ANNUAL REPORT 2011

FOR THE YEAR ENDED JUNE 30, 2011

CONTENTS

CORPORATE PROFILE

BOARD OF DIRECTORS:	MR. WAQAR A. SHAFFI Chairman / Chief Executive MR. SHARIQ IFTIKHAR MR. SOHAIL MALIK MR. MUHAMMAD SAMEER MR. HASHIM ASLAM BUTT MR. ZAHOOR AHMED MR. MOHIB HUSSAIN
COMPANY SECRETARY:	MR. NAZIR AHMED
AUDITORS:	TABUSSUM SALEEM & CO. Chartered Accountants
AUDIT COMMITTEE:	MR. SOHAIL MALIK Chairman MR. HASHIM ASLAM BUTT MR. MUHAMMAD SAMEER
LEGAL ADVISOR:	A.K. MINHAS LAW ASSOCIATES
BANKERS:	ALLIED BANK LIMITED ASKARI COMMERCIAL BANK BANK ALFALAH LIMITED HABIB METROPOLITAN BANK LIMITED SILKBANK LIMITED STANDARD CHARTERD BANK LIMITED
REGISTERED OFFICE:	PLOT # 2, GADOON AMAZAI INDUSTRIAL ESTATE, SWABI KHYBER PAKHTOONKHWA TEL: 0938-270696-97
FACTORY:	PLOT # 2, GADOON AMAZAI INDUSTRIAL ESTATE, SWABI KHYBER PAKHTOONKHWA TEL: 0938-270696-97 E.mail: scil_gad@hotmail.com
PRINCIPAL OFFICE:	23-KM MULTAN ROAD, MOHLANWAL LAHORE. TEL: 111-111-666, 37540336-37 FAX: 92-42-37540335 Email: info@diamondfoam.com
REGISTRAR OFFICE:	CORPLINK (PVT) LTD. WINGS ARCADE, 1-K, COMMERCIAL MODEL TOWN, LAHORE. TEL: 92-42-35839182, 35887262 FAX: 92-42-35869037

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that Annual General Meeting of Shareholders of Shaffi Chemical Industries Limited will be held on Monday 31st October, 2011 at 1:00 P.M. at Company's Registered Office at Plot No. 2, Gadoon Amazai, Industrial Estate, Swabi, Khyber-Pakhtoonkhwa to transact the following business:

Ordinary Business.

1. To confirm minutes of the last Extra Ordinary General Meeting held on 30th December, 2010.

2. To receive, consider and adopt the Annual Audited Accounts of the Company together with the Auditors and Directors Reports thereon for the financial year ended June 30, 2011.

3. To appoint Auditors for the financial year ended 30th June, 2012 and to fix their remuneration. M/s Tabussum Saleem & Company Chartered Accountants has consented to continue as the Auditors of the Company for the next year. The Board of Directors has also recommended for the appointment of M/s Tabussum Saleem & Company Chartered Accountants as Auditors of the company for the year ending 30th June, 2012.

To consider any other transactions with the permission of the chair.

BY ORDER OF THE BOARD

NAZIR AHMED
FITM, FICS
COMPANY SECRETARY

Lahore: 08-10-2011

Notes:

1. The share transfer books of the company will remain closed from 24th October 2011 to 31st October, 2011 (both days inclusive). The shares received at company's share registrar office i.e. Corplink (Pvt) Limited by the close of business on 22nd October, 2011 will be considered in order for registration in the name of the transferees.

2. Members of the company are requested to immediately notify the change of address, if any, to the Share Registrar M/s Corplink (Pvt) Limited, Wings Arcade, 1-K Commercial Model Town, Lahore.

3. A member of the company entitled to attend and vote at this meeting may appoint another member as his/her proxy to attend and vote instead of him/her. Proxies in order to be effective must be received by the Company at the registered office not less than 48 hours before the meeting.

4. The members whose share are maintained on Central Depository System with the Central depository Company of Pakistan Limited should follow the guidelines for attending the General Meeting and appointment of proxies as laid down by the Securities and Exchange Commission of Pakistan.

DIRECTORS' REPORT

Dear Shareholders,

On behalf of the board of directors I feel pleasure to present to our shareholders 17th Annual Report of **Shaffi Chemical Industries Ltd.,** together with the Audited Financial Statements for the year ended June 30, 2011.

FINANCIAL HIGHLIGHTS…2011

The financial results of the company are numerated below:

-	Gross Profit	= Rs.	13,624,898
-	Operating Expenses	= Rs.	183,161,491
-	Operating Profit / (Loss)	= Rs.	(169,536,593)
-	Profit / (Loss) before Taxation	= Rs.	(170,416,444)
-	Taxation	= Rs.	148,415
-	Profit / (Loss) after Taxation	= Rs.	(170,564,859)

YEAR IN REVIEW:

Net Sales during the year under review were registered at Rs. 42.64 million as compared to Rs. 136.89 million registered during the last year. The main reason behind that unprecedented decrease in sales was the higher cost of super bond. It was finally decided by the Management to stop its production and sales which then resulted in lower turnover during the year under review. Gross Profit amounting to Rs. 13.62 million was earned during the year as against gross profit of Rs. 39.1 million during the last year. The operations however landed in a net loss of Rs. 169.5 million due to provisions against doubtful trade debts amounting to Rs. 14.9 and other receivables amounting to Rs. 159 million. The later provision has been provided due to continued inaction on the part of the Security and Exchange Commission of Pakistan. An application/complaint was filed with the SECP in the year 2000 against illegal withdrawal of shares by M/s First Capital ABN Amro Equities (Pak) Limited (ABN Amro) from our CDC sub account maintained with them. Regretfully the SECP since then has not taken any action against ABN Amro. The Company thus has no option but to create a provision as doubtful recovery of that amount recoverable from ABN AMRO. Had these provisions not made during the year, there would have been a Profit after taxation amounting to Rs. 3.4 million as against Profit after taxation amounting to Rs. 3.2 million reported for the year 2010. These provisions will be reversed after a positive action from SECP on our application/complaint filed in the year 2000 and recovery against account receivables.

Option to re-start production of company's core product "Di-Octyle-Ortho-Phathalates" (DOP) was also considered by the management which however could not be undertaken due to acute shortage of its basic raw material 2-Ethylethonal.

With respect to all legal disputed cases reported earlier are explained comprehensively under the title "Contingencies and Commitments".

COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE:

The requirements of the Code of Corporate Governance set out by the Karachi Stock Exchange and Lahore Stock Exchange in their Listing Regulations have been duly complied with and a statement to this effect is annexed with the Report. In preparation of annual financial statements, the applicable accounting standards have been followed which give a true and fair view of the state of affairs of the company at the end of the financial year and the profit/loss for the year under review. The financial statements have been prepared on a going concern basis and sufficient care is taken for properly maintaining the accounting records in accordance with the provisions of the Companies Ordinance, 1984 for safeguarding the assets of the company. The Directors are satisfied with the system of internal control and there has been no material departure from the best practice of the listing regulations. The accounting policies and practices are in compliance with listing rules and regulations.

CORPORATE AND FINANCIAL REPORTING FRAMEWORK:

Shaffi Chemical Industries Limited is listed on Karachi and Lahore Stock Exchanges and the Board has pursued the standard of Corporate Governance and represents independent and diverse perspectives on the board to provide proper overview of financial reporting framework of the company. The company has maintained proper books of accounts. Appropriate accounting policies have been consistently applied in the preparation f financial statements and accounting estimates are based on reasonable and prudent judgment. International Financial Reporting Standards, as applicable in Pakistan, have been followed in the preparation of financial statements and there has been no departure there from. The system of internal control is sound in design and has been effectively implemented and monitored. The annual audited financial statements are circulated within four months of the close of the financial year. There are no significant doubts about the Company's ability to continue as a going concern.

VISION AND MISSION:

The statement reflecting the Vision and Mission of the Company is annexed to the report.

EARNING PER SHARE:

Earning/(loss) per share for the year ended 30th June, 2011 is Rs.(14.21) compared to Rs.0.26 per share for the preceding year.

PATTERN OF SHAREHOLDING:

Pattern of shareholding is annexed to this report.

