

report & accounts **10**
two thousand

2009

2008

ISO 9001:2008 &
ISO 14001:2004 Certified



Security Papers
LIMITED



Security Papers
LIMITED

MAJOR Events

Incorporation of the Company (as a private Company)	1965
Signing of contract for the supply of Paper Machine-1 (PM-1) with Mills-Paugh, U. K.	1966
Conversion into public Company	1967
Listing on the Karachi Stock Exchange	1967
Start of Commercial production of PM-1	1969
Signing of contract for supply of Paper Machine-2 (PM-2) with Voith Paper, Germany	2001
Start of Commercial Production of PM-2	2003
Formal inauguration of PM-2 by the Prime Minister	2004
Commissioning of Co-Generation Power Plant	2009

ANNUAL REPORT

2010

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FORM OF PROXY



BOARD OF DIRECTORS

Board of Directors



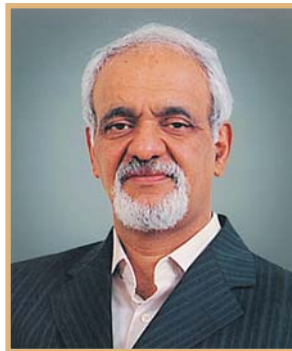
Mustapha A. Chinoy



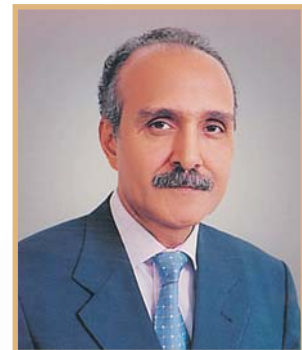
Naiyer Muzafar Husain
Chairperson & Chief Executive



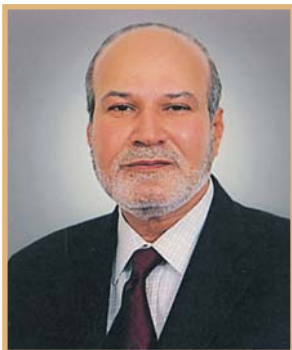
Firasat Ali



Mehdi Lori Amini



Hasan Irfaan



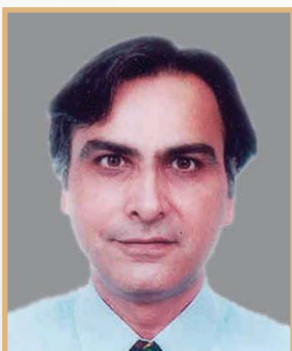
Sheikh Mohammad Aijaz Akhtar



Ayla Akin



Ansar Hussain



Aamer Mahmood Hussain

Chairperson's Review

It is my pleasure to present to you the Annual Report on the performance of the Company for the year ended June 30, 2010.

The Company has performed well in the prevailing financial, economic and security concerns both globally and nationally. Our focused strategies, effective risk management, operational efficiencies and financial discipline have played a key role in achieving steady results.

Production Activities

The banknote paper demand from customer remained lower as compared to previous year. Considering this risk of low demand we have already planned for diversification to Clearing Bank Specification (CBS-1) paper i.e. cheque and passport paper. The needed modification in plant has been carried out and production of CBS-1 paper has been planned in the next financial year to utilize surplus capacity.

Operational Performance

Production

The Company's production during the year was 1587 tonnes as against 1724 tonnes in the previous year. The decrease in production of 137 tonnes (7.95%) is mainly due to low demand of banknote paper.

Sales

The sales during the year under review have increased by Rs 23.44 million compared to last year mainly due to increased pricing. The Company achieved a sales volume of 1587 tonnes as against 1708 tonnes during the corresponding period. The decrease in sales of 121 tonnes (7.08%) is mainly due to low demand.

Product Diversification

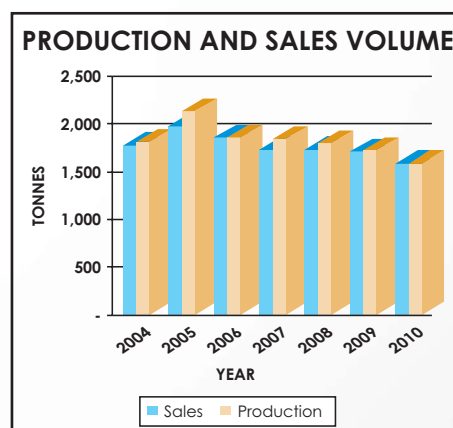
It has been our endeavor to expand the product base in order to optimize the production capacity and increase the absorption of fixed overheads.

Required modifications in the plant have been achieved through the main supplier M/s. Voith of Germany to be able to produce a new range of sensitized paper such as Cheque Paper and Passport Paper etc.

