Descon Oxychem Limited

Annual Report 2012

Contents

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

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

Chief Financial Officer
Yasir Siddique Sheikh

Company Secretary
Abdul Sohail

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

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

Legal Advisors
Hassan & Hassan
Advocates

Bankers
Allied Bank Limited
Bank Al Habib Limited
Habib 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
Ph : 92 42 35887262, 35839182
Fax : 92 42 35869037

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

Plant Site
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: No. 92-21-34544485-6
Fax: No. 92-21-34382674

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

Chairman's Statement

During the year under review, the economic conditions were far from favorable. Challenges like country wide shortage of utilities, increase in price of natural gas, electricity and dumping of surplus production from international players in the local market affected Company's margins for the year. Notwithstanding this, the Company was able to service its debt obligations in a timely manner through better working capital management, overhead reduction and increased efficiency. I laud the management team for their relentless efforts to overcome the challenges faced by the business through hard work and perseverance coupled with a passion for success.

Your Company with its existing management and proven technology is fully equipped for entering new markets for regional recognition of our products. Existing presence in international markets has proved a much needed substitute for reduction in local demand therefore exploring new markets in the region will be an integral part of the strategy. Your Company has developed bulk export capability which will provide a profitable growth platform in future.

Your Company's mission is that our products are the basis of a better life which are environment friendly, and ensure sustainable future. Our contribution to society is not limited to delivering profits to stakeholders but encompasses a wider scope including gainful employment, premium quality Hydrogen Peroxide for better end-products, technical advice for our customers and saving of foreign exchange through import substitution.

The Company has a robust governance structure, driven by strong sense of duty to colleagues and all stakeholders. The Board of Directors has procedures and policies in place to evaluate performance so that the Company performs at its best.

I would like to thank my fellow Directors and stakeholders, particularly customers, shareholders and lenders for their assistance and commitment throughout the year. I congratulate the management and employees on putting up quality efforts in a very challenging year and wish them growth and success in future.

Abdul Razak Dawood
Chairman
September 19, 2012

Profile of the Chairman and CEO

Abdul Razak Dawood

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

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 Company 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 was a former trustee for the first ten years of Shaukat Khanam Memorial Hospital.

He has graduated in Engineering from Newcastle University, UK and obtained his MBA from Columbia University, USA.

Taimur Saeed

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

He had an illustrious career of over 18 years at BOC Pakistan, (Linde Group, Germany), where he last held the post of Head of Sales & Customer Services and also was Business Manager Industrial Product in Malaysia, Indonesia, India, Bangladesh and Pakistan . He joined Descon Oxychem 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, US and a B.Com, from Karachi University.

Board & Management Committees

Audit Committee

Members

Farooq Nazir	Chairman
Taimur Dawood	Member
Syed Zamanat Abbas	Member
Muhammad Sadiq	Member

Human Resource & Remuneration Committee

Members

Taimur Dawood	Chairman
Farooq Nazir	Member
Taimur Saeed	Member

Enterprise Risk Management Committee

Members

Farooq Nazir	Chief Risk Officer
Taimur Dawood	Board Nominee
Taimur Saeed	Chief Executive Officer
Abdul Sohail	Company Secretary
Ather Mahmood Khan	Head Shared Services
Ahmad Ali Masood	Head of Internal Audit
Muhammad Sohail Iftikhar	HR Business Partner

Compliance Committee

Members

Taimur Saeed	Chief Executive Officer
Abdul Sohail	Company Secretary
Ather Mahmood Khan	Head Shared Services
Zia Ullah Sheikh	Plant Manager
Ahmad Ali Masood	Head of Internal Audit
Muhammad Sohail Iftikhar	HR Business Partner

Key Operating and Financial Data

	2012	2011	2010 (Rs. in '000')	2009	2008
Summary of Profit and Loss					
Sales	1,192,439	1,432,576	709,672	191,335	-
Cost of Goods Sold	(951,797)	(892,139)	(683,402)	(228,165)	-
Gross Profit	240,642	540,437	26,270	(36,830)	-
Operating profit	170,316	436,427	(48,038)	(81,500)	(10,217)
Finance Cost	337,853	351,895	288,065	96,220	19
(Loss) / profit before tax	(167,537)	84,532	(336,103)	(177,719)	(10,235)
(Loss) / profit after tax	(125,936)	179,970	(289,410)	(150,075)	(10,235)
EBITDA	348,575	613,924	105,518	(29,351)	(9,250)
Financial Position					
Share Capital	1,020,000	1,020,000	1,020,000	1,020,000	695,000
Reserves including unappropriated profit	(407,942)	(283,170)	(464,819)	(175,845)	(14,258)
Long term borrowings	1,876,422	2,055,108	1,830,197	1,469,818	955,686
Property, plant and equipment	2,207,731	2,378,326	2,552,953	2,695,757	1,501,196
Net Current Assets	(41,234)	145,619	(332,399)	(422,572)	131,768
Investor Information					
Gross profit margin (%)	20.18%	37.72%	3.70%	(19.25%)	-
EBITDA margin to sales (%)	29.23%	43.48%	14.87%	(15.34%)	-
Pre-tax margin (%)	(14.05%)	5.90%	(47.36%)	(92.88%)	-
Net profit margin (%)	(10.56%)	12.56%	(40.78%)	(78.44%)	-
Return on equity (%)	(20.57%)	24.42%	(52.13%)	(17.78%)	(1.50%)
Return on capital employed (%)	(5.10%)	6.45%	(12.13%)	(6.49%)	(0.63%)
Current Ratio	0.93	1.31	0.55	0.44	-
Quick Ratio	0.81	1.03	0.47	0.37	-
Debtors turnover (days)	15	24	14	2	-
Inventory turnover (days)	26	52	27	90	-
Creditors turnover (days)	42	58	84	202	-
Operating cycle (no. of days)	(1)	18	(43)	(110)	-
Debt: Equity (%)	73%	72%	75%	63%	58%
Interest cover (Times)	(0.50)	1.24	(0.17)	(0.85)	(540)
(Loss) / earnings per share (pre-tax) (Rupees)	(1.64)	0.83	(3.30)	(1.74)	(0.15)
(Loss) / earnings per share (after tax) (Rupees)	(1.24)	1.76	(2.84)	(1.47)	(0.15)
Market value per share (Rupees)					
- Year end	3.88	6.09	4.56	7.54	-
- High during the year	6.59	9.19	10.48	11.83	-
- Low during the year	3.65	3.51	4.56	5.78	-
Average Daily Volume (No. of shares)	270,535	661,059	359,155	346,452	-
Hydrogen Peroxide Production (MTs @ 50%)	27,890	29,792	20,140	10,278	-
Hydrogen Peroxide Sales (MTs)	28,289	29,120	21,074	10,328	-

Horizontal Analysis Balance Sheet

	2012 Rs. '000'	12 Vs 11 %	2011 Rs. '000'	11 Vs 10 %	2010 Rs. '000'	10 Vs 09 %	2009 Rs. '000'	09 Vs 08 %	2008 Rs. '000'	08 Vs 07 %
Equity and Liabilities										
EQUITY										
Share Capital	1,020,000	0%	1,020,000	0%	1,020,000	0%	1,020,000	47%	695,000	-
Reserves	(407,942)	44%	(283,170)	39%	(464,819)	165%	(175,845)	1133%	(14,258)	254%
	612,058	(17%)	736,830	33%	555,181	-34%	844,155	24%	680,742	148%
Non-Current Liabilities										
Long term borrowings	1,876,423	(9%)	2,055,108	12%	1,830,197	25%	1,469,818	54%	955,686	-
Current Liabilities										
Trade and other payables	110,313	(23%)	142,964	(9%)	157,611	(61%)	404,006	1027%	35,842	311%
Accrued finance cost	85,222	(17%)	102,594	5%	97,582	5%	92,506	98%	46,626	3601%
Short term borrowings	160,760	41%	114,188	(60%)	286,473	10%	259,320	-	-	-
Current portion of long term borrowings	237,814	109%	113,906	(40%)	190,602	-	-	-	-	(100%)
	594,109	25%	473,652	(35%)	732,268	(3%)	755,832	817%	82,468	74%
	3,082,589	(6%)	3,265,590	5%	3,117,647	2%	3,069,805	79%	1,718,896	435%
ASSETS										
Non-current Assets										
Property, plant and equipment	2,207,731	(7%)	2,378,326	(8%)	2,552,953	(5%)	2,695,757	80%	1,501,196	376%
Long term loans and advances	79,551	0%	79,551	(0%)	79,580	516%	12,917	273%	3,465	0%
Deffered Tax	242,954	29%	188,442	121%	85,246	206%	27,872	-	-	-
	2,530,236	(4%)	2,646,319	(4%)	2,717,779	(1%)	2,736,546	82%	1,504,661	372%
Current Assets										
Stores, spares and loose tools	173,679	5%	165,016	22%	135,371	3%	131,912	850%	13,889	30159%
Stock in trade	68,001	(47%)	128,052	151%	50,995	(9%)	56,069	-	-	-
Trade debts	50,494	(47%)	93,475	249%	26,776	2081%	1,228	-	-	-
Advances, deposits prepayments & other receivables	128,138	50%	84,714	(26%)	114,901	(18%)	140,762	300%	35,233	4376%
Short term investments	121,126	10%	110,347	847%	11,658	-	-	-	-	-
Cash and bank balances	11,437	(70%)	37,667	(37%)	60,168	1729%	3,289	(98%)	165,114	9129%
	551,375	(11%)	619,271	55%	399,869	20%	333,259	56%	214,236	8070%
	3,082,589	(6%)	3,265,590	5%	3,117,647	2%	3,069,805	79%	1,718,896	435%