BOARD MEETINGS:

Nine Board Meetings were held during the year. The attendance of each director at the meetings is as under:

S.#	Name	Position	Board Meeting attended
1.	Mr. Waqar A. Shaffi	Chairman	09
2.	Mr. Shariq Ifitkhar	Director	09
3.	Mr. Sohail Malik	Director	09
4.	Mr Muhammad Sameer	Director	09
5.	Mr Zahoor Ahmed	Director	09
6.	Mr. Hashim Aslam Butt	Director	08
7.	Mr Mohib Hussain	Director	08

BOARD COMMITTEES:

The **Audit Committee** and **Human Resources Committee** are the standing committees of the board of directors.

Audit Committee is constituted by Board of which the members are non executive directors. Audit committee is responsible for the reviewing report of the company's financial results, audit and internal control. The committee recommends to the board of directors for the appointment of the company's auditors and reviews their procedures for ensuring their independence with respect to their audit performance. The committee held four meetings in the year ended 30th June, 2011.

Human Resources Committee has the responsibility of administering manpower requirements of company; regularize safety measures and environmental stewardship. The committee also ensures all elements of compensation and welfare for all its employees.

TRANSFER PRICING:

The company has fully complied with the best practices on Transfer Pricing as contained in the Listing Regulations of Stock Exchanges.

FUTURE OUTLOOK:

Due to recent devastating overspread floods coupled with worst power crises and the currency depreciation which resulted in higher input cost impacted the profitability of the company, the business activities have been slowed down and it has badly affected overall business & trade across the country. The management of the company intended to embark upon new business of petroleum products and applied for registration with Attock Petroleum Limited Karachi for commencement of supplies of furnace oil & solvent oil or any other products of POL. However on the face of its cumbersome procedure and inordinate delay in getting its registration the management of the company considered it as unfeasible. Meanwhile the company as a going concern has to continue with the present manufacturing business of Lith, Diltex Binder & Super Bond.

CODE OF CONDUCT:
Our code is built on a set of shared values based on principles of honesty, integrity, diligence, truthfulness and honour.

PATTERN OF SHAREHOLDING:
Pattern of shareholding is annexed to this report.

AUDITORS:
The present auditors, M/s Tabussum Saleem & Company, Chartered Accountants are retiring at the conclusion of the forthcoming Annual General Meeting of the company. The Audit Committee has recommended the appointment of M/s Tabussum Saleem & Company Chartered Accountants as the statutory auditors of the Company for the year ending June 30, 2012. The Board of Directors has endorsed this recommendation.

QUALIFICATION OF AUDITORS REPORT:

- With respect to qualification No. 1, it is stated that the Company had lodged a complaint with the Securities and Exchange Commission of Pakistan against illegal withdrawal of shares by First Capital ABN Amro Equities (Pak) Limited, a member of Karachi and Lahore Stock Exchanges available in CDC subaccount maintained with them. The provision against doubtful recovery has been made due to continued inaction on the part of the SECP on our complaint filed in the year 2000. Reversal of such provision will however, be made after the positive action by SECP in this matter. As regard a claim amounting to Rs. 552 million of First Capital ABN Amro Equities (Pak) Ltd., proper disclosure has been made under Note # 11.
- With respect to qualification # 2 of the audit report and as stated in note # 35 of the annexed financial statements, the management is of the view that the recoverable amount of the plant is higher than its carrying value as the plant could be used in the production of similar kind of other chemicals with slight modification/addition.
- Regarding qualification # 3 and 4 of the audit report, the company has filed suit against Allied Bank Limited as stated in note # 11.II.a,b of the annexed financial statements. The bank is not providing any kind of correspondence as the case is pending before the Honorable Lahore High Court Lahore.

ACKNOWLEDGEMENT:
The Board joins me to thank all the staff members and management team for their concerted efforts and contribution.

For and on behalf of the Board

WAQAR A. SHAFFI
Chief Executive

Lahore:- 07th October, 2011

Vision/Mission Statement/Corporate Strategy And Statement of Ethics & Business Practices

Vision

To transform the company into a dynamic manufacturing organization to play a meaningful role on sustainable basis in the economy of Pakistan in the best possible manner.

Mission

To conduct company business through good governance with responsibility to all our stake holders and foster a sound & dynamic team for maintaining professional standards and optimum use of resources while achieving the unique position in the market by meeting the requirements of high quality products for the customers.

Corporate strategy

To produce and market high quality products, consistently exceeding customer expectations, ensure right usage of company's resources, create employment opportunities and protect the interest of stakeholders.

Statement of Ethics & Business Practices

a) The Company's policy is to conduct business with honesty & integrity and be ethical in its business dealings showing respect to all.
b) The company runs its business in an environment that is sound and sustainable.
c) The company complies with all laws & regulations and expects its employees to familiarize & comply with them as well.
d) The company does not support any political party nor contribute to the funds of any group whose activities promote party interests.
e) The company is committed to the quality of its products and satisfy customer needs and expectations.
f) The company believes in adherence to the principles of reliability and credibility in its financial reporting and in transparency of business transactions.
g) The company is an equal opportunity employer. Its employee recruitment and promotional policies are free of any gender bias and are merit oriented. It believes in maintaining good channels of communications.
h) The company expects its employees to abide by certain personal ethics whereby company information and assets are not used for any personal advantage or gain.
i) The company believes in fair competition and support appropriate competition laws.

The Board of Directors has constituted the audit committee, to be supportive of compliance.

Statement of Compliance
With the Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance contained in the listing regulations of Karachi and Lahore stock exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practice of corporate governance.

The company has applied the principles contained in the code in the following manner:

1. The Board comprises of seven directors including the Chief Executive Officer. The Company encourages the representation of non-executive directors on its Board of Directors. At present majority of the Directors on the Board are non-executive.

2. The directors have confirmed that none of them is serving as a director in more than ten listed companies including this company.

3. The resident directors of the company registered as taxpayers, has not defaulted in payment of any loan to a banking company, DFI or NBFI or being a member of a stock exchange has been declared as a defaulter by that stock exchange.

4. The Board has developed mission and vision statements.

5. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms & conditions of employment of the CEO have been taken by the Board.

6. 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 and the Board met at least once in every quarter. Written notices of the Board meetings along with agenda were circulated at least seven days before the meetings and the minutes of the meetings were appropriately recorded.

7. Officers having positions of CFO, Company Secretary and Head of Internal Audit were appointed prior to the implementation of the Code of Corporate Governance. Terms of appointment, including remuneration in case of future appointments on these positions will be approved by the Board.

8. The Directors' 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.

9. The financial statements of the company were duly endorsed by CEO and CFO before approval of the Board.

10. 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.

11. The Company has complied with all the corporate and financial reporting requirements of the Code.

12. The Board has formed an audit committee which comprises of three members, who are non-executive.

13. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the company and as required by the Code. The terms and reference of the committee have been formed and advised to the committee for compliance.

13. The Board has set-up an effective interim audit function who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the company and they are involved in the internal audit function on a full time basis.

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

15. 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.

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

For and on behalf of the Board

WAQAR A. SHAFFI
Chief Executive

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 Shaffi Chemical Industries Limited, to comply with the Listing Regulation No. 37 of the Karachi and Lahore Stock Exchanges (guarantee) Limited 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 Code of Corporate Governance and report if it does not. A review is limited primarily to enquiries 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 control covers all risk and controls, or to form an opinion on the effectiveness of such internal controls, the company's corporate governess governance procedures and risks.

Further, Sub-regulation (xiii) of Listing Regulation No. 37 notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/-269 dated January 19, 2009 and Chapter XI of the Lahore Stock Exchange (Guarantee) Limited require 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 arms' 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 transitions 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 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, 2011.

Lahore, October 08, 2011

TABUSSUM SALEEM & CO.
Chartered Accountants
Engagement Partner:
Muhammad Aslam Tabussum (FCA)

AUDITORS' REPORT TO THE MEMBERS

We have audited the annexed balance sheet of **SHAFFI CHEMICAL INDUSTRIES LIMITED** as at June 30, 2011 and the related Profit and Loss account, statement of comprehensive income, statement of cash flows and statement of changes in equity 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 purpose 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:-

1. The Company has made a provision against doubtful recovery on account of a claim amounting to Rs. 159 million outstanding against First Capital ABN Amro Securities (Pak) Ltd. (ABN Amro) – Note 18.1 The said claim was recognized in the accounts previously due to the withdrawal of shares by ABN Amro from CDC sub account of the Company maintained with them. Decision on the complaint filed by the Company with the SECP against such withdrawal of shares is still pending. Since the amount involved is substantial in nature therefore, no such provision should be made until the final decision of SECP. The First Capital ABN Equities (Pak) Ltd, also jointly with other petitioner has filed a claim amounting to Rs. 552 million against the Company (Company's share amounts to Rs. 9.6 million) and five others.

