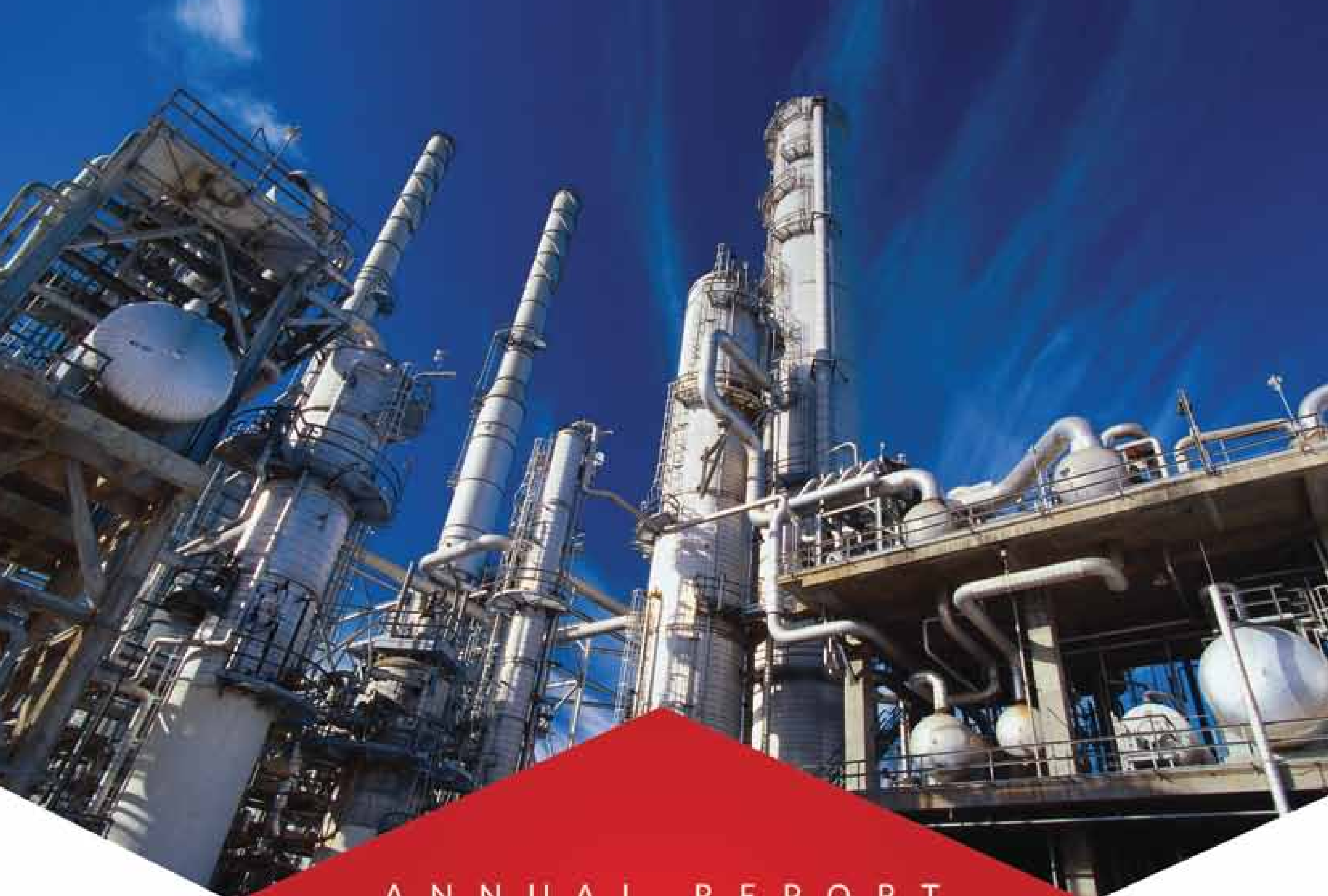

ANNUAL REPORT 2014

Descon Oxychem Limited

DELIVERING MORE TOMORROWS

COVER CONCEPT

This year's theme showcases the individual might of Descon Oxychem, while reaffirming our commitment to a sustainable world.

The reflection of our strength exists in the purity of water, the same base elements as our product, and we proudly state our vision to deliver bigger, better and brighter tomorrow world with growth.

CONTENTS

VISION & MISSION

VISION
To become a leading chemical solutions provider to industry worldwide.

MISSION
To provide competitive chemical solutions through technological innovation to form the basis of better life.

STATEMENT OF ETHICS & BUSINESS PRACTICES
We believe in a stimulating and challenging team oriented work environment that encourages develops and rewards excellence. We are committed to diligently serving our community and stakeholders, while maintaining high standards of moral and ethical values.

COMPANY INFORMATION

Board of Directors
Abdul Razak Dawood
Chairman
Taimur Saeed
Chief Executive Officer
Farooq Nazir
Taimur Dawood
Ahmed Razi Ghazali
Faisal Dawood
Syed Zamanat Abbas
Asif Qadir

Chief Financial Officer
Yasir Siddique Sheikh

Company Secretary
Abdul Sohail

Auditors
M/s A.F. Ferguson & Co.
Chartered Accountants

Internal Auditors
M/s KPMG Taseer Hadi & Co.
Chartered Accountants

Legal Advisors
M/s Hassan & Hassan
Advocates

Bankers
Allied Bank Limited
Bank Al Habib Limited
Habib Metropolitan Bank Limited
Habib Bank Limited
KASB Bank Limited
Summit Bank Limited
Soneri Bank Limited
Askari 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 Ferozepur Road
Lahore - 53000 Pakistan.
Tel: +92 42 35923721-9

Plant Site
18-KM Lahore - Sheikhupura Road,
Lahore, Pakistan.
Tel: +92 42 3797 1822-243
Fax: +92 42 3797 1831

Karachi Office
Business Avenue,
26/A, 9th Floor, Block 6, PECHS,
Shahra-e-Faisal, Karachi, Pakistan
Tel: +92 21 3454 4485-6
Fax: +92 21 3438 2674

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

BOARD AND MANAGEMENT COMMITTEES

Audit Committee

Audit committee has been constituted by the Board in compliance with the Listing Regulations. The committee oversees the Internal Audit function, and also reviews internal audit plans and reports. The committee conducts its meetings as and when required. The committee apprises the Board about the significant discussions and decisions at its meetings and recommendations in respect of Company's operations and financial results.

The committee comprises of three members, all are non-executive directors, including the Chairman of the committee. This committee is constituted of the following members:

Farooq Nazir	Chairman
Taimur Dawood	Member
Syed Zamanat Abbass	Member

Enterprise Risk Management Committee

Enterprise Risk Management Committee was constituted to assist Audit Committee of the Board of Directors in overseeing and reviewing information regarding the enterprise Risk management framework, including the significant policies, procedures and practices employed to manage all risks affecting the Company. The committee at minimum meets on a quarterly basis or as frequently as necessary. The committee is constituted of the following members:

Taimur Dawood	Board Nominee
Taimur Saeed	Chief Executive Officer
Abdul Sohail	Company Secretary
Yasir Siddique Sheikh	Chief Financial Officer
Abdul Sattar	Head Shared Services
Bilal Malik	Head HR
Saqib Abbas	Manager Compliance & Reporting

Human Resource & Remuneration Committee

The Committee has been constituted by the Board to recommend human resource management policies to the Board and fulfill the requirements of the Code of Corporate Governance. It comprises of three members, of whom two are non-executive directors including the Chairman of the committee who is a non-executive director.

Taimur Dawood	Chairman
Farooq Nazir	Member
Taimur Saeed	Member

Compliance Committee

Compliance Committee was constituted to oversee Company's compliance with applicable legal and regulatory requirements, industry standards, and the Company's Code of Ethics and Business Conduct. The committee is constituted of the following members:

Taimur Saeed	Chief Executive Officer
Abdul Sohail	Company Secretary
Yasir Siddique Sheikh	Chief Financial Officer
Abdul Sattar	Head Shared Services
Yawar Mehmood	Plant Manager
Bilal Malik	Head HR
Saqib Abbas	Manager Compliance & Reporting

PROFILE OF THE CHAIRMAN AND CEO

Abdul Razak Dawood
Chairman

Taimur Saeed
Chief Executive Officer

Abdul Razak Dawood is the Chairman of Descon, which is involved in Engineering, Chemicals and Power businesses.

He started his career as Managing Director of Lawrencepur Woolen Mills, before assuming responsibility of Managing Director at Dawood Hercules Chemicals Limited.

In 1977, he started Descon Engineering Limited and since then has been associated with it. Currently, he is the Chairman of Descon Engineering Limited, the premier Pakistani multinational company, which is operating in five countries, and holding four overseas manufacturing units. It has more than 25000 employees, 50% of them based overseas. He is one of the founders of Lahore University of Management Sciences (LUMS) and has been its Rector since inception. He has also served the Lahore Chapter of Management Association of Pakistan as Chairman.

He is a former trustee of Shaukat Khanam Memorial Cancer Hospital. He has graduated in Engineering from Newcastle University, UK and obtained his MBA from Columbia University, USA.

Taimur Saeed is the Chief Executive Officer of the Company, while also serving on the board of Descon Chemicals Limited as Chief Executive Officer.

He had an illustrious career of over 18 years at BOC Pakistan, (Linde Group, Germany), where he last held the position of Head of Sales & Customer Services and also was Business Manager Industrial Products in Malaysia, Indonesia, India, Bangladesh and Pakistan. He joined Descon Chemicals Limited as GM Sales & Marketing before his appointment as CEO.

He has attended management Leadership course at INSEAD, Singapore. He is an MBA from Mercer University, Atlanta, USA and a B.Com, from Karachi University.

CHAIRMAN'S STATEMENT

The challenge posed by the manifold increase in utility prices coupled with frequent shut downs, has impacted your business negatively. On the other hand Management has proactively managed cost efficiencies and debottlenecking of the plant to mitigate some impact of the gas and electricity crisis. The difficulties faced by the business are all related to the external environment, which are beyond the control of management and yet your company delivered a healthy cash flow which supports the claim for the intrinsic strength of the business.

The Board has full confidence in the business which was indeed demonstrated by the injection of approx. Rs 700 mln as a sponsor's loan to provide the much needed support to the capital structure. These funds were used to early repay the Syndicate to conserve the outflow of cash from the business. In addition during the month of May 2014 we have made another early repayment of Rs 66 mln to further reduce the debt servicing cost.

I am pleased to report that your company is fully compliant with the code of Corporate Governance. The committees of the Board are fully functional and provide a transparent and effective forum to debate and understand the business issues.

We are braced for the challenges of the future with a solid foundation of manageable capital structure and an excellent management who are constantly coming up with new ways of working related to plant operations and also the way the business is supported.

I thank the Board, Management, Shareholders and all stakeholders for their continuing support during the period of extreme challenges. I am also confident that your company now has all the key ingredients of capacity and resources making it robust enough to face the challenges of the macro-economic environment in the country.

Abdul Razak Dawood
Chairman

October 01, 2014

CEO's REVIEW

In the face of persistent challenges and macroeconomic conditions, your Company has continued to make profit from operations. This become possible due to our proactive actions resulted in maintaining uninterrupted production volumes during the year. On the other hand, we achieved cost efficiency through bulk sales, which have impacted positively on the packaging cost. Without impacting the average selling price, the management embarked upon a strategy to encourage customers to buy bulk.

The focus throughout the year has been on improving capacity utilization and bringing yield improvements in all our major variable inputs i.e. gas, electricity, packaging, and chemicals. This strategy has somewhat mitigated the impact of a very challenging external environment with respect to international product pricing and also exorbitant increase in electricity tariff. This strategy has enabled the company to generate sustainable cash flows from operations, which has helped us meet all our financial commitments.

With the growing production volumes, it was a challenge for Sales & Marketing to consume the volumes in most effective way. Special efforts were made to improve local sales, especially in Northern part of the country to gain maximum benefit. Though the focus was local market, yet we did not ignore export market and have increased our share in neighboring markets. With volume growing further in months to come, our primary focus will remain local market while not losing our grip on international markets.

As a contribution to the welfare of our customers, employees, partners and shareholders, everything we do is centered on quality, health, safety & environment. I would like to thank the whole team for their hard work and enthusiasm over the last year. With their continued drive and determination, we can continue to deliver for our customers and our shareholders, building a better business for the years to come.

Taimur Saeed
Chief Executive Officer

October 01, 2014

DIRECTORS' REPORT

The Directors of the Company are pleased to present the Annual Report along with the Audited Financial Statements for the year ended June 30, 2014.

Financial Review

	2014	2013
	Rupees in thousands	
Sales	1,498,547	1,369,547
Gross profit	299,449	284,287
EBITDA	353,387	387,807
Operating profit	177,208	209,610
Finance cost	(225,340)	(255,528)
Loss before tax	(48,132)	(45,918)
Loss after tax	(61,291)	(51,226)
Loss per share	(0.60)	(0.50)

Company continued to generate profit from operations by producing additional volumes, a whopping 6,000 MTs more than last year. Production volumes would have suffered to a greater extent had the management not been proactive in taking measures in the last quarter of 2013 to ensure uninterrupted power supply to plant. During the year 32,506 MTs of Hydrogen Peroxide (at 50% concentration) was produced as compare to 26,394 MTs in preceding year, an increase of 6,112 MTs or 23% over last year. By increasing volumes, management was successful in restricting the loss to PKR 61 mln, a level where the Company successfully generated enough cash to service its debts and even making early repayment against the syndicated loan. Capacity utilization has been approximately 116% this year, against 94% last year, an increase mainly due to back up power generation decisions taken in preceding year, albeit at a very high cost compared to the price from the grid.

The Company had a turnover of PKR 1,498 mln, against a turnover of PKR 1,369 mln last year. This increase of 9% over last year is primarily due to volume variation. Company's sales volume has increased by 2,490 MTs to 32,131 MTs increasing by 8% over last year. The average selling price increased to PKR 47.6/kg against PKR 47.2/kg last year. The persistent load shedding during the year resulted in abnormal increase of 59% in fuel and power cost over the preceding year. The current ratio improved to 2:26 as at June 30, 2014 compared with 1:41 as at June 30, 2013.

The finance costs decreased by 12% (PKR 30 mln) as compared to last year due to repayment of long term loans (PKR 86.8 mln) during the year. The Company's finance cost is decreasing every year which is an evidence of improving capital structure and reduced reliance on short term borrowings to finance working capital requirements of the Company. The loan repayment included the early repayment of PKR 66 mln during the year against syndicated loan.

Cash Flow Management

The Company managed its working capital efficiently, regularly monitoring it through rolling forecasts. Cash and other liquid assets are diligently managed to achieve optimal working capital cycle, working capital requirements are met with internally generated cash.

Furthermore, working capital management has been improved through controls built in the ERP system, which helps coordinate the activities amongst marketing, supply chain and finance. Focus on cash strategy enabled the Company to survive through difficult times when both sales volumes and profit margins were under immense pressure.

Risk Management

The Company's activities expose it to a variety of operational and financial risks. The Company's overall risk management program seeks to minimize potential adverse effects on the financial performance, through appropriate strategies for risk mitigation. Risk management is an ongoing process involving assessing and identifying individual risks posed to the Company and evaluating the potential impact while devising appropriate course of action to counter them. Economic, political and environmental uncertainties of the business environment and inherent risks within the nature of the business expose even the strongest of companies to a certain level of external risk. The Board manages these risks through its Enterprise Risk Management Committee and is confident that we have sufficient mitigating factors in place to respond to these risks as they arise.

Subsequent Events

Being prudent, the GIDC impact of PKR 39 mln has not been reversed in these financial statements. However, we believe that this matter will be appropriately dealt through litigation in the year ahead. In case of favorable outcome, a reversal will be made in subsequent period's financial statements.

The matter has also been disclosed in detail in note 26.1 of the annexed audited financial statements.

Production Performance

Being leading producer of Hydrogen Peroxide (H_2O_2), Descon Oxychem Limited is driving the industry growth by improving its quality and production constantly. Our state of the art technology has been acquired from 'Chematur Engineering' Sweden, a design and technology suppliers of H_2O_2 business worldwide. The installed production capacity of our plant is 28,000 tons per annum (at 50% concentration based on 333 working days).

2013-14 was an outstanding year for Descon Oxychem Limited. Against the installed capacity of 28,000 Tons per annum, Descon Oxychem Limited produced 32,506 M.tons.

Sales and Marketing

H_2O_2 has following usages in industries where it is considered as environmental friendly chemical.

- **Paper Industry:** As bleaching agent and for de-inking in wastepaper recycling
- **Textile Industry:** As a bleaching agent, oxidizer and de-sizing agent
- **Environmental Protection:** As Detoxifier and Color Remover of Waste Water.
- **Pharmaceutical & Cosmetic Industry:** As a disinfectant and bleaching agent
- **Detergent and Cleanser Industry**
- **Packaging and Food Industry:** As a disinfectant for aseptic packaging and bacteria control
- **Electronic Industry:** As a cleaning agent for LCD Displays

GLOBAL BUSINESS ENVIRONMENT

H_2O_2 contributes 15% of the total global chemical revenues. Textile, Paper and Mining Industries consume 33% of global H_2O_2 production. Growing trends in Pulp & paper industry, textile industry, mining and semiconductor industry are expected to increase the demand for H_2O_2.