Vertical Analysis Balance Sheet

	2012 Rs. '000'	%	2011 Rs. '000'	%	2010 Rs. '000'	%	2009 Rs. '000'	%	2008 Rs. '000'	%
EQUITY AND LIABILITIES										
EQUITY										
Share Capital	1,020,000	33%	1,020,000	31%	1,020,000	33%	1,020,000	33%	695,000	40%
Reserves	(417,942)	(13%)	(283,170)	(9%)	(464,819)	(15%)	(175,845)	(6%)	(14,258)	(1%)
	612,058	20%	736,830	23%	555,181	18%	844,155	27%	680,742	40%
Non - Current Liabilities										
Long Term Borrowings	1,876,423	61%	2,055,108	63%	1,830,197	59%	1,469,818	48%	955,686	56%
Current Liabilities										
Trade and other payables	110,313	4%	142,964	4%	157,611	5%	404,006	13%	35,842	2%
Accured finance cost	85,222	3%	102,594	3%	97,582	3%	92,506	3%	46,626	3%
Short term borrowings	160,760	5%	114,188	3%	286,473	9%	259,320	8%	-	0%
Current portion of long term borrowings	237,814	8%	113,906	3%	190,602	6%	-	0%	-	0%
	594,109	19%	473,652	15%	732,268	23%	755,832	25%	82,468	5%
	3,082,589	100%	3,265,590	100%	3,117,647	100%	3,069,805	100%	1,718,896	100%
ASSETS										
Non-current Assets										
Property, plant and equipment	2,207,731	72%	2,378,326	73%	2,552,953	82%	2,695,757	88%	1,501,196	87%
Long term deposits and advances	79,551	3%	79,551	2%	79,580	2%	12,917	0%	3,465	0%
Deffered tax	242,954	8%	188,442	6%	85,246	3%	27,872	1%	-	
	2,529,714	82%	2,646,319	81%	2,717,779	87%	2,736,546	89%	1,504,661	88%
Current Assets										
Stores, spares and loose tools	173,679	6%	165,016	5%	135,370	4%	131,912	4%	13,889	1%
Stock in trade	68,001	2%	128,052	4%	50,995	2%	56,069	2%		
Trade debts	50,494	2%	93,475	3%	26,776	1%	1,228	0%		
Advances, deposits, prepayments & other receivables	127,349	4%	84,714	3%	114,901	4%	140,762	5%	35,233	2%
Short term investments	121,126	4%	110,347	3%	11,658	0%				
Cash and bank balances	11,437	0%	37,667	1%	60,168	2%	3,289	0%	165,114	10%
	551,375	18%	619,271	19%	399,868	13%	333,259	11%	214,236	12%
	3,082,589	100%	3,265,590	100%	3,117,647	100%	3,069,805	100%	1,718,896	100%

Horizontal and Vertical Analysis Profit & Loss account

Horizontal Analysis	2012 Rs. '000'	12 Vs. 11 %	2011 Rs. '000'	11 Vs. 10 %	2010 Rs. '000'	10 Vs. 09 %	2009 Rs. '000'	09 Vs. 08 %	2008 Rs. '000'	08 Vs. 07 %
Sales	1,192,439	(17%)	1,432,576	102%	709,672	271%	191,335	-	-	-
Cost of sales	951,797	7%	892,139	31%	683,402	200%	228,165	-	-	-
Gross Profit	240,642	(55%)	540,437	1957%	26,270	171%	(36,830)	-	-	-
Administration and general expenses	40,827	2%	39,970	3%	38,663	13%	34,161	234%	10,217	425%
Distribution cost	56,679	(17%)	68,571	61%	42,583	307%	10,474	-	-	-
Opearting expenses	-	(100%)	6,265	6103%	101	189%	35	-	-	-
Operating income	27,179	152%	10,796	53%	7,039	-	1	-	-	-
(Loss) / profit from opertions	(170,316)	(61%)	436,427	-1009%	(48,038)	41%	(81,500)	-698%	(10,217)	425%
Finance cost	337,853	(4%)	351,895	22%	288,065	199%	96,220	-	19	(122%)
Net (loss) / profit before taxation	(167,537)	(300%)	84,532	(125%)	(336,103)	89%	(177,719)	1643%	(10,235)	402%
Provision for taxation	41,601	(56%)	95,438	104%	46,693	69%	27,644	-	-	-
Net (loss) / profit after taxation	(125,936)	(171%)	179,970	(162%)	(289,410)	93%	(150,075)	1372%	(10,235)	402%

Vertical Analysis	2012 Rs. '000'	%	2011 Rs. '000'	%	2010 Rs. '000'	%	2009 Rs. '000'	%	2008 Rs. '000'	%
Sales	1,192,439	100%	1,432,576	100%	709,672	100%	191,335	100%		-
Cost of sales	951,797	80%	892,139	62%	683,402	96%	228,165	119%		-
Gross profit	240,642	20%	540,437	38%	26,270	4%	(36,830)	(19%)	-	-
Administration and general expenses	40,826	35%	39,970	3%	38,663	5%	34,161	18%	10,217	-
Distribution cost	56,679	5%	68,571	5%	42,583	6%	10,474	5%	-	-
Other expenses	-	0%	6,265	0%	101	0%	35	0%	-	-
Other income	27,179	(2%)	10,796	1%	7,039	1%	1	0%	-	-
(Loss) profit from opertions	(170,316)	14%	436,427	30%	(48,038)	(7%)	(81,500)	(43%)	(10,217)	-
Finance cost	337,853	28%	351,895	25%	288,065	41%	96,220	50%	19	-
Net (loss) / profit before taxation	(167,537)	(14%)	84,532	6%	(336,103)	(47%)	(177,719)	(93%)	(10,235)	-
Provision for taxation	41,601	4%	95,438	7%	46,693	7%	27,644	14%	-	-
Net (loss) / profit after taxation	(125,936)	(11%)	179,970	13%	(289,410)	(41%)	(150,075)	(78%)	(10,235)	-

CEO's Review

We are pleased to report that your company has managed to generate positive cash flows from operating activities. In a very challenging year during which international prices dropped over 35% due to the economic slowdown in first half of the year resulting in higher Imports landing into country. Despite the reason mentioned we were able to maintain a positive cash flow through stringent controls over working capital, observance of rigorous governance policies, dedication of our management and technical competence of our employees.

The Company has faced challenging external environment during the year with persistent energy shortages, however your company ensured that it is well stocked to service our customers. Difficult local environment led your company to seek opportunities outside Pakistan. Our product has been well received in export markets and is at par with global leading established brands, a very positive indicator of the quality and service of our product and the strength of the brand that we have worked vigorously to establish in a short period of time.

The Company introduced and commercialized two products to the market during the year to capture market segment of Milk and Fruit Juice Packing and the second product for the Sugar industry. As evident in the past, Company's initiatives of product development have proved to be a substitute for the reduction in demand and margins of current volume products.

The Company has successfully serviced and repaid loan installments during the year which shows positive cash generating ability despite reduced margins. Even though the domestic as well as global economy is showing a negative trend, the management is confident that the Company will meet the expectations of all the stakeholders.

We once again thank all stakeholders, especially shareholders and lenders, and request them for their continued support. I would also like to appreciate the efforts of Management and employees of the Company and the support of the Board in achieving these results.

Taimur Saeed
Chief Executive Officer
September 19, 2012

Financial Review

	2012	2011
	(Rupees in thousand)	
Sales	1,192,439	1,432,576
Gross Profit	240,642	540,437
EBITDA	348,575	613,924
Operating profit	170,316	436,426
Finance Cost	(337,853)	(351,895)
(Loss) / profit before tax	(167,537)	84,531
(Loss) / profit after tax	(125,936)	179,969
EPS - (Rupees)	(1.23)	1.76

The financial year proved to be a challenging one for the Company, resulting in a loss after tax of PKR 126mln, against a profit of PKR 180mln last year, a negative variance of PKR 306mln. The Company produced 27,890 MTs of Hydrogen Peroxide (at 50% concentration), a decrease of 1,902 MTs or 6% over last year. Capacity utilization has been approximately 99% this year, against 106% last year. Company is the clear market leader in terms of production of hydrogen peroxide, and has over 55% market share.

The Company had a turnover of PKR 1,192mln, against a turnover of PKR 1,432mln last year. This decrease of 17% over last year was due to a combination of volume and price decrease. Company's sales volume decreased by 831 MTs to 28,289 MTs declining by 3% over last year. The average selling price decreased to PKR 42/kg, against PKR 49/kg last year. This fall in sales price is mainly due to a significant reduction in the landed price of imported product due to a recession in the global markets. Consequently, the gross profit registered a decrease of 55% over last year.

The company was able to keep administration expenses in check, by benefiting from synergies from other Group companies. The Company spent PKR 58mln on distribution costs this year, against PKR 68mln last year, a decrease of PKR 10 mln, which is mainly due to the decrease in freight forwarding expenses owing to efficient and cost effective way of allocating product volumes in the export market. Other operating income mainly consisted of investment income from bank deposits and money market mutual funds, and the increase was primarily due to timely placement of available funds for better returns.

The finance costs were PKR 14mln lower as compared to last year, standing at PKR 338 mln. This decrease was mainly due to repayment of loan and fluctuations in KIBOR during the year.

Contribution to the Economy and National Exchequer

The Company contributed PKR12.389 million to the National Exchequer by way of taxes, levies, excise duty, sales tax and development surcharge during the year 2012. Total value addition to the economy was PKR 1,273 million, a detailed distribution of which is as follows:

Value Added Statement

	2012	2011
	(Rupees in thousand)	
Wealth Generated		
Sales for the year	1,192,439	1,432,576
Other operating Income	27,179	10,795
Deferred tax asset	53,990	103,196
	1,273,608	1,546,567
Wealth Distributed		
Cost of sales (excluding employees' remuneration)	901,197	846,296
Marketing, selling & general administration expenses (excluding employees' remuneration)	80,479	88,941
Employees remuneration	67,626	65,443
Finance costs	337,853	351,895
Government taxes (including income tax, WPPF, WWF, other duties)	12,389	14,023
Retained in the Company	(125,936)	179,969
	1,273,608	1,546,567

Cash Flow Management

The Company manages its working capital very efficiently, which is regularly monitored through rolling forecasts. Receipts and payments of cash and other liquid assets, including investments, are diligently managed to achieve optimal working capital cycle. Since, the Company has had a strong cash flow from operations this year; working capital requirements are met with internally generated cash.

Furthermore, working capital management has been institutionalized through controls built in the ERP system, which helps coordinate the activities amongst various departments including marketing, supply chain and finance. This cash focused strategy has enabled the Company to survive through difficult times when both sales volumes and profit margins are under immense pressure. Moreover, this strategy has also kept the overall credit risk of the company under strict check.