2. The company has closed its DOP plant and sustaining heavy losses during the year under review which indicates the impairment of the plant & machinery. No impairment of the property, plant & equipment has been measured or recognized in these financial statements as required under IAS 36 (Impairment of Assets).

3. As stated in note 9 to the financial statements, the short term borrowings amounting to Rs. 49.9 Million due to Allied Bank Ltd. under markup arrangements have been stopped. We have not received the confirmation from Allied Bank Ltd. Furthermore no markup has been provided on this amount.

4. As stated in note 18 to the financial statements, other receivable includes markup amounting to Rs. 4.6 million paid to Allied Bank Ltd. under protest. This amount was not confirmed to us as at June 30, 2011.

   (a) In our opinion, proper books of accounts have been kept by the company as required by the Companies Ordinance, 1984;

   (b) In our opinion, except for the effects of matters referred to in paragraphs 1 to 4:-

      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;

i) The expenditure incurred during the year was for the purpose of the company's business; and

ii) 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, cash flow statement and statement of changes in equity 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, 2011 and of the profit, its cash flows and the changes in equity for the year then ended; and

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

TABUSSUM SALEEM & CO.
Chartered Accountants
Lahore,

Audit Engagement Partner:
Muhammad Aslam Tabussum (FCA)

BALANCE SHEET
AS AT JUNE 30, 2011

EQUITIES AND LIABILITIES	Note	2011 Rupees	2010 Rupees Restated
SHARE CAPITAL AND RESERVES			
Authorized Capital			
12,000,000 Ordinary shares of Rs. 10/- each		120,000,000	120,000,000
Issued, Subscribed and Paid Up Capital			
12,000,000 Ordinary shares of Rs. 10/- each fully paid in cash	3	120,000,000	120,000,000
Accumulated (Loss)/Profit		(72,755,384)	96,673,153
		47,244,616	216,673,153
SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT	4	9,545,036	10,373,926
NON-CURRENT LIABILITIES			
Long Term Loan	5	11,250,764	37,940,236
Deferred Liabilities	6	1,484,331	1,091,994
		12,735,095	39,032,230
CURRENT LIABILITIES			
Trade and Other Payables	7	19,872,654	20,803,371
Accrued Interest on Borrowings	8	696,000	696,000
Short Term Borrowings - Secured	9	49,991,574	49,991,574
Provision for Taxation	10	429,182	684,472
		70,989,410	72,175,417
CONTINGENCIES AND COMMITMENTS	11	-	-
TOTAL EQUITY AND LIABILITIES		140,514,157	338,254,726

The annexed notes (1 to 38) form an integral part of these financial statements.

Chief Executive **Director**

BALANCE SHEET
AS AT JUNE 30, 2011

ASSETS	Note	2011 Rupees	2010 Rupees Restated
NON-CURRENT ASSETS			
Property, Plant and Equipment	12	22,721,508	24,632,051
Long Term Deposits	13	223,560	223,560
Long Term Investments	14	99,932,705	99,917,542
CURRENT ASSETS			
Stock in Trade	15	2,109,955	650,594
Trade Debts	16	2,356,675	14,867,228
Loans and Advances	17	188,387	794,647
Other Receivables	18	11,546,844	196,010,359
Cash and Bank Balances	19	1,434,523	1,158,744
		17,636,384	213,481,572
TOTAL ASSETS		140,514,157	338,254,726

The annexed notes (1 to 38) form an integral part of these financial statements.

Chief Executive **Director**

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2011

	Note	2011 Rupees	2010 Rupees
Sales - net	20	42,641,193	136,894,335
Cost of Sales	21	(29,016,295)	(97,799,225)
Gross Profit		13,624,898	39,095,110
Operating Expenses			
Distribution Expenses	22	(18,325,297)	(24,896,516)
Administrative Expenses	23	(164,836,194)	(10,832,819)
		(183,161,491)	(35,729,335)
Operating Profit/(Loss)		(169,536,593)	3,365,775
Finance Cost	24	(16,814)	(32,496)
Other Operating Expenses	25	(290,000)	(428,331)
Share of Profit/ (Loss) from associated Company	14	(573,037)	835,375
Profit/(Loss) before Taxation		(170,416,444)	3,740,323
Taxation	26	(148,415)	(564,367)
Profit / (Loss) after Taxation		(170,564,859)	3,175,956
Earning / (Loss) per Share		(14.21)	0.26

The annexed notes (1 to 38) form an integral part of these financial statements.

Chief Executive **Director**

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2011

	2011 Rupees	2010 Rupees
(LOSS) / PROFIT FOR THE YEAR	(170,564,859)	3,175,956
OTHER COMPREHENSIVE INCOME	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	(170,564,859)	3,175,956

The annexed notes (1 to 38) form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011

	2011	2010
CASH FLOW FROM OPERATING ACTIVITIES	**Rupees**	**Rupees**
Profit before taxation	(170,416,444)	3,740,323
Adjustments for :		
Depreciation	1,910,543	2,105,527
Provision for gratuity	392,337	263,186
Finance Cost	16,814	32,496
Gain on disposal of Property, plant & equipment	-	-
Operating (loss) before Working Capital Changes	(168,096,750)	6,141,532
Changes in Working Capital		
(Increase) / Decrease in Current Assets		
Stock in Trade	(1,459,361)	(400,359)
Trade Debtors	12,510,553	5,612,591
Loans and Advances	606,260	460,219
Other Receivables	184,463,515	(9,149,848)
	196,120,967	(3,477,397)
Increase / (Decrease) in Current Liabilities		
Trade and Other Payables	(930,717)	(486,477)
Changes in Working Capital	195,190,250	(3,963,874)
Cash Generated from / (used in) Operations	27,093,500	2,177,658
Taxes Paid	(684,472)	(734,848)
Finance Cost Paid	(16,814)	(32,496)
Gratuity Paid	-	(28,800)
Net Cash Generated from / (Used in) Operating Activities	26,392,214	1,381,514

	2011	2010
	Rupees	**Rupees**
CASH FLOW FROM INVESTING ACTIVITIES		
Sale Proceeds of Property, Plant And Equipment	-	-
Purchase of Property, Plant And Equipment	-	-
Increase / (Decrease) in Long Term Investment	573,037	(835,375)
Net Cash Generated from Investing Activities	573,037	(835,375)
Net Cash Flow Before Financing Activities	26,965,251	546,139
CASH FLOW FROM FINANCING ACTIVITIES		
Short Term Borrowings	-	-
Loan from Director	(26,689,472)	-
Net Cash Flows From Financing Activities	(26,689,472)	-
Net Increase / (Decrease) in Cash & Cash Equivalents	275,779	546,139
Cash & Cash Equivalents at the Beginning of the Year	1,158,744	612,605
Cash & Cash Equivalents at the End of the Year	1,434,523	1,158,744

The annexed notes (1-38) form an integral part of these financial statements.

Chief Executive **Director**

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2011

	SHARE CAPITAL	CAPITAL AND REVENUE RESERVES		TOTAL SHAREHOLDERS' EQUITY
		Surplus on Revaluation of Property Plant and equipments	Unappropriated profit/ (accumulated loss)	
	Rupees	Rupees	Rupees	Rupees
Balance as at 01 July 2009	120,000,000	4,561,305	76,785,779	201,347,084
Other Comprehensive income for the year	-		3,175,956	3,175,956
Prior year Adjustment			11,119,564	11,119,564
Effect of item directly credited in equity by an associated coy.	-		124,676	124,676
Share of surplus on revaluation of fixed assets- Incremental depreciation-net of deferred taxation	-	905,873	-	905,873
	-	905,873	14,420,196	15,326,069
Balance as at 01 July 2010 (Restated)	120,000,000	5,467,178	91,205,975	216,673,153
Other Comprehensive income for the year	-		(170,564,859)	(170,564,859)
				-
Effect of item directly credited in equity by an associated co.	-		307,432	307,432
Share of surplus on revaluation of fixed assets- Incremental depreciation-net of deferred taxation	-	828,890	-	828,890
	-	828,890	(170,257,427)	(169,428,537)
Balance as at 30 June 2011	120,000,000	6,296,068	(79,051,452)	47,244,616

The annexed notes (1 to 38) form an integral part of these financial statements.