Domestic Hydrogen Peroxide Market

In Pakistan, 2 companies produce H_2O_2, with the installed capacity of around 58,000 MTs per annum. Textile sector is the major consumer of our H2O2 in Pakistan followed by Minerals Mining Industry. Local production has reduced the import of H2O2 in recent years by offering better supply chain solutions and at Global Quality standards.

Marketing

Descon Oxychem Limited markets its products both locally and internationally through a team of dedicated and highly skilled professionals. Along with targeting industries directly, we are marketing our product through retail markets of Lahore, Faisalabad and Karachi to small-scale users.

Channel Management

Due to high transport and packaging costs, Channel Management is very important in H2O2 business. Descon Oxychem Limited distributes its products through a network of dedicated distributors across LAHORE, KARACHI, FAISALABAD and MULTAN. A dedicated network of distributors not only helps us develop market effectively but also helps us keep a close bond with our customers by providing them with unmatched customer service.

Exports

Descon Oxychem Limited follows the same distribution model for exports also. We have appointed distributors in South Asia, Middle East and Far East markets. Our brand is well established internationally and demand of our product is increasing due to high quality and good service comparable to other brands in the international market.

Human Resource Development

An engaged workforce and an inclusive work environment are vital to our success and are aligned with our core values of honesty, integrity and respect for people.

At Descon, HR is focused at enabling our Human Capital to add valuable contribution to the Organization. We strive to groom leaders for the future by providing competency based career progression and challenge our people to display exceptional results through performance.

HR's foremost objective is to foster a performance driven culture, which supports and values employee contribution while providing them opportunities for career growth and development.

Human Resource Business Partnership

At Descon, HR's aim is to truly partner the business and provide our Organization with a strategic edge by focusing on the following:

- Evolve as an Employer of Choice
- Inculcate a performance driven culture
- Develop a talent pipeline for future leaders
- Induct talent development initiatives aligned with business goals

Career Progression:

We believe that business growth is dependent upon the potential and caliber of our employees. It is therefore essential for the Company's growth and its obligation towards its employees that they are provided full opportunity and resources to grow in the organization to their maximum potential.

We provide our employees with professional training and development programs and support, and through a sustained succession planning program have established career road-maps for high potential incumbents. We encourage creativity and out of the box thinking and provide our employees the opportunity to face new challenges and to take on increased responsibility.

Our top performers are offered career opportunities (within and outside the Company with other Group companies) that help to provide exposure and further develop talent for future leadership roles.

With this rationale, HR has launched a comprehensive program for the development and progression of our "key people" holding critical positions. Under the "People Development Plan", star employees have been identified based on past performance and potential for future leadership roles.

The employees thus identified will be put on a fast-track to key management positions within their respective functions. Additionally, a separate budget has been allocated for the development and training of the Hi-Po's in the context of capacity and capability building. The program encompasses Functional as well as Behavioral trainings jointly recommended by the incumbent's Functional Head & mentor while encouraging active input from the incumbent as well.

Development Plans will be put in place and review will be conducted once every six months mapping the progress of the incumbent gauging the readiness of the incumbent for the next level.

Learning & Development:

In addition to the People Development Program aimed specifically at Hi-Po's, HR has initiated a comprehensive Training & Development road map for the general employee population as well.

- A KPI of 2 training days per employee was set for employees from within Grade 3 to 7 for the year 2013-2014.
- 159 employees were nominated to attend 30 different training sessions.
- The training programs included a wide range of content including Functional as well as Behavioral trainings.
- Our employees received training through in-house internal programs as well as reputed external training institutions.

Awards & Recognition:

There are a number of awards and recognition programs offered at Descon based entirely on productive input. Among these awards, is the "Des-Icon" Employee of the Quarter award that acknowledges exceptional effort of an employee in an assigned project or in the normal course of work.

Kaizen award acknowledges new ideas that may have value adding impact. Kaizen encourages and engages employees to share their ideas and take ownership of continuous development. Moreover, Long Service Award is also granted based on an employee's service tenure and productive input.

Employee Engagement Initiatives:

In order to inculcate the concept of the "Descon family, HR continually takes initiatives to arrange events and activities to promote employee engagement.

Employee engagement activities foster awareness of team spirit and reinforce commitment to the team's shared goals and objectives. Properly applied, these activities can develop strong interpersonal relationships which help to bond the team closer together.

So based on the rationale above, DCBA had a memorable and & fun filled day at Green Fields Country Club, in February, 2014. The key objectives of the event were as follows:

- Instill a common sense of purpose
- Strengthen inter-departmental communication
- Develop cross functional relationships
- Acknowledge achievements of key performers

Cross functional teams were developed for this event in order to enhance interdepartmental communication and bridge any gaps.

In addition, "DCBA Spring Carnival" was hosted at DOL Plant in April 2014. This was a mega event again aimed at fostering employee motivation & collaboration.

"Winter-Vaganza" "Ice-Cream Fest", "New Employees On-boarding", "Long Service Awards", "New Years" & "Independence Day" celebrations and various sporting activities were also arranged in the past year to instill the values of team work, cooperation and recognition of employees' contribution.

Transparency & Open Communication:

As a means of inculcating the core corporate values of open communication into our professional lives, HR has initiated “CEO’s Town Hall Meetings” on a quarterly basis. The agenda of these town halls is to provide the employees an understanding of the key business issues, gain increased direct employee feedback and to connect at a grass roots level.

Employee Benefits

We believe in providing equal opportunity & see ourselves as an institution where employees are treated as one family, given opportunity to learn, challenged and rewarded for optimum performance.

We recognize and reward individual achievement through competitive remuneration and benefits package. We offer competitive levels of annual & medical leave entitlements and maternity leave to our female staff. We also accommodate career breaks if possible and our employees are encouraged to participate in social responsibility projects.

We intend to continuously build better reward structure for our employees. Long service award, Hajj & Umrah Award, Des-Icon and Variable Pay Policies are some of the few examples.

Retirement Benefit Plans

Our policies such as Provident Fund cover for employee retirement benefit plan. The value of investments of Provident fund is as follows:

	(Rs. ‘000) 2014	(Rs. ‘000) 2013
Provident Fund	14,640	11,953

Code of Ethics for Employees

The Company works hard every day to earn a reputation of trust, honesty and candor, while being mindful of its responsibilities to shareholders, customers, partners and each other. The Code describes what acting with integrity means at the Company and how it relates to core beliefs and leadership. The Code and each employee’s

commitment to it, is an essential component of the plan for catapulting the company to world-class one and we:

- Are committed to Ethical Behavior.
- Embrace the Company Code, Policies, and other applicable laws.
- Report suspected non-compliance.
- Value and safeguard relationship with our customers.
- Value and safeguard employee relationships.
- Comply with Health, Safety, Security and Environmental Laws.
- Value and safeguard our relationships with Suppliers and contractors.
- Protect our property and property of others.
- Use our electronic communications and internet accesses for Company purposes.

- Protect Company Confidential information
- Gather Processes information ethically and lawfully
- Avoid conflicts of interest.
- Award contracts fairly and without prejudice.
- Do not speak on behalf of the Company without specific approval.
- Protect the Company's documents and proprietary information.

Safety and Health

Descon Oxychem Limited dedication to meeting the principles of safety and environment is a key component in our commitment to sustainable development and are committed to:

- Develop and supply products and services that best meet the needs of our customers, are safe, and have minimal impacts on health and the environment throughout their life cycle.
- Run our plants and transport our products safely, protecting our neighbors and employees, and minimizing the impact of our activities on our environment.
- Inform and debate with all stakeholders on matters affecting health, safety and the environment, in a spirit of openness and mutual respect.
- Encouraging our subcontractors, suppliers and customers to adopt a policy on health, safety and environment equivalent to our own.
- Comply with all relevant local, national and international regulations relating to health, safety and environment.

Environment

The Company manages its impact on environment by minimizing harmful effects of its emissions, both gaseous and liquid. Strict monitoring of plant effluents is done on continuous basis to control their disposal within National Environmental Quality Standards [NEQS] limits. The Company continues to introduce most modern and environmental friendly technologies in its manufacturing processes. Furthermore, the Company has been working in partnership with Forest Department in plantation of trees in its premises. In addition we are also co-ordinating with Environmental Protection Agency (EPA) for ensuring compliance to applicable legal & regulatory requirements.

Entity Credit Rating

By The Pakistan Credit Rating Agency Limited as on October 2014.

Rating Type	Rating
Long-term	**A** (Single A)
Short-term	**A1** (A One)

PACRA has assigned a long-term entity rating of "A" (Single A) and short-term rating of "A1" (A One) to the Company. These ratings denote a low expectation of credit risk emanating from a strong capacity for timely payment of financial commitments. The ratings recognize the Company's leading position in the local H2O2 market, supplemented by efficient production process, sound technological infrastructure and effective control environment. The management is pursuing a focused strategy to enhance the product awareness which would give boost to product demand while ensuring sustainable margins. The Company's cash flows, and in turn coverages, remain adequate against challenges of temporary gas shortage and price fluctuations. Ratings draw comfort from the Company's association with a financially sound and diversified business group - Descon - that in the past has demonstrated support.

Corporate Governance

Your Company is pleased to inform you that its Directors and management are fully conversant with the responsibilities as formulated in Code of Corporate Governance 2012 issued by SECP and incorporated in the listing regulations of stock exchanges. The Company ensures best practices of Corporate Governance by adopting a set of processes, customs and policies to help us direct and control management activities with good business sense, objectivity, accountability and integrity. We have made corporate governance a system of structuring, operating and controlling the Company with a view to achieve long term strategic goals to satisfy shareholders, creditors, employees, customers and suppliers.

The prescribed practices are effectively under implementation in the Company and there has been no material departure from the best practices of Corporate Governance as detailed in the listing regulations.

Best Corporate Practices

The Company surpasses the minimum legal requirements for good corporate governance imposed by applicable laws and regulations. The Company encourages adherence to best corporate practices. During the year, all periodic financial statements of the Company were circulated well in time to the Directors, endorsed by the Chief Executive and the Chief Financial Officer prior to circulation. The Quarterly financial statements of the Company were approved, published and circulated to shareholders within one month of the closing date while Half Yearly financial statements of the Company were reviewed by the external auditors, approved by the Board, published and circulated to shareholders within the permitted time period of two months after closing. Other non-financial information to be circulated to governing bodies and other stakeholders were also delivered in an accurate and timely manner. The annual financial statements have also been audited by the external auditors and approved by the Board and will be presented to the shareholders in the forthcoming Annual General Meeting for their approval.

Composition of the Board of Directors

Keeping in mind the legal and regulatory framework defining the factors regarding qualification and composition of the Board of Directors, the Company has on its Board highly capable and dedicated personnel with vast experience, knowledge, integrity, and strong sense of responsibility for safeguarding of shareholders' interest.

The Board consists of 8 Directors including the Chief Executive Officer, effectively representing the interest of shareholders. There are six (6) non-executive Directors, one (1) executive Director i.e. the CEO and one (1) independent Director.

Meetings of the Board

The Board is legally required to meet at least once every quarter to monitor the Company's performance aimed at effective and timely accountability of its management. The Board held 6 such meetings during the year, agendas of which were circulated in a timely manner. The decisions made by the Board during the meetings were recorded and were duly circulated to all the Directors for endorsement and were approved in the following Board meetings. All meetings of the Board had minimum quorum for attendance prescribed by the Code of Corporate Governance and were also attended by the Chairman and the Company Secretary. During the year under review, six (06) meetings of the Board of Directors were held and the attendance of Directors was as follows:

Name of Director	Meetings	Attended Remarks
Abdul Razak Dawood	6	
Mr. Asif Qadir	4	Leave of absence was granted in two meetings.
Taimur Dawood	5	Leave of absence was granted in one meeting.
Farooq Nazir	6	
Muhammad Sadiq	2	Retired
Ahmed Razi Ghazali	3	Newly appointed
Syed Zamanat Abbas	3	Leave of absence was granted in three meetings
Faisal Dawood	4	Leave of absence was granted in two meetings
Taimur Saeed	6	

Training of the Board

As per requirements of the listing regulations, each member of the Board shall be subject to orientation and training for enhancing their director skills. The Board has arranged Corporate Governance Leadership Skills (CGLS) training program from Pakistan Institute of Corporate Governance for its directors. Three directors have certification of CGLS.

Changes to the Board

Muhammad Sadiq has retired during the year and the new Director Mr. Ahmed Razi Ghazali has been elected in the Extra Ordinary General Meeting of the Company held for the election of directors on February 28, 2014.

Directors' Statement

The directors are pleased to make statements as required by the Code of Corporate Governance as given below:

i. Presentation of Financial Statements

The financial statements, prepared by the management of the Company, fairly present its state of affairs, the results of its operations, cash flows and changes in equity.

ii. Books of Accounts

The Company has maintained proper books of accounts.

iii. Accounting Policies

Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.

iv. International Financial Reporting Standards (IFRS)

International Financial Reporting Standa-rds, as applicable in Pakistan, have been followed in the preparation of financial statements.

v. Accounting Year

The accounting year of the Company is from 1st July to 30th June.

vi. Safety and Environments

The Company strictly complies with the standards of the safety rules and regulations. It also follows environment friendly policies.

vii. Going Concern

There is no significant doubt upon the Company's ability to continue as a going concern.

viii. Internal Control System

The system of internal control is sound in design and has been effectively implemented and monitored. The review will continue in future for the improvement in controls.

ix. Trading Company's Shares

No director, CEO, CFO, Company Secretary and their spouse and minor children has sold or purchased any shares of the Company.

x. Outstanding Statutory Dues

There are no outstanding statutory dues.

xi. Dividends

The Company could not declare any dividend.

xii. Quality Control

To ensure implementation of the Management System, Internal Quality Audits, Surveillance Audits and Management Review meetings are conducted regularly.

xiii. Communication

Communication with the shareholders is given high priority. Annual, Half Yearly and Quarterly Accounts are distributed to them within the time specified in the Companies Ordinance, 1984. Every opportunity is given to the individual shareholders to attend and freely ask questions about Company operations at the Annual General Meeting.

xiv. Board of Directors

The details of the meetings are given above.

xv. Auditors

In pursuance of the Code of Corporate Governance, the Audit Committee has recommended the re- appointment of M/s. A.F. Ferguson & Co., Chartered Accountants, as Auditors of the Company for the year ending June 30, 2015.

xvi. Audit Committee

The Board of Directors in compliance to the Code of Corporate Governance has established an audit committee comprising majority of non-executive Directors. During the year, four audit committee meetings were held. The following are the members of the audit committee

Name of Director	Designation
Farooq Nazir	Chairman
Taimur Dawood	Member
Syed Zamanat Abbas	Member

Internal audit function of the Company is outsourced to M/s. KPMG Taseer Hadi and Co., Chartered Accountants. During the year under review, the audit committee has performed its functions satisfactorily and in accordance with the Code of Corporate Governance

Acknowledgements

In the end, the management would like to take this opportunity to express their appreciation and thank all employees for their commitment, loyalty and hard work in meeting targets for the year. We also acknowledge the support and cooperation received from our esteemed customers, suppliers, bankers and stakeholders towards the development of the Company.