The Company also manages a portfolio of short-term investments, made after thorough financial evaluation, and approval of the Board of Directors. The Company has in place an investment policy, which is adhered strictly to and any investment proposal has to follow the limits on the investment policy.

Capital Market and Market Capitalization

The Company’s market capitalization stood at PKR 396 million, 36% decrease since last year. Market price during the year suffered fluctuations between the highest of PKR 6.59 per share, to the lowest of Rs 3.73 per share, and closing at PKR 3.88 per share on June 30, 2012.

Risk Management

The Company's activities expose it to a variety of risks, operational and financial. The Company's overall risk management program focuses on the uncertainty of these risks and seeks to minimize potential adverse effects on the financial performance, through appropriate strategies for their 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 instabilities of a business environment and inherent risks within the nature of a business expose even the strongest of companies to a certain level of external risk. The Board manages these risks through its ERM Committee, and is confident that we have sufficient mitigating factors in place to respond to these risks, as they arise.

Subsequent Events

There are no subsequent events to report after the year-end

Production Performance

Descon is Pakistan's leading producer of hydrogen peroxide having state-of-the art production facility. Our Technology, licensing and standards have been acquired from 'Chematur Engineering' Sweden, a design and technology suppliers of H2O2 business worldwide. The installed production capacity of our plant is 14,000 tons per annum (at 100% Concentration based on 333 working days). With almost 30 years of experience in the chemical industry, Descon is able to offer high quality products backed up by technical and sales support.

Overall performance was outstanding this year, with production of 13,945 MTs of H2O2 (at 100% Concentration), this production is 99% of the installed capacity.

Sales & Marketing

Hydrogen Peroxide (H2O2) is an environmentally friendly chemical with multiple areas of application. It does not yield any harmful by products when applied as it decomposes to yield only water and oxygen.

Hydrogen peroxide is one of the cleanest, most versatile chemical available. It is used in:

- Paper industry as a bleaching agent and for de-inking in wastepaper recycling
- Textile industry as a bleaching agent, oxidizer and desizing agent
- Environmental protection for the detoxification and color removal of wastewater
- Off-gas treatment and for bioremediation of contaminated soil
- Pharmaceutical and 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

Global Business Environment

Rapid population growth, sustained economic development and a growing middle class are making many companies look at emerging markets in a new way. Similarly, the global market for Hydrogen Peroxide is forecast to reach 4.67 million metric tons by the year 2017, driven by sustained demand from pulp and paper industry. In future, proliferation of HPPO (Hydrogen Peroxide to Propylene Oxide) technology will fuel further demand for Hydrogen Peroxide. In addition, growing environmental concerns and rising demand from developing Asian markets will enable rapid expansion over the next few years. The hydrogen peroxide market would also be influenced by the internal dynamics of the industry. Capacity utilization rates and production technology are considered as the major factors inherent to the peroxide industry, which is expected to govern the fate of the market constituents. Increasing prevalence of the unique HPPO technology in production of Propylene Oxide will fuel the demand for hydrogen peroxide in the coming years.

Domestic Hydrogen Peroxide Market

Hydrogen Peroxide is produced by two companies domestically, with the installed capacity of around 60,000 MTs of Hydrogen Peroxide, enough for the local market. The textile sector is the major consumer of our product, which is used in the bleaching process. Due to the energy shortages in the country, the sector has suffered a slowdown, which affected the demand during the financial year under review.

Previously, all the Hydrogen Peroxide for local consumption used to be imported, which has all changed due to local production. This import substitution is due to two factors. Firstly, availability and quality of local production, and secondly the significant lead time for the imports. Now customers can receive the product as soon as they require it, while their investment in Hydrogen Peroxide stocks has also decreased, positively influencing their working capital.

Marketing

The Sales and Marketing Department is a well-organized, managed by competent and experienced employees, committed towards the success and growth of the Company. The year brought new challenges for, as the competition in the market grew stronger due to the flagging of demand and the excess supply in the market.

Descon Oxychem Limited has successfully launched its brands for different grades of Hydrogen Peroxide, shown below.

35% Hydrogen Peroxide (Technical Grade)	FOROX
35% Hydrogen Peroxide (Food / Aseptic Grade)	ASEPTOX
50% Hydrogen Peroxide (Technical Grade)	DOLOX
60% Hydrogen Peroxide (Technical Grade)	TEXTOX

Channel Management

The Company expanded its list of distributors in the year, ensuring a wide network to penetrate into all the segments of market and the customers. The distribution network contains local distributors for each region of operation (Karachi, Lahore and Faisalabad)

In current scenario of rising packaging cost, the Company initiated long-term bulk supply agreements with customers. This reduces the packaging cost to the customers, as well as the Company.

Exports

The Company follows the distributor model internationally with distributors in India, Sri Lanka, Dubai and Iran. The Company has achieved the capability of exporting in bulk to India by road through Wagha Border. This is a great success for the Company being the first in Pakistan to export chemicals by road to India. This has enhanced Company's ability to generate foreign exchange from increased exports.

Human Resource & Social Responsibility

At Descon, HR focuses on enabling its Human Capital to add valuable contribution to the Organization. We focus at grooming leaders for the future by hiring right people and challenging them to display exceptional results through performance. We intend to be innovative while using best practices to provide our work force with an environment that enables peak performance and motivates them to do more.

Human Resource Development

We aim to provide our Organization with a strategic edge by focusing on the following:

- Employer brand of choice
- Doing the right thing
- Leaders for future
- Learning aligned with business goals

Employee Retention

We believe in retaining talent by engaging employees and rewarding them for performance. 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.

Employees are rewarded for the performance by Des-Icon; an award that acknowledges exceptional effort of an employee that he may have displayed in any 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, HR continuously takes initiatives to develop a feel of “Descon family and we are in this together” among its employees.

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 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:

	2012 (Un-audited)	2011 (Audited)
Provident Fund(PKR)	7,645,140	3,730,218

Code of Ethics for Employees

The Company is committed to have quality in its people and products. 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 employees 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 conflict of interest
- Award contracts fairly and without prejudice
- Do not speak on behalf of the Company
- Protect the Company documents and proprietary information

Safety and Health

Descon's 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, and to date has planted around 8500 trees.

Entity Credit Rating

by The Pakistan Credit Rating Agency Limited
as on : September 2012

Rating Type	Rating
Long-term	A (Single A)
Short-term	A2 (A Two)

PACRA has assigned a long-term entity rating of "A" (Single A) and short-term rating of "A2" (A Two) 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 H_2O_2 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, 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 Annual General Meeting for adoption on October 22, 2012.

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 safe guarding of shareholders' interest. The Board consists of 8 Directors including the Chief Executive Officer, effectively representing the interest of shareholders. There are 6 non-executive Directors and two executive Directors.

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 5 such meetings during the year, agendas of which were circulated in a timely manner.

The decisions made by the Board during the meetings were minuted, 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 attendance prescribed by the Code of Corporate Governance and were also attended by the Chairman and the Company Secretary of the Company. Details of attendance by Directors at each Board meeting are as follows:

During the year under review, five (05) meetings of the Board of Directors were held and the attendance of the Directors was as under:

Name of Director	Meetings Attended	Remarks
Abdul Razak Dawood	5	
Dr. Salman Zakaria	1	Leave for absence was granted in four meetings
Taimur Dawood	5	
Farooq Nazir	5	
Muhammad Sadiq	5	
Syed Zamanat Abbas	1	Leave for absence was granted in four meetings
Faisal Dawood	0	Leave for absence was granted in five meetings
Taimur Saeed	5	

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. During the year, the Board has arranged Corporate Governance Leadership Skills (CGLS) training program from Pakistan Institute of Corporate Governance for its directors. Two directors have been certified, while one other director and CEO have qualified three out of five parts of CGLS.

Changes to the Board
There were no changes to the Board during the year.

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

i. Presentation of Financial Statement
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 Standards, as applicable in Pakistan, have been followed in 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 environmental 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

During the year under review no Director, CEO, CFO, Company Secretary and their spouses 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 the 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, 2013.

xvi. Audit Committee

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

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

September 19, 2012

Taimur Saeed
Chief Executive Officer

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 both Karachi Stock Exchange and Lahore 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
Executive Directors	Ch. Muhammad Sadiq
Non-Executive Directors	Mr. Abdul Razak Dawood
	Mr. Salman Zakaria
	Syed Zamanat Abbas
	Mr. Farooq Nazir
	Mr. Taimur Dawood
	Mr. Faisal Dawood

2. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Company.

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 occured during the year under review.

5. The Company has prepared a "Code of Conduct" 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 CEO and other executive directors have been taken by the board/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. 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.

9. The board has arranged Corporate Governance Leadership Skills (CGLS) training program from Pakistan Institute of Corporate Governance Corporate for its directors during the year. Two directors have been certified while one other director and CEO have qualified three out of five parts of CGLS.

10. The board has approved appointment of CFO 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 financial statements of the Company were duly endorsed by CEO and CFO before approval of the board.

13. The directors, CEO 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 all the corporate and financial reporting requirements of the Code.

15. The board has formed an audit committee. It comprises of four members, all of whom are non-executive directors, including the Chairman.

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 as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.

17. The Company has a Human Resource committee; however, it currently does not have a majority of non-executive directors as its members. The Board is in process of reconstituting this committee as its HR and Remuneration Committee to include majority of non-executive directors pursuant to the requirements of the Code.

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 programme of the 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 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. All related party transactions entered during the year were at arm's length basis and these have been placed before the Audit Committee and Board of Directors. These transactions are duly reviewed and approved by Audit Committee and Board of Directors.

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

For and on behalf of the Board

Taimur Saeed
Chief Executive Officer

Lahore
September 19, 2012

pwc

A. F. FERGUSON & CO.

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 prepared by the Board of Directors of Descon Oxychem Limited ('the Company') 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's 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, 2012.