Commercial production of cheque & passport papers will hopefully be started during next financial year.

Upgrading of the Plant

As already reported in the previous review, the Company has undertaken a number of projects for upgrading and modernizing the existing plant which include replacement of 40 year old pulping plant, installation of surface inspection system, online monitoring and control system for certain quality parameters, further upgrading the mould shop, modification of machineries & equipments pertaining to finishing section, broke re-pulping, automatic packaging line etc. The Management has already signed agreements with the suppliers of machinery, equipment and systems for a couple of these projects; a few others are under finalization. It is estimated that the above upgrading would take around two years to complete.



Chairperson's Review

The upgrade will improve the quality parameters of paper and help in substantially reducing process losses.

Once this upgrading of plant is completed, the Company will emerge as one of the most modern security paper mills in the region having the capacity and capability to enter into export market.

Co-generation Power Plant

The 2.8 Mega Watt Co-generation Power Plant was commissioned in September, 2009 and since then working satisfactorily.

The Co-generation plant on the one hand has helped reducing the production break-down, which was frequent owing to unreliable supplies from public utility. This self power generation is also comparatively cheaper. Therefore, the Company is able to bring increased plant efficiency with reduced cost.

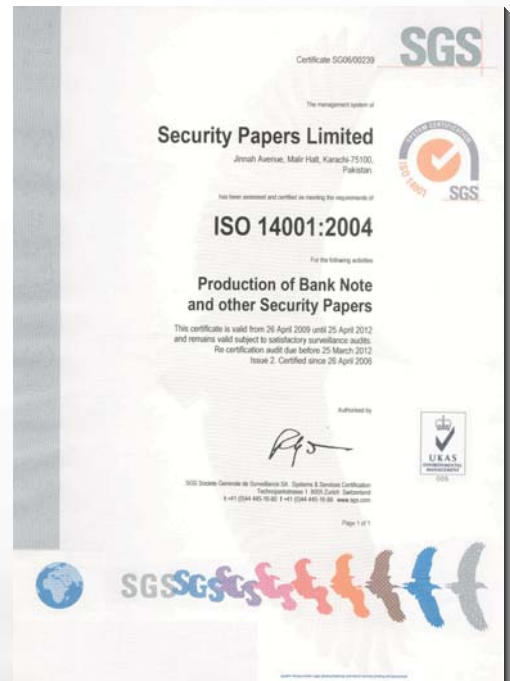
Quality Assurance Management System

Conformance to customer specification and its continuous assurance is an integral part of our Quality Management System. All the stages of process of production are being monitored properly, and quality of raw materials and final finished goods are to be tested according to their standard specification criteria.

Environmental Management System

The Management of the Company is committed toward delivery of quality products with minimum adverse environmental impacts along with compliance with National Environmental Quality Standard (NEQS).

The Company is also committed to provide safe and environmental friendly atmosphere not only to its employees but also to the community by ensuring compliance to National Environmental Quality Standards (NEQS). The Company is putting all its efforts to monitor all its processes which may pollute the environment, and control and mitigate any environmental impacts.



Chairperson's Review

Integrated Quality & Environmental Management System (IMS)

To maintain high quality levels, the Company has adopted modern management techniques and training practices. For the monitoring of the effectiveness of the Integrated Quality & Environmental Management System of ISO 9001:2008 & ISO 14001:2004, regular internal and external audits by external agency of SGS Pakistan are being conducted periodically.

Monitoring of water and gaseous emissions from the plant is carried out regularly for necessary remedial action. All plant water effluents are treated through primary cleaners before being disposed off.

This all shows the Company's firm commitment to abide by environmental and safety regulations and to improve continuously the quality of the product to exceed the expectation of the customer.

Safety, Health and Environment

We make objective based efforts for reducing unsafe and unhealthy work practices/conditions. Hazards identification and risk assessment have been done and reviewed when required. Incident/accident analysis and follow-up for corrective/preventive measures are taken to reduce accidents. Comprehensive training is imparted to our employees in the area of OHSAS. Fire Fighting System is available with all necessary facilities to tackle any emergency. Medical checkup of employees is regularly carried out.

The Company believes in the protection and conservation of environment while ensuring that all operations and activities remain environment friendly. The Company has a comprehensive environmental management system (EMS), certified and regularly audited by ISO 14001:2004. We mitigate the environmental impacts through effective implementation of ISO 14001:2004 to comply applicable laws and regulations. The Company has established and maintained procedure for identifying the environmental aspects of its activities and products in order to determine those which have or can have significant impact on the environment. We maintain records of all environmental impact and consider significant impacts in setting its environmental objectives. Legal requirements and significant environmental aspects are considered in establishing and reviewing objectives, targets and means and time frame by which they are to be achieved is included in the programme for achieving environmental objectives.