CHIEF EXECUTIVE

DIRECTOR

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2011

1 STATUS AND NATURE OF BUSINESS

The Company was incorporated under the Companies Ordinance, 1984 as Public Limited Company on 27th September 1994. The shares of the company are quoted on Karachi and Lahore Stock Exchanges. The main activity of the company is to manufacture and process of Di-Octyle-Ortho Phthalates (DOP) Chemicals. In the current year the company produced Lith, Diltex Binder and Super Bond. The registered office of the company is situated at Gadoon Amazai, Industrial Estate, Sawabi Khyber pakhtoonkhwan.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

These financial statements have been prepared under the historical cost convention except for Building, Plant & Machinery which is stated on revalued amounts and staff retirement benefits which have been recognized at present value determined by the actuary.

2.2 Statement of Compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan and requirements of Companies Ordinance, 1984. Approved accounting standards comprise of such International Accounting Standards as notified under the provisions of the Companies Ordinance, 1984. Wherever, the requirements of the Companies Ordinance, 1984 or directives issued by the Securities and Exchange Commission of Pakistan differ with the requirements of these standards, the requirements of Companies Ordinance, 1984 or the requirements of the said directives take the precedence.

2.3 Significant accounting judgements and estimates

The preparation of financial statements in conformity with approved accounting standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. Estimate and judgements are regularly evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the process of applying the Company's accounting policies, management has made the following estimates and judgements which are significant to the financial statements:

Staff retirement benefits

Certain actuarial assumptions have been adopted as disclosed in note 6.1 to the financial statements for valuation of present value of defined benefit obligations.

Property, plant and equipment

The company reviews the value of assets for possible impairment on an annual basis. Any change in the estimates in future years might effect the remaining amounts of respective items of property, plant and equipments with a corresponding effect on the depreciation charge and impairment.

Income Taxes

In making the estimates for income taxes payable by the Company, the management considers current Income Tax law and the decisions of appellate authorities on certain cases issued in past.

2.4 Changes / Amendments in Accounting Standards

2.4.1 Amendments to published approved standards that are effective in current year and are relevant to the company

The following amendments to published approved standards are mandatory for the company's accounting periods beginning on or after 01 July 2010:

International Accounting Standard (IAS) 1 (Amendment), 'Presentation of Financial Statements' (effective for annual periods beginning on or after 01 January 2010). The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The application of the amendment does not affect the results or net assets of the company as it is only concerned with presentation and disclosures.

IAS 7 (Amendment), 'Statement of Cash Flows' (effective for annual periods beginning on or after 01 January 2010). The amendment provides clarification that only expenditure that results in a recognized asset in the balance sheet can be classified as a cash flow from investing activity. The clarification results in an improvement in the alignment of the classification of cash flows from investing activities in the cash flow statement and the presentation of recognized assets in the balance sheet. The application of the amendment does not affect the results or net assets of the company as it is only concerned with presentation and disclosures.

2.4.2 Interpretations and amendments to published approved standards that are effective in current year but not relevant to the company

There are other new interpretations and amendments to the published approved standards that are mandatory for accounting periods beginning on or after 01 July 2010 but are considered not to be relevant or do not have any significant impact on the company's financial statements and are therefore not detailed in these financial statements.

2.4.3 Standards and amendments to published approved standards that are not yet effective but are relevant to the company

Following standards and amendments to existing standards have been published and are mandatory for the company's accounting periods beginning on or after 01 July 2011 or later periods:

IFRS 9 'Financial Instruments' (effective for annual periods beginning on or after 01 January 2013). This standard is the first step in the process to replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the company's accounting for its financial assets.

IFRS 7 (Amendment), 'Financial Instruments: Disclosures' (effective for annual periods beginning on or after 01 July 2011). The new disclosure requirements apply to transfer of 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. The management of the Company is in the process of evaluating the impacts of the aforesaid amendment on the company's financial statements.

IFRS 12 'Disclosure of Interests in Other Entities' (effective for annual period beginning on or after 01 January 2013). IFRS 12 applies to entities that have an interest in subsidiaries, joint arrangements, associates or unconsolidated structured entities. IFRS 12 establishes disclosure objectives and specifies minimum disclosures that an entity must provide to meet those objectives. IFRS 12 requires an entity to disclose information that helps users of its financial statements evaluate the nature of and risks associated with its interests in other entities and the effects of those interests on its financial statements. The management of the company is in the process of evaluating the impacts of the aforesaid standard on the company's financial statements.

IFRS 13 'Fair Value Measurement' (effective for annual period beginning on or after 01 January 2013). IFRS 13 establishes a single framework for measuring fair value where that is required by other standards. IFRS 13 applies to both financial and non-financial items measured at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The management of the company is in the process of evaluating the impacts of the aforesaid standard on the company's financial statements.

IAS 1 (Amendments), 'Presentation of Financial Statements' (effective for annual periods beginning on or after 01 July 2012). It 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.

There are other amendments resulting from annual improvements project initiated by International Accounting Standards Board in May 2010, specifically in IFRS 7 'Financial Instruments: Disclosures', IAS 1 'Presentation of Financial Statements' and IAS 24 'Related Party Disclosures' that are considered relevant to the company's financial statements. These amendments are unlikely to have a significant impact on the company's financial statements and have therefore not been analyzed in detail.

2.4.4 Standards, interpretations and amendments to published approved standards that are not yet effective and not considered relevant to the company

There are other standards, amendments to published approved standards and new interpretations that are mandatory for accounting periods beginning on or after 01 July 2011 but are considered not to be relevant or do not have any significant impact on the company's financial statements and are therefore not detailed in these financial statements.

2.5 Property, Plant and Equipment

Property, Plant and Equipment except for lease-hold land are stated at cost or revalued amounts less accumulated depreciation and impairment loss, if any. Depreciation is charged to income applying the reducing balance method at the rates given in Note 12.

Depreciation on additions is charged from the month in which the assets become available for use, while on disposal depreciation is charged up to the month of disposal.

Residual values are determined by the management as the amount it expects it would receive currently for the item of property plant and equipment if it were already of the age and in the condition expected at the end of its useful life based on the prevailing market prices of similar assets already at the end of their useful life.

Useful lives are determined by the management based on expected usage of the assets, expected physical wear and tear, technical and commercial obsolescence and other similar factors.

Gains or losses on disposal of fixed assets are recognized in income.

Maintenance and normal repairs are charged to revenue as and when incurred. Major renewals and improvements are capitalized.

2.6 Investments.

The investments made by the company are classified for the purpose of measurement into the following categories:

a) Held to maturity

Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held to maturity and are initially measured at cost and at subsequent reporting dates measured at amortized cost using the effective yield method.

b) Investment in associated companies

Long term investments in associated companies are valued using equity method.

c) Investment at fair value through profit or loss

Investments at fair value through profit or loss are initially measured at cost, being the fair value of consideration given. At subsequent reporting dates, these investments are remeasured at fair value (quoted market price), unless fair value cannot be reliably measured. The investments, for which a quoted market price is not available, are measured at cost as it is not possible to apply any other valuation methodology. Realized and unrealized gains and losses arising from the changes in fair value are included in the net profit or loss for the period in which they arise. Investments intended to be held for less than twelve months from the balance sheet date are included in current assets, all other investments are classified as non-current asset. Management determines the appropriate classification of its investments at the time of the purchase and reevaluates such designation periodically.

All purchases and sales of investments are recognized on the trade date which is the date that the company commits to purchase or sell the investment. Cost of purchase includes transaction cost.

At each reporting date, the company reviews the carrying amounts of the investment to assess whether there is any indication that such investments have suffered an impairment loss. If any such indication exists, the recoverable amount is estimated in order to determine the extent of the impairment loss, if any. Impairment losses are recognized as expense. Where an impairment loss is subsequently reversed, the carrying amount of the investment is increased to the revised recoverable amount but limited to the extent of initial cost of the investment. A reversal of the impairment loss is recognized in income.

2.7 Stock- in – Trade

These are valued at lower of cost or net realizable value. Cost is determined as follows:

Raw-Material	Weighted Average Cost
Work in Process and Finished Goods	Average Manufacturing Cost or Net Realizable value

Net realizable value signifies the estimated selling prices in the ordinary course of business less cost necessary to be incurred in order to make a sale.

2.8 Stores, Spares and Loose Tools

These are stated at lower of cost and net realizable value. The cost of inventory is based on weighted average cost. Items in transit are stated at cost accumulated to balance sheet date.

2.9 Financial instruments

Financial assets and financial liabilities are recognized when the company becomes a party to the contractual provision of the instruments. The particular measurement method adopted are disclosed in the individual policy statements associated with each item.