We draw attention to note 17 of the statement of compliance, which indicates that the Company's Human Resource Committee does not have the required number of non-executive directors as its members. The Board of Directors is in the process of reconstituting this committee as HR and Remuneration Committee to include majority of non-executive directors pursuant to the requirement of sub-regulation (xxv) of the Code. Our report is not qualified in respect of this matter.

Chartered Accountants
Lahore, September 19, 2012
Name of engagement partner: Asad Aleem Mirza

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AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of Descon Oxychem Limited as at June 30, 2012 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, 2012 and of the loss, total comprehensive loss, changes in equity and its cash flows for the year then ended;

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

AFerguson & Co

Chartered Accountants

Lahore, September 19, 2012

Name of engagement partner: Asad Aleem Mirza

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Balance Sheet
As At June 30, 2012

	Note	2012	2011
		(Rupees in thousand)	
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
Authorized capital			
110,000,000 (2011: 110,000,000) ordinary shares of Rs 10 each		1,100,000	1,100,000
Issued, subscribed and paid up capital			
102,000,000 (2011: 102,000,000) ordinary shares of Rs 10 each	5	1,020,000	1,020,000
Fair value reserve		3,279	2,115
Accumulated loss		(411,221)	(285,285)
		612,058	736,830
NON CURRENT LIABILITIES			
Long term finances			
- secured	6	1,271,663	1,476,764
- unsecured	7	408,785	408,785
Liabilities against assets subject to finance lease	8	82,326	115,039
Accrued finance cost	9	113,648	54,520
		1,876,422	2,055,108
CURRENT LIABILITIES			
Current portion of non current liabilities	10	237,814	113,906
Finances under mark up arrangement - secured	11	160,760	114,188
Trade and other payables	12	110,313	142,964
Accrued finance cost	13	85,222	102,594
		594,109	473,652
CONTINGENCIES AND COMMITMENTS	14		
		3,082,589	3,265,590

The annexed notes 1 to 42 form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR

	Note	2012	2011
		(Rupees in thousand)	
ASSETS			
NON CURRENT ASSETS			
Property, plant and equipment	15	2,177,972	2,330,710
Intangible asset	16	29,759	47,616
Long term deposits	17	79,551	79,551
Deferred taxation	18	242,432	188,442
		2,529,714	2,646,319
CURRENT ASSETS			
Stores and spares	19	173,679	165,016
Stock in trade	20	68,001	128,052
Trade debts	21	50,494	93,475
Investments - available for sale	22	121,126	110,347
Advances, deposits, prepayments and other receivables	23	87,822	55,962
Current income tax recoverable		40,316	28,752
Cash and bank balances	24	11,437	37,667
		552,875	619,271
		3,082,589	3,265,590

CHIEF EXECUTIVE

DIRECTOR

Profit And Loss Account
For The Year Ended June 30, 2012

	Note	2012	2011
		(Rupees in thousand)	
Sales	25	1,192,439	1,432,576
Cost of goods sold	26	(951,797)	(892,139)
Gross profit		240,642	540,437
Administrative expenses	27	(40,826)	(39,970)
Distribution and selling costs	28	(56,679)	(68,571)
Other operating expenses	29	-	(6,265)
Other operating income	30	27,179	10,796
		(70,326)	(104,010)
Profit from operations		170,316	436,427
Finance cost	31	(337,853)	(351,895)
(Loss) / profit before taxation		(167,537)	84,532
Taxation	32	41,601	95,438
(Loss) / profit for the year		(125,936)	179,970
(Loss) / earnings per share - basic and diluted	33	(1.23)	1.76

The annexed notes 1 to 42 form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR

Statement Of Comprehensive Income For The Year Ended June 30, 2012

	2012	2011
	(Rupees in thousand)	
(Loss) / profit for the year	(125,936)	179,970
Other comprehensive income		
Fair value gain on 'Available for sale' investments	11,778	4,074
Gain during the year transferred to profit and loss on account of derecognition of investment	(10,614)	(2,396)
Other comprehensive income for the year	1,164	1,678
Total comprehensive (loss) / income for the year	(124,772)	181,648

The annexed notes 1 to 42 form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR

Cash Flow Statement
For The Year Ended June 30, 2012

	Note	2012	2011
		(Rupees in thousand)	
Cash flow from operating activities			
Cash generated from operations	34	366,320	459,130
Finance cost paid		(296,097)	(292,363)
Profit on deposits received		1,500	5,025
Taxes paid		(23,953)	(18,382)
Net cash generated from operating activities		47,770	153,410
Cash flow from investing activities			
Fixed capital expenditure		(7,664)	(3,093)
Proceeds from sale of property, plant and equipment		-	360
Long term security deposits - net		-	29
Proceeds from sale of 'available for sale' investments		256,000	226,385
Investments made		(255,000)	(321,000)
Net cash used in investing activities		(6,664)	(97,319)
Cash flow from financing activities			
Restructuring of short term bridge loan		-	100,000
Repayment of long term loan		(93,054)	-
Finance lease liabilities - net		(20,854)	(6,307)
Net cash (used in) / generated from financing activities		(113,908)	93,693
Net (decrease) / increase in cash and cash equivalents		(72,802)	149,784
Cash and cash equivalents at the beginning of year		(76,521)	(226,305)
Cash and cash equivalents at the end of year	37	(149,323)	(76,521)

The annexed notes 1 to 42 form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR

Statement Of Changes In Equity
For The Year Ended June 30, 2012

	(Rupees in thousand)			
	Share capital	Fair value Reserve	Accumulated loss	Total
Balance as on June 30, 2010	1,020,000	437	(465,255)	555,182
Total comprehensive income for the year				
Profit for the year	-	-	179,970	179,970
Other comprehesive income for the year:				
Fair value gain on 'Available for sale' investments	-	1,678	-	1,678
Total comprehensive income for the year	-	1,678	179,970	181,648
Total contributions by and distributions to owners of the Company recognised directly in equity	-	-	-	-
Balance as on June 30, 2011	1,020,000	2,115	(285,285)	736,830
Total comprehensive loss for the year				
Loss for the year	-	-	(125,936)	(125,936)
Other comprehesive income for the year:				
Fair value gain on 'Available for sale' investments	-	1,164	-	1,164
Total comprehensive income/(loss) for the year	-	1,164	(125,936)	(124,772)
Total contributions by and distributions to owners of the Company recognised directly in equity	-	-	-	-
Balance as on June 30, 2012	1,020,000	3,279	(411,221)	612,058

CHIEF EXECUTIVE

DIRECTOR

Notes to and Forming Part of the Financial Statements for the Year Ended June 30, 2012

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

New and amended standards, and interpretations mandatory for the first time for the financial year beginning July 1, 2011 and their impact on these financial statements is given below:

- IFRS 7, 'Disclosures on transfers of financial assets' (Amendment), issued in October 2010. The new disclosure requirements apply to transferred financial assets. An entity transfers a financial asset when it transfers the contractual rights to receive cash flows of the asset to another party. These amendments are part of the IASBs comprehensive review of off balance sheet activities. The amendments will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial asset. These amendments do not have any impact on the Company's financial statements.

- IAS 1 'Presentation of financial statements' (Ammendment), is effective from January 1, 2011. The ammendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The company has opted to present the analysis in statement of changes in equity.

- IAS 24 (Revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The application of this standard has no material impact on the Company's financial statements.

- IAS 34, 'Interim financial reporting' (Ammendement), is effective from January 1, 2011. Greater emphasis has been placed on the disclosure principles in IAS 34 involving significant events and transactions, including changes to fair value measurements, and the need to update relevant information from the most recent annual report. The application of the amendment will not affect the results or net assets of the Company as it is only concerned with presentation and disclosures.

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, 2012 or later periods, but the Company has not early adopted them:

- IFRS 9, 'Financial instruments', addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until January 01, 2013 but is available for early adoption. This is the first part of a new standard on classification and measurement of financial assets and financial liabilities that will replace IAS 39, 'Financial instruments: Recognition and measurement'. IFRS 9 has two measurement categories: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. For liabilities, the standard retains most of the IAS 39 requirements. These include amortised-cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. This change will mainly affect financial institutions. The Company has yet to assess the full impact of IFRS 9.

- IFRS 13 - 'Fair value measurement'. This is applicable on accounting periods beginning on or after January 01, 2013. This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Company will apply this standard from July 1, 2013.

- IAS 1 - 'Presentation of Financial Statement' (Amendment). This is applicable on accounting periods beginning on or after July 01, 2012. The main change resulting from these amendment is a requirement for entities to group items presented in Other comprehensive income (OCI) on the basis of whether they are potentially recycled to profit or loss (reclassification adjustments). The amendment does not address which items are presented in OCI. The Company will apply this amendment from July 1, 2012 and does not expect to have a material impact on its financial statements.

- IAS 1 - 'Presentation of Financial Statement' (Amendment). This ammendment has been issued part of Annual Improvements project and is applicable on accounting periods beginning on or after January 1, 2013. The amendment clarifies the disclosure requirements for comparative information when an entity provides a third balance sheet. When an entity produces balance sheet as required by IAS 8 'Accounting policies, changes in accounting estimates and errors' in which case the balance sheet should be as at the date of the beginning of the preceding period i.e. the opening position. No notes are required to support this balance sheet. When management provides additional comparative information voluntarily e.g. statement of profit and loss, balance sheet, it should present the supporting notes to these additional statements. The Company will apply this ammendement from July 1, 2013.

- IAS 16 - 'Property, plant and equipment' (Amendment). This ammendment has been issued part of Annual Improvements project and is applicable on accounting periods beginning on or after January 1, 2013. The amendment clarifies that spare parts and servicing equipment are classified as property, plant and equipment rather than inventory when they meet the definition of property, plant and equipment. The Company shall apply the ammendement from July 1, 2013.

- IAS 32 - 'Financial instruments: Presentation' (Amendment). This ammendment has been issued part of Annual Improvements project and is applicable on accounting periods beginning on or after January 1, 2013. Prior to the amendment, IAS 32 was ambiguous as to whether the tax effects of distributions and the tax effects of equity transactions should be accounted for in the income statement or in equity. The amendment clarifies that the treatment is in accordance with IAS 12. So, income tax related to distributions is recognised in the income statement, and income tax related to the costs of equity transactions is recognised in equity. The Company will apply this ammendment from July 1, 2013.