Research & Development (R&D)

The Company is deeply concentrating on the area of Research and Development. The main purpose of R&D is to reduce the process losses of the plant and increase the profitability of the products with a resolve to meet customers' requirements.

Business Process Re-engineering

We endeavour to constantly upgrade business and processes by bringing in latest innovations of relevant and appropriate technological advancements in business strategies and processes. To achieve these goals, the Company is directing full efforts towards modernizing its various production processes through up-gradation of the plant on one hand while on the other hand trying to induct relevant professional staff in all disciplines in order to obtain optimum benefits from the new processes. The aim of these efforts is to improve product's quality, security and customer satisfaction.

Chairperson's Review

Safety and Security

In the wake of prevailing security situation in the country, several safety and security measures are taken. CCTV cameras to monitor process and the movements of persons, access control system to allow only authorized persons inside the facility, walk through gate to detect weapons and road blockers to check and identify vehicles before entering the main gate are examples of our investment in the area of safety and security.

SPL is committed to the safe operation of its facilities. Potential safety and hazardous areas are identified and taken care of in a way that protects employees and Company's property. To continue improvement in the security measures is a core policy of the Company.

Internal Audit

During the current year the scope of internal audit has been comprehensively enhanced with reference to pre-audit of procurement to keep the investment cost and inventory to the minimum. Also, a more focused approach towards the production wastages would help improve profitability.

Contribution to the national exchequer and the economy of the country

During the year under review the Company made contribution to national exchequer by way of taxes, levies, sales tax etc., amounted to Rs 306 million as compared to Rs 308 during the corresponding period. In addition, the Company has also made foreign exchange savings of US \$ 13.73 million (approx.) through import substitution during the year as compared to US \$ 13.94 million in the corresponding period.

Credit Rating

JCR-VIS Credit Rating Company Limited (JCR-VIS) has reaffirmed the medium to long-term entity rating of Security Papers Limited (SPL) at 'AAA' (Triple A) with a 'Stable' Outlook. Short-term rating has also been reaffirmed at 'A-1+' (A One Plus).

Business Risks and Challenges

The economy has started showing positive results. However, inflation continues to be a major challenge facing the business environment. Adding to this is the adverse impact of global recession and devaluation of local currency. Rising raw materials and energy costs are affecting Company's profitability. The increase in cost of doing business on multiple accounts and energy crisis may squeeze margins and affect income and profitability.

To mitigate these risks, the Company has taken appropriate measures by embarking on a cost reduction programme during the year. The Company is determined to face the future challenges by controlling wastage and spoilage, improving operations analyses, re-enforcing cost effectiveness, achieving operational excellence and expanding the product base.

Information Technology (IT)

A steering committee ensures broad oversight of the IT in line with business needs. Strategic plans are discussed at the steering committee level. The Company considers effective and rapid communication as a key tool for quality management and services and recognizes information technology as a core activity for business growth and progress.

The Company started implementation of Oracle based applications to have timely, transparent and true information for business decisions. IT provides efficient and quality information to all business units of the Company to enhance their productivity, effectiveness and decision making capabilities to support consistent growth of the Company. The Oracle systems will greatly facilitate the achievement of future efficiencies in all key business processes.

Chairperson's Review

Corporate Excellence Award

The Company holds 24th, 25th and 26th Awards of the Management Association of Pakistan (MAP). The Corporate Excellence Awards are conferred by the MAP with an objective to recognize the listed companies which excel in corporate and management practices.

The award manifests Company's commitment to quality, maintenance of highest professional standards and constant strive to achieve excellence in all spheres of its activity. This award is considered the most prestigious achievement in the corporate sector. The quality of management practices of the companies in different areas like corporate governance, strategic planning, social responsibility, planning human resources, production management, research and development are appraised by the MAP.

Best Corporate Report Award

As reported earlier, the Annual Report - 2003 and 2006 to 2008 of the Company won the Best Corporate Report Award. The Joint Committee of the Institute of Chartered Accountants of Pakistan (ICAP) and the Institute of Cost & Management Accountants of Pakistan (ICMAP) has instituted this Award.

The selection was based on comprehensive criteria, which requires inclusion of detailed information in the Annual Report on the subjects of Corporate Objectives, Directors' Report, Disclosure, Shareholder Information, Report Presentation and Corporate Governance.