For and on behalf of the Board

Lahore
October 01, 2014

Taimur Saeed
Chief Executive Officer

KEY OPERATING AND FINANCIAL DATA

Rupees in Thousands	2014	2013	2012	2011	2010	2009
Summary of Profit and Loss						
Sales	1,498,547	1,369,547	1,192,439	1,432,576	709,672	191,335
Cost of Goods Sold	(1,199,098)	(1,085,260)	(951,797)	(892,139)	(683,402)	(228,165)
Gross Profit	299,449	284,287	240,642	540,437	26,270	(36,830)
Operating profit	177,208	209,610	170,316	436,427	(48,038)	(81,500)
Finance Cost	(225,340)	(255,528)	(337,853)	(351,895)	(288,065)	(96,220)
Profit / (loss) before tax	(48,132)	(45,918)	(167,537)	84,532	(336,101)	(177,719)
Profit / (loss) after tax	(61,291)	(51,226)	(125,936)	179,970	(289,408)	(150,075)
EBITDA	353,387	387,807	348,575	613,923	105,518	(29,351)
Financial Position						
Share Capital	1,020,000	1,020,000	1,020,000	1,020,000	1,020,000	1,020,000
Reserves including unappropriated profit	(523,018)	(462,275)	(407,942)	(283,170)	(464,819)	(175,845)
Long term borrowings	1,658,785	1,745,617	1,762,774	2,000,588	1,830,197	1,469,818
Property, plant and equipment	1,900,009	2,038,649	2,207,731	2,378,326	2,552,953	2,695,757
Net Current Assets	279,990	178,441	(41,234)	145,619	(332,399)	(422,572)
Investor Information						
Gross profit margin (%)	19.98%	20.76%	20.18%	37.72%	3.70%	(19.25%)
EBITDA margin to sales (%)	23.58%	28.32%	29.23%	42.85%	14.87%	(15.34%)
Pre tax margin (%)	(3.21%)	(3.35%)	(14.05%)	5.90%	(47.36%)	(92.88%)
Net profit margin (%)	(4.09%)	(3.74%)	(10.56%)	12.56%	(40.78%)	(78.44%)
Return on equity (%)	(12.33%)	(9.18%)	(20.58%)	24.42%	(52.13%)	(17.78%)
Return on capital employed (%)	7.25%	8.46%	6.84%	15.63%	(2.01%)	(3.52%)
Current Ratio	2.26	1.41	0.93	1.31	0.55	0.44
Quick Ratio	1.94	1.27	0.82	1.04	0.48	0.37
Debtors turnover (days)	20	31	15	24	14	2
Inventory turnover (days)	21	23	27	59	41	179
Creditors turnover (days)	34	46	42	58	84	646
Operating cycle (no. of days)	7	8	0	25	(29)	(465)
Debt: Equity (Ratio)	79.66%	77.50%	75.40%	73.61%	76.73%	63.52%
Interest cover (Times)	(0.79)	(0.82)	(0.50)	(1.24)	0.17	0.85
Earnings / (loss) per share (pre tax) (Rupees)	(0.47)	(0.45)	(1.64)	0.83	(3.30)	(1.74)
Earnings / (loss) per share (after tax) (Rupees)	(0.60)	(0.50)	(1.23)	1.76	(2.84)	(1.47)
Hydrogen Peroxide Production (MTs)	32,506	26,394	27,890	29,792	20,140	10,278
Hydrogen Peroxide Sales (MTs)	32,131	29,626	28,289	29,120	21,074	10,328

HORIZONTAL ANALYSIS OF THE BALANCE SHEET

	2014 Rs. '000	14 Vs. 13 %	2013 Rs. '000	13 Vs. 12 %	2012 Rs. '000	12 Vs 11 %
EQUITY AND LIABILITIES						
EQUITY						
Share Capital	1,020,000	0%	1,020,000	0%	1,020,000	0%
Capital Reserves	720	319%	172	(95%)	3,279	55%
Revenue Reserves	(523,738)	13%	(462,447)	12%	(411,221)	44%
	496,982	(11%)	557,725	(9%)	612,058	(17%)
NON - CURRENT LIABILITIES						
Long Term Borrowings	1,658,785	(5%)	1,745,617	(1%)	1,762,774	(12%)
Accrued finance cost	288,105	64%	175,626	55%	113,648	108%
CURRENT LIABILITIES						
Trade and other payables	111,510	(18%)	136,433	24%	110,313	(23%)
Accrued finance cost	30,781	(22%)	39,629	(53%)	85,222	(17%)
Short term borrowings	59,536	(61%)	154,597	(4%)	160,760	41%
Current Portion of long term borrowings	20,000	(80%)	102,326	(57%)	237,814	109%
	221,827	(49%)	432,985	(27%)	594,109	25%
	2,665,699	**(8%)**	**2,911,953**	**(6%)**	**3,082,589**	**(6%)**
ASSETS						
NON-CURRENT ASSETS						
Property, plant and equipment	1,900,009	(6%)	2,026,746	(7%)	2,177,972	(7%)
Intangible assets	-	(100%)	11,903	(60%)	29,759	(38%)
Long term deposits	16,554	0%	16,554	(79%)	79,551	0%
Deferred Tax	247,319	1%	245,324	1%	242,432	29%
	2,163,882	(6%)	2,300,527	(9%)	2,529,714	(4%)
CURRENT ASSETS						
Stores, spares and loose tools	191,739	13%	169,448	(2%)	173,679	5%
Stock in trade	70,459	11%	63,386	(7%)	68,001	(47%)
Trade debts	82,185	(30%)	118,054	134%	50,494	(46%)
Advances, deposits prepayments & other receivables	87,243	(51%)	179,759	105%	87,822	57%
Current income tax recoverable	48,424	(3%)	49,930	24%	40,316	40%
Short term investments	16,225	(36%)	25,172	(79%)	121,126	10%
Cash and bank balances	5,542	(2%)	5,677	(50%)	11,437	(70%)
	501,817	(18%)	611,426	11%	552,875	(11%)
	2,665,699	**(8%)**	**2,911,953**	**(6%)**	**3,082,589**	**(6%)**

VERTICAL ANALYSIS OF THE BALANCE SHEET

	2014 Rs. '000	%	2013 Rs. '000	%	2012 Rs. '000	%
EQUITY AND LIABILITIES						
EQUITY						
Share Capital	1,020,000	38%	1,020,000	35%	1,020,000	33%
Capital Reserves	720	0%	172	0%	3,279	0%
Revenue Reserves	(523,738)	(20%)	(462,447)	(16%)	(411,221)	(13%)
	496,982	19%	557,725	19%	612,058	20%
NON - CURRENT LIABILITIES						
Long term borrowings	1,658,785	62%	1,745,617	60%	1,762,774	57%
Accrued finance cost	288,105	11%	175,626	6%	113,648	4%
CURRENT LIABILITIES						
Trade and other payables	111,510	4%	136,433	5%	110,313	3%
Accrued finance cost	30,781	1%	39,629	1%	85,222	3%
Short term borrowings	59,536	2%	154,597	5%	160,760	5%
Current portion of long term borrowings	20,000	1%	102,326	4%	237,814	8%
	221,827	8%	432,985	15%	594,109	19%
	2,665,699	**100%**	**2,911,953**	**100%**	**3,082,589**	**100%**
ASSETS						
NON-CURRENT ASSETS						
Property, plant and equipment	1,900,009	71%	2,026,746	70%	2,177,972	70%
Intangible assets	-	0%	11,903	0%	29,759	1%
Long term loans and advances	16,554	1%	16,554	1%	79,551	3%
Deferred Tax	247,319	9%	245,324	8%	242,432	8%
	2,163,882	81%	2,300,527	79%	2,529,714	82%
CURRENT ASSETS						
Stores, spares and loose tools	191,739	7%	169,448	6%	173,679	6%
Stock in trade	70,459	3%	63,386	2%	68,001	2%
Trade debts	82,185	3%	118,054	4%	50,494	2%
Other receivables	87,243	3%	179,759	6%	87,822	3%
Current income tax recoverable	48,424	2%	49,930	2%	40,316	1%
Short term investments	16,225	1%	25,172	1%	121,126	4%
Cash and bank balances	5,542	0%	5,677	0%	11,437	0%
	501,817	19%	611,426	21%	552,875	18%
	2,665,699	**100%**	**2,911,953**	**100%**	**3,082,589**	**100%**

HORIZONTAL AND VERTICAL ANALYSIS OF THE PROFIT AND LOSS ACCOUNT

	2014 Rs. '000	14 Vs. 13 %	2013 Rs. '000	13 Vs. 12 %	2012 Rs. '000	12 Vs 11 %
Horizontal Analysis						
Sales	1,498,547	9%	1,369,547	15%	1,192,439	(17%)
Cost of sales	(1,199,098)	10%	(1,085,260)	14%	(951,797)	7%
Gross profit	299,449	5%	284,287	18%	240,642	(55%)
Administration and general expenses	(54,832)	29%	(42,566)	4%	(40,826)	2%
Distribution cost	(75,281)	31%	(57,584)	2%	(56,679)	(17%)
Operating expenses	(3,042)	-	-	-	-	(100%)
Operating income	10,914	(57%)	25,473	(6%)	27,179	152%
	(122,241)	64%	(74,677)	6%	(70,326)	(32%)
Profit /(loss) from operations	177,208	(15%)	209,610	23%	170,316	(61%)
Finance cost	(225,340)	(12%)	(255,528)	(24%)	(337,853)	(4%)
Net profit / (loss) before taxation	(48,132)	5%	(45,918)	(73%)	(167,537)	(298%)
Provision for taxation	(13,159)	148%	(5,308)	(113%)	41,601	(56%)
Net profit / (loss) after taxation	**(61,291)**	**20%**	**(51,226)**	**(59%)**	**(125,936)**	**(170%)**
Vertical Analysis						
Sales	1,498,547	100%	1,369,547	100%	1,192,439	100%
Cost of sales	(1,199,098)	(80%)	(1,085,260)	(79%)	(951,797)	(80%)
Gross profit	299,449	20%	284,287	21%	240,642	20%
Administration and general expenses	(54,832)	(4%)	(42,566)	(3%)	(40,826)	(3%)
Distribution cost	(75,281)	(5%)	(57,584)	(4%)	(56,679)	(5%)
Other expenses	(3,042)	(0%)	-	0%	-	0%
Other income	10,914	1%	25,473	2%	27,179	2%
	(122,241)	(8%)	(74,677)	(5%)	(70,326)	(6%)
Profit /(loss) from operations	177,208	12%	209,610	15%	170,316	14%
Finance cost	(225,340)	(15%)	(255,528)	(19%)	(337,853)	(28%)
Net profit before taxation	(48,132)	(3%)	(45,918)	(4%)	(167,537)	(14%)
Provision for taxation	(13,159)	(1%)	(5,308)	(0%)	41,601	3%
Net profit after taxation	**(61,291)**	**(4%)**	**(51,226)**	**(4%)**	**(125,936)**	**(11%)**

STATEMENT OF WEALTH CREATION & ITS DISTRIBUTION

	2014 (Rs. '000')	%	2013 (Rs. '000')	%
Wealth Generated / Value Added:				
Turnover	1,498,547		1,369,547	
Less: Cost of sales	(1,065,479)		(931,746)	
Value added	433,068		437,801	
Other Income	10,914		25,473	
Net Wealth Generated	443,982		463,274	
Depreciation, amortization and loss retained by the Company	(112,747)		(124,079)	
	331,235	**100%**	**339,195**	**100%**
Wealth Distributed				
Interest on borrowed funds	225,340	68%	255,528	75%
Salaries, wages and other benefits	90,595	27%	75,467	22%
Income tax, WWF, WPPF and other duties	15,300	5%	8,200	2%
	331,235	**100%**	**339,195**	**100%**

STATEMENT OF COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE

This statement is being presented to comply with the Code of Corporate Governance (the "Code") contained in Regulation No. 35 of listing regulations of Karachi Stock Exchange for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

The Company has applied the principles contained in the Code in the following manner:

1. The Company encourages the representation of independent non-executive directors and directors representing minority interests on its board of directors. At present the board includes:

Category	Names
Non-Executive Directors	Mr. Abdul Razak Dawood Mr. Farooq Nazir Mr. Taimur Dawood Syed Zamanat Abbas Mr. Faisal Dawood Mr. Ahmed Razi Ghazali
Independent Director	Mr. Asif Qadir

   The independent Director meets the criteria of independence under clause i(b) of the Code.

2. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Company (excluding the listed subsidiaries of listed holding company where applicable).

3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI, or being a member of a stock exchange, has been declared as defaulter by that stock exchange.

4. No casual vacancy occurred on the Board during the current year.

5. The Company has prepared a "Code of Conduct", which has been approved by the Board of Directors and signed by the senior executives and employees of the Company, and has ensured that appropriate steps have been taken to disseminate it throughout the Company along with its supporting policies and procedures.

6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the Chief Executive Officer and other executive directors have been taken by the board of directors/shareholders.

8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the board for this purpose, the Board met at least once in every quarter or when deemed necessary. Written notices of the Board meetings, along with agenda and working papers were circulated at least seven days before the meetings. The minutes of the meetings were appropriately recorded and circulated. The Chief Financial Officer and the Company Secretary also attended the meetings of the Board.

9. The Board ensures arrangement of orientation courses for its directors to apprise them of their duties and responsibilities. Board had arranged Corporate Governance Leadership Skills (CGLS) training program from Pakistan Institute of Corporate Governance for its directors. The majority of directors has obtained certification of CGLS and are familiarized themselves on their responsibilities with the Code.

10. The Board has approved appointment of Chief Financial Officer and Head of Internal Audit including their remuneration and terms and conditions of employment.

11. The Director's Report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12. The Chief Executive Officer and Chief Financial Officer have duly endorsed the financial statement of the Company before its approval from the Board.

13. The Directors, Chief Executive Officer and executives do not hold any interest in the shares of the Company other than that disclosed in the Pattern of Shareholding.

14. The Company has complied with the applicable corporate and financial reporting requirements of the Code.

15. The Board has formed an Audit Committee. It comprises of three members, all are non-executive directors, including the Chairman of the Committee.

16. The meetings of the Audit Committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the Audit Committee have been formulated and communicated to the Committee for compliance.

17. The Board has formed an HR and Remuneration Committee. It comprises of three members, of whom two are Non-executive directors and the chairman of the Committee is a non-executive director.

18. The Board has outsourced the internal audit function to M/s. KPMG Taseer Hadi and Co., Chartered Accountants, who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company.

19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold shares of the company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan (ICAP).

20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.

21. The 'closed period' prior to the announcement of interim/final results and business decisions which may materially affect the market price of Company's securities, was determined and intimated to directors, employees and stock exchange(s).

22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange(s).

23. We confirm that all other material principles enshrined in the Code have been complied with.

for and on behalf of the Board

Lahore
October 01, 2014

Taimur Saeed
Chief Executive Officer

REVIEW REPORT TO THE MEMBERS
ON STATEMENT OF COMPLIANCE WITH BEST PRACTICES OF CODE OF CORPORATE GOVERNANCE

We have reviewed the Statement of Compliance with the best practices contained in the Code of Corporate Governance ('the Code') prepared by the Board of Directors of Descon Oxychem Limited ('the Company') for the year ended June 30, 2014 to comply with the Listing Regulation No. 35 of the Karachi Stock Exchange, where the Company is listed.

The responsibility for compliance with the Code of Corporate Governance is that of the Board of Directors of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code of Corporate Governance and report if it does not. A review is limited primarily to inquiries of the Company personnel and review of various documents prepared by the Company to comply with the Code.

As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board of Directors' statement on internal controls covers all risks and controls, or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks.

Regulation 35 (x) of the Listing Regulations requires the Company to place before the Board of Directors for their consideration and approval related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price recording proper justification for using such alternate pricing mechanism. Further, all such transactions are also required to be separately placed before the audit committee. We are only required and have ensured compliance of requirement to the extent of approval of related party transactions by the Board of Directors and placement of such transactions before the audit committee.

We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not.

Based on our review nothing has come to our attention, which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended June 30, 2014.

Lahore,
October 01, 2014

Chartered Accountants
Name of engagement partner: Asad Aleem Mirza

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Descon Oxychem Limited as at June 30, 2014 and the related profit and loss account, statement of comprehensive income, statement of changes in equity and cash flow statement together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of The Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

(a) in our opinion, proper books of account have been kept by the Company as required by The Companies Ordinance, 1984;

(b) in our opinion:

(i) the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with The Companies Ordinance, 1984, and are in agreement with the books of account and are further in accordance with accounting policies consistently applied except for the changes resulted on initial application of standards, amendments, or an interpretation to the existing standards as stated in note 2.2.1 to the annexed financial statements, with which we concur;

(ii) the expenditure incurred during the year was for the purpose of the Company's business; and

(iii) the business conducted, investments made and the expenditure incurred during the year were in accordance with the objects of the Company;

(c) in our opinion, and to the best of our information and according to the explanations given to us the balance sheet, profit and loss account, statement of comprehensive income, statement of changes in equity and cash flow statement together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by The Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2014 and of the loss, total comprehensive loss, changes in equity and its cash flows for the year then ended; and

(d) in our opinion no zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

Lahore,
October 01, 2014

Chartered Accountants
Name of engagement partner: Asad Aleem Mirza

BALANCE SHEET
AS AT JUNE 30, 2014

	Note	2014	2013
		(Rupees in thousand)	
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorized capital			
110,000,000 (2013: 110,000,000)			
ordinary shares of Rs 10 each		1,100,000	1,100,000
Issued, subscribed and paid up capital			
102,000,000 (2013: 102,000,000)			
ordinary shares of Rs 10 each	5	1,020,000	1,020,000
Fair value reserve		720	172
Accumulated loss		(523,738)	(462,447)
		496,982	557,725
NON CURRENT LIABILITIES			
Long term finances			
- secured	6	1,250,000	1,336,832
- unsecured	7	408,785	408,785
Accrued finance cost	9	288,105	175,626
		1,946,890	1,921,243
CURRENT LIABILITIES			
Current portion of non current liabilities	10	20,000	102,326
Finances under mark up arrangement - secured	11	59,536	154,597
Trade and other payables	12	111,510	136,433
Accrued finance cost	13	30,781	39,629
		221,827	432,985
CONTINGENCIES AND COMMITMENTS	14		
		2,665,699	2,911,953

The annexed notes 1 to 44 form an integral part of these financial statements.