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 15.1

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 4.14.

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, 2012 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.

Amortization is charged to income on the straight line basis so as to write off the cost of an asset over its estimated useful life. Amortization on license acquired has been charged from the month of commencement of commercial production.

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. 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.

5. Issued, subscribed and paid up capital

2012	2011		2012	2011
(Number of shares)			(Rupees in thousand)	
102,000,000	102,000,000	Ordinary shares of Rs 10 each fully paid in cash	1,020,000	1,020,000

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

	2012	2011
	(Number of shares)	
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

6. Long term finances - secured

		2012	2011
		(Rupees in thousand)	
Loan - 1	- note 6.1	1,376,764	1,469,818
Loan - 2	- note 6.2	100,000	100,000
		1,476,764	1,569,818
Less: Current portion shown under current liabilities	- note 10	(205,101)	(93,054)
		1,271,663	1,476,764

6.1 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 0.4521 to Re 0.4022 per diem per thousand. The loan is repayable in 12 six monthly installments commencing on February 24, 2012. As on June 30, 2012, 11 installments are outstanding ending on August 2017.

6.2 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 0.4466 to Re 0.3959 per diem per thousand. The loan is repayable in 10 equal semi annual installments commencing on December 01, 2012.

7. Subordinated loans from associated companies - unsecured

		2012	2011
		(Rupees in thousand)	
- 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

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 has been subordinated to the repayment of the syndicate loan as referred to in note 6.1. 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. 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 granted by Deson 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 6.1. The markup is payable only after 50% of the facility under note 6.1 has been repaid. Mark-up is accruable for the period at six months KIBOR plus 2.75 %. Effective rate charged during the period was Re 0.3727 per diem per thousand.

7.3 The loan was granted by Deson 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 6.1. Mark-up is accruable for the period at six months KIBOR plus 2%. Effective rate charged during the period was Rs 0.3130 per diem per thousand.

7.4 This loan granted 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 6.1. Mark-up is accruable for the period at six months KIBOR plus 1 %. Effective rate charged during the period was Rs 0.2688 per diem per thousand.

8. Liabilities against assets subject to finance lease

		2012	2011
		(Rupees in thousand)	
Present value of minimum lease payments		115,039	135,891
Less: Current portion shown under current liabilities	- note 10	(32,713)	(20,852)
		82,326	115,039

The finance lease is repayable in 48 monthly installments in arrears, with a grace period of 6 months.

The minimum lease payments have been discounted at an implicit interest rate of 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"	
			2012	2011
	(Rupees in thousand)			
Not later than one year	41,258	8,545	32,713	20,852
Later than one year and not later than five years	83,625	1,299	82,326	115,039
	124,883	9,844	115,039	135,891

9. It represents accrued finance cost on subordinated loans from associated companies. It is payable only after at least 50% of the principal of the syndicate loan referred to in note 6.1 has been repaid.

10. Current portion of long term liabilities

		2012	2011
		(Rupees in thousand)	
Long term finances - secured	- note 6	205,101	93,054
Liabilities against assets subject to finance lease - secured	- note 8	32,713	20,852
		237,814	113,906

11. Finances under mark up arrangements - secured

This represents the outstanding balance against the running finance facility of Rs 200 million (2011: Rs 200 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 Re 0.3535 to Re 0.3983 per diem per thousand on the outstanding balance or part thereof.

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.

Of the aggregate facility of Rs 145 million (2011 : Rs 78.715 million) for opening of letter of credit for import of machinery, raw material and stores and Rs 61.493 million (2011 : Rs 61.493 million) for letter of guarantee from a consortium of banks, the amount utilized at June 30, 2012 was Rs 97.423 million (2011 : Rs 78.003 million) and Rs 61.493 million (2011 : 61.493 million) respectively.

12. Trade and other payables

		2012	2011
		(Rupees in thousand)	
Trade creditors	- note 12.1	26,893	26,005
Bills payable		40,963	58,911
Advances from customers		4,455	2,634
Associated undertakings	- note 12.2	5,250	9,680
Accrued and other liabilities	- note 12.3	32,631	39,296
Withholding tax payable		121	122
Workers' welfare fund	- note 12.4	-	1,776
Workers' profit participation fund	- note 12.5	-	4,540
		110,313	142,964

12.1 Trade creditors include interest free amounts due to associated companies amounting to Rs 0.48 million (2011: Rs 0.75 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:

	2012	2011
	(Rupees in thousand)	
Descon Chemicals Limited	3,565	9,348
Descon Corporation (Private) Limited	67	-
Descon Engineering Limited	1,618	332
	5,250	9,680

12.3 This includes an amount of Rs 243 thousand (2011: Rs 270 thousand) payable to the Company's provident fund.

12.4 Workers' welfare fund

	2012	2011
	(Rupees in thousand)	
As at July 01	1,776	51
Add: provision for the year	-	1,725
Less: written back during the year	(1,776)	-
As at June 30	-	1,776

12.5 Workers' profit participation fund

	2012	2011
	(Rupees in thousand)	
As at July 01	4,540	-
Add: provision for the year	-	4,540
Less: paid during the year	(4,540)	-
As at June 30	-	4,540

13. Accrued finance cost

	2012	2011
	(Rupees in thousand)	
Finances under markup arrangements - secured	4,877	5,087
Long term finances - secured	78,098	92,207
Liabilities against assets subject to finance lease - secured	2,247	5,300
	85,222	102,594

14. Contingencies and commitments

14.1 Contingencies

Guarantee issued to Sui Northern Gas Pipeline against the performance of a contract amounting to Rs 48.64 million (2011: Rs 48.64 million).

14.2 Commitments

The company has commitments in respect of letters of credit other than capital expenditure amounting to Rs 56.460 million (2011: Rs 40.273 million).

15. Property, plant and equipment

		2012	2011
		(Rupees in thousand)	
Operating assets	- note 15.1	2,176,729	2,330,710
Capital work-in-progress	- note 15.2	1,243	-
		2,177,972	2,330,710

15.1 Operating assets

(Rupees in thousand)

	Cost as at July 1, 2011	Additions/ (deletions)	Cost as at June 30, 2012	Accumulated depreciation as on July 1, 2011	Depreciation charge/ (deletions) for the year	Accumulated depreciation as on June 30, 2012	Net book value as on June 30, 2012	Rate of depreciation %
Owned assets								
Freehold land	101,316	-	101,316	-	-	-	101,316	-
Buildings on freehold land	293,207	71	293,278	30,037	14,661	44,698	248,580	5
Plant, machinery and equipment	2,119,248	5,218	2,124,466	307,327	132,637	439,964	1,684,502	6.25
Laboratory equipment	14,439	-	14,439	2,026	903	2,929	11,510	6.25
Material handling	140	-	140	35	28	63	77	20
Tools and equipment	3,895	-	3,895	568	244	812	3,083	6.25
Computer equipment	4,789	99	4,888	4,179	572	4,751	137	33.33
Electrical equipment	376	-	376	247	66	313	63	20
Office equipment	4,692	63	4,755	2,205	934	3,139	1,616	20
Furniture and fixture	7,330	-	7,330	1,396	733	2,129	5,201	10
Vehicles	3,201	970	4,171	2,028	737	2,765	1,406	20
	2,552,633	6,421	2,559,054	350,048	151,515	501,563	2,057,491	
Leased assets								
Plant, machinery and equipment	142,197	-	142,197	14,072	8,887	22,959	119,238	6.25
2012	2,694,830	6,421	2,701,251	364,120	160,402	524,522	2,176,729	

(Rupees in thousand)

	Cost as at July 1, 2010	Additions/ (deletions)	Cost as at June 30, 2011	Accumulated depreciation as on July 1, 2010	Depreciation charge/ (deletions) for the year	Accumulated depreciation as on June 30, 2011	Net book value as on June 30, 2010	Rate of depreciation %
Owned assets								
Freehold land	101,316	-	101,316	-	-	-	101,316	-
Buildings on freehold land	248,649	44,558	293,207	16,514	13,523	30,037	263,170	5
Plant, machinery and equipment	2,117,846	1,402	2,119,248	174,950	132,377	307,327	1,811,921	6.25
Laboratory equipment	13,972	467	14,439	1,150	876	2,026	12,413	6.25
Material handling	70	70	140	19	16	35	105	20
Tools and equipment	3,895	-	3,895	324	244	568	3,327	6.25
Computer equipment	4,894	-	4,789	3,092	1,186	4,179	610	33.33
		(105)			(99)			
Electrical equipment	376	-	376	172	75	247	129	20
Office equipment	4,692	-	4,692	1,266	939	2,205	2,487	20
Furniture and fixture	7,330	-	7,330	663	733	1,396	5,934	10
Vehicles	4,057	-	3,201	1,883	783	2,028	1,173	20
		(856)			(638)			
	2,507,097	46,497	2,552,633	200,033	150,752	350,048	2,202,585	
		(961)			(737)			
Leased assets								
Plant, machinery and equipment	142,197	-	142,197	5,184	8,888	14,072	128,125	6.25
2011	2,649,294	46,497	2,694,830	205,217	159,640	364,120	2,330,710	
		(961)			(737)			

15.1.1 The Company reviews the useful lives of property, plant and equipment on regular basis. Any change in estimates in future years might affect the carrying amounts of the respective items of property, plant and equipment with the corresponding effect on the depreciation charge and impairment.

15.1.2 The depreciation charge has been allocated as follows:

		2012	2011
		(Rupees in thousand)	
Cost of goods sold	- note 26	159,560	158,601
Administrative expenses	- note 27	794	975
Distribution and selling cost	- note 28	48	64
		160,402	159,640

15.1.3 Disposal of Property, plant and equipment

There were no disposals of property, plant and equipment during the year ended June 30, 2012.

Detail of property, plant and equipment disposed off during the year ended June 30, 2011 is as follows:

(Rupees in thousand)

Particulars of assets	Sold to	Cost	Accumulated depreciation	Book value	Sale proceeds	Mode of Disposal
Vehicles	Employee					
	Mr. Yawar Mahmood	856	638	218	356	As per policy
Other Assets having book value below Rs. 50,000		105	99	6	4	Negotiation
		961	737	224	360	

15.2 Capital work-in-progress

It represents work-in-progress in respect of plant and machinery.

