	<b>(4,698)</b>	<b>(5,772)</b>

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

  
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**CHIEF EXECUTIVE**

  
 \_\_\_\_\_  
**DIRECTOR**

# DESCON CHEMICALS LIMITED

CONDENSED INTERIM CASH FLOW STATEMENT (UNAUDITED)  
FOR THE QUARTER ENDED SEPTEMBER 30, 2011

	Quarter ended	
	September 30, 2011	September 30, 2010
	Rupees '000	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit before taxation	1,299	576
Adjustments:		
- Depreciation	6,537	10,951
- Amortisation of intangible asset	1,155	2,130
- Provision for gratuity	484	406
- Gain on disposal of property, plant and equipment	(1,769)	-
- Finance cost	36,526	43,069
	42,933	56,556
<b>Operating profit before working capital changes</b>	44,232	57,132
(Increase) / decrease in current assets:		
- Stores and spares	1,378	(1,495)
- Stock in trade	20,118	45,504
- Trade debts	26,918	13,938
- Loans and advances	(24,584)	(44,226)
- Trade deposits, short term prepayments and other receivables	8,378	(33,445)
Increase / (decrease) in current liabilities:		
- Trade and other payables	72,844	(30,876)
	105,052	(50,600)
<b>Cash generated from operations</b>	149,284	6,532
Finance cost paid	(37,104)	(41,364)
Gratuity paid	(20,257)	(518)
Income tax (paid) / refunded	(11,100)	(10,805)
<b>Net Cash (used in) / generated from Operating Activities</b>	<b>80,823</b>	<b>(46,155)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(364)	-
Capital work in progress	(900)	(1,644)
Proceeds from sale of property, plant and equipment	6,583	-
Long term deposits	10	-
<b>Net Cash used in Investing Activities</b>	<b>5,329</b>	<b>(1,644)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Repayment of long term financing	(6,000)	(5,834)
Short term borrowings	(60,640)	27,387
<b>Net Cash generated from / (used in) Financing Activities</b>	<b>(66,640)</b>	<b>21,553</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>19,512</b>	<b>(26,246)</b>
Cash and cash equivalents at the beginning of the period	47,127	41,210
<b>Cash and Cash Equivalents at the End of the Period</b>	<b>66,639</b>	<b>14,964</b>

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 (UNAUDITED) FOR THE QUARTER ENDED SEPTEMBER 30, 2011

	Share Capital	Shares to be Issued - net	Reserves			Total
			Share Premium	Fair value Reserve	Revaluation Reserve	
	Rupees '000					
Balance as at June 30, 2010 (Restated)	997,789	-	1,281	(21)	264	466,147
Loss after tax for the period						(5,799)
Other comprehensive income for the year						27
Un-realized gain on available for sale investment	-	-	-	(4)	31	(5,772)
<b>Balance as at September 30, 2010</b>	<b>997,789</b>	<b>-</b>	<b>1,281</b>	<b>(25)</b>	<b>295</b>	<b>460,375</b>
Balance as at June 30, 2011	997,789	-	1,281	61	387	447,071
Loss after tax for the period						(4,832)
Other comprehensive income for the year						103
Share of un-realized gain on available for sale investment of associate	-	-	-	103	-	31
Un-realized gain on available for sale investment	-	-	-	103	31	(4,698)
<b>Balance as at September 30, 2011</b>	<b>997,789</b>	<b>-</b>	<b>1,281</b>	<b>164</b>	<b>418</b>	<b>442,374</b>

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 ENDED SEPTEMBER 30, 2011

## 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 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, 2011.

## 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, 2011.

## 4. Taxation

The provision for taxation for the quarter ended September 30, 2011 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, 2011	June 30, 2011
	----- Rupees '000 -----	
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	(31)	(122)
	<u><u>38,612</u></u>	<u><u>38,643</u></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 creating a demand of Rs. 1.02 million (June 30, 2011: 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 resolution of this pending issue. No provision has been made in respect of the above tax / duty demands as the management believes that the above cases will be decided in the Company's favour.

### Commitments

Commitments as at balance sheet date are as under:

	September 30, 2011	June 30, 2011
	----- Rupees '000 -----	
Irrecoverable letters of credit	251,755	230,906
Contract against ERP	3,085	3,085
	<u>254,840</u>	<u>234,000</u>

# DESCON CHEMICALS LIMITED

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM UNAUDITED FINANCIAL STATEMENTS FOR THE QUARTER ENDED SEPTEMBER 30, 2011

## 7. Property, Plant and Equipment

	September 30, 2011	June 30, 2011
	----- Rupees '000 -----	
Opening written down value	581,143	623,360
Additions during the period / year	1,264	8,591
Deletion during the period / year	(4,814)	(7,989)
	577,593	623,962
Depreciation charge for the period / year	(6,537)	(42,819)
	<u>571,056</u>	<u>581,143</u>

## 8. Cost of Sales

	Quarter ended	
	September 30, 2011	September 30, 2010
	----- Rupees '000 -----	
Raw materials consumed	545,783	506,648
Stores and spares consumed	1,977	6,471
Fuel and power	12,460	9,718
Salaries, wages and benefits	14,967	15,907
Repairs and maintenance	1,547	314
Travelling and entertainment	532	561
Insurance	180	109
Communciation	135	78
Miscellaneous	814	1,819
Depreciation	8,020	8,370
	586,413	549,995
Work in process		
- Opening	-	6,096
- Closing	-	(12,218)
	-	(6,122)
Cost of goods manufactured	586,413	543,873
Finished goods		
- Opening	71,929	107,689
- Closing	(60,297)	(98,012)
	11,632	9,677
	<u>598,045</u>	<u>553,550</u>

## 9. 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, 2011	September 30, 2010
	----- Rupees '000 -----	
<b>Associates and related parties</b>		
Purchase of material, goods and services	306	1,302
Sale of material and goods	111	12,028
Managerial services and expenses charged - net	10,447	9,357
<b>Staff retirement fund</b>		
Company's contribution to Employees' Provident Fund Trust	684	1,042
Gratuity	483	855

## DESCON CHEMICALS LIMITED

NOTES TO AND FORMING PART OF THE CONDENSED INTERIM UNAUDITED FINANCIAL STATEMENTS  
FOR THE QUARTER ENDED SEPTEMBER 30, 2011

### 10. General

- 10.1** These interim financial statements are authorized for issue on October 21, 2011 by the Board of Directors of the Company.
- 10.2** Corresponding figures have been re-arranged wherever necessary to facilitate comparison. However, no material rearrangements have been made in the condensed interim financial statements.
- 10.3** The figures have been rounded off to the nearest thousand rupee.



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**CHIEF EXECUTIVE**



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**DIRECTOR**