2.10 Trade debts

Trade debts originated by the company are recognized and carried at original invoice amount less an allowance for any uncollectible amount. An estimate for doubtful debts is made when collection of full amount is no longer probable. Bad debts are written off as incurred and become bad in actual sense.

2.11 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 of cash in hand and bank balances.

2.12 Taxation
Current

Charge for current taxation is based on taxable income at current tax rates after taking into account all tax credits and rebates available, if any. In case of loss minimum tax liability is provided in these accounts based on liability worked out under section 113 or under sections 154 and 153 of the Income Tax Ordinance, 2001, whichever of these liabilities is higher.

Deferred

Deferred tax is accounted for using the balance sheet liability method in respect of all taxable 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 recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that is the 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 year when the differences reverse based on the tax rates that have been enacted.

2.13 Revenue Recognition

Revenue is recognized on dispatch of goods. Dividend income on equity investments is recognized as income when the right of receipt is established. Interest income is recognized on the time proportion basis.

2.14 Retirement Benefits

The company operates an unfunded and unapproved gratuity scheme for its employees, which is a defined benefit plan based upon the last salary drawn by an employee. Present value of defined benefit obligation is calculated on the basis of actuarial valuation at the end of the year. The valuation in these accounts is worked out on the Projected Unit Credit Actuarial Cost method basis.

Actuarial valuation of defined benefit scheme was conducted to calculate the actuarial present value of gratuity obligation as at June 30, 2011.The valuation uses projected unit credit method and a discount rate of 12% per annum. It assumes that salaries will increase by 11% per annum.

Actuarial gains and losses are accounted for in accordance with the minimum recommended approach under IAS-19 "Employee benefits".

2.15 Provisions

Provisions are recognized when the company has a legal or constructive obligation as a result of past events and 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.

2.16 Borrowing Cost

Borrowing costs are recognized as an expense in the period in which they are incurred, except to the extent that they are directly attributable to the construction of a qualifying asset in which case they are capitalized as part of the cost of that asset.

2.17 Foreign Currency Transactions

All monetary assets and liabilities in foreign currencies are translated into rupees at exchange rates prevailing at the balance sheet date. Transactions in foreign currencies are translated into rupees at the rate of exchange approximating those prevailing on the dates of transaction. Exchange gains and losses are included in the profit and loss account currently.

2.18 Related party transactions

All transactions with related parties are carried out by the Company at arm's length prices using the method prescribed under the Companies Ordinance 1984.

2.19 Loans, Advances and other Receivables

Loans, advances and other receivables are recognized initially at cost and subsequently measured at amortized cost.

2.20 Long Term Loans and Short Term Borrowings

Loans and borrowings are initially recorded at the time proceeds are received and subsequently at amortized cost. Financial charges are accounted for on accruals basis and are either added to the carrying amount of the instruments or included in the creditors, accrued and other liabilities to the extent of the amount remaining unpaid. Exchange gain and losses (if any) arising in respect of loan or borrowings in foreign Currency are added to the carrying amount of the instrument

2.21 Trade and Other Payables

Liabilities for trade and other amounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received whether or not billed to the company.

2.22 Impairment

The carrying amounts of the company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the assets recoverable amount is estimated and impairment losses are recognized in the profit and loss account.

		2011 Rupees	2010 Rupees
3	**ISSUED, SUBSCRIBED & PAID UP CAPITAL**		
	12,000,000 Ordinary shares of Rs.10/ each fully paid in cash	120,000,000	120,000,000

3.1 4,182,240 (2010 : 4,182,240 Nos.) Ordinary shares of Rs 10/- each were held by Associated companies at the year end. Detail is as follows:

	2011	2010
Diamond Industries Limited	3,754,240	3,754,240
Diamond Corporation (Private) Limited	173,000	173,000
Diamond Home Textile (Private) Limited	255,000	255,000
	4,182,240	4,182,240

4 SURPLUS ON REVALUATION OF FIXED ASSETS

	2011	2010
Opening balance	10,373,926	11,279,799
Surplus relating to incremental depreciation charged on related assets during the year transferred to changes in equity.	(828,890)	(905,873)
	9,545,036	10,373,926

4.1 Building and Plant & Machinery were revalued by M/S Diamen Associates (Pvt.) Ltd. on April 15 , 2003 on the basis of current replacement values.

Revaluation surplus was credited to surplus on revaluation of Fixed Assets account.

5 LONG TERM LOAN

Related Party - Unsecured

	2011	2010
Loan from Director	11,250,764	37,940,236

This loan is interest free and there is no agreement between the company and the director regarding the repayment of the loan.

			2011 Rupees	2010 Rupees
6	**DEFERRED LIABILITIES**			
	Gratuity - Defined benefit plan	6.1	1,484,331	1,091,994
	Provision for deferred taxation	6.2	-	-
			1,484,331	1,091,994
6.1	**Gratuity**			
	The amounts recognized in the financial statements are determined as follows:-	6.1.1	1,484,331	1,091,994
6.1.1	**Reconciliation of Amounts recognized in the balance sheet**			
	Present value of unfunded defined benefit obligation		1,510,371	1,221,722
	Add: Benefits payables (i.e. Benefits due but not paid)		-	-
	Less: Actuarial losses charged to current profit and loss		(26,040)	(129,728)
	Liability in the Balance Sheet		1,484,331	1,091,994
	The amounts recognized in the profit and loss account are as follows:-			
	Current service cost/provision for the year		244,471	160,456
	Interest cost		146,607	102,730
	Actuarial gain recognized		1,259	-
	Total included in salaries benefits		392,337	263,186
	Movement in liability recognized in the balance sheet			
	At the beginning of the year		1,221,722	856,087
	Add: Benefits payables		-	-
			1,221,722	856,087
	Amount recognized during the year - as shown above		244,471	160,456
	Actuarial (gain)/losses charged to current profit and loss		(102,429)	131,249
	Benefits paid during the year		-	(28,800)
	Interest cost for the year		146,607	102,730
	Present value of unfunded defined benefit obligation		1,510,371	1,221,722
	The principal actuarial assumptions used were as follows			
	Discount rate		14% per annum	12% per annum
	Expected rate of increase in salary		13% per annum	11% per annum
	Average expected remaining working life of employees		5 years	6 years
6.2	**Provision for Deferred Taxation**			
	Deferred taxation liability comprises as follows :			
	Taxable temporary differences			
	Accelerated tax depreciation allowance		4,774,418	5,007,831
	Deductible temporary differences			
	Provision for doubtful debts		(5,222,590)	(628,807)
	Provision for Receivable from ABN Amro			
	Provision for slow moving stock		(268,095)	(268,095)
	Provision for gratuity		(519,516)	(382,198)
			(6,010,201)	(1,279,099)
	Total taxable temporary difference		(1,235,782)	3,728,731

		2011 Rupees	2010 Rupees
	Effect of accumulated tax losses	6,496,809	(24,074,552)
		5,261,026	(20,345,821)
	Non recognition of Deferred tax asset	(5,261,026)	20,345,821
		-	-
7	**Trade and Other Payables**		
	Unsecured :		
	Creditors	4,758,978	4,860,117
	Accrued Expenses	1,897,860	2,727,438
	Payable to sponsors and associates	10,525,760	10,525,760
	Unclaimed Dividend	2,690,056	2,690,056
		19,872,654	20,803,371
8	**ACCRUED INTEREST ON BORROWINGS**		
	Accrued Interest on Borrowings	696,000	696,000
9	**SHORT TERM BORROWINGS**		
	From Banking Companies - Secured		
	Running Finance	49,991,574	49,991,574
		49,991,574	49,991,574

These finances were available from Allied Bank Limited under mark-up arrangements amounting to Rs.100 Million (2010:Rs.100 Million). Markup is payable quarterly at the rates ranging from paisas 19 to paisas 27 per Rs. 1,000 per day.(2010: paisas 19 to paisas 27 per Rs. 1,000 per day.)

These facilities were stopped by the bank in the previous years and have not yet been renewed since June 2004.

Additionally the Company have the facilities for opening of letters of credit amounting to 30 million (2010: 30 million). The L/C facility in the current financial year remained unutilized. These facilities are secured against the following:

PRINCIPAL SECURITIES

- 1st floating charge of Rs:328.924 (Million) on the current assets of the company by way of hypothecation of stocks with 25 % margin.
- Pledge of stock of raw material and finished goods with 15 % margin.
- Lien on valid import documents covering import of petrochemical items at Nil Margin.
- Personal guarantee of all the directors of the company.