16. Intangible asset

		2012	2011
		(Rupees in thousand)	
Carrying value as at July 1		47,616	65,473
Amortization during the year	- note 26	(17,857)	(17,857)
Carrying value as at June 30		29,759	47,616

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

17. Long term deposits

		2012	2011
		(Rupees in thousand)	
Cost as at July 01		79,551	79,580
Security deposits paid during the year	- note 17.1	-	100
Security deposits refunded/adjusted during the year		-	(129)
Cost as at June 30		79,551	79,551

17.1 These are in the normal course of business and interest free.

18. Deferred taxation

The asset for deferred taxation comprises temporary differences in:

	2012	2011
	(Rupees in thousand)	
Accelerated tax depreciation	(340,725)	(357,039)
Unused tax losses	583,157	545,481
	242,432	188,442

Tax losses amounting to Rs 5.183 million (2011: Rs 5.183 million) expire in the year 2016 and Rs 22.754 million (2011: Nil) expire in 2018. The company has not recognized deferred tax asset of Rs 22.169 million (2011: Rs 13.456 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.

19. Stores and spares

		2012	2011
		(Rupees in thousand)	
General stores and spares	- note 19.1	106,138	97,529
Working Solution		67,541	67,487
		173,679	165,016

19.1 General stores and spares include raw material for working solution of Rs 48.545 million (2011: Rs 48.269 million) and items which may result in fixed capital expenditure but are not distinguishable.

20. Stock in trade

	2012	2011
	(Rupees in thousand)	
Raw materials [including in transit of Rs 23.896 million (2011: Rs 62.634 million)]	50,139	88,328
Packing material	4,524	5,265
Work-in-process	2,308	2,548
Finished goods		
- Own manufactured [including in transit of Rs 4.536 million (2011: Nil)]	11,030	25,368
- Purchased for resale	-	6,543
	68,001	128,052

21. Trade debts

		2012	2011
		(Rupees in thousand)	
Considered good - unsecured	- note 21.1	50,494	93,475
Considered doubtful		878	-
		51,372	93,475
Less: Provision for doubtful debts		(878)	-
		50,494	93,475

21.1 These include following amounts from associated companies:

Descon Chemicals Limited	345	72
Descon Engineering Limited	329	-
	674	72

22. Investments - available for sale

		2012	2011
		(Rupees in thousand)	
Available for sale - at cost			
Investment in 170,788 units (2011: 555,222 units) of MCB Cash Optimizer Fund		16,603	54,228
Investment in 2,093,284 units (2011: 5,461,874 units) of ABL Cash Fund		20,706	54,000
Investment in 592,336 units (2011: Nil) of Lakson Money Market Fund		58,018	-
Investment in 226,658 units (2011: Nil) of HBL Money Market Fund		22,516	-
Investment in 84 units (2011: 84 units) of Pakistan Cash Fund		4	4
		117,847	108,232
Add : Cumulative fair value gain	- note 22.2	3,279	2,115
		121,126	110,347

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.

22.2 Cumulative fair value gain

	2012	2011
	(Rupees in thousand)	
As at July 1	2,115	437
Fair value gain during the year	11,778	4,074
Transferred to profit and loss account on derecognition of investment	(10,614)	(2,396)
As at June 30	3,279	2,115

23. Advances, deposits, prepayments and other receivables

		2012	2011
		(Rupees in thousand)	
Advances to suppliers		3,228	5,315
Advances to employees		134	235
Prepayments		1,042	1,427
Sales tax recoverable from government		82,682	48,624
Associated undertakings	- note 23.1	168	-
Other receivables		568	361
		87,822	55,962

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

Descon Power Solutions (Private) Limited	3	-
Inspectest (Private) Limited	53	-
Descon Engineering Limited	112	-
	168	-

24. Cash and bank balances

		2012	2011
		(Rupees in thousand)	
At banks on:			
- Current accounts		3,057	31,315
- Saving accounts	- note 24.1	8,380	-
- Term deposit accounts		-	6,022
		11,437	37,337
In hand		-	330
		11,437	37,667

24.1 It carries mark-up at the rate ranging from 1.5% to 10.5% per annum.

25. Sales

	2012	2011
	(Rupees in thousand)	
Gross sales:		
- Local	867,573	1,048,718
- Export	360,418	404,827
	1,227,991	1,453,545
Less: Commission on sales	(35,552)	(20,969)
	1,192,439	1,432,576

25.1 Gross sales include sale of finished goods purchased for resale amounting to Rs 5.520 million (2011: Rs 42.592 million)

26. Cost of sales

		2012	2011
		(Rupees in thousand)	
Raw materials consumed		454,960	399,605
Salaries, wages and other benefits	- note 26.1	50,600	45,843
Repair and maintenance		31,908	45,023
Production supplies		20	738
Fuel and power		162,216	135,660
Printing and stationery		513	616
Services through contractors		35,476	44,425
Traveling		1,215	209
Communication		397	397
Rent and rates		5,997	1,050
Depreciation on property, plant and equipment	- note 15.1.2	159,560	158,601
Amortization on intangible assets	- note 16	17,857	17,857
Insurance		5,972	5,694
Fees		351	1,509
Safety items consumed		240	740
Miscellaneous		2,653	2,103
		929,935	860,070
Add: Opening work in process		2,548	3,125
Less: Closing work in process		(2,308)	(2,548)
Cost of goods produced		930,175	860,647
Add: Opening finished goods		30,633	14,835
Less: Closing finished goods		(15,554)	(30,633)
		945,254	844,849
Cost of goods purchased for resale		6,543	47,290
		951,797	892,139

26.1 Salaries, wages and other benefits include provident fund contribution of Rs 1.263 million (2011: Rs 1.272 million) by the Company.

27. Administrative expenses

		2012	2011
		(Rupees in thousand)	
Salaries, allowances and other benefits	- note 27.1	14,373	14,461
Services through contractor		310	1,023
Vehicle running and maintenance		1,622	936
Entertainment		962	750
Communication		1,033	950
Printing and stationary		2,240	1,259
Traveling and conveyance		1,110	739
Charity and donation		-	85
Repair and maintenance		883	788
Insurance		67	63
Fees and subscriptions		2,965	3,316
Rent and rates		1,401	3,039
Legal and professional fee	- note 27.2	8,223	8,902
Depreciation on property, plant and equipment	- note 15.1.2	794	975
Others		4,843	2,684
		40,826	39,970

27.1 Salaries, wages and other benefits include provident fund contribution of Rs 131.97 thousand (2011: Rs 122.77 thousand) by the Company.

27.2 Auditors remuneration

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

	2012	2011
	(Rupees in thousand)	
Statutory audit	800	800
Half yearly review	300	300
Certification Charges	100	100
Out of pocket expenses	91	88
	1,291	1,288

28. Distribution and selling cost

		2012	2011
		(Rupees in thousand)	
Salaries, allowances and other benefits	- note 28.1	2,653	5,139
Entertainment		-	29
Communication		403	592
Travelling and conveyance		1,064	1,290
Advertisement		5,095	533
Insurance		1,154	1,067
Loading and unloading charges		13	257
Freight and forwarding		45,249	59,142
Depreciation on property, plant and equipment	- note 15.1.2	48	64
Provision for doubtful debts		878	-
Others		122	458
		56,679	68,571

28.1 Salaries, wages and other benefits include provident fund contribution of Rs 66.83 thousand (2011: Rs 199.36 thousand) by the Company.

29. Other operating expenses

		2012	2011
		(Rupees in thousand)	
Workers' welfare fund	- note 12.4	-	1,725
Workers' profit participation fund	- note 12.5	-	4,540
		-	6,265

30. Other operating income

Income from financial assets

	2012	2011
	(Rupees in thousand)	
Interest on bank deposits	1,500	5,025
Exchange gain	6,622	337
Gain on sale of investment	10,614	2,396
	18,736	7,758
Income from non-financial assets		
Gain on sale of fixed assets	-	136
Scrap sales	3,819	2,327
Liabilities written back	3,620	-
Others	1,004	575
	8,443	3,038
	27,179	10,796

31. Finance cost

	2012	2011
	(Rupees in thousand)	
Interest and mark-up on:		
- Long term finances		
- secured	241,814	241,116
- unsecured	59,129	52,746
- Finances under markup arrangement - secured	20,872	33,311
- Liabilities against assets subject to finance lease	11,725	14,370
Bank charges and others	4,313	10,352
	337,853	351,895

32. Taxation

	2012	2011
	(Rupees in thousand)	
For the year		
- Current	(12,389)	(14,604)
- Deferred	53,990	103,196
	41,601	88,592
Prior year		
- Current	-	6,846
	41,601	95,438

32.1 The Company takes into account the current income tax law and the decisions taken by appellate authorities. Instances where the Company's view differs from the view taken by the income tax department at the assessment stage and where the Company considers that its views on items of material nature is in accordance with law, the amounts are shown as contigent liabilities.

32.2 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 including pre-commencement expenditure as at June 30, 2012 are estimated approximately at Rs 1,667.677 million (2011: Rs 1,558.519 million)

32.3 Tax charge reconciliation

Numerical reconciliation between the average effective tax rate and the applicable tax rate

	2012	2011
	%	%
Applicable tax rate	35.00	35.00
Tax effect under presumptive regime	(10.26)	(139.61)
Exempt for income tax purposes	0.09	(0.15)
Effect of change in prior years tax and rounding off	-	(8.14)
	(10.17)	(147.90)
Average effective tax rate charged to profit and loss account	24.83	(112.90)

33. (Loss) / Earnings per share

33.1 Basic (loss) / earnings per share

		2012	2011
(Loss) / profit for the year	Rupees in thousand	(125,936)	179,970
Weighted average number of ordinary shares in issue during the year	Number	102,000	102,000
(Loss) / earnings per share	Rupees	(1.23)	1.76

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, 2012 and June 30, 2011 which would have any effect on the earnings per share if the option to convert is exercised.