Corporate Governance Rating

During the year under review, JCR-VIS Credit Rating Company Limited has reaffirmed the Corporate Governance Rating of the Company at CGR-8 denoting 'high level of corporate governance'. This rating is based on a scale ranging from CGR-1 (lowest) to CGR-10 (highest).

Corporate Governance Ratings are based on evaluation of key governance elements of the rated enterprise, which includes Regulatory Compliance, Ownership Structure, composition and operations of the Board of Directors and Executive Management, Self-Regulation, Financial Transparency and Relationship with Stakeholders.

Being among the first in Pakistan, the Company voluntarily offered itself for corporate governance rating in the year 2003-04 and is maintaining the said rating since then.

Top Companies Award

The Company has the distinction of receiving Top Companies Award of the Karachi Stock Exchange from the year 2000 to 2007.

The award is conferred on the basis of highest marks obtained in relation to Distribution to Shareholders, Return on Equity, Turnover of Shares, Number of Shareholders, Corporate Social Contribution / Monetary Donation and Good Corporate Governance / Compliance with Code of Corporate Governance.

Corporate Social Responsibility (CSR)

Population groups and areas have been identified for CSR and Corporate philanthropy activities. Priority was given to reputed non-profit / non-government organizations (NPOs / NGOs). During the year 2009-10, the following were the beneficiary of our contribution:

Chairperson's Review

- Friends of Burns Centre (FOBC)
- SOS Children Villages of Sindh
- Dowites OT Complex (DOTS) - Civil Hospital
- Sindh Institute of Urology & Transplantation (SIUT)
- Layton Rahmatulla Benevolent Trust (LRBT)
- Marie Adelaide Leprosy Centre (MALC)
- Pakistan Voluntary Health & Nutrition Association (PAVHNA)
- Nigahban Welfare Association - Civil Hospital
- Koohi Goth Hospital
- Care-n-Cure

HR & Administration

With an increased focus on human resource as valuable asset of the Company the scope of human resource and administration department has been enlarged. The department is now fully geared up to function on newer methodologies to effectively perform its role of facilitator. The welfare of the employees is being addressed as a matter of prime importance.

Professional Development Program (PDP)

Staying competitive is the key to sustainability. The goal is to meet training and development needs of work force by keeping them motivated and up-to-date with industry trends and new technologies. This is essential in achieving organizational goals and objectives.


During the year, Professional Development Program (PDP) is executed keeping in view of the following:

- Training needs both for an individual and Company wide basis.
- Employees' current competence level and future expectations.
- Areas needing urgent attention in line with Company's future objectives.

Employees from different departments, as identified, were sent to attend appropriate training programs in reputable organizations. Also, a number of employees of different grades were sent to attend short training sessions. After acquiring training, employees share the knowledge through conducting the same training within Company's premises to develop more employees, under the concept of "Train the Trainer" and for the purpose of periodical evaluation.

Acknowledgement

I am proud of the Company's human resources and thankful to all executives, officers and workers for good performance resulting in higher level of success and profitability for the Company. I am also thankful for the trust reposed by the Board of Directors of the Company, shareholders, customers, bankers and other stakeholders.



MRS. NAIYER MUZAFAR HUSAIN
Chairperson & Chief Executive

Karachi

Dated: July 29, 2010

Directors' Report

The Directors of the Company are pleased to present the Annual Report of the Company along with the Audited Financial Statements for the year ended June 30, 2010.

Financial Results

The operating results of the Company for the year ended June 30, 2010 are summarized as follows:

	2010	2009
	(Rupees in '000)	
Profit before taxation	520,257	493,211
Taxation		
Current - for the year	159,346	117,953
Current - for prior Year	(74)	802
	159,272	118,755
Deferred	12,894	42,301
	172,166	161,056
Profit after taxation	348,091	332,155

Subsequent Appropriations

The Directors have recommended (i) final cash dividend of Rs 5/- per share, i. e. 50% (2009: Rs 5/- per share, i.e. 50%) and appropriation of Rs 142.30 million (2009 Rs 126.50 million) to revenue reserves.

These appropriations will be reflected in the subsequent financial statements, in compliance with the revised Fourth Schedule to the Companies Ordinance, 1984.

Earnings per share

The earnings per share (EPS) - before and after taxation are Rs 12.64 and Rs 8.46 (2009: Rs 11.99 and Rs 8.07) respectively.