COLLATERAL

- 1st charge of Rs:49.467(Million) on fixed assets of the company.
- Cross Corporate Guarantee, letter of awareness and overlap in Security / Collateral from all companies of the Group.

10

PROVISION FOR TAXATION

	2011	2010
Opening Balance	684,472	734,848
Taxation for the year	429,182	684,472
Adjustment against advance income tax	(684,472)	(734,848)
	429,182	684,472

11 CONTINGENCIES AND COMMITMENTS

I. HIGH COURT OF SINDH AT KARACHI

a. First Capital ABN Amro Equities etc Vs Iftikhar Shaffi etc.
(Suit No. 808/2000)
M/s First Capital ABN AMRO Equities (Pakistan) Ltd and others filed a Suit for Recovery of Rs.552,344,051/- before the High Court of Sindh at Karachi. The case is now at the stage of evidence.

b. SCIL Vs Arif Habib and others.
(Suit No. 639/2003)
The company filed a Suit for Declaration, Injunction and Recovery of Damages amounting to Rs.1,701,035,843/-against Arif Habib Ex-Chairman Karachi Stock exchange (KSE) and others before High Court of Sindh at Karachi. The case is still pending adjudication before the Court.

c. Aqeel Karim Dhedhi Securities Vs Iftikhar Shaffi etc.
(Suit No 607/2003)
M/s. Aqeel Karim Dhadhi Pvt Ltd filed a Suit for Recovery of Rs.80.297 million against Mr. Iftikhar Shaffi and five others including this company before High Court of Sindh at Karachi and the Suit is still pending.

d. Muhammed Hanif Moosa Vs Iftikhar Shaffi etc.
(Suit No. 843/2003)
Muhammad Hanif Musa Ex Member KSE filed a Suit for Recovery, Damages, Declaration and Injunction amounting to Rs.447, 587,159/- against Mr. Iftikhar Shaffi and five others including this company and the Suit is still pending.

II. LAHORE HIGH COURT LAHORE

a. ABL Vs Shaffi Chemical etc. (C.O.S. 25/2005)
Allied Bank Limited filed a Suit for Recovery of Rs.96,709,921.19 against the company before Lahore High Court, Lahore. The Honourable Court passed an order for interim decree of Rs.37,689,574/- against the company and granted Leave to appear and defend the suit vide order dated 3-3-2008. Now, the proceedings of the case are at the stage of evidence.

b. ABL Vs Shaffi Chemicals (Execution Petition)
An execution arising out of the referred interim decree is also pending before the Lahore High Court, Lahore. Now, the proceedings of the case are fixed for arguments on a proposal filed by the company.

c. Diamond Industries Ltd and Shaffi Chemical Industries Ltd. Vs Lahore Stock Exchange" (Civil Revision No.1847 of 2003)
The Company filed a Revision Petition against an interim order of the Civil Judge Lahore passed in Civil Suit No. 297/2003. The case is still pending adjudication before the Court.

II. CIVIL COURT LAHORE.

a. Lahore Stock Exchange (G) Ltd. Vs. Iftikhar Shaffi etc.
The Lahore Stock Exchange filed suit No. 297 of 2003 against Mr. Iftikhar Shaffi and five others including this company for recovery of Rs.190,704,373/- The case is still pending adjudication before the court.

b. Naeem Anwar Vs Iftikhar Shaffi and Others.
Naeem Anwar filed a Suit for Declaration Damages & Recovery of Rs.19.9 million against Mr. Iftikhar Shaffi and other defendants including this company. The case is still pending adjudication before the court.

Commitments

There is no commitment in respect of outstanding Letters of Credit.

The management of the company is strongly and vigorously contesting all these cases and there is every likelihood that these cases will be decided in favour of the Company soon.

12 Shaffi Chemical Industries Limited.
Property Plant and Equipment
For the Year Ended June 30, 2011

Particulars	COST/REVALUATION				DEPRECIATION				WDV as at JUNE 30, 2011
	July 1, 2010	Addition /	June 30, 2011	Rate	July 1, 2010	Adjustment	For the Period	June 30, 2011	
Leasehold land	1,000,000	-	1,000,000		-	-	-	-	1,000,000
Building on leasehold land	17,810,748	-	17,810,748	5%	7,921,141	-	494,481	8,415,622	9,395,126
Plant and machinery	44,649,095	-	44,649,095	10%	31,676,144	-	1,297,295	32,973,439	11,675,656
Vehicles	8,005,309	-	8,005,309	20%	7,587,122	-	83,637	7,670,759	334,550
Furnitures and fixtures	582,842	-	582,842	10%	453,390	-	12,945	466,335	116,507
Office equipment	943,878	-	943,878	10%	722,024	-	22,185	744,209	199,669
June 30, 2011:Rupees	**72,991,872**	**-**	**72,991,872**		**48,359,821**	**-**	**1,910,543**	**50,270,364**	**22,721,508**

Particulars	COST/REVALUATION				DEPRECIATION				
Particulars	July 1, 2009	Addition / (Deletion)	June 30, 2010	Rate	July 1, 2009	Adjustment	For the year	June 30, 2010	WDV as at June 30, 2010
Leasehold land	1,000,000	-	1,000,000		-	-	-	-	1,000,000
Building on leasehold land	17,810,748	-	17,810,748	5%	7,400,635	-	520,506	7,921,141	9,889,607
Plant and machinery	44,649,095	-	44,649,095	10%	30,234,705	-	1,441,439	31,676,144	12,972,951
Vehicles	8,005,309	-	8,005,309	20%	7,482,575	-	104,547	7,587,122	418,187
Furnitures and fixtures	582,842	-	582,842	10%	439,006	-	14,384	453,390	129,452
Office equipment	943,878	-	943,878	10%	697,373	-	24,651	722,024	221,854
June 30, 2010:Rupees	**72,991,872**	**-**	**72,991,872**		**46,254,294**	**-**	**2,105,527**	**48,359,821**	**24,632,051**

12.1 **Had there been no revaluation, the cost, accumulated depreciation and book value of the revalued assets at June 30, 2011 would have been as follows.**

	2011			2010		
.	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Building on Leasehold land	**10,571,710**	**6,088,151**	**4,483,559**	10,571,710	5,852,174	4,719,536
Plant & Machinery	**31,398,708**	**24,856,524**	**6,542,184**	31,398,708	24,129,615	7,269,093
	41,970,418	**30,944,675**	**11,025,743**	41,970,418	29,981,789	11,988,629

12.2 **Allocation of Depreciation**

	June 30, 2011	June 30, 2010
	Rupees	Rupees
* Cost of Sales	**1,791,776**	1,961,945
* Administrative Expenses	**118,767**	143,582
	1,910,543	2,105,527

		2011 Rupees	2010 Rupees
13	**LONG TERM DEPOSITS**		
	Security deposits against :		
	Utilities	70,760	70,760
	Gas	127,800	127,800
	Central Depositary Co. Ltd.	25,000	25,000
		223,560	223,560
14	**LONG TERM INVESTMENTS**		
	Associated Company-Quoted Equity Method		
	Diamond Industries Limited.		
	1,422,450 fully paid ordinary shares of Rs.10 each		
	Equity held 15.80 % (2010: 15.80 %)		
	Market value as on June 30-2011, Rs. 12,446,437/-		
	(2010: Rs. 11,023,988/-)		
	Share in net assets at the beginning of the year	99,917,542	98,837,386
	Add: Share in profit before taxation	(573,037)	835,375
	Share in taxation	280,767	120,104
	Change in surplus on revaluation of fixed assets	(609,004)	(891,909)
	Share of transfer from Surplus on revaluation of fixed assets on account of incremental depreciation	936,929	1,372,167
	Other Items directly credited in changes in equity	(20,493)	(355,583)
	Share in net assets at the end of the year	99,932,705	99,917,542

14.1 **Summarized financial information of associated company**

Name of Associated Company	Audited/ Unaudited	Assets	Liabillities	Net Assets	Revenue	Profit/Loss
2011						
Diamond Industries Ltd	Un-Audited 31-03-11	641,494,334	9,208,959	632,285,375	159,960	(1,849,225)
2010						
Diamond Industries Ltd	Audited 30-06-10	645,758,442	13,569,002	632,189,440	132,172,074	6,045,425

14.2 There was no significant transaction or event occurred in associated company between March 31, 2011 and June 30, 2010, therefore there is no need to take any adjustment.