CHIEF EXECUTIVE **DIRECTOR**

	Note	2014	2013
		(Rupees in thousand)	
ASSETS			
NON CURRENT ASSETS			
Property, plant and equipment	15	1,900,009	2,026,746
Intangible asset	16	-	11,903
Long term deposits	17	16,554	16,554
Deferred taxation	18	247,319	245,324
		2,163,882	2,300,527
CURRENT ASSETS			
Stores and spares	19	191,739	169,448
Stock in trade	20	70,459	63,386
Trade debts	21	82,185	118,054
Investments - available for sale	22	16,225	25,172
Advances, deposits, prepayments and other receivables	23	87,243	179,759
Current income tax recoverable		48,424	49,930
Cash and bank balances	24	5,542	5,677
		501,817	611,426
		2,665,699	2,911,953

CHIEF EXECUTIVE **DIRECTOR**

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2014

	Note	2014	2013
		(Rupees in thousand)	
Sales	25	1,498,547	1,369,547
Cost of goods sold	26	(1,199,098)	(1,085,260)
Gross profit		299,449	284,287
Administrative expenses	27	(54,832)	(42,566)
Distribution and selling costs	28	(75,281)	(57,584)
Other operating income	29	10,914	25,473
Other operating expense	30	(3,042)	-
		(122,241)	(74,677)
Profit from operations		177,208	209,610
Finance cost	31	(225,340)	(255,528)
Loss before taxation		(48,132)	(45,918)
Taxation	32	(13,159)	(5,308)
Loss for the year		(61,291)	(51,226)
Loss per share - basic and diluted	33	(0.60)	(0.50)

The annexed notes 1 to 44 form an integral part of these financial statements.

CHIEF EXECUTIVE | **DIRECTOR**

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED JUNE 30, 2014

	2014	2013
	(Rupees in thousand)	
Loss for the year	(61,291)	(51,226)
Other comprehensive income / (loss)		
Items that may be reclassified subsequently to profit or loss		
Fair value gain on 'Available for sale' investments	3,557	2,829
Gain during the year transferred to profit and loss on account of derecognition of investment	(3,009)	(5,936)
Other comprehensive income / (loss) for the year	548	(3,107)
Total comprehensive loss for the year	(60,743)	(54,333)

The annexed notes 1 to 44 form an integral part of these financial statements.

CHIEF EXECUTIVE **DIRECTOR**

CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2014

	Note	2014	2013
		(Rupees in thousand)	
Cash flow from operating activities			
Cash generated from operations	34	336,997	314,558
Finance cost paid		(121,709)	(239,143)
Profit on deposits received		552	949
Taxes paid		(13,647)	(17,814)
Net cash generated from operating activities		202,193	58,550
Cash flow from investing activities			
Fixed capital expenditure		(13,610)	(5,098)
Proceeds from sale of property, plant and equipment		-	813
Proceeds from sale of available for sale investments		156,504	233,794
Investments made		(144,000)	(135,011)
Net cash (used in) / generated from investing activities		(1,106)	94,498
Cash flow from financing activities			
Repayment of long term loan		(86,832)	(829,932)
Long term loans obtained		-	710,000
Finance lease liabilities - Net		(19,329)	(32,713)
Net cash used in financing activities		(106,161)	(152,645)
Net increase in cash and cash equivalents		94,926	403
Cash and cash equivalents at the beginning of year		(148,920)	(149,323)
Cash and cash equivalents at the end of year	37	(53,994)	(148,920)

The annexed notes 1 to 44 form an integral part of these financial statements.

CHIEF EXECUTIVE **DIRECTOR**

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2014

(Rupees in thousand)

	Share capital	Fair value Reserve	Accumulated loss	Total
Balance as on June 30, 2012	1,020,000	3,279	(411,221)	612,058
Total comprehensive loss for the year				
Loss for the year	-	-	(51,226)	(51,226)
Other comprehensive income for the year:				
Fair value gain on 'Available for sale' investment	-	(3,107)	-	(3,107)
Total comprehensive loss for the year	-	(3,107)	(51,226)	(54,333)
Balance as on June 30, 2013	1,020,000	172	(462,447)	557,725
Total comprehensive loss for the year				
Loss for the year	-	-	(61,291)	(61,291)
Other comprehensive income for the year:				
Fair value gain on 'Available for sale' investments	-	548	-	548
Total comprehensive income / (loss) for the year	-	548	(61,291)	(60,743)
Balance as on June 30, 2014	1,020,000	720	(523,738)	496,982

The annexed notes 1 to 44 form an integral part of these financial statements.

CHIEF EXECUTIVE **DIRECTOR**

1. LEGAL STATUS AND NATURE OF BUSINESS

1.1 Constitution and ownership

The company was incorporated in Pakistan as a private limited company on November 12, 2004 under The Companies Ordinance, 1984 and was converted into a public limited company with effect from February 28, 2008 as approved by the Securities and Exchange Commission of Pakistan (SECP) vide letter no. ARL 16222 dated March 14, 2008. Subsequently, on September 15, 2008, it was listed on Karachi Stock Exchange. The registered office of the company is situated at 18-KM Ferozepur Road, Lahore and the factory is situated at 18-KM Lahore-Sheikhupura Road, Lahore.

1.2 Activities

The company is principally engaged in manufacture, procurement and sale of hydrogen peroxide and allied products. The company commenced its trial production on December 1, 2008 and commercial production on March 1, 2009.

2. STATEMENT OF COMPLIANCE

2.1 These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives of the Companies Ordinance, 1984 shall prevail.

2.2 Standards, interpretations and amendments to published approved accounting standards

The following amendments to existing standards have been published that are applicable to the Company’s financial statements covering annual periods, beginning on or after the following dates:

2.2.1 Standards and interpretations to existing standards that are effective and applicable to the Company

There were certain new standards, amendments to the approved accounting standards and new interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). Interpretations which became effective during the year but are considered not to be relevant or have any significant effect on the Company’s operations and are, therefore, not disclosed in these financial statements.

2.2.2 Standards, amendments and interpretations to existing standards that are applicable to the company and not yet effective and have not been early adopted by the Company

The following amendments and interpretations to existing standards have been published and are mandatory for the Company’s accounting periods beginning on or after July 01, 2014 or later periods, and the Company has not early adopted them:

- IAS 36, ‘Impairment of assets’ issued on May 2013, addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The Company shall apply this standard from July 01, 2014 and does not expect to have any material impact on its financial statements.

- IAS 39 ‘Financial instruments: Recognition and measurement’, issued on June 2013. The amendment allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counter party as a result of laws or regulation, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counter party with a new one). This relief has been introduced in response to legislative changes across many jurisdictions that would lead to the widespread novation of over-the-counter derivatives. These legislative changes were prompted by a G20 commitment to improve transparency and regulatory oversight of over-the-counter derivatives in an internationally consistent and non-discriminatory way. Similar relief will be included in IFRS 9, 'Financial instruments'. The Company shall apply this standard from July 01, 2014 and does not expect to have any material impact on its financial statements.

3. BASIS OF MEASUREMENT

3.1 These financial statements have been prepared under the historical cost convention.

3.2 The company's significant accounting policies are stated in note 4. Not all of these significant policies require the management to make difficult, subjective or complex judgments or estimates. The following is intended to provide an understanding of the policies the management considers critical because of their complexity, judgment of estimation involved in their application and their impact on these financial statements. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. These judgments involve assumptions or estimates in respect of future events and the actual results may differ from these estimates. The areas involving a higher degree of judgments or complexity or areas where assumptions and estimates are significant to the financial statements are as follows:

i) Estimated useful lives of property, plant and equipment - note 15

ii) Provision for taxation - note 32

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

4.1 Employees retirement benefits

The main features of the schemes operated by the company for its employees are as follows:

(a) Defined contribution scheme

A recognized voluntary contributory provident fund scheme is in operation covering all permanent employees. Equal monthly contributions are made by the company and employees in accordance with the rules of the scheme at 10% of basic pay.

(b) Accumulating compensated absences

The company provides for accumulating compensated absences when the employees render service that increases their entitlement to future compensated absences. Under the company's policy, permanent management employees are entitled to 10 days sick leaves and 21 days annual leaves per calendar year. Sick leaves can be accumulated upto a maximum number of 30 days, while unutilized annual leaves lapse and can only be encashed in case of death and not upon termination, resignation or retirement. The contractual employees are not entitled to carry forward sick or annual leaves.

Provisions are made annually to cover the obligation for accumulating compensated absences and are charged to profit and loss account.

4.2 Taxation

Current

Provision of current tax is based on the taxable income for the year determined in accordance with the prevailing law for taxation of income. The charge for current tax is calculated using prevailing tax rates or tax rates expected to apply to the profit for the year if enacted. The charge for current tax also includes adjustments, where considered necessary, to provision for tax made in previous years arising from assessments framed during the year for such years.

Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of the taxable profit.

Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, unused tax losses and tax credits can be utilized.

Deferred tax is calculated at the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except in the case of items credited or charged to equity in which case it is included in equity.

4.3 Property, plant and equipment

Property, plant and equipment except freehold land are stated at cost less accumulated depreciation and any identified impairment loss. Freehold land is stated at cost. Property, plant and equipment acquired under finance leases are capitalized at the lease's commencement at the lower of the present value of minimum lease payments under the lease arrangements and the fair value of the leased asset. Cost in relation to certain property, plant and equipment comprises historical cost and borrowing costs referred to in note 15.

Depreciation on all property, plant and equipment except land is charged to profit on the straight line basis so as to write off the historical cost of an asset over its estimated useful life at the rates given in note 15.1 without taking into account any residual value, as considered insignificant.

The assets' residual values and useful lives are reviewed, at each financial year end, and adjusted if impact on depreciation is significant. The company's estimate of the residual value of its property, plant and equipment as at June 30, 2014 has not required any adjustment as its impact is considered insignificant.

Depreciation on additions to property, plant and equipment is charged from the month in which the asset is acquired or capitalized, while no depreciation is charged for the month in which the asset is disposed off.

Initial fill of catalysts is capitalized with plant and machinery whereas costs of subsequent replacements of such catalysts are included in property, plant and equipment and depreciated on straight line basis over their estimated useful lives.

The company assesses at each balance sheet date whether there is any indication that property, plant and equipment may be impaired. If such indication exists, the carrying amount of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in income currently. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognized, the depreciation charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to income during the period in which they are incurred.

The gain or loss on disposal or retirement of an asset represented by the difference between the sale proceeds and the carrying amount of the asset is recognized as an income or expense.

Capital work in progress is stated at cost less any identified impairment loss, if any. Trial production losses are capitalized till the date of commencement of commercial production as unallocated expenditure.

4.4 Intangible asset

Intangible asset represents cost of license acquired to manufacture hydrogen peroxide. Intangible asset is stated at cost less accumulated amortization and identified impairment loss, if any.

The amortization period and the amortization method for an intangible asset are reviewed, at each financial year end, and adjusted if impact on amortization is significant.

The company assesses at each balance sheet date whether there is any indication that intangible may be impaired. If such indication exists, the carrying amount of such assets are reviewed to assess whether they are recorded in excess of their recoverable amount. Where carrying values exceed the respective recoverable amount, assets are written down to their recoverable amounts and the resulting impairment loss is recognized in income currently. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an impairment loss is recognized, the amortization charge is adjusted in the future periods to allocate the asset's revised carrying amount over its estimated useful life.

4.5 Leases

The company is the lessee:

4.5.1 Finance leases

Leases where the company has substantially all the risks and rewards of ownership are classified as finance leases and are capitalized at lower of present value of minimum lease payments under the lease arrangements and the fair value of the assets. Subsequently these assets are stated at cost less accumulated depreciation and any identified impairment loss.

Each lease payment is allocated between the liability and finance cost so as to achieve a constant rate on the balance outstanding. The interest element of the rental is charged to profit over the lease term.

The related rental obligations, net of finance cost, are included in liabilities against assets subject to finance lease as referred to in note 8. The liabilities are classified as current and non-current depending upon the timing of the payment.

4.5.2 Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit on a straight-line basis over the lease term.

4.6 Stores and spares

Stores and spares, except for the 'working solution' are valued at lower of moving average cost and net realizable value. Write down in stores and spares is made for slow moving and obsolete items. Items in transit are valued at cost comprising invoice value plus other directly attributable charges incurred thereon. Working solution is valued at lower of weighted average cost determined on a yearly basis and net realizable value.

4.7 Stock in trade

Stock of raw materials, packing materials, work-in-process and finished goods, except for those in transit are valued principally at the lower of weighted average cost and net realizable value. Cost of work-in-process and finished goods comprises cost of direct materials, salaries of production staff and appropriate manufacturing overheads.

Materials in transit are stated at cost comprising invoice value plus other charges paid thereon.

Net realizable value signifies the estimated selling price in the ordinary course of business less costs necessary to be incurred in order to make a sale. Provision is made in the financial statements for obsolete and slow moving stock-in-trade based on management's estimate.

4.8 Financial instruments

4.8.1 Financial Assets

The company classifies its financial assets in the following categories: available for sale and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at the time of initial recognition.

a) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the balance sheet date, which are classified as non-current assets. Loans and receivables comprise trade debts, advances, deposits prepayments and other receivables and cash and cash equivalents except for the finances under markup arrangements.

b) Available for sale

Available for sale financial assets are non-derivatives that are either designated in this category or are not classified as (a) loans and receivables, (b) held to maturity investments or (c) financial assets at fair value through profit or loss. They are included in the non-current assets unless the management intends to dispose off the investment within twelve months of the balance sheet date.

Investments classified as available for sale are initially measured at cost, being the fair value of consideration given. At subsequent reporting dates, these investments are measured at fair value (quoted market price), unless fair value cannot be reliably measured. The investments for which a quoted price is not available, are measured at cost as it is not practical to apply any other valuation methodology. Unrealized gain and losses arising from changes in the fair value are included in the comprehensive income in the period in which they arise.

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss is removed from equity and recognized in the profit and loss account. Impairment losses recognized in the profit and loss account on equity instruments are not reversed through the profit and loss account. Impairment testing for trade debts has been described in note 4.9.

4.8.2 Financial Liabilities

All financial liabilities are recognized at the time when the company becomes a party to the contractual provisions of the instrument.

A financial liability is de-recognized when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as de-recognition of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognized in the profit and loss account.

4.8.3 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the financial statements only when there is a legally enforceable right to set off the recognized amount and the company intends either to settle on a net basis or to realize the assets and to settle the liabilities simultaneously.

4.9 Trade debts

Trade debts and other receivables are recognized initially at invoice value, which approximates fair value, and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade debts and other receivables is established when there is objective evidence that the Company will not be able to collect all the amount due according to the original terms of the receivable. Significant financial difficulties of the debtors, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade debt is impaired. The provision is recognized in the profit and loss account. When a trade debt is uncollectible, it is written off against the provision. Subsequent recoveries of amounts previously written off are credited to the profit and loss account.

4.10 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of cash flow statement, cash and cash equivalents comprise cash in hand, demand deposits, other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value and finances under mark-up arrangements. In the balance sheet, finances under mark-up arrangements are included in current liabilities.

4.11 Borrowings

Borrowings are recorded at the proceeds received. In subsequent periods, borrowings are stated at the amortized cost using the effective yield method.

Finance costs are accounted for on an accrual basis and are included in accrued finance cost to the extent of the amount remaining unpaid.

4.12 Trade and other payables

Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. Exchange gains and losses arising on translation in respect of liabilities in foreign currency are added to the carrying amount of the respective liabilities.

Provisions are recognized when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. Provisions are reviewed at year end and adjusted to reflect the current best estimate.

4.13 Foreign currency transactions and translation

a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the functional currency). The financial statements are presented in Pak Rupees, which is the Company's functional and presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into Pak Rupees using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account.

4.14 Borrowing costs

Mark up, interest and other charges on borrowings are capitalized up to the date of commissioning of the respective plant and machinery, acquired out of the proceeds of such borrowings. All other mark-up, interest and other charges are charged to income.

4.15 Revenue recognition

Revenue from sales is recognized on dispatch/shipment of goods to customers.

Return on deposits is accrued on a time proportion basis by reference to the principal outstanding and rates applicable thereon.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

5. ISSUED, SUBSCRIBED AND PAID UP CAPITAL

This represents 102,000,000 (2013: 102,000,000) ordinary shares of Rs 10 each fully paid in cash.