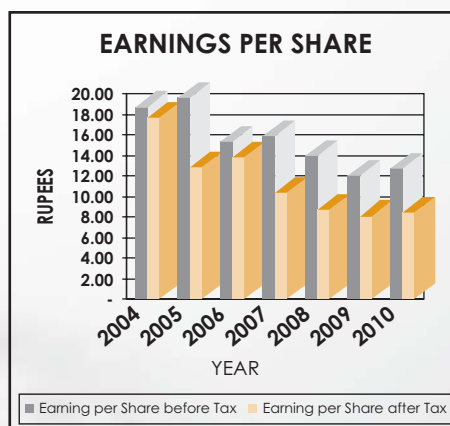
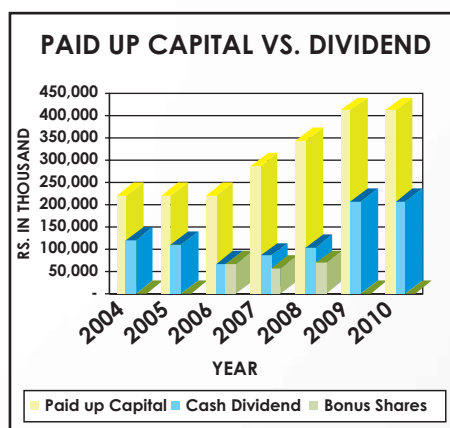
Operating Results

A comparison of the operating results of the Company for the year ended June 30, 2010 with the same period last year is as under:

During the year under review, the net sales revenue registered an increase of Rs 23.44 million mainly due to increase in product pricing which worked out to be 2.08% as compared to the preceding year.

Gross profit for the year reported to be Rs 458.18 million which worked out to be 39.75% of sales compared to Rs 460.26 million in the corresponding period which worked out to be 40.76% of sales.

The profit before taxation during the year was Rs 520.26 million as compared to Rs 493.21 million during the corresponding period which worked out to be 5.48% higher over the previous year. After tax profit reported to be Rs 348.09 million as compared to Rs 332.15 in preceding year.



Directors' Report

Earnings per share (EPS) reported to be Rs 8.46 for the year under review as compared to Rs 8.07 in the previous year.

Market and book value per share

The book value per share stood at Rs 75.59 as against Rs 72.17 in the previous year. The before and after tax return on equity was 16.72% and 11.19% compared to 16.60% and 11.18% in the corresponding period respectively.

The average market price during the year remained at Rs 52.10 (2009: Rs 59.50) per share. The market price as of June 30, 2010 was Rs 42.99 (2009: Rs 50.00)

Cash Flow Management

During the year under review the Company made an outlay of Rs 88.54 million (2009: Rs 164.11 million) on account of capital expenditure and invested surplus funds in the short term deposits and treasury bills in order to maximize the yield with minimum risk.

Long term debt equity and current ratios

The long term debt-equity and the current ratios of the Company as at June 30, 2010 were 1:20 and 6.46:1 (2009:1:21 and 6.43:1) respectively.

Material changes and commitments

No material changes and commitments affecting the financial position of the Company have occurred between the end of the financial year of the Company to which the balance sheet relates and the date of the report.

Financial Statements

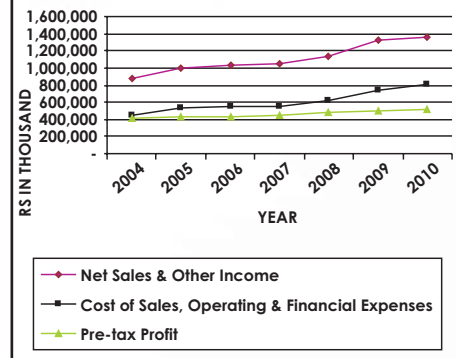
The auditors of the Company, M/s. KPMG Taseer Hadi & Co., Chartered Accountants audited the financial statements of the Company and have issued an unqualified report to the members.

Auditors

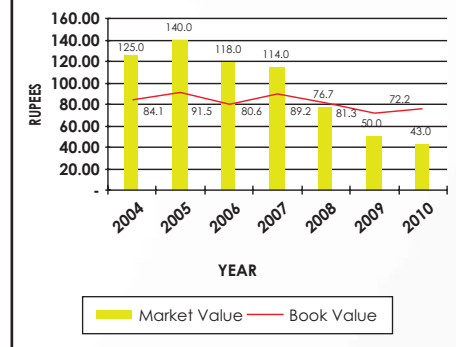
The auditors, M/s. KPMG Taseer Hadi & Co., Chartered Accountants, retire at the conclusion of the Annual General Meeting. Being eligible, they have offered themselves for re-appointment.

As suggested by the Board Audit Committee, the Board recommends the appointment of M/s. KPMG Taseer Hadi & Co., Chartered Accountants as auditors of the Company for the year 2010-11.