14.3 Previously the share of investment in associate company was wrongly calculated, therefore this prior period error has been corrected retrospectively in accordance with requirements of IAS 8 ' Accounting Policies, change in Accounting Estimates and Errors'. Had there been no correction of prior period error, the investment in associated company would have been higher by Rupees 409,849/-

		2011	2010
15	**STOCK IN TRADE**		
	Raw Materials	2,229,864	765,986
	Less: Provision for slow moving stock	(765,986)	(765,986)
		1,463,878	-
	Finished Goods	646,077	650,594
		2,109,955	650,594
16	**TRADE DEBTS**		
	Considered Good- unsecured	2,356,675	16,519,143
	Considered Doubtful	14,921,686	144,675
		17,278,361	16,663,818
	Provision for Doubtful Debts	(14,921,686)	(1,796,590)
		2,356,675	14,867,228

Provision against bad debts has been provided in the accounts against accounts receivable beyond a period of three years.

Upton one month		-	-
1 to 6 months		-	-
More than six months		-	14,921,686
		-	14,921,686

17 LOANS AND ADVANCES

Advances : Considered goods

Staff	140,800	102,610
Advance income tax	47,587	692,037
	188,387	794,647

18 OTHER RECEIVABLES

Sales Tax Receivable		6,007,565	27,695,900
Mark up paid to Allied Bank Ltd.(under protest)		4,657,524	4,657,524
Accrued Interest		75,178	75,178
Receivable from First Capital ABN AMRO Equities (Pak) Ltd.	18.1	-	159,025,425
Margin against Bank Guarantee (Sui Gas)		700,000	700,000
Security Deposits - Suppliers		100,000	100,000
Advances to suppliers	18.2		3,739,925
Other Receivables		6,577	16,407
		11,546,844	196,010,359

18.1 Receivables from First Capital ABN AMRO Equities (Pak) Ltd.

Opening Balance	159,025,425	159,025,425
Provision for Bad Debts	(159,025,425)	-
	-	159,025,425

This represents amount receivable from First Capital ABN AMRO 'Equities (Pak) Ltd., member Karachi & Lahore Stock Exchange, which illegally and without lawful 'authority withdrew the share from sub account of the company.

The company had filed an application before the Securities & Exchange Commission of Pakistan for recovery of the same and proceedings of the case is still pending since the year 2000 due to continued in action on the part of Security and Exchange Commission of Pakistan the company has made a provision against doubtful debts.

18.2 This represent amount given as advances against purchases to M/s Capital Industrial Enterprises (Private) Limited.

19 CASH & BANK BALANCES

Cash in hand	209,553	28,258
Cash at banks:		
Current Accounts	1,224,970	1,130,486
	1,434,523	1,158,744

These deposits are under bank's lien against guarantees issued on behalf of the company.

20 SALES	**2011 Rupees**	**2010 Rupees**
Sales	42,918,225	136,894,335
Less: Sales Tax	(277,032)	-
	42,641,193	136,894,335

21 COST OF SALES

Raw Material Consumed	21.1	19,969,656	90,245,563
Salaries, Wages & Benefits	21.2	2,649,780	2,749,839
Fuel & Power		1,078,934	600,314
Repair & Maintenance		3,171,838	1,711,035
Gas & Water Charges		220,530	262,965
Misc. Expenses		129,264	667,923
Depreciation	12.2	1,791,776	1,961,945
		29,011,778	98,199,584

			2011 Rupees	2010 Rupees
	Add : Finished Goods-Opening		650,594	250,235
			29,662,372	98,449,819
	Less : Finished Goods-Closing		(646,077)	(650,594)
			29,016,295	97,799,225
21.1	**RAW MATERIAL CONSUMED**			
	Opening Stock		765,986	765,986
	Purchases		21,433,534	90,245,563
			22,199,520	91,011,549
	Closing Stock		(2,229,864)	(765,986)
			19,969,656	90,245,563
21.2	This includes gratuity amounting to Rs. 86,336 /- (2010: Rs. 57,901/-)			
22	**DISTRIBUTION COST**			
	Salaries, Wages & Benefits		242,886	6,109,930
	Travelling & Conveyance		3,340,374	551,790
	Commission		220,395	1,842,005
	Publicity		1,396,546	4,930,291
	Bad Debts		13,125,096	1,651,914
	Freight & Forwarding		-	9,810,586
			18,325,297	24,896,516
22.1	This includes gratuity amounting to Rs. 17,638/- (2010: Rs. 11,844/-)			
23	**ADMINISTRATIVE EXPENSES**			
	Salaries, Wages & Benefits	23.1	1,536,980	5,855,381
	Communications		146,805	182,766
	Travelling and Conveyance		131,105	1,496,909
	Fees & Taxes		725,050	600,000
	Legal & Professional Charges		2,758,300	1,554,702
	Repair & Maintenance		550	13,644
	Provision for First Capital ABN AMRO Equities (Pak) Ltd.	18.1	159,025,425	
	Miscellaneous		393,212	985,835
	Depreciation	12.2	118,767	143,582
			164,836,194	10,832,819
23.1	This includes gratuity amounting to Rs. 288,363/- (2010: 193,441/-)			
24	**FINANCE COST**			
	Bank Charges		16,814	32,496
			16,814	32,496
			2011 Rupees	**2010 Rupees**
25	**OTHER OPERATING EXPENSES**			
	Workers Profit Participation Fund		-	138,331
	Auditors Remuneration	25.1	290,000	290,000
			290,000	428,331
25.1	**Auditors' Remuneration**			
	Audit Fee		250,000	250,000
	Out of pocket expenses		10,000	10,000
	Half yearly review		30,000	30,000
			290,000	290,000
26	**TAXATION**			
	Taxation for the year		429,182	684,472
	Share of Tax of assoicated company		(280,767)	(120,104)
			148,415	564,367

Due to carry forward tax losses, tax liability computed under normal tax regime is less than tax liability under section 113 of the Income Tax Ordinance, 2001, therefore tax provision under section 113 of the Ordinance has been provided.

26.1 Relationship between tax expenses and accounting profit

No reconciliation is required between the accounting profit and tax profit in the current year since the company has made income tax provision under section 113 of Income Tax Ordinance 2001.

27 EARNING PER SHARE BASIC

(Loss)/ Profit for the year after taxation	(Rupees)	(170,564,859)	3,175,956
Average No. of ordinary shares	(Numbers)	12,000,000	12,000,000
		(14.21)	0.26

No figure for diluted earning per share has been presented as the Company has not issued any instruments carrying options which would have an impact on earning per share when exercised.

28 REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

No remuneration/other allowances were paid to the Chief Executive (No. 1) and Directors (No. 6) of the company.

29 NUMBER OF EMPLOYEES	2011	2010
Number of employees as at year end	30	122

	2011	2010
30 INSTALLED CAPACITY		
DOP PLANT		
Installed Capacity Per Annum (Tons)	17,500	17,500
Actual Capacity Utilized (Tons)	-	-
LITH - DILTEX BINDER PLANT AND SUPER BOND		
Installed Capacity Per Annum (Tons)	2,060	2,060
Actual Capacity Utilized (Tons)	194	1,874

Non utilization of DOP Plant is mainly due to no DOP orders and switching of the company to produce other kind of chemical.

31			
31	Total borrowings	61,242,338	87,931,810
	Cash and bank balances	(1,434,523)	(1,158,744)
		59,807,815	86,773,066
	Total equity	47,244,616	216,673,153
		107,052,431	303,446,219
	Gearing ratio	55.87%	28.60%

32 FINANCIAL INSTRUMENTS & RELATED DISCLOSURES

	Interest/mark up bearing				Non-Interest/mark up bearing			Total	
	Mark up rate %	Maturity upto one year	Maturity after one year	Sub Total	Maturity upto one year	Maturity after one year	Sub Total	2011	2010
Financial Assets									
Trade debts		-	-	-	2,356,675	-	2,356,675	**2,356,675**	14,867,228
Loan and advances		-	-	-	188,387	-	188,387	**188,387**	794,647
Other receivables		-	-	-	6,882,743		6,882,743	**6,882,743**	28,571,078
Security deposits					-	223,560	223,560	**223,560**	223,560
Cash & bank balances		-	-	-	1,434,523	-	1,434,523	**1,434,523**	1,158,744
T o t a l (Rupees.)		-	-	-	10,862,328	223,560	11,085,888	**11,085,888**	45,615,257
Financial Liabilities									
Short term Borrowing	7 to 14	49,991,574	-	49,991,574	-	-	-	**49,991,574**	49,991,574
Trade and Other Payables					19,872,654	-	19,872,654	**19,872,654**	20,803,371
Accrued Interest on loans and borrowings					696,000	-	696,000	**696,000**	696,000
T o t a l (Rupees)		49,991,574	-	49,991,574	20,568,654	-	20,568,654	**70,560,228**	71,490,945
On Balance Sheet Gap		(49,991,574)	-	(49,991,574)	(9,706,326)	223,560	(9,482,766)	**(59,474,340)**	(25,875,688)

33 CONCENTRATION OF CREDIT RISK

The company's credit risk exposure is not significantly different from that reflected in the financial statements. The management monitors and limits company's exposure to credit risk through monitoring of client credit exposure, review and conservative estimates of provisions for doubtful receivables, if any, and through the prudent use of collateral policy. The management is of the view that it is not exposed to significant concentration of credit risk as its financial assets are adequately diversified in organization of sound financial standing covering various segments.