Ordinary shares of the company held by associated undertakings as at year end are as follows:

	2014 (Number of shares)	2013
Descon Corporation (Private) Limited	8,725,250	8,725,250
Descon Engineering Limited	7,439,800	7,439,800
Descon Chemicals Limited	10,773,700	10,773,700
Descon Holdings (Private) Limited	1,124,800	1,124,800
Interworld Travels (Private) Limited	92,054	92,054
Inspectest (Private) Limited	117,000	117,000
	28,272,604	28,272,604

		2014 (Rupees in thousand)	2013
6. LONG TERM FINANCES - SECURED			
From Financial Institutions	- note 6.1	560,000	646,832
From Associated Companies	- note 6.2	710,000	710,000
		1,270,000	1,356,832
Less: Current portion shown under current liabilities - note 10		(20,000)	(20,000)
		1,250,000	1,336,832
6.1 From Financial Institutions			
Loan - 1	- note 6.1.1	500,000	566,832
Loan - 2	- note 6.1.2	60,000	80,000
		560,000	646,832
Less: Current portion shown under current liabilities		(20,000)	(20,000)
		540,000	626,832

6.1.1 This loan has been obtained from a consortium of financial institutions led by Allied Bank Limited to finance the capital expenditure in relation to the hydrogen peroxide plant installation, construction and fabrication project. It is secured by way of hypothecation charge over all present and future fixed assets, wherever situated other than the immovable property and first pari passu mortgage charge over immovable property. It carries markup at six month KIBOR plus 2.75% per annum and is payable semi annually.

The markup charged during the period ranges from Re 0.2773 to Re 0.2526 (2013: Re 0.4041 to Re 0.3356) per diem per thousand.

The loan was initially repayable in 12 six monthly installments commencing on February 24, 2012. However, after payment of 3 installments, an early repayment was made during the last year. Another early repayment was made during the year. As on June 30, 2014, 5 unequal installments are outstanding, beginning on August 24, 2015 and ending on August 24, 2017.

6.1.2 This represents the loan obtained from KASB Bank Limited and is secured by a way of pari passu charge over present and future fixed assets (including land, building, plant and machinery) of the company for Rs 134 million. It carries markup at six month KIBOR plus 2.50% per annum and is payable semi annually.

The markup charged during the period ranges from Re 0.2789 to Re 0.2625 (2013: 0.3972 to Re 0.3290) per diem per thousand.

The balance is repayable in 6 equal semi annual installments ending on June 01, 2017.

		2014	2013
		(Rupees in thousand)	
6.2 From associated companies			
- Descon Engineering Limited	- note 6.2.1	400,000	400,000
- Presson Descon International (Private) Limited	- note 6.2.2	310,000	310,000
		710,000	710,000

6.2.1 This loan has been extended by Descon Engineering Limited, an associated company on April 15, 2013. Markup is accruable at six months Kibor plus 4.00%. Markup accrued is repayable in unequal installments beginning in April 2016 whereas Principal amount is repayable in unequal installments beginning in October 2017.

Effective rate charged during the period was Re 0.3391 (2013: 0.3316) per diem per thousand.

As per the terms of the borrowing agreement, the loan is secured against a ranking charge on all present and future assets and fixed assets of the Company. The above encumbarance, however, till the date of authorization of these financial statements, has not been registered with the Securities and Exchange Commission of Pakistan through the instrument evidencing the charge.

6.2.2 This loan has been extended by Presson Descon International (Private) Limited, an associated company on April 15, 2013. Markup is accruable at six months Kibor. Markup accrued is repayable in unequal installments beginning in April 2016 where as principal amount is repayable in unequal installments beginning in April 2017.

Effective rate charged during the period was Rs 0.2527 (2013: 0.2440) per diem per thousand.

As per the terms of the borrowing agreement, the loan is secured against a ranking charge on all present and future assets and fixed assets of the Company. The above encumbarance, however, till the date of authorization of these financial statements, has not been registered with the Securities and Exchange Commission of Pakistan through the instrument evidencing the charge.

		2014	2013
		(Rupees in thousand)	
7. SUBORDINATED LOANS FROM ASSOCIATED COMPANIES - UNSECURED			
- Descon Engineering Limited - Loan 1	- note 7.2	276,785	276,785
- Descon Engineering Limited - Loan 2	- note 7.3	112,000	112,000
- Interworld Travels (Private) Limited - Loan 3	- note 7.4	20,000	20,000
		408,785	408,785

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

7.1 The Company signed the 'Subordination Agreement' with Descon Engineering Limited, Interworld Travels (Private) Limited and Allied Bank Limited dated November 15, 2010, through which the repayment of both the principal and interest of loans 1 to 3 has been subordinated to the repayment of the syndicate loan as referred to in note 6.3. As per the terms of the 'Subordination Agreements', the Company may repay loan 2 and 3 aggregating to Rs 132 million and markup accrued on the entire balance of subordinated loans only after at least 50% of the principal of the syndicate loan has been repaid and is further subject to compliance with covenants contained in the agreement for loan referred to in note 6.3. Loan 1 of Rs 276.785 million may be repaid only after entire syndicate loan and related markup has been settled by the Company.

7.2 This loan was extended by Descon Engineering Limited, an associated company on June 30, 2010 by converting its short term non-interest bearing receivables of Rs 276.78 million into an un-secured interest bearing long term loan. The principal is repayable only after the repayment of the entire facility referred to in note 6.3. The markup is payable only after 50% of the facility under note 6.3 has been repaid and is further subject to compliance with covenants contained in the agreement for loan referred to in note 6.3. Mark-up is accruable for the period at six months Kibor plus 2.75 %.

Effective rate charged during the period was Re 0.2601 (2013: Re 0.2282) per diem per thousand for Rs 242 million loan and Re 0.2935 (2013: Re 0.2282) per diem per thousand for Rs 34.4 million loan.

7.3 The loan was extended by Descon Engineering Limited, an associated company on May 19, 2010. The principal and markup accrued thereon are repayable only after the repayment of 50% of the facility referred to in note 6.3 and further subject to compliance with covenants contained in the agreement for loan referred to in note 6.3. Mark-up is accruable for the period at six months Kibor plus 2%.

Effective rate charged during the period was Re 0.2676 (2013: Re 0.2779) per diem per thousand.

7.4 This loan was extended by Interworld Travels (Private) Limited, an associated company on June 30, 2010. The principal and markup accrued thereon are repayable only after the repayment of 50% of the facility referred to in note 6.3 and further subject to compliance with covenants contained in the agreement for loan referred to in note 6.3. Mark-up is accruable for the period at six months Kibor plus 1%.

Effective rate charged during the period was Re 0.2510 (2013: Re 0.2527) per diem per thousand.

	2014	2013
	(Rupees in thousand)	
8. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE		
Present value of minimum lease payments	-	82,326
Less: Current portion shown under current liabilities - note 10	-	(82,326)
	-	-

The minimum lease payments have been discounted at an implicit interest rate of Nil (2013: 22.69%) to arrive at their present value. In case of default in any payment, an additional charge at the rate of 0.1% per day shall be paid.

Taxes, repairs and insurance costs are to be borne by the company.

The lease is secured against cross corporate guarantee of Descon Engineering Limited and personal guarantee of Mr Abdul Razak Dawood.

The amount of future payments of the lease and the period in which these payments will become due are as follows:

	Minimum Lease payments	Finance cost not due	Present value of lease liability 2014	2013
Not later than one year	-	-	-	82,326
Later than one year and not later than five years	-	-	-	-
	-	-	-	82,326

		2014	2013
		(Rupees in thousand)	
9. ACCRUED FINANCE COST			
Long Term Loans - Secured	-note 9.1	97,309	15,829
Long Term Loans - Unsecured	-note 9.2	190,796	159,797
		288,105	175,626

9.1 This represents accrued finance cost on loans from associated companies referred to in note 6.2, on which the interest repayment will begin from April 15, 2016.

9.2 This represents accrued finance cost on subordinated loans from associated companies referred to in note 7. It is payable only after at least 50% of the principal of the syndicate loan referred to in note 6.1.1 has been repaid, subject to compliance with covenants contained in the agreement for loan referred to in note 6.1.1.

		2014	2013
		(Rupees in thousand)	
10. CURRENT PORTION OF LONG TERM LIABILITIES			
Long term finances - secured	- note 6	20,000	20,000
Liabilities against assets subject to finance lease - secured	- note 8	-	82,326
		20,000	102,326
11. FINANCES UNDER MARK UP ARRANGEMENTS - SECURED			
Short term running finance	-note 11.1	9,536	104,597
Export Re-finance	-note 11.2	50,000	50,000
		59,536	154,597

11.1 This represent the outstanding balance against the Short term running finance facility of Rs 150 million (2013: 150 million) under markup arrangement from Bank Al-Habib Limited to meet the working capital requirements of the company. It carries markup of 3 months average KIBOR reviewed on first working day of every calendar quarter on the basis of arithmetic mean of previous six working days plus 1% per annum. The markup charged during the year ranges from Rs. 0.2782 to Rs. 0.3048 per diem per thousand on the outstanding balance or part thereof.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

The facility has been secured through a first charge over current assets of the company for Rs 530 million, a third ranking charge over the land and building, a fourth ranking charge over plant and machinery of the Company for Rs 150 million and personal guarantee of Mr Taimur Dawood for Rs 120 million.

11.2 This represent the outstanding against Export refinance loans of Rs 50 million (2013: Rs 50 million) from Bank Al-Habib Limited. It carries markup of SPB rate on export refinancing plus 1% per annum. The markup charged during the year ranges from Rs. 0.2575 to Rs. 0.2575 per diem per thousand on the outstanding balance or part thereof.

The aggregate facilities have been secured through a first charge over current assets of the company for Rs 530 million, a third ranking charge over the land and building, a fourth ranking charge over plant and machinery of the Company for Rs 150 million.

11.3 Of the aggregate facility of Rs 145 million (2013: Rs 145 million) for opening of letter of credit for import of machinery, raw material and stores from Bank Al Habib Limited, the amount utilized at June 30, 2014 was Rs 115.559 million (2013: Rs 72.919 million).

		2014	2013
		(Rupees in thousand)	
12. TRADE AND OTHER PAYABLES			
Trade creditors	- note 12.1	25,817	74,314
Bills payable		27,527	22,892
Associated undertakings	- note 12.2	4,719	2,078
Accrued and other liabilities	- note 12.3	53,447	37,149
		111,510	136,433

12.1 Trade creditors includes interest free amounts due to associated companies amounting to Rs 0.613 million (2013: Rs 0.542 million) in the normal course of business.

12.2 These are interest free and represent expenses incurred by related parties on behalf of the company:

	2014	2013
	(Rupees in thousand)	
Descon Chemicals Limited	956	192
Descon Corporation (Private) Limited	17	-
Descon Engineering Limited	3,746	1,886
	4,719	2,078

12.3 This includes Rs (0.004) million (2013: Nil) payable to provident fund of the company.

	2014	2013
13. Accrued finance cost		
Finances under markup arrangements - secured	2,063	4,495
Long term finances - secured	28,718	34,820
Liabilities against assets subject to finance lease - secured	-	314
	30,781	39,629

14. Contingencies and commitments

14.1 Contingencies

Guarantee issued to Sui Northern Gas Pipeline Limited against the performance of a contract amounting to Rs 48.64 million (2013: Rs 48.64 million).

14.2 Commitments

The company has commitments in respect of letters of credit other than capital expenditure amounting to Rs 115.559 million (2013: Rs 72.920 million), and in respect of capital expenditure amounting to Nil (2013: Rs 8.370 million), and in respect of agreement with Descon Power Solutions (Private) Limited amounting to Rs 15.645 million (2013: Rs 24.585 million) for installation of power anxiliary equipment at Descon Oxychem Limited site for a period of 3 years commencing from April 2013.

		2014	2013
		(Rupees in thousand)	
15. PROPERTY, PLANT AND EQUIPMENT			
Operating assets	- note 15.1	1,899,701	2,024,098
Capital work-in-progress	- note 15.2	308	2,648
		1,900,009	2,026,746

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

15.1 Operating assets

(Rupees in thousand)

2014

	Cost as at July 1, 2013	Additions/ (deletions)	Cost as at June 30, 2014	Accumulated depreciation as on July 1, 2013	Depreciation charge/ (deletions) June 30, for the year	Accumulated depreciation as on June 30, 2014	Net book value as on 2014	Rate of deprec- iation %
Owned assets								
Freehold land	101,316	-	101,316	-	-	-	101,316	-
Buildings on freehold land	293,278	103	293,381	59,362	14,667	74,029	219,353	5
Plant, machinery and equipment	2,129,774	177,164.51	2,306,939	572,933	177,557	750,490	1,556,449	6.25
Laboratory equipment	14,604	-	14,604	3,834	913	4,747	9,857	6.25
Material handling	101	2,346	2,447	53	206	259	2,188	20
Tools and equipment	5,265	169	5,434	1,078	317	1,395	4,039	6.25
Computer equipment	5,350	504	5,854	4,915	244	5,159	695	33.33
Electrical equipment	376	15	391	368	10	378	13	20
Office equipment	4,742	65	4,807	4,060	638	4,698	109	20
Furniture and fixture	6,467	128	6,595	2,542	651	3,193	3,402	10
Vehicles	5,172	1,580	6,752	3,553	918	4,471	2,281	20
	2,566,445	182,075	2,748,520	652,698	196,121	848,819	1,899,701	
		-			-			
Leased assets								
Plant, machinery and equipment	142,197		-	31,846	4,444	-	-	6.25
		(142,197)			(36,290)			
2014	2,708,642	182,075	2,748,520	684,544	200,565	848,819	1,899,701	
	-	(142,197)	-	-	(36,290)	-	-	

(Rupees in thousand)

2014

	Cost as at July 1, 2012	Additions/ (deletions)	Cost as at June 30, 2013	Accumulated depreciation as on July 1, 2012	Depreciation charge/ (deletions) June 30, for the year	Accumulated depreciation as on June 30, 2013	Net book value as on 2013	Rate of deprec- iation %
Owned assets								
Freehold land	101,316	-	101,316	-	-	-	101,316	-
Buildings on freehold land	293,278	-	293,278	44,698	14,664	59,362	233,916	5
Plant, machinery and equipment	2,124,466	5,308	2,129,774	439,964	132,969	572,933	1,556,841	6.25
Laboratory equipment	14,439	165	14,604	2,929	905	3,834	10,770	6.25
		-			-			
Material handling	140	7	101	63	20	53	48	20
		(46)			(30)			
Tools and equipment	3,895	1,370	5,265	812	266	1,078	4,187	6.25
		-			-			
Computer equipment	4,888	506	5,350	4,751	208	4,915	435	33.33
		(44)			(44)			
Electrical equipment	376	-	376	313	55	368	8	20
		-			-			
Office equipment	4,755	-	4,742	3,139	932	4,060	682	20
		(13)			(11)			
Furniture and fixture	7,330	-	6,467	2,129	647	2,542	3,925	10
		(863)			(234)			
Vehicles	4,171	1,001	5,172	2,765	788	3,553	1,619	20
		-			-			
	2,559,054	8,357	2,566,445	501,563	151,454	652,698	1,913,747	
	-	(966)	-	-	(319)	-	-	
Leased assets								
Plant, machinery and equipment	142,197	-	142,197	22,959	8,887	31,846	110,351	6.25
		-			-			
2013	2,701,251	8,357	2,708,642	524,522	160,341	684,544	2,024,098	
	-	(966)	-	-	(319)	-	-	

		2014	2013
		(Rupees in thousand)	
15.1.1 The depreciation charge has been allocated as follows:			
Cost of goods sold	- note 26	163,664	159,728
Administrative expenses	- note 27	520	427
Distribution and selling cost	- note 28	91	186
		164,275	160,341

15.1.2 There were no disposals of property, plant and equipment during the year ended June 30, 2014.

15.1.3 All assets classified in Property, Plant and Equipment are in the name of the company and in company's possession and control.

	2014	2013
	(Rupees in thousand)	
15.2 Capital work-in-progress		
Plant and machinery	308	2,003
Civil works	-	645
	308	2,648

	2014	2013
	(Rupees in thousand)	
16. INTANGIBLE ASSET		
Carrying value as at July 1	11,903	29,759
Amortization during the year	(11,903)	(17,856)
Carrying value as at June 30	-	11,903

This represents non-exclusive and non-transferable right and license for the production of hydrogen peroxide acquired from Chematur Ecoplanning Oy, Finland and amortized over 5 years.

	2014	2013
	(Rupees in thousand)	
17. LONG TERM DEPOSITS		
As at July 1	16,554	79,551
Security deposits transferred to short term during the year	-	(62,997)
As at June 30	16,554	16,554

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

18. DEFERRED TAXATION

The asset for deferred taxation comprises temporary differences in:

	2014	2013
	(Rupees in thousand)	
Accelerated tax depreciation	(337,410)	(345,437)
Unused tax losses	584,729	590,761
	247,319	245,324

The company has not recognized deferred tax asset of Rs 39.920 million (2013: Rs 28.097 million) in respect of minimum tax under section 113 of the Income Tax Ordinance, 2001 available for carry forward based on prudence principle as sufficient tax profits may not be available to set it off.