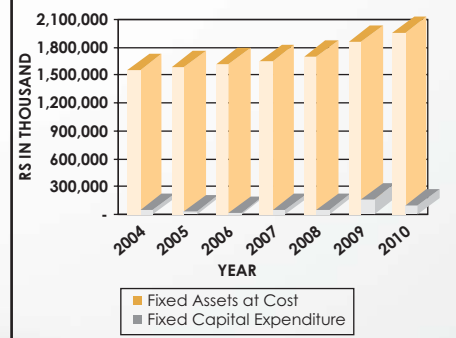
REVENUES AND EXPENSES



MARKET VALUE PER SHARE VS. BOOK VALUE PER SHARE



FIXED ASSETS AT COST VS. CASH OUTFLOW FOR FIXED CAPITAL EXPENDITURE



Directors' Report

Board and Committee Changes

The following changes have taken place since the previous year's Annual Report:

Board of Directors

Incoming	outgoing
Mr. Allah Rakha Aasi (Non-Executive Director Elected Nominee-SLIC)	Ms. Nargis Ghaloo (Non-Executive Director Elected Nominee-SLIC)
Mr. Ansar Hussain (Non-Executive Director Elected Nominee-SLIC)	Mr. Allah Rakha Aasi (Non-Executive Director Elected Nominee-SLIC)

Board Investment Committee

Incoming	outgoing
Mr. Allah Rakha Aasi (Non-Executive Director Elected Nominee-SLIC)	Ms. Nargis Ghaloo (Non-Executive Director Elected Nominee-SLIC)
Mr. Ansar Hussain (Non-Executive Director Elected Nominee-SLIC)	Mr. Allah Rakha Aasi (Non-Executive Director Elected Nominee-SLIC)

The Board welcomes the new member and appreciates the valuable contribution of the outgoing members while on the Board of Directors and the Committee of Directors of the Company.

Compliance with the Code of Corporate Governance

The "Statement of Compliance with the Code of Corporate Governance" is annexed (page 46).

Statement on Corporate and Financial Reporting Framework

- The financial statements prepared by the management of the Company, present fairly the state of affairs, the results of its operations, cash flows and changes in equity.
- Proper books of account of the Company have been maintained.
- Appropriate accounting policies have been consistently applied except for the changes as given in note 2.5 to the financial statement in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- International Financial Reporting Standards, as applicable in Pakistan have been followed in preparation of financial statements and any departure there from has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored.

Directors' Report

- f. There are no significant doubts upon the Company's ability to continue as a going concern.
- g. There has been no material departure from the best practices of corporate governance as detailed in the Listing Regulations.
- h. Key operating and financial data for last six year in summarized form is annexed (page 30).
- i. Outstanding taxes and levies have been adequately disclosed in the annexed audited financial statements.
- j. The following is the value of investments based on respective latest audited accounts:
(i) Provident Fund Rs 238.94 million (ii) Gratuity Fund Rs 212.26 million.
- k. During the year seven (7) meetings of the Board of Directors were held. Attendance by each Director was as follows:

Name of Directors	No. of Meetings held	
	Eligible to attend	Attended
Mrs. Naiyer Muzafar Husain	7	7
Mr. Mustapha A. Chinoy	7	7
Mr. Firasat Ali	7	7
Mr. Mehdi Lori Amini - (Iran)	7	7
Ms. Nargis Ghaloo	5	3
Sheikh Mohammad Aijaz Akhtar	7	4
Mr. Hasan Irfaan	7	7
Mrs. Ayla Akin - (Turkey)	7	1
Mr. A. Akbar Sharifzada	3	2
Mr. Aamer Mahmood Hussain	4	3
Mr. Allah Rakha Aasi	2	2

- l. The pattern of shareholding is annexed (page 85).
- m. No trading in SPL's shares was carried out by its Directors, CEO, CFO, Company Secretary and their spouses and minor children.

The Economy

Growth on Gross Domestic Product (GDP) for 2009-10, on an inflation-adjusted basis, has been recorded at a provisional 4.1%. This compares with GDP growth of 1.2% (revised) in the previous year. For the outgoing year, the Agriculture sector grew an estimated 2%, against a target of 3.8% and previous year's growth rate of 4%. Industrial output expanded by 4.9%, with Large Scale Manufacturing (LSM) posting a 4.4% rate of growth. The Services sector grew 4.6%, as compared to 1.6% in 2008-09. On a period-average basis, overall inflation was recorded 11.5% for July to April.

Cotton being a non-food cash crop contributes significantly in foreign exchange earning. Cotton accounts for 8.6% of the value added in agriculture and about 1.8% to GDP. The crop was sown on the area of 3106 thousand hectares, 10.1% more than last year (2820 thousand hectares). The production is estimated at 12.7 million bales for 2009-10, higher by 7.4% over the last year's production of 11.8 million bales. However, the cotton production was 5.0% less than the target of 13.36 million bales mainly due to the shortage of irrigation water, high temperatures in the month of August resulting in excessive fruit shedding, flare up of sucking pest complexes and wide spread of Cotton Leaf Curl Virus (CLCV).