34 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm' s length transaction. The carrying value of all financial assets and liabilities reflected in the financial statements approximate their fair values.

35 **Capital Risk Management**

The company's prime object when managing capital is to safeguard its ability to continue as a going concern in order to provide adequate returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the company monitors capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and bank balances. Total capital is calculated as equity as shown in the balance sheet plus net debt.

36 TRANSACTIONS WITH RELATED PARTIES.

36.1 Related Parties of the Company comprise companies with common directorship, retirement funds, directors and key management personnel. Details of transactions with related Parties are as follows:

	2011 Rupees	2010 Rupees
Purchases		
Capital Industrial Enterprises (Pvt) Ltd	**20,020,426**	**85,899,735**
Symbol Industries (Pvt) Ltd	-	**1,490,968**
Sales		
Diamond Industries Limited	-	**21,617,909**
Capital Industrial Enterprises (Pvt) Ltd	-	**2,177,357**

Expenses Incurred by Related Parties:		
Capital Industrial Enterprises (Pvt) Ltd		
Administrative Expenses:		
Salaries, Wages & Benefits	-	4,617,593
Vehicle Running and Maintenance	-	1,178,332
Traveling and Conveyance	-	249,010
Distribution Expenses:		
Salaries, Wages & Benefits	-	5,569,185
Vehicle Running and Maintenance	-	516,035
Traveling and Conveyance	-	37,418
Sales Bonus	-	1,606,433
Freight and Octroi	-	9,753,455

37 DATE OF AUTHORIZATION FOR ISSUE

These financial statements were authorized for issue on **October 07, 2011** by the board of directors of the company.

38 GENERAL

Figures have been rounded off to nearest Rupee and rearranged, if required.

Chief Executive **Director**

FORM 34

THE COMPANIES ORDINANCE 1984
(Section 236(1) and 464)
PATTERN OF SHAREHOLDING

1. Incorporation Number **B-01398**

2. Name of the Company **SHAFFI CHEMICAL INDUSTRIES LIMITED**

3. Pattern of holding of the shares held by the shareholders as at **6/30/2011**

	------Shareholding------		
4. No. of Shareholders	**From**	**To**	**Total Shares Held**
272	1	100	21,830
309	101	500	147,249
82	501	1000	78,527
153	1001	5000	441,743
46	5001	10000	372,170
15	10001	15000	201,264
12	15001	20000	220,452
4	20001	25000	90,585
3	25001	30000	84,696
1	30001	35000	30,446
1	35001	40000	40,000
1	40001	45000	40,500
1	65001	70000	68,536
1	70001	75000	74,999
2	95001	100000	200,000
1	125001	130000	130,000
1	130001	135000	130,500
1	135001	140000	137,197
1	175001	180000	176,000
1	185001	190000	188,996
1	195001	200000	198,000
1	210001	215000	214,950
1	250001	255000	255,000
1	390001	395000	394,500
1	415001	420000	419,360
1	545001	550000	547,960
1	680001	685000	685,000
1	695001	700000	700,000
1	750001	755000	752,300
1	1305001	1310000	1,306,000
1	3650001	3655000	3,651,240
919			12,000,000

5. Categories of shareholders	Share held	Percentage
5.1 Directors, Chief Executive Officers, and their spouse and minor childern	2,556,460	21.3038%
5.2 Associated Companies, undertakings and related parties.	3,751,240	31.2603%
5.3 NIT and ICP	500	0.0042%
5.4 Banks Development Financial Institutions, Non Banking Financial Institutions.	--	--
5.5 Insurance Companies	--	--
5.6 Modarabas and Mutual Funds	--	--
5.7 Share holders holding 10%	5,057,240	42.1437%
5.8 General Public		
a. Local	4,947,303	41.2275%
b. Foreign	--	--
5.9 Others (to be specified) **Joint Stock Companies**	744,497	6.2041%

6. Signature of Company Secretary	
7. Name of Signatory	NAZIR AHMED
8. Designation	Company Secretary
9. NIC Number	35202-0733525-5
10 Date	30 / 06 / 2011

CATEGORIES OF SHAREHOLDERS REQUIRED UNDER C.C.G.
As on June 30, 2011

S. No.	NAME	%AGE	HOLDING
DIRECTORS, CEO THEIR SPOUSE AND MINOR CHILDREN			
1	MR. WAQAR A. SHAFFI	4.566	547,960
2	MR. SHARIQ IFTIKHAR	10.883	1,306,000
3	MR. SOHAIL MALIK	0.004	500
4	MR. MUHAMMAD SAMEER	0.004	500
5	MR. HASHIM ASLAM BUTT	0.004	500
6	MR. ZAHOOR AHMAD	0.004	500
7	MR. MOHIB HUSSAIN	0.004	500
8	MRS. ASMA SHARIQ W/O MR. SHARIQ IFTIKHAR	5.833	700,000
		21.304	2,556,460
ASSOCIATED COMPANIES			
1	DIAMOND INDUSTRIES LTD.	30.427	3,651,240
2	DIAMOND INDUSTRIES LTD.(CDC)	0.833	100,000
		31.260	3,751,240
NIT and ICP			
1	INVESTMENT CORP. OF PAKISTAN	0.004	500
JOINT STOCK COMPANIES			
1	FIRST CAPITAL SECURITIES CORPORATION LTD.	0.016	1,960
2	DIAMOND CORPORATION (PVT) LTD.	1.467	176,000
3	DIAMOND HOME TEXTILE(PVT)LTD.	2.125	255,000
4	JAVED OMER VOHRA & CO.	0.038	4,500
5	DIAMOND PRODUCTS (PVT) LTD	1.083	130,000
6	ACE SECURITIES (PVT) LTD. (CDC)	0.002	250
7	ADEEL & NADEEM SECURITIES (PVT) LTD.(CDC)	0.002	180
8	AMER SECURITIES (PVT) LIMITED (CDC)	0.008	1,000
9	CAPITAL VISION SECURITIES (PVT) LIMITED (CDC)	0.625	74,999
10	CAPITAL VISION SECURITIES (PVT) LIMITED (CDC)	0.571	68,536
11	DARSON SECURITIES (PVT) LIMITED (CDC)	0.017	2,095
12	DARSON SECURITIES (PVT) LIMITED (CDC)	0.118	14,173
13	DOSSLANI'S SECURITIES (PVT) LTD. (CDC)	0.004	500
14	MOHD. MUNIR MOHD. AHMED KHANNANI SECURITIES (CDC)	0.058	7,000
15	STOCK MASTER SECURITIES (PVT) LTD. (CDC)	0.001	90
16	VALUE STOCK SECURITIES PRIVATE LIMITED (CDC)	0.000	12
17	Y. S. SECURITIES & SERVICES (PVT) LTD. (CDC)	0.068	8,202
		6.204	744,497
SHARES HELD BY THE GENERAL PUBLIC		41.228	4,947,303
	TOTAL:	**100.000**	**12,000,000**

SHAREHOLDERS HOLDING 10% OR MORE OF TOTAL CAPITAL

S. No.	Name	Percentage	Holding
1	MR. SHARIQ IFTIKHAR	10.883	1,306,000
2	DIAMOND INDUSTRIES LTD.	31.260	3,751,240
		42.144	**5,057,240**

During the financial year the trading in shares of the company by the Directors, CEO, CFO, Company Secretary and their spouses and minor children is as follows

NIL