34. Cash flow from operating activities

		2012	2011
		(Rupees in thousand)	
(Loss)/profit before taxation		(167,537)	84,532
Adjustment for:			
- Depreciation on property, plant and equipment	- note 15.1.2	160,402	159,640
- Amortization of intangible assets	- note 26	17,857	17,857
- Reversal of provision for accumulating compensated absences		(216)	(196)
- Loss/(gain) on disposal of fixed assets		-	(136)
- Provision for workers' welfare fund		-	1,725
- Provision for workers' profit participation fund		-	4,540
- Net exchange gain	- note 30	(6,622)	(337)
- Interest on bank deposits	- note 30	(1,500)	(5,025)
- Provision for doubtful debts	- note 28	878	-
- Liabilities written back	- note 30	(3,620)	-
- Gain on sale of investment	- note 30	(10,614)	(2,396)
- Finance cost	- note 31	337,853	351,895
Profit before working capital changes		326,881	612,099
Effect on cash flow due to working capital changes:			
(Increase)/ decrease in current assets			
- Stores, spares and loose tools		(8,663)	(29,645)
- Stock in trade		60,051	(77,057)
- Trade debts		48,725	(66,362)
- Advances, deposits, prepayments and other receivables		(31,858)	40,813
Increase /(decrease) in current liabilities			
- Creditors, accrued and other liabilities		(28,816)	(20,718)
		39,439	(152,969)
Cash generated from operations		366,320	459,130

35. Remuneration of Chief Executive, Directors and Executives

	Chief Executive		Directors				Executives	
			Executive Directors		Non-Executive Directors			
(Rupees in thousand)	30 June 2012	30 June 2011	30 June 2012	30 June 2011	30 June 2012	30 June 2011	30 June 2012	30 June 2011
Remuneration	2,758	1,961	1,197	1,078	39	-	16,460	15,860
Provident Fund	132	127	-	-	-	-	1,067	980
Medical facility	38	43	155	440	5	-	435	380
Reimbursable expenses	38	71	9	454	-	-	1,426	1,466
	2,966	2,202	1,361	1,972	44	-	19,388	18,686
No. of persons	1	1	2	2	1	-	17	18

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

During the year, the status of one of the executive directors of the company was changed to non-executive director. The remuneration of the director has been apportioned between the categories of executive and non-executive directors accordingly.

36. 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 35. Other significant transactions with related parties are as follows:

		2012	2011
		(Rupees in thousand)	
i. Associated undertakings	Purchase of goods and services	25,067	18,809
	Sale of goods	522	251
	Disposal of asset	-	2
	Share of common expenses charged from associated companies	26,275	29,427
	Share of common expenses charged to associated companies	5,544	3,169
	Mark-up expense	59,129	52,746
	Sale of scrap	386	498
ii. Post employment benefit plans	Expense charged in respect of retirement contribution plans	1,462	1,594

36.1 All transactions with related parties are carried out on commercial terms and conditions.

36.2 The commitments with related parties as on June 30, 2012 is Nil.

37. Cash and cash equivalents

		2012	2011
		(Rupees in thousand)	
Cash and bank balances	- note 24	11,437	37,667
Finances under mark up arrangements - secured	- note 11	(160,760)	(114,188)
		(149,323)	(76,521)

38. Capacity and production

		Production Capacity	Actual production 2012	Actual production 2011
Production of hydrogen peroxide (on 100% concentration and based on 360 working days)	Metric Tonnes	15,000	13,945	14,896
Production of packing material (based on 360 working days)	Number	1,080,000	890,451	859,341

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:

	2012	2011
	(FCY in thousand)	
Trade debts - US Dollars	215	251
Bills payable - US Dollars	(435)	(645)
The following significant exchange rates were applied during the year:		
Rupees per USD		
Average rate	89.92	85.73
Reporting date rate	94.20	86.05

At June 30, 2012, 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 inRate Exchange	Effect on loss before tax	Effect on Equity
		(Rupees in thousand)	
2012	10%	(2,072)	(1,347)
	-10%	2,072	1,347
2011	10%	(3,391)	(2,204)
	-10%	3,391	2,204

(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

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.

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.

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

	2012	2011
	(Rupees in thousand)	
Fixed rate instruments		
Financial assets		
Bank balances		
- Term deposit account	-	6,022
- Savings account	8,380	-
	8,380	6,022
Floating rate instruments		
Financial liabilities		
Long term finances		
- secured	1,376,764	1,469,818
- unsecured	408,785	408,785
Finances under markup arrangement - secured	160,760	114,188
Liabilities against assets subject to finance lease	115,039	135,891
	2,061,348	2,128,682

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.

Interest rate sensitivity analysis

	Increase/rate decrease in	Effect on loss before tax	Effect on Equity
		(Rupees in thousand)	
Financial Assets			
2012	1%	84	55
	-1%	(84)	(55)
2011	1%	60	39
	-1%	(60)	(39)
Financial Liabilities			
2012	1%	(20,613)	(13,398)
	-1%	20,613	13,398
2011	1%	(21,287)	(13,837)
	-1%	21,287	13,837

(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:

	2012	2011
	(Rupees in thousand)	
Trade debts	50,494	93,475
Advances, deposits, prepayments and other receivables	3,796	5,676
Investment - Available for sale	121,126	110,347
Bank balances	11,437	37,667
	186,853	247,165

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 aging of trade receivables is as follows:

	2012	2011
	(Rupees in thousand)	
Upto 90 days	49,051	83,745
90 to 180 days	269	8,210
181 to 365 days	60	1,520
More than 365 days	1,114	-
	50,494	93,475

The management estimates the recoverability of trade receivables on the basis of financial position and past history of its customers based on the objective evidence that it will not receive the amount due from the particular customer. The provision is written off by the Company when it expects that it cannot recover the balance due. Any subsequent repayments in relation to amount written off, are credited directly to income statement.

The credit quality of short term investments in open ended money market mutual funds and cash and bank balances can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rate:

	Rating Short term	Long term	Rating Agency	2012	2011
				(Rupees in thousand)	
Investment - Available for sale					
MCB Cash Optimizer Fund	N/A	AA+(f)	Pacra	17,098	55,640
ABL Cash Fund	N/A	AA+(f)	JCR	20,985	54,703
Pakistan Cash Fund	N/A	AAA(f)	Pacra	4	4
Lakson Money Market Fund	N/A	AA(f)	Pacra	59,717	-
HBL Money Market Fund	N/A	AA(f)	JCR	23,322	-
				121,126	110,347
Cash and bank					
Habib Metropolitan Bank Limited	A1+	AA+	Pacra	7,958	23,170
Habib Bank Limited	A1+	AA+	JCR	395	7,774
Allied Bank Limited	A1+	AA+	Pacra	163	370
Bank Al-Habib Ltd.	A1+	AA+	Pacra	2,921	6,022
				11,437	37,336

Due to the company's long standing business relationships with these counterparties 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, 2012 the company had borrowing limits available from financial institutions at Rs 39.240 million (2011: Rs 83.871 million), investment available for sale at Rs 121.125 million (2011: Rs 110.347 million) and Rs 11.437 million (2011: Rs 37.667 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

	Carrying amount	Less than one year	One to five years	More than five years
	(Rupees in thousand)			
The following are the contractual maturities				
of financial liabilities as at June 30, 2012:				
Finance under markup arrangements	160,760	160,760	-	-
Accrued finance cost	198,870	85,222	113,648	-
Trade and other payables	110,313	110,313	-	-
Long term finances				
- secured	1,476,764	205,101	1,122,585	149,078
- unsecured	408,785	-	132,000	276,785
Liabilities against assets subject to finance lease	115,039	32,713	82,326	
	2,470,531	594,109	1,450,559	425,863
The following are the contractual maturities				
of financial liabilities as at June 30, 2011:				
Finance under markup arrangements	114,188	114,188	-	-
Accrued finance cost	157,114	102,594	54,520	-
Trade and other payables	142,964	142,964	-	-
Long term finances				
- secured	1,569,818	93,054	1,007,516	469,248
- unsecured	408,785	-	132,000	276,785
Liabilities against assets subject to finance lease	135,891	20,852	115,039	-
	2,528,760	473,652	1,309,075	746,033

39.2 Fair values of financial assets and liabilities

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date.

The financial instruments that are not traded in active market are carried at cost and are tested for impairment in accordance with IAS 39.

The carrying amount less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of fiancial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

39.3 Financial instruments by categories

	Loans and receivables	
	2012	2011
	(Rupees in thousand)	
Long term deposits	79,551	79,551
Trade debts	50,494	93,475
Advances, deposits, prepayments and other receivables	87,822	55,962
Cash and bank balances	11,437	37,667

	Available for sale	
	2012	2011
	(Rupees in thousand)	
Short term investments	121,126	110,347

	Financial liabilities at amortised cost	
	2012	2011
	(Rupees in thousand)	
Long term finances	1,885,549	1,978,603
Liabilities against assets subject to finance lease	115,039	135,891
Finances under mark up arrangements - secured	160,760	114,188
Trade and other payables	110,313	142,964
Accrued finance cost	198,870	157,114

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 73% (2011: 72%). There company paid the first installment of consortium loan in the current period thereby decreasing the amount of long term debt but the ratio has still deteriorated due to loss in the current year.

40. Date of authorization for issue

These financial statements were authorized for issue on September 19, 2012 by the Board of Directors.

41. Subsequent events

There are no subsequent events occurring after balance sheet date.