Directors' Report

Future Prospects and Outlook

The Economic Survey of Pakistan 2009-10 has predicted that the medium term prospects for the economy are promising, provided the current path of reform is not abandoned. For the longer term, efforts to meaningfully address Pakistan's perennial structural challenges, such as the abysmally low tax/GDP ratio and low overall productivity in the economy, are more than likely to unlock Pakistan's substantial economic potential.

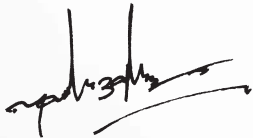
The economy has started showing signs of improvements. However, inflationary pressures are likely to continue. Despite several difficulties the Company is determined to maintain its performance through enhancement in productivity, cost reduction and controlling wastages. Every effort will be made to convert risks and challenges into opportunities.

The Company intends to further increase its presence and strengthen its manufacturing facility by acquiring better technology to improve quality of its products. All efforts are focused on directing resources towards sustainable growth and development of the business. The projects of capacity expansion, product diversification and plant up-gradation are meant to meet the said objective. A good cotton crop and availability of cotton and cotton based raw material in the market are enabling factors.

Chairperson's Review

The Board of Directors endorses the contents of the Chairperson's Review annexed (page 06).

On behalf of the Board of Directors



MRS. NAIYER MUZAFAR HUSAIN
Chairperson & Chief Executive

Karachi
Dated: July 29, 2010



Profile of the Members of the Board of Directors



MRS. NAIYER MUZAFAR HUSAIN
Chairperson & Chief Executive

Being nominee of Pakistan Security Printing Corporation (Pvt.) Limited (PSPC), Mrs. Naiyer Muzafar Husain was appointed to the Board of Directors in 2000 and Managing Director in 2008. She is also Chairperson of: (i) Board Human Resource & Compensation

Committee and (ii) Board Investment Committee.

She holds Masters Degree in Pakistan Studies. Mrs. Naiyer has over 31 years experience in various government departments such as Ministry of Finance & Economic Affairs Division, Manager (Foreign Aid) Civil Aviation Authority (CAA), Chief of Foreign Aid, Planning & Development Department, Government of Sindh, Director Finance & Air Transport CAA.

Other Directorships: Chairperson & Managing Director: (i) PSPC, and (ii) SICPA Inks Pakistan (Pvt.) Limited.



MR. MUSTAPHA A. CHINO
Non-Executive Director

Mr. Mustapha A. Chino was elected to the Board of Directors in 1996.

Being Non-Executive Director, he is also: (i) Chairman of Board Audit Committee (ii) Member of Board Human Resource & Compensation Committee and (iii) Board Investment Committee.

He is Bachelor of Science in Economics from

Wharton School of Finance, University of Pennsylvania, USA.

He has vast experience of trade & industry.

He has worked with M/s. Checchi & Company Washington DC and has been Assistant to the President Hollywood Sporting Goods, Los Angeles; he is currently Chief Executive of Intermark (Private) Limited, dealing in Test & Measurement equipment and Training Aids & Teaching System. He is presently Honorary Consul General of Greece in Karachi.

Other Directorships: Chairman: Galileo Pakistan (Pvt.) Limited, Director: (i) International Industries Limited (ii) Pakistan Cables Limited (iii) Intermark (Pvt.) Limited and (iv) Global E Commerce (Pvt.) Limited. He has also served on the Board of Union Bank Limited upto the point of its sell off to Standard Chartered Bank.

Profile of the Members of the Board of Directors



MR. FIRASAT ALI

Non-Executive Director

Mr. Firasat Ali was elected to the Board of Directors in 2001.

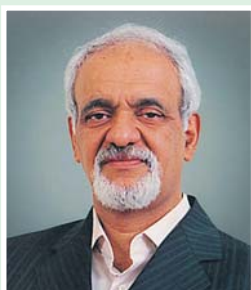
He is a Non-Executive Director, being nominee of National Investment Trust Limited (NIT), he is also Member of Board Human Resource & Compensation Committee.

He is M.A. (Economics) from Government College - Lahore, M.A. Agriculture Economics - Leeds UK, and attended Courses in Development Economics in New York, USA.

Mr. Firasat Ali has more than 31 years of experience. He has worked with UNDP, USAID, World Bank, Asian Development Bank, Agha Khan Rural Support Programme (AKRSP) etc. as advisor and consultant before joining NIT, he was working as Executive Director, Board of Development and Trade Punjab. He has also a flair for teaching and writing.