		2014	2013
		(Rupees in thousand)	
19. STORES AND SPARES			
General stores and spares	- note 19.1	113,679	98,805
Working solution		78,060	70,643
		191,739	169,448

19.1 General stores and spares include raw material for working solution of Rs 42.351 million (2013: Rs 33.962 million) and items which may result in fixed capital expenditure but are not distinguishable.

		2014	2013
		(Rupees in thousand)	
20. STOCK IN TRADE			
Raw materials [including in transit of Rs 22.168 million (2013: Rs 26.849 million)]		58,840	52,191
Packing material		530	103
Work-in-process		259	225
Finished goods [including in transit of Nil (2013: Rs 1.334 million)]		10,830	10,867
		70,459	63,386
21. TRADE DEBTS			
Considered good - unsecured	- note 21.1	82,185	118,054
Considered doubtful		1,285	1,381
		83,470	119,435
Less: Provision for doubtful debts	- note 21.2	(1,285)	(1,381)
		82,185	118,054

21.1 These include amount due from Descon Chemicals Limited of Nil (2013: Rs 0.015 million) and amount due from Descon Engineering Limited of Rs 0.377 million (2013: Rs 0.350 million).

			2014	2013
			(Rupees in thousand)	
21.2	**Provision for doubtful debts**			
	Balance as at January 1		1,381	878
	Provision during the year	- note 28	(96)	1,381
	Written off against provision		-	(878)
	Balance as at June 30		1,285	1,381
22.	**INVESTMENTS - AVAILABLE FOR SALE**			
	Available for sale - at cost			
	Investment in 63,785 units (2013: 69,768 units) of MCB Cash Optimizer Fund		6,089	7,000
	Investment in 515,492 units (2013: 905,949 units) of ABL Cash Fund		4,921	9,000
	Investment in 46,697 units (2013: 89,502 units) of HBL Money Market Fund		4,495	9,000
			15,505	25,000
	Add : Cumulative fair value gain	- note 22.2	720	172
			16,225	25,172

22.1 The investments have been made in open ended money market mutual funds which makes investments in fixed income instruments with a maximum maturity of 180 days and weighted average maturity up to 90 days. The return on the fund is in form of bonus units and cash dividend.

			2014	2013
			(Rupees in thousand)	
22.2	**Cumulative fair value gain**			
	As at July 01		172	3,279
	Fair value gain during the year		3,557	2,829
	Transferred to profit and loss account on derecognition of investment		(3,009)	(5,936)
	As at June 30		720	172
23.	**ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES**			
	Advances to suppliers	- note 23.1	3,937	9,329
	Advances to employees and short term loans to employees		401	102
	Prepayments		458	745
	Sales tax recoverable		80,454	96,369
	Associated undertakings	- note 23.2	-	1,055
	Short term security deposit		-	62,997
	Other receivables		1,993	9,162
			87,243	179,759

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

23.1 These include interest free advance to Descon Power Solutions (Private) Limited of Nil (2013: Rs 3.691 million).

23.2 These are interest free and represent expenses incurred by the company on behalf of related parties.

	2014	2013
	(Rupees in thousand)	
Descon Power Solutions (Private) Limited	-	1,024
Gray Mackenzie Engineering Services	-	31
	-	1,055

		2014	2013
		(Rupees in thousand)	
24. CASH AND BANK BALANCES			
At banks on:			
- Current accounts		1,039	2,665
- Saving accounts	- note 24.1	4,503	3,012
		5,542	5,677

24.1 It carries mark-up at the rate ranging from 7.00% to 8.00% per annum.

25. SALES

	2014	2013
Gross sales:		
- Local	1,180,089	1,175,028
- Export	349,597	222,790
	1,529,686	1,397,818
Less: Commission on sales	(31,139)	(28,271)
	1,498,547	1,369,547

25.1 Gross sales include sale of finished goods purchased for resale amounting to Rs 7.249 million (2013: Rs 157.047 million).

		2014	2013
		(Rupees in thousand)	
26. COST OF SALES			
Raw materials consumed	- note 26.1	492,094	400,116
Salaries, wages and other benefits	- note 26.2	64,933	54,940
Repair and maintenance		32,554	25,251
Production supplies		930	461
Fuel and power		324,945	204,665
Printing and stationery		514	490
Services through contractors		31,868	32,096
Traveling		2,100	910
Annual shutdown expenses		15,266	-
Communication		251	361
Rent and rates		37,739	17,337
Depreciation on property, plant and equipment	- note 15.1.1	163,664	159,728
Amortization on intangible assets	- note 16	11,904	17,856
Insurance		8,115	5,658
Fees		3,506	473
Safety items consumed		615	571
Miscellaneous		1,413	956
		1,192,411	921,869
Add: Opening work in process		225	2,308
Less: Closing work in process		(259)	(225)
		(34)	2,083
Cost of goods produced		1,192,377	923,952
Add: Opening finished goods		10,970	15,554
Less: Closing finished goods		(11,360)	(10,970)
		(390)	4,584
Cost of Goods Sold - Own Manufactured		1,191,987	928,536
Cost of Goods Purchased for Resale		7,111	156,724
		1,199,098	1,085,260

26.1 This includes Rs 21.944 million in respect of Gas Infrastructure Development Cess levied during the year under Gas Infrastructure Development Cess Act, 2011 (Act XXI of 2011) (the Act). As per the order of Peshawar High Court dated June 12, 2013 which was upheld by the Honorable Supreme Court through its order dated August 22, 2014, the provisions of the Act were declared ultra vires and void ab-initio and the court further directed that such amount be returned to the payers in a manner to be determined by the Government and that in case of any impracticality, atleast a handsome amount out of the total collected be adjusted in subsequent Sui Gas bills within a period of six months at the most. However, subsequent to the decision of the Honorable Supreme Court of Pakistan, on September 25, 2014, the Government of Pakistan issued Gas Infrastructure Development Cess Ordinance, 2014 (Ordinance No. VI of 2014) (the Ordinance). Under Section 8 of the Ordinance, any cess levied, charged, collected or realized under the Act shall be deemed to have been validly levied, charged, collected or realized under this Ordinance notwithstanding anything to the contrary contained in the Act, any decree, judgment or order of the Court. Consequently, being prudent, the Company has not reversed GIDC levied under the Act during the year and previous years aggregating to Rs 39.054 million.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

26.2 Salaries, wages and other benefits include Rs 1.383 million (2013: Rs 1.299 million) and Rs 0.302 million (2013: Rs 0.336 million) in respect of provident fund contribution by the Company and accumulating compensated absences respectively.

		2014	2013
		(Rupees in thousand)	
27. ADMINISTRATIVE EXPENSES			
Salaries, allowances and other benefits	- note 27.1	21,672	17,635
Services through contractor		634	587
Vehicle running and maintenance		1,353	767
Entertainment		251	606
Communication		979	793
Printing and stationary		2,548	1,488
Traveling and conveyance		2,277	1,222
Repair and maintenance		994	1,640
Insurance		151	238
Fees and subscriptions		4,295	2,400
Rent and rates		994	1,388
Legal and professional fee	- note 27.2	12,625	7,836
Depreciation on property, plant and equipment	- note 15.1.1	520	427
Others		5,539	5,539
		54,832	42,566

27.1 Salaries, wages and other benefits include Rs 0.403 million (2013: Rs 0.479 million) and Nil (2013: Rs 0.697 million) in respect of provident fund contribution by the Company and accumulating compensated absences respectively.

27.1 Auditors remuneration
The charges for legal and professional services include the following in respect of auditors services for:

	2014	2013
	(Rupees in thousand)	
Statutory audit	968	880
Half yearly review	363	330
Certification charges	121	110
Out of pocket expenses	14	13
	1,466	1,333

		2014	2013
28. DISTRIBUTION AND SELLING COST			
Salaries, allowances and other benefits	- note 28.1	3,990	2,892
Entertainment		57	90
Communication		299	393
Traveling and conveyance		1,235	717
Advertisement		873	3,342
Insurance		1,946	1,003
Freight and forwarding		64,543	47,359
Depreciation on property, plant and equipment	- note 15.1.1	91	186
Provision for doubtful debts		-	1,381
Printing and stationary		584	-
Others		1,663	221
		75,281	57,584

28.1 Salaries, wages and other benefits include Rs 0.114 million (2013: Rs 0.137 million) and Nil (2013: Rs 0.037 million) in respect of provident fund contribution by the Company and accumulating compensated absences respectively.

		2014	2013
		(Rupees in thousand)	
29. OTHER OPERATING INCOME			
Income from financial assets			
Interest on bank deposits		552	949
Exchange gain		-	6,563
Gain on sale of investment		3,009	5,936
Reversal of provision against doubtful debts		96	-
		3,657	13,448
Income from non-financial assets			
Gain on sale of fixed assets		-	166
Scrap sales		2,194	10,482
Others		5,063	1,377
		7,257	12,025
		10,914	25,473

30. This represents exchange loss.

		2014	2013
31. FINANCE COST			
Interest and mark-up on:			
- Long term finances			
- secured	-note 31.1	159,499	178,851
- unsecured	-note 31.2	45,699	46,149
- Finances under markup arrangement - secured		13,487	19,865
- Liabilities against assets subject to finance lease		985	6,612
Bank charges and others		5,670	4,051
		225,340	255,528

31.1 This includes finance cost accrued on loans from associated companies amounting to Rs 127.478 million (2013: 61.978).

31.2 This represents finance cost payable to associated companies.

	2014	2013
	(Rupees in thousand)	
32. TAXATION		
Current		
- For the year	15,300	8,200
- Prior years	(146)	(2,892)
	15,154	5,308
Deferred	(1,995)	-
	13,159	5,308

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

32.1 In view of the available income tax losses, the provision for current taxation represents tax under 'Final Tax Regime' and minimum tax on turnover under section 113 of the Income Tax Ordinance, 2001. Minimum tax under section 113 is available for set off for five years against normal tax liability arising in future years whereas tax under 'Final Tax Regime' is not available for set off against normal tax liabilities arising in future years.

For the purposes of current taxation, the tax losses available for carry forward as at June 30, 2014 are estimated approximately at Rs 1,670.653 million (2013: Rs 1,687.891 million).

	2014 %	2013 %
32.2 Tax charge reconciliation		
Numerical reconciliation between the average effective tax rate and the applicable tax rate		
Applicable tax rate	34.00	35.00
Inadmissible expenses	(1.29)	(1.07)
Effect of change in tax rate	.31	-
Minimum tax not recognized	(24.56)	(12.91)
Tax effect under presumptive regime and others	(35.79)	(32.58)
	(61.33)	(46.56)
Average effective tax rate charged to profit and loss account	(27.33)	(11.56)

		2014	2013
33. Loss per share			
33.1 Basic loss per share			
Loss for the year	Rupees in thousand	(61,291)	(51,226)
Weighted average number of ordinary shares in issue during the year	Number	102,000	102,000
Loss per share	Rupees	(0.60)	(0.50)

33.2 Diluted earnings per share

Diluted earnings per share has not been presented as the Company does not have any convertible instrument in issue as at June 30, 2014 and June 30, 2013 which would have any effect on the earnings per share if the option to convert is exercised.

		2014	2013
		(Rupees in thousand)	
34. CASH FLOW FROM OPERATING ACTIVITIES			
Loss before taxation		(48,132)	(45,918)
Adjustment for:			
- Depreciation on property, plant and equipment	-note 15.1.1	164,275	160,341
- Amortization of intangible assets	-note 16	11,903	17,856
- Accrual / (Reversal) of provision for accumulating compensated absences	-note 27	(2,202)	1,070
- Gain on disposal of fixed assets	-note 29	-	(166)
- Net exchange loss/(gain)	-note 29	3,042	(6,563)
- Interest from bank deposits	-note 29	(552)	(949)
- Provision for doubtful debts	-note 28	(96)	1,381
- Gain on sale of investment	-note 29	(3,009)	(5,936)
- Finance cost	-note 31	225,339	255,528
Profit before working capital changes		350,569	376,644
Effect on cash flow due to working capital changes:			
(Increase)/ decrease in current assets			
- Stores, spares and loose tools		(46,219)	(433)
- Stock in trade		(7,073)	4,615
- Trade debts		32,923	(62,378)
- Advances, deposits, prepayments and other receivables		29,518	(28,940)
Increase /(decrease) in current liabilities			
- Creditors, accrued and other liabilities		(22,721)	25,050
		(13,572)	(62,086)
Cash generated from operations		336,997	314,558

35. TRANSACTIONS WITH RELATED PARTIES

The related parties comprise of associated undertakings, key management personnel and post-employment benefit plan. The company in the normal course of business carries out transactions with various related parties. Amounts due from and due to related parties are shown under receivables and payables and remuneration of the key management personnel is disclosed in note 36. Other significant transactions with related parties are as follows:

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

		2014	2013
		(Rupees in thousand)	
i. Associated undertakings	Purchase of goods and services	17,398	8,336
	Purchases in respect of fixed capital expenditure	1,075	435
	Sale of goods	2,041	650
	Disposal of asset	-	949
	Share of common expenses charged from associated companies	35,627	27,750
	Share of common expenses charged to associated companies	11,582	9,358
	Mark-up expense	127,479	61,978
	Sale of scrap	-	882
	Long term loans obtained	-	710,000
ii. Post employment benefit plans	Expense charged in respect of retirement contribution plans	1,900	1,916

All transactions with related parties are carried out on mutually agreed terms and conditions.

36. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

	Chief Executive		Executive Director		Non-Executive Directors		Executives	
	2014	2013	2014	2013	2014	2013	2014	2013
	Rupees in thousand		Rupees in thousand		Rupees in thousand		Rupees in thousand	
Remuneration	4,032	3,898	605	750	2,273	1,836	9,221	9,235
Provident Fund	201	198	-	-	76	76	348	330
Medical facility	134	39	178	196	-	-	91	257
Reimbursable expenses	373	62	85	56	67	1	198	713
	4,740	4,197	868	1,002	2,416	1,913	9,858	10,535
No. of persons	1	1	1	1	2	2	5	5

The company provides company maintained car to the Chief Executive and certain other executives.

		2014	2013
		(Rupees in thousand)	
37. CASH AND CASH EQUIVALENTS			
Cash and bank balances	- note 24	5,542	5,677
Finances under mark up arrangements - secured	- note 11	(59,536)	(154,597)
		(53,994)	(148,920)

38. CAPACITY AND PRODUCTION

		Production Capacity	Actual production 2014	Actual production 2013
Production of hydrogen peroxide (on 100% concentration and based on 360 working days)	**Metric Tonnes**	14,000	16,253	13,197
Production of packing material (based on 360 working days)	**Number**	1,080,000	729,969	649,478

Production of packing material remained below capacity owing to lower demand of packaged hydrogen peroxide.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES

39.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, other price risk and interest rate risk), credit risk and liquidity risk. The company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance.

Risk management is carried out by the Board of Directors (the Board).

(a) Market risk

(i) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk arises mainly from future commercial transactions or receivables and payables that exist due to transactions in foreign currencies. The company is exposed to foreign currency exchange risk in respect of commitments against letters of credit in foreign currency. The management does not view hedging as being financially feasible.

The company is exposed to currency risk arising only with respect to the Unites States Dollar (USD). Currently, the Company's foreign exchange risk exposure is restricted to the amounts receivable from/payable to the foreign entities. The Company's exposure to currency risk is as follows:

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

	2014	2013
	(FCY in thousand)	
Trade debts - US Dollars	336	273
Bills payable - US Dollars	(239)	(140)
The following significant exchange rates were applicable during the year:		
Rupees per USD		
Average rate	102.88	96.80
Reporting date rate	98.80	98.80

At June 30, 2014, if the Rupee had weakened / strengthened by 10% against the US dollar with all other variables held constant, post-tax loss for the year would have been lower / higher as under, mainly as a result of foreign exchange gains / losses on translation of US dollar-denominated liabilities.

Foreign currency sensitivity analysis

The following table demonstrates the sensitivity to a reasonably possible change in the US Dollar exchange rate, with all other variables held constant, of the Company's loss before tax and equity. The Company's exposure to foreign currency changes for all other currencies is not material.

	Change in Exchange Rate	Effect on loss before tax	Effect on Equity
		(Rupees in thousand)	
2014	10%	958	623
	-10%	(958)	(623)
2013	10%	1,314	854
	-10%	(1,314)	(854)

(ii) Other price risk

Other price risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The company is not exposed to equity price risk as it does not have any exposure in equity securities.

(iii) Interest rate risk

Interest rate risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Borrowings obtained at variable rates expose the company to cash flow interest rate risk.

As the company has no significant interest-bearing assets, the company's income and operating cash flows are substantially independent of changes in market interest rates.