42. Corresponding figures

Corresponding figures have been re-arranged and reclassified, wherever necessary, for the purposes of comparison and better presentation as per reporting framework. Significant re-arrangements made are as follows:

	(Rupees in thousand)
Income tax recoverable from government from 'Advances, deposits, prepayments and other receivables' to 'Current income tax recoverable'	28,752

CHIEF EXECUTIVE

DIRECTOR

Pattern of holding of the Shares held by the Shareholders As at June 30, 2012

Number of Shareholders	Shareholding		Total Shares Held
	From	To	
152	1	100	4,719
2,167	101	500	1,064,426
573	501	1,000	557,028
1,034	1,001	5,000	3,167,139
349	5,001	10,000	2,863,124
146	10,001	15,000	1,850,177
120	15,001	20,000	2,225,369
71	20,001	25,000	1,692,086
46	25,001	30,000	1,296,326
34	30,001	35,000	1,124,176
26	35,001	40,000	1,004,515
17	40,001	45,000	731,272
32	45,001	50,000	1,576,465
13	50,001	55,000	695,105
9	55,001	60,000	533,607
6	60,001	65,000	379,811
4	65,001	70,000	271,500
8	70,001	75,000	586,721
4	75,001	80,000	312,881
4	80,001	85,000	329,506
2	85,001	90,000	180,000
3	90,001	95,000	277,108
23	95,001	100,000	2,287,475
6	100,001	105,000	616,718
2	110,001	115,000	223,000
3	115,001	120,000	357,000
2	130,001	135,000	263,011
1	140,001	145,000	141,500
3	145,001	150,000	450,000
1	150,001	155,000	150,015
1	155,001	160,000	160,000
1	165,001	170,000	170,000

Number of Shareholders	Shareholding		Total Shares Held
	From	To	
2	170,001	175,000	350,000
1	180,001	185,000	183,899
4	195,001	200,000	800,000
1	200,001	205,000	204,584
1	205,001	210,000	205,501
1	210,001	215,000	214,575
1	220,001	225,000	225,000
1	285,001	290,000	285,450
1	325,001	330,000	325,500
1	350,001	355,000	352,505
1	365,001	370,000	368,098
1	395,001	400,000	400,000
1	495,001	500,000	500,000
1	565,001	570,000	566,927
1	745,001	750,000	750,000
1	975,001	980,000	980,000
1	1,120,001	1,125,000	1,124,800
1	1,160,001	1,165,000	1,161,081
1	1,995,001	2,000,000	2,000,000
1	4,125,001	4,130,000	4,129,000
1	4,995,001	5,000,000	5,000,000
1	5,320,001	5,325,000	5,322,300
2	5,640,001	5,645,000	11,289,000
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	10,780,001	10,785,000	10,781,250
4,895			102,000,000

Categories of Shareholders Required Under Code of Corporate Governance as on June 30, 2012

S.No.	NAME	NUMBER	HOLDING	% AGE
DIRECTORS, CEO, THEIR SPOUSE AND MINOR CHILDREN				
1	MR. ABDUL RAZAK DAWOOD		10,781,250	10.5699
2	MR. TAIMUR DAWOOD		5,644,500	5.5338
3	MR. FAISAL DAWOOD		5,644,500	5.5338
4	CH. MUHAMMAD SADIQ		500	0.0005
5	MR. SALMAN ZIKRIA (CDC)		49,544	0.0486
6	MR. FAROOQ NAZIR (CDC)		500	0.0005
7	SYED ZAMANAT ABBAS		500	0.0005
8	MRS. BILQUEES DAWOOD W/O ABDUL RAZAK DAWOOD		4,129,000	4.0480
9	MS. MEHREEN DAWOOD		5,322,300	5.2179
10	MS. MEHREEN DAWOOD (CDC)		80,500	0.0789
		10	31,653,094	31.0324
ASSOCIATED COMPANIES				
1	DESCON CHEMICALS LIMITED		10,773,700	10.5625
2	DESCON CHEMICALS LIMITED EMPLOYEES PROVIDENT FUND TRUST		368,098	0.3609
3	DESCON CORPORATION (PVT.) LIMITED		8,725,250	8.5542
4	DESCON ENGINEERING LIMITED		7,439,800	7.2939
5	DESCON HOLDINGS (PVT.) LIMITED		1,124,800	1.1027
6	INTERWORLD TRAVELS (PVT) LIMITED		92,054	0.0902
7	INSPECTEST (PVT) LIMITED		117,000	0.1147
		7	28,640,702	28.0791
INSURANCE COMPANIES				
1	HABIB ISSUARANCE COMPANY LTD . (CDC)	1	100,000	0.0980
FINANCIAL INSTITUTION				
1	FIRST DAWOOD INVESTMENT BANK LIMITED. (CDC)	1	20,000	0.0196
MODARABAS & MUTUAL FUNDS				
1	CRESCENT STANDARD MODARABA (CDC)		10,000	0.0098
2	TRUST MODARABA (CDC)		18,000	0.0176
		2	28,000	0.0275

S.No.	NAME	NUMBER	HOLDING	% AGE
JOINT STOCK COMPANIES				
1	AMER SECURITIES (PVT) LTD. (CDC)		1,554	0.0015
2	AMER SECURITIES (PVT) LTD. (CDC)		1,446	0.0014
3	B & B SECURITIES (PRIVATE) LIMITED. (CDC)		5,000	0.0049
4	CAPITAL VISION SECURITIES (PVT) LIMITED. (CDC)		43	0.0000
5	DALAL SECURITIES (PRIVATE) LIMITED. (CDC)		25,000	0.0245
6	DARSON SECURITIES (PVT) LIMITED. (CDC)		50,000	0.0490
7	HARAL SONS (SMC-PVT) LTD. (CDC)		56,599	0.0555
8	HIGHLINK CAPITAL (PVT) LTD. (CDC)		55,000	0.0539
9	HORIZON SECURITIES (SMC-PRIVATE) LIMITED. (CDC)		55,000	0.0539
10	IMPERIAL INVESTMENT (PVT) LIMITED. (CDC)		10,100	0.0099
11	INVEST AND FINANCE SECURITIES LIMITED. (CDC)		55,000	0.0539
12	M.R. SECURITIES (SMC-PVT) LTD. (CDC)		2	0.0000
13	MOHAMMAD MUNIR MOHAMMAD KHANANI SECURITIES (PVT) LTD. (CDC)		400,000	0.3922
14	NH SECURITIES (PVT) LIMITED. (CDC)		3,000	0.0029
15	PAKISTAN HOUSE INTERNATIONAL LTD (CDC)		2,000	0.0020
16	PEARL CAPITAL MANAGEMENT (PVT) LTD (CDC)		3,671	0.0036
17	S.Z. SECURITIES (PRIVATE) LIMITED (CDC)		500	0.0005
18	SAAO CAPITAL (PVT) LTD. (CDC)		10,000	0.0098
19	SHAFFI SECURITIES (PVT) LIMITED (CDC)		3,000	0.0029
20	SHERMAN SECURITIES (PVT) LIMITED (CDC)		10,000	0.0098
21	SITARA CHEMICAL INDUSTRIES LTD. (CDC)		352,505	0.3456
22	STOCK MASTER SECURITIES (PRIVATE) LTD. (CDC)		12,250	0.0120
23	STOCK STREET (PRIVATE) LTD. (CDC)		8,500	0.0083
24	STOCK VISION (PVT) LTD (CDC)		1	0.0000
25	TAG HOLDING (PVT) LTD (CDC)		33,572	0.0329
26	TIME SECURITIES (PVT.) LTD. (CDC)		2,500	0.0025
27	TREET CORPORATION LTD (CDC)		214,575	0.2104
28	VALUE STOCK SECURITIES PRIVATE LIMITED. (CDC)		51,000	0.0500
29	ZHV SECURITIES (PVT) LTD. (CDC)		1	0.0000
		29	1,421,819	1.3939

S.No.	NAME	NUMBER	HOLDING	% AGE
OTHERS				
1	TRUSTEE - TREET CORPORATION LIMITED G.E. GRADUITY. (CDC)	1	15	0.0000
EXECUTIVES				
1	MR. MUHAMMAD ANWAR		5,000	0.0049
2	RANA MUKHTAR AHMAD KHAN (CDC)		36,000	0.0353
		2	41,000	0.0402
SHARES HELD BY THE GENERAL PUBLIC		4,842	40,095,370	39.3092
	TOTAL:	4,895	102,000,000	100.0000

List of S. Holders Holding => 10% of total Capital

S. No.	Name		Holding	Percentage
1	MR. ABDUL RAZAK DAWOOD		10,781,250	10.5699
2	DESCON CHEMICALS LIMITED		10,773,700	10.5625
		2	21,554,950	21.1323

List of S. Holders Holding => 5% of total Capital

S. No.	Name		Holding	Percentage
1	MR. ABDUL RAZAK DAWOOD		10,781,250	10.5699
2	DESCON CHEMICALS 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	MS. MEHREEN DAWOOD		5,402,800	5.2969
6	DESCON CORPORATION (PVT.) LIMITED		8,725,250	8.5542
7	DESCON ENGINEERING LIMITED		7,439,800	7.2939
		7	21,554,950	21.1323

Notice Of Annual General Meeting
Descon Oxychem Limited

Notice is hereby given that 8th Annual General Meeting of Descon Oxychem Limited will be held on Monday, October 22, 2012, at 10.00 am, at Descon Headquarters, 18-Km Ferozepur Road, Lahore, to transact the following business:

ORDINARY BUSINESS

1. To confirm minutes of the last Annual General Meeting of the Company held on October 20, 2011.

2. To receive, consider and adopt the audited accounts of the Company for the year ended 30th June 2012 together with the Director's and Auditors Report's thereon.

3. To appoint Auditors and fix their remuneration for the year ending June 30, 2013. (The present auditors M/s. A.F. Ferguson & Co., Chartered Accountants, retire and have offered themselves for re-appointment.)

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

By Order of the Board
(ABDUL SOHAIL)
COMPANY SECRETARY

Lahore
October 01, 2012

Notes:-

1. The share transfer books of the Company shall remain closed from 12-10-2012 to 22-10-2012 (both days inclusive).

2. Member 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 participants, I.D. Numbers to prove his / her identity, and in case of proxy 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.

FORM OF PROXY

IMPORTANT

This form of proxy, in order to be effective, must be deposited duly completed, at the Company's Registered Office at Descon Headquarters, l8-KM, Ferozepur Road, Lahore not less than 48 hours befre 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 Eighth Annual General Meeting of the Company to be held at Descon Headquarters, 18-km Ferozepur Road, Lahore on Monday, October 22, 2012 at 10:00 hrs. and at any adjournment thereof.

As witness my/our hand this ________________ day of ____________ 2012

Signed by the said ______________________________ in the presence of

____

____
(Member's Signature)

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

Place ____________

Date ____________

____
(Witness's Signature)

descon.com

IF UNDELIVERED PLEASE RETURN TO

DESCON OXYCHEM LIMITED

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