At the balance sheet date, the interest rate profile of the company's interest bearing financial instruments was:

	2014	2013
	(Rupees in thousand)	
Fixed rate instruments		
Financial assets		
Savings Account	4,503	3,012
	4,503	3,012
Floating rate instruments		
Financial liabilities		
Long term finances		
- secured	540,000	626,832
- unsecured	408,785	408,785
Finances under markup arrangement - secured	59,536	154,597
Liabilities against assets subject to finance lease	-	82,326
	1,008,321	1,272,540

Fair value sensitivity analysis for fixed rate instruments

The company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rate at the balance sheet date would not affect profit or loss of the company. The impact of changes in average effective interest rate for the year is given below:

Interest rate sensitivity analysis

		Increase/ decrease in rate	Effect on loss before tax	Effect on Equity
			(Rupees in thousand)	
Financial Assets				
	2014	1%	45	29
		-1%	(45)	(29)
	2013	1%	30	20
		-1%	(30)	(20)
Financial Liabilities				
	2014	1%	(10,083)	(6,554)
		-1%	10,083	6,554
	2013	1%	(12,725)	(8,271)
		-1%	12,725	8,271

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

(b) Credit risk

Credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Company's credit risk is primarily attributable to its trade debts, its short term investments in open ended mutual funds and its balances at banks. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

	2014	2013
	(Rupees in thousand)	
Trade debts	82,185	118,054
Advances, deposits, prepayments and other receivables	5,931	18,491
Investment - Available for sale	16,225	25,172
Bank balances	5,542	5,677
	109,883	167,394

The credit risk on liquid funds is limited because the counter parties are banks with reasonably high credit ratings. The company believes that it is not exposed to major concentration of credit risk as its exposure is spread over a large number of counter parties and trade debts are subject to specific credit ceilings.

The credit quality of short term investments in open ended money market mutual funds and cash and bank balances that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counter party default rate:

	Rating		Rating		
	Short term	Long term	Agency	2014	2013
				(Rupees in thousand)	
Investment - Available for sale					
MCB Cash Optimizer Fund	N/A	AA(f)	Pacra	6,378	7,049
ABL Cash Fund	N/A	AA(f)	JCR-VIS	5,161	9,061
HBL Money Market Fund	N/A	AA(f)	JCR-VIS	4,685	9,062
				16,224	25,172
Cash and bank					
Habib Metropolitan Bank Limited	A1+	AA+	Pacra	2,583	432
Habib Bank Limited	A-1+	AAA	JCR-VIS	1,343	2,492
Allied Bank Limited	A1+	AA+	Pacra	295	8
Bank Al-Habib Ltd.	A1+	AA+	Pacra	1,320	2,745
				5,542	5,677

Due to the company's long standing business relationships with these counter parties and after giving due consideration to their strong financial standing, management does not expect non-performance by these counter parties on their obligations to the company. Accordingly, the credit risk is minimal.

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

The company manages liquidity risk by maintaining sufficient cash and bank balances and the availability of funding through an adequate amount of committed credit facilities. At June 30, 2014 the company had borrowing limits available from financial institutions at Rs 140.464 million (2013: Rs 45.403 million), investment available for sale at Rs 16.225 million (2013: Rs 25.172 million) and Rs 5.542 million (2013: Rs 5.677 million) in cash and bank balances. The company follows an effective cash management and planning policy to ensure availability of funds and to take appropriate measures for new requirements.

All of the following financial liabilities are exposed to profit / mark-up rate risk except trade and other payables.

The following are the contractual maturities of financial liabilities as at June 30, 2014:

	Carrying amount	Less than one year	More than one year	More than five years
		(Rupees in thousand)		
Finance under markup arrangements	59,536	59,536	-	-
Accrued finance cost	318,886	30,781	288,105	-
Trade and other payables	111,510	111,510	-	-
Long term finances				
- secured	1,270,000	20,000	1,250,000	-
- unsecured	408,785	-	408,785	-
Liabilities against assets subject to finance lease	-	-	-	-
	2,168,717	221,827	1,946,890	-

The following were the contractual maturities of financial liabilities as at June 30, 2013:

	Carrying amount	Less than one year	More than one year	More than five years
		(Rupees in thousand)		
Finance under markup arrangements	154,597	154,597	-	-
Accrued finance cost	215,255	39,629	175,626	-
Trade and other payables	136,433	136,433	-	-
Long term finances				
- secured	1,356,832	20,000	776,575	560,257
- unsecured	408,785	-	408,785	-
Liabilities against assets subject to finance lease	82,326	82,326	-	-
	2,354,228	432,985	1,360,986	560,257

39.2 Fair values of financial assets and liabilities

The carrying values of all financial assets and liabilities reflected in the financial statements approximate their fair values. Fair value is determined on the basis of objective evidence at each reporting date.

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

39.3 Financial instruments by categories

	Loand and receivables	
	2014	2013
	(Rupees in thousand)	
Long term deposits	16,554	16,554
Trade debts	82,185	118,054
Advances, deposits, prepayments and other receivables	115,298	179,759
Cash and bank balances	5,542	5,677
	219,579	320,044

	Available for sale	
	2014	2013
	(Rupees in thousand)	
Short term investments	16,225	25,172

	Financial liabilities at amortised cost	
	2014	2013
	(Rupees in thousand)	
Long term finances	1,678,785	1,765,617
Liabilities against assets subject to finance lease	-	82,326
Finances under mark up arrangements - secured	59,536	154,597
Trade and other payables	100,511	136,433
Accrued finance cost	318,886	215,255
	2,157,718	2,354,228

39.4 Capital risk management

“The company’s objectives when managing capital are to safeguard the company’s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Borrowings represent long term loan obtained by the company as referred to in notes 6 and 7. Total capital employed includes equity as shown in the balance sheet, plus total long term borrowings.

The gearing ratio for the year is 77% (2013: 75%). The company paid significant portion of consortium loan in the current period but the debt has been paid substantially by obtaining loans from associated companies.

	2014	2013
	(Rupees in thousand)	
40. NUMBER OF EMPLOYEES		
Total number of employees as at June 30	98	87
Average number of employees during the year	97	84

		2014	2013
		(Rupees in thousand)	
41. PROVIDENT FUND			
Size of the fund		17,821	12,811
Cost of investments made		14,098	11,318
Percentage of investments made		79%	88%
Fair value of investments	- note 41.1	14,640	11,953

41.1 The breakup of fair value of investments is:

	2014 (Rs in '000)	%	2013 (Rs in '000)	%
Break up of investments				
Investment in Treasury Bills	-	0.00%	7,886	65.98%
Investment in Term Finance Certificates	582	3.98%	2,613	21.86%
Investment in Listed Shares	3,604	24.62%	1,454	12.17%
Investment in Pakistan Investment Bonds	10,454	71.41%	-	0.00%
	14,640	100.00%	11,953	100%

The figures for 2014 are based on un-audited financial statements of the provident fund. Investments out of the provident fund have been made in accordance with the provisions of Section 227 of The Companies Ordinance and the rules formulated for this purpose.

42. DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on October 01, 2014 by the Board of Directors.

43. SUBSEQUENT EVENTS

There are no subsequent events occurring after balance sheet date.

44. CORRESPONDING FIGURES

Corresponding figures have been re-arranged and reclassified, wherever necessary, for the purposes of comparison and better presentation as per reporting framework. However, no significant re-arrangements have been made.

CHIEF EXECUTIVE **DIRECTOR**

PATTERN OF HOLDING OF THE SHARES HELD BY THE SHAREHOLDERS

AS AT JUNE 30, 2014

No. of Shareholders	------Shareholding------		Total Shares Held
	From	To	
142	1	100	3,040
1,997	101	500	983,836
419	501	1,000	413,482
682	1,001	5,000	2,028,299
223	5,001	10,000	1,844,981
79	10,001	15,000	993,680
78	15,001	20,000	1,423,027
64	20,001	25,000	1,535,500
28	25,001	30,000	785,000
15	30,001	35,000	482,900
10	35,001	40,000	386,141
12	40,001	45,000	520,566
18	45,001	50,000	889,091
4	50,001	55,000	214,000
5	55,001	60,000	292,585
1	60,001	65,000	62,500
4	65,001	70,000	279,938
1	70,001	75,000	70,500
3	75,001	80,000	240,000
1	80,001	85,000	80,500
2	85,001	90,000	180,000
3	90,001	95,000	275,108
11	95,001	100,000	1,099,000
1	100,001	105,000	100,103
2	105,001	110,000	217,500
4	115,001	120,000	470,618
1	125,001	130,000	127,500
1	135,001	140,000	135,500
1	140,001	145,000	141,500
4	145,001	150,000	600,000
1	160,001	165,000	164,000

	------Shareholding------		
No. of Shareholders	From	To	Total Shares Held
1	170,001	175,000	175,000
1	175,001	180,000	180,000
2	185,001	190,000	375,500
4	195,001	200,000	800,000
1	210,001	215,000	214,000
1	295,001	300,000	300,000
1	325,001	330,000	325,500
1	330,001	335,000	330,500
1	350,001	355,000	352,505
1	370,001	375,000	375,000
1	395,001	400,000	400,000
1	465,001	470,000	470,000
1	470,001	475,000	475,000
1	495,001	500,000	500,000
1	550,001	555,000	551,000
1	595,001	600,000	600,000
1	680,001	685,000	684,500
1	745,001	750,000	747,500
1	1,120,001	1,125,000	1,124,800
1	1,995,001	2,000,000	2,000,000
1	2,295,001	2,300,000	2,300,000
1	4,125,001	4,130,000	4,129,000
1	5,320,001	5,325,000	5,322,300
2	5,640,001	5,645,000	11,289,000
1	6,415,001	6,420,000	6,419,000
1	6,575,001	6,580,000	6,579,500
1	7,435,001	7,440,000	7,439,800
1	8,725,001	8,730,000	8,725,250
1	10,770,001	10,775,000	10,773,700
1	11,000,001	11,005,000	11,001,250
3,852			**102,000,000**

CATEGORIES OF SHAREHOLDERS
REQUIRED UNDER CODE OF CORPORATE GOVERNANCE
AS AT JUNE 30, 2014

5.	Categories of shareholders	Share held	Percentage
5.1	Directors, Chief Executive Officers, and their spouse and minor childern	28,445,750	27.8880%
5.2	Associated Companies, undertakings and related parties. (Parent Company)	28,272,604	27.7182%
5.3	NIT and ICP	-	-
5.4	Banks Development Financial Institutions, Non Banking Financial Institutions.	375,000	0.3676%
5.5	Insurance Companies	-	-
5.6	Modarabas and Mutual Funds		
5.7	Share holders holding 10%	23,774,950	23.3088%
5.8	General Public		
	a. Local	44,078,732	43.2144%
	b. Foreign		
5.9	Others (to be specified)		
	Joint Stock Companies	827,899	0.8117%
	Others	15	-

CATEGORIES OF SHAREHOLDERS
REQUIRED UNDER CODE OF CORPORATE GOVERNANCE
AS AT JUNE 30, 2014

Sr. No.	Name	No. of Shares Held	Percentage
Associated Companies, Undertakings and Related Parties (Name Wise Detail):			
1	DESCON CHEMICAL LIMITED	10,773,700	10.5625
2	DESCON CORPORATION (PVT.) LIMITED	8,725,250	8.5542
3	DESCON ENGINEERING LIMITED	7,439,800	7.2939
4	DESCON HOLDING (PVT.) LIMITED	1,124,800	1.1027
5	INTERWORLD TRAVELS (PVT) LIMITED	92,054	0.0902
6	INSPECTEST (PVT) LIMITED	117,000	0.1147
Mutual Funds (Name Wise Detail)		-	-
Directors and their Spouse and Minor Children (Name Wise Detail):			
1	MR. A. RAZZAK DAWOOD	13,001,250	12.7463
2	MR. TAIMUR DAWOOD	5,644,500	5.5338
3	MR. FAISAL DAWOOD	5,644,500	5.5338
4	MR. FAROOQ NAZIR (CDC)	500	0.0005
5	SYED ZAMANAT ABBAS	500	0.0005
6	MR. ASIF QADIR	500	0.0005
7	MR. AHMED RAZI GHAZALI	25,000	0.0245
8	MRS. BILQUEES DAWOOD W/O A. RAZZAK DAWOOD	4,129,000	4.0480
Executives:		48,000	0.0471
Public Sector Companies & Corporations:		-	-
Banks, Development Finance Institutions, Non Banking Finance Companies, Insurance Companies, Takaful, Modarabas and Pension Funds:		375,000	0.3676
Shareholders holding five percent or more voting intrest in the listed company (Name Wise Detail)			
1	MR. A. RAZZAK DAWOOD	13,001,250	12.7463
2	DESCON CHEMICAL LIMITED	10,773,700	10.5625
3	MR. TAIMUR DAWOOD	5,644,500	5.5338
4	MR. FAISAL DAWOOD	5,644,500	5.5338
5	DESCON CORPORATION (PVT.) LIMITED	8,725,250	8.5542
6	DESCON ENGINEERING LIMITED	7,439,800	7.2939
7	MST. MEHREEN DAWOOD	5,322,300	5.2179
8	MR. MUNAF IBRAHIM (CDC)	6,579,500	6.4505
9	MR. SHAHID MALIK (CDC)	6,419,000	6.2931

All trades in the shares of the listed company, carried out by its Directors, Executives and their spouses and minor children shall also be disclosed:

Sr. No.	Name	Sale	Purchase
	NIL		

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that a 10th Annual General Meeting of Descon Oxychem Limited (the "Company") will be held on Thursday, October 30th 2014 at 11:00 am at Descon Headquarters, 18-K.M, Ferozepur Road Lahore – 54760 to transacted the following business:

ORDINARY BUSINESS:

1. To confirm minutes of the last Extra Ordinary General Meeting of the Company held on February 28, 2014;

2. To receive, consider and adopt the audited Financial Statements of the Company for the year ended 30th June 2014 together with the reports Directors' and Auditors' thereon.

3. To appoint External Auditors for the ensuing year and fix their remuneration (The present auditors M/s. A.F. Ferguson & Co., Chartered Accountants, retire and being eligible have offered themselves for re-appointment.)

SPECIAL BUSINESS:

4. Increase in the Authorised Share Capital and alteration of the Capital Clauses in the Memorandum and Articles of Association of the Company and insertion of new article in the Articles of Association.

(i) To consider and if thought fit, to increase the authorized share capital of the Company from Rs. 1,100,000,000 (Rupees one billion one hundred million only) to Rs. 2,200,000,000 (Rupees two billion two hundred million only) divided into 220,000,000 Shares of Rs. 10 (Rupees ten only) by creation of 110,000,000 preference shares of Rs. 10 (Rupees ten only) each and to alter Clause V of the Memorandum of Association and Article 4 of the Articles of Association of the Company, and insertion of a new Article in the Articles of Association by passing the following resolutions as special resolutions, with or without modification, addition or deletion:

"RESOLVED that the Authorized Share Capital of the Company be increased from Rs. 1,100,000,000 to Rs. 2,200,000,000 divided into 110,000,000 ordinary shares of Rs. 10 each and 110,000,000 preference shares of Rs. 10 each."

"FURTHER RESOLVED that existing Clause V of the Memorandum of Association and Article 4 of the Articles of Association of the Company be and are hereby altered to be read as under:

Clause V of the Memorandum of Association:

(ii) The Authorized Share Capital of the Company is Rs. 2,200,000,000 (Rupees two billion two hundred million only) divided into 110,000,000 ordinary shares of Rs. 10 each and 110,000,000 preference shares of Rs. 10 each having the rights, privileges and conditions attaching thereto as provided in the Articles of the Company for the time being. The Company shall have the power to; (1) vary, modify or abrogate any such rights, privileges or conditions in such manner as may be permitted by the Ordinance and/or the Articles and/or applicable rules and regulations; (ii) to increase and/or reduce the capital and to divide shares in the capital into several classes; and (iii) to consolidate or subdivide the shares and to issue shares of higher or lower denominations.

Article 4 of the Articles of Association:

(iii) The Authorized Share Capital of the Company is Rs. 2,200,000,000 (Rupees two billion two hundred million only) divided into 110,000,000 ordinary shares of Rs. 10 each and 110,000,000 preference shares of Rs. 10 each having the rights, privileges and conditions attaching thereto as provided in the Articles of the Company for the time being. The Company shall have the power to; (1) vary, modify or abrogate any such rights, privileges or conditions in such manner as may be permitted by the Ordinance and/or the Articles and/or the applicable rules and regulations; (ii) to increase and/or reduce the capital and to divide shares in the capital into several classes; and (iii) to consolidate or subdivide the shares and to issue shares of higher or lower denominations.

"FURTHER RESOLVED that the following new Article 5A be and is hereby inserted in the Articles of Association of the Company, immediately after the end of existing Article 5:

New Article 5A of the Articles of Association

(iv) The Preference Shares of up to Rs. 1,100,000,000 (Rupees One Billion One Hundred Million Only), divided in up to 110,000,000 Preference Shares of Rs.10/- each, to be issued from time to time subject to approval of the members through special resolution and approval of Securities & Exchange Commission of Pakistan, shall have the following rights and privileges attached thereto (subject to any changes or amendments made by Securities and Exchange Commission of Pakistan and accepted by the Board of Directors of the Company):

a. The Preference Shares shall be Convertible Cumulative Redeemable Preference Shares;

b. The Preference Shares shall be cumulative and shall carry entitlement of a fixed annual cumulative dividend of 12 %, to be paid out of the normal profits of the Company in each financial year. Any dividend not paid in any financial year shall cumulate toward entitlement of dividend in future years;

c. The Preference Shares shall not carry any entitlement of ordinary dividend, rights shares or bonus shares, or have any right to participate in the profits of the Company, save as specified in Clause 5A(b) above;

d. The Preference Shareholders shall not be entitled to receive notice, attend General Meetings or vote at such meetings of the Company, except as otherwise provided in the Companies Ordinance, 1984 whereby holders of such shares would be entitled to vote separately as a class, i.e. with respect to voting entitlement of Preference Shareholders on matters/issue affecting substantive rights or liabilities of Preference Shareholders;

e. in the event of winding up of the Company or repayment of the Capital, the Preference Shares will carry a preferential right over Ordinary Shares;

f. the Preference Shares shall, subject to Section 85 of the Companies Ordinance, 1984, be redeemable at par value solely at the option of the Company, only through a sinking fund created out of the profits of the Company. Provided that, in case of partial redemption of outstanding Preference Shares, only whole shares shall be redeemed and such redemption shall be on pro rata basis for all Preference Shareholders;

g. the Preference Shares shall rank pari passu inter se each other; and

h. the Preference Shares shall be convertible into Ordinary Shares at the ratio of One (1) Preference Share to One (1) Ordinary Share at the option of either of the Company or Preference Shareholder, any time and from time to time after the expiry of 5 years from the date of allotment of the relevant Preference Shares. Provided that, in case of partial conversion of outstanding Preference Shares by the Company, only whole shares shall be converted and such conversion shall be on pro rata basis for all Preference Shareholders. Provided further a Preference Shareholder may, from time to time, opt for conversion of all or part of his Preference Shares but only whole shares shall be converted.

i. The Preference Shares shall be under the control of the Board of Directors who may allot, forfeit, surrender, rectify or otherwise dispose of the same to such persons, firms, corporation or corporations on such terms and conditions and at any such time as may be thought fit, subject to and in accordance with the provisions of the Companies Ordinance, 1984.

5. To issue and offer Redeemable Preference Shares

(i) To consider and, if thought fit, to pass with or without modification, the following Resolutions as Special Resolutions:

RESOLVED THAT, subject to the approval of Securities and Exchange Commission of Pakistan (the “SECP”) under Rule 5 of the Companies Share Capital (Variation in Rights and Privileges) Rules, 2000 (the “Rules”), the issued and paid-up capital of the Company be increased from Rs. 1,020,000,000/- to an amount of Rs. 2,120,000,000 by issue of 110,000,000 (One Hundred and Ten Million) Preference Shares of Rs.10/- (Rupees Ten Only) each under and pursuant to Section 90 of the Companies Ordinance, 1984 (the “Ordinance”), Rule 5 of the Rules and Article 5A of the Articles of Association of the Company, having the following terms and conditions:

a. The Preference Shares shall be Convertible Cumulative Redeemable Preference Shares;

b. The Preference Shares shall be cumulative and shall carry entitlement of a fixed annual cumulative dividend of 12%, to be paid out of the normal profits of the Company in each financial year. Any dividend not paid in any financial year shall cumulate toward entitlement of dividend in future years;

c. The Preference Shares shall not carry any entitlement of ordinary dividend, rights shares or bonus shares, or have any right to participate in the profits of the Company, save as specified in Clause 5A(b) above;

d. The Preference Shareholders shall not be entitled to receive notice, attend General Meetings or vote at such meetings of the Company, except as otherwise provided in the Companies Ordinance, 1984 whereby holders of such shares would be entitled to vote separately as a class, i.e. with respect to voting entitlement of Preference Shareholders on matters/issue affecting substantive rights or liabilities of Preference Shareholders;

e. in the event of winding up of the Company or repayment of the Capital, the Preference Shares will carry a preferential right over Ordinary Shares;

f. the Preference Shares shall, subject to Section 85 of the Companies Ordinance, 1984, be redeemable at par value solely at the option of the Company, only through a sinking fund created out of the profits of the Company. Provided that, in case of partial redemption of outstanding Preference Shares, only whole shares shall be redeemed and such redemption shall be on pro rata basis for all Preference Shareholders;

g. the Preference Shares shall be issued at par value against payment of face value of Rs. 10/- per Preference Share, which may be paid in cash and/or by adjustment of liabilities and/or through consideration other than cash;

h. the Preference Shares shall rank pari passu inter se each other; and

i. the Preference Shares shall be convertible into Ordinary Shares at the ratio of One (1) Preference Share to One (1) Ordinary Share at the option of either of the Company or Preference Shareholder, any time and from time to time after the expiry of 5 years from the date of allotment of the relevant Preference Shares. Provided that, in case of partial conversion of outstanding Preference Shares by the Company, only whole shares shall be converted and such conversion shall be on pro rata basis for all Preference Shareholders. Provided further a Preference Shareholder may, from time to time, opt for conversion of all or part of his Preference Shares but only whole shares shall be converted.

FURTHER RESOLVED THAT, subject to prior approval of the SECP under Rule 5 of the Rules, the aforementioned issue of 110,000,000 (One Hundred and Ten Million) Preference Shares of Rs.10/- (Rupees Ten Only) each be offered and, subject to acceptance, allotted to the existing members of the Company in equal proportion to their existing shareholding, pursuant to Section 86 (1) of the Ordinance, with consideration to be received as mentioned above by the final date of payment/ acceptance be as fixed by the Board of Directors of the Company.

RESOLVED THAT, any Preference Share offered and not accepted by any existing member of the Company may, pursuant to Section 86 (7) of the Ordinance, be offered by the Board of Directors to any other person(s) and, subject to acceptance, be allotted to such other person(s).

FURTHER RESOLVED the Board of Directors of the Company be and are hereby authorized to accept any changes or modifications to the terms and conditions of the Preference Shares which may be proposed by SECP or be made a condition to approval by SECP of the issue of Preference Shares, which changes or modifications shall be deemed to have been made by the shareholders pursuant to this resolution and shall be binding on them.

RESOLVED THAT, Mr. Taimur Saeed, Chief Executive Officer and Mr. Abdul Sohail, Company Secretary (each an “Authorized Officer”) or such one or more persons as may from time to time be specifically designated by the Authorised Officer for this purpose, be and is hereby authorize to give effect to the above resolutions and take all necessary steps as required under law or otherwise and to sign and execute any petitions, applications, documents, letters of authorities etc. for and on behalf of the Company in relation to the foregoing and to further sub-delegate any or all of his powers hereunder and to appoint agents and attornies of the Company in respect hereof, and without prejudice to the generality of the foregoing, to approach as he may deem fit government authorities, SECP, and/ or other concerned persons, authorities and officers and to take such action as he may consider necessary or expedient with a view to obtaining their consent for the issuance of the Preference Shares and for facilitating the eventual issue of all sanctions, approvals, and permissions that may be required in connection with the Preference Shares and in that connection to do all such acts, deeds and things as they may deem necessary.

FURTHER RESOLVED THAT, the Authorised Officer, or such one or more persons as may from time to time be specifically designated by the Authorised Officer for this purpose, be and is hereby authorised to:

a) negotiate the terms of, execute and deliver applications, petitions, agreements, contracts, undertakings or other documents and do all acts, things and deeds as may be required or expedient for the proposed Preference Shares.

b) sign, verify and present, and appoint advocates in connection with the applications and petitions aforesaid and all other applications, petitions, affidavits, statements and other papers and documents relating to obtaining approval of the SECP, or any other authority to the aforesaid approval of Preference Shares, including without limitation, review applications and appeals.

FURTHER RESOLVED THAT, all acts, deeds, and things done by the Authorised Officer (or any person further authorized by him) for and on behalf of and in the name of the Company shall be binding acts, deeds, and things done by the Company

6. To transact any other business with the permission of the Chair.

A Statement under Section 160(1)(b) of the Companies Ordinance, 1984 pertaining to the special business is being sent to the shareholders along with this Notice.

By Order of the Board of Directors

Lahore
Date: October 04, 2014

Abdul Sohail
Company Secretary

NOTES:

1. The share transfer books of the Company shall remain closed from 21-10-2014 to 30-10-2014 (both days inclusive).

2. Members are requested to attend in person along with Computerized National Identity Card (“CNIC”) or appoint some other member as proxy and send their proxy duly witnessed so as to reach the registered office of the Company not later than 48 hours before the time of holding the meeting.

3. Any individual Beneficial Owner of CDC, entitled to attend and vote at this meeting, must bring his/her original CNIC or passport, Account and participant’s I.D. Numbers to prove his/her identity, and in case of proxy it must enclose an attested copy of his / her CNIC or passport. Representatives of corporate members should bring the usual documents required for such purpose.

4. Shareholders are requested to immediately notify change in address, if any, to the Company’s Share Registrar, M/s. Corplink (Private) Limited, Wings Arcade, 1-K, Commercial, Model Town, Lahore and also furnish attested photocopy of their CNIC as per Listing Regulations, if not provided earlier.

STATEMENT U/S 160(1)(b) OF THE COMPANIES ORDINANCE, 1984
WITH RESPECT TO SPECIAL BUSINESS AS CONTAINED IN THE NOTICE OF ANNUAL GENERAL MEETING OF DESCON OXYCHEM LIMITED TO BE HELD ON OCTOBER 30TH 2014

A statement setting out all material facts with respect to the special business is furnished as under:

I. INCREASE IN THE AUTHORISED SHARE CAPITAL AND AMENDMENT IN MEMORANDUM AND ARTICLES OF ASSOCIATION

The authorized share capital is being increased from Rs.1,100,000,000 to Rs.2,200,000,000 by addition of 110,000,000 Preference Shares of Rs.10 each to cater for the proposed right issue of preference shares and corresponding amendments are being made in the Memorandum and Articles of Association. The terms and conditions of the proposed Preference Shares are also being incorporated in the Articles of Association.

II. ISSUANCE OF PREFERENCE SHARES

JUSTIFICATION OF ISSUANCE OF PREFERENCE SHARES, BENEFITS TO THE COMPANY, USE OF FUNDS, AND FINANCIAL PLAN AND PROJECTIONS:

The Board of Directors proposed to issue 110,000,000 Preference Shares under Section 86(1) of the Companies Ordinance, 1984 to the shareholders as a right issue for raising of capital for the purpose described herein below:

1. The brief background of the Company's business affairs is that the Company had availed certain finance facilities from various lenders including syndicated term finance facility from Allied Bank Limited (the "Syndicate Loan") and long term loans from associated companies (the "Sponsors Loan"); from time to time. Due to recent ongoing recessionary environment in overall industry in general and in chemical sector in particular, the Company's business was severally affected and the Company was not able to fulfill its repayment obligations towards Allied Bank Limited and Sponsors on time. The following is the detail as on June 30, 2014 of principal amounts of Syndicate Loan and Sponsors Loan:

Name of Syndicate Member Banks (extended by Syndicate Member Banks)	Principal Loan Amount Outstanding
	(Rupees)
Allied Bank Limited	227,272,728
Saudi Pak Industrial and Agricultural	68,181,818
Askari Bank Limited	45,454,545
Pak Libya Holding Co. Limited	45,454,545
Mybank Limited Summit Bank)	45,454,545
Habib Metropolitan Bank Limited	22,727,273
Pak Oman Investment	22,727,273
Soneri Bank Limited	22,727,273
Sub-Total: (A)	**500,000,000**
KASB Bank Limited – other loan facility	**60,000,000**
Sub-Total (B)	**560,000,000**
Detail of Associated Companies	Principal Loan Amount Outstanding
	(Rupees)
Descon Engineering Limited	788,784,832
Presson Descon International (Private) Limited	310,000,000
Interworld Travels (Private) Limited	20,000,000
Sub-Total:(C)	**1,118,784,832**
Grand Total: (A+B+C)	**1,678,784,832**

2. The Company is also facing liquidity crisis which is not only hampering day to day operations but also affecting the repayment capacity towards its creditors. Thus, the Company is in need of breathing period to focus on production.

3. Therefore, further to the above background, the Company, after detailed negotiations with Associated Companies, Allied Bank Limited and other syndicate member banks, has worked out a restructuring plan for its outstanding financial obligations, which includes, inter alia, offering/ issuance of 110,000,000 Preference Shares as a rights issue.

4. The Board of Directors proposed, subject to approval of shareholders and SECP and amendments in the Memorandum and Articles of Association of the Company, to issue 110,000,000 Preference Shares under Section 86(1) of the Companies Ordinance, 1984 to the Shareholders of the Company as a rights issue for the purpose of repaying and/or adjusting outstanding loans, including of Descon Engineering Ltd and Presson Descon International (Pvt) Ltd. The proposed the terms and conditions of the preference shares are set-out in the draft special resolutions specified below. The Company will enter into an underwriting arrangement with KASB and/ or any other person(s) in respect of the rights issue of the Preference Shares.

5. The benefits of issuance of Preference Shares are as follows:

(i) The major portion of capital raised by the issuance of Preference Shares shall be used to repay and/or adjust the outstanding liabilities of the Company which shall improve the balance sheet of the Company;

(ii) The terms and conditions of the Preference Shares shall be structured so that they will be considered equity of the Company under State Bank of Pakistan's Prudential Regulations. Consequently the debt to equity ratio of the Company would be improved by an estimated amount of Rs.1100 million.

(iii) The confidence of other creditors would be enhanced in the Company;

(iv) Preference shareholders will not have the right to demand redemption and Company will be able to redeem only through a sinking fund from profits;

(v) The Company will be in a position to redeem the Preference Shares at its discretion;

(vi) The Company’s substantial liabilities shall be repaid and/or adjusted, thus the Company will not be facing any legal action for recovery of debt;

(vii) The Company’s goodwill and business would improve;

(viii) Limited other options are available to the Company. Rights issue of ordinary shares at par value of Rs.10/- was not a practical option in light of the present depressed market value of the ordinary shares of the Company, which is less than Rs.6.50. Issuance of ordinary shares at discount would also not be a favorable option.

6. The shareholders are further informed:

a. The present total issued Ordinary Shares of the Company are 102,000,000 shares valuing Rs.1,020,000,000/-

b. The present total issued Preference Shares are nil.

c. All the shares of the Company are and shall be listed on Karachi Stock Exchange and will be inducted in the Central Depository System.

d. The market price of an Ordinary Share of the Company is Rs. 6.25 as at September 25, 2014.

e. The issuance of Preference Shares is subject to the approval of Shareholders and the Securities & Exchange Commission of Pakistan under Rule 5(1) of the Companies Share Capital (Variation in Rights and Privileges) Rules, 2000.

7. The Directors of the Company are interested in the special business to the extent that some of the Directors are also shareholders and/or directors in the creditors of the Company whose loans are expected to be repaid and/or adjusted from the Preference Shares issue.

INSPECTION OF DOCUMENTS

A copy of the Memorandum and Articles of the Company being altered is available for inspection at the Company's Registered Office at 18-Km, Ferozepur Road, Lahore, Pakistan during the office hours.

INTEREST OF DIRECTORS

The directors of the Company do not have any interest in the aforementioned resolutions that would require a disclosure.

By Order of the Board of Directors

Abdul Sohail
Company Secretary

NOTES

FORM OF PROXY
DESCON OXYCHEM LIMITED

IMPORTANT

This form of proxy, in order to be effective, must be deposited duly completed, at the Company's Registered Office at Descon Headquarters, 18-KM, Ferozepur Road, Lahore not less than 48 hours before the time of holding the meeting. A Proxy must be member of the Company. Signature should agree with the specimen register with the Company. Please quote registered Folio / CDC Account numbers

I/We____

of ____

being a member of Descon Oxychem Limited entitled to vote and holder of______________________

ordinary shares, hereby appoint Mr./Mrs./Mst.___________________________________

of ____

who is also a member of the Company, as my/our proxy in my / our absence to attend and vote for me / us on my / our behalf at the Fiftieth Annual General Meeting of the Company to be held at Descon Headquarters, 18-Km, Ferozepur Road, Lahore on Thursday, October 30, 2014 at 11:00 hours and at any adjournment thereof.

As witness my / our hand this______________________________day of____________2014

Signed by the said_________________________________in the presence of____________

____
(Member's Signature)

Place ____________________

Date ____________________

____
(Witness's Signature)

Affix Rs. 5/-
Revenue Stamp which must be cancelled either by signature over it or by some other means

www.descon.com

IF UNDELIVERED PLEASE RETURN TO
DESCON OXYCHEM LIMITED

LAHORE
DESCON HEADQUARTERS,
18 KM FEROZEPUR ROAD,
LAHORE, PAKISTAN.
T: +92 42 3 5923721-7
F: +92 42 3 5923732
E: info@desconchemicals.com
W: www.desconchemicals.com

Printed by: HY Enterprises