Other Directorships:

- (i) Dar-es-Salam Textile Mills Limited,
- (ii) General Tyre & Rubber Company Limited,
- (iii) Kohinoor Sugar Mills Limited,
- (iv) Punjab Oil Mills Limited,
- (v) Treet Corporation Limited.



MR. MEHDI LORI AMINI

Non-Executive Director

Mr. Mehdi Lori Amini is appointed to the Board of Directors in 2001.

He is Non-Executive Director, being nominee of Industrial Development & Renovation Organization of Iran (IDRO) and is also Member of Board Audit Committee.

He is Bachelor of Cost Accounting from Iranian Institute of Advance Accounting, Master of Commerce from University of Birmingham, England, Bachelor of Science, and holds Degree in Accounting Issued by Ministry of Science and Higher Education,

Iran. A Member of Iran Chartered Accountant Association for more than 26 years. Holder of: (i) Formal Expert License in Accounting, Auditing and Share Evaluation issued by Iran Ministry of Justice for more than 11 years (ii) License in COMFAR software (iii) License in ACCPAC Accounting System from Canada.

Mr. Amini has more than 33 years experience in the fields of Accounting, Auditing, Finance, Feasibility Studies, Investment, Share Evaluation, Stock Exchange, Over the Counter Market, Privatization, Board of Directors, Chairman, Managing Director and Project Manager in many companies.

He is: (i) Investment & Portfolio Manger of IDRO and (ii) Financial Economic & Commercial Advisor in many companies.

Other Directorships: Chairman of Iran Over the Counter Market (OTC), Managing Director of: (ii) Arrandan Ship Building Company for more than 11 years and (iii) Industries Audit and Management Services Institute for more than 21 years.

Profile of the Members of the Board of Directors



SHEIKH MOHAMMAD AIJAZ AKHTAR

Non-Executive Director

Sheikh Mohammad Aijaz Akhtar is on the Board of Directors Since 2006. He was elected to the Board of Directors in 2008.

He is a Non-Executive Director.

He is Graduate (B.Sc.)

Sheikh Aijaz has about 37 years of experience with (i) family business (ii) Trade & Industry (iii) Steel Merchants and (iv) Gulf Builders & Developers.

Other Directorship: Chief Executive: Pentagon 'A' Exporters.



MR. HASAN IRFAAN

Non-Executive Director

Mr. Hasan Irfaan was appointed to the Board of Directors in 2006 as Non-Executive Director, being the nominee of PSPC, he is also Member of Board Audit Committee.

He is an Electrical Engineer by profession from Engineering College Peshawar with post graduate education in advance Electronics from Netherlands.

He has 26 years of experience of working in Philips Electrical Industries of Pakistan in managing the overall operations of Consumer Electronics and Lighting factories. He has rich experience, both in batch / flow production and running a process industry. During his stay in Philips, he gained extensive training in Manufacturing, Total Quality, Process management and General management. He attended numerous seminars, conferences, workshops and training courses in Asia pacific and European countries.

For the last seven years, he has been working in Pakistan Security Printing Corporation (Pvt.) Limited in the capacity of Director Operations and Plant Manager, managing the factory operations of the printing of complete range of Value and Security documents for the country.

Other Directorship: SICPA Inks Pakistan (Pvt.) Limited.

Profile of the Members of the Board of Directors



MRS. AYL A AKIN

Non-Executive Director

Mrs. Ayla Akin was appointed to the Board of Directors in 2007 as Non-Executive Director, being nominee of Sumer Holding A.S., Turkey.

She is Graduate from Ankara University.

Mrs. Akin has over 24 years experience in government service.

Other Directorship: Director of Privatization in Sumer Holding A.S., Turkey.



MR. AAMER MAHMOOD HUSSAIN

Non-Executive Director

Mr. Aamer Mahmood Hussain was appointed on the Board of Directors in 2009 as a Non-Executive Director, being nominee of PSPC.

He has Master Degree in Business Administration (Marketing) from University of Punjab, Lahore and has secured Gold Medal for standing first.

Mr. Aamer has about 22 years of professional experience with 18 years in the public sector gaining in depth knowledge of Government working systems and procedures at provincial and federal level. He is presently working with Ministry of Finance, Government of Pakistan.

He is an ardent lover of sports.

Profile of the Members of the Board of Directors



MR. ANSAR HUSSAIN

Non-Executive Director

Mr. Ansar Hussain was appointed to the Board of Directors in 2010.

He is Non-Executive Director being nominee of State Life Insurance Corporation of Pakistan (SLIC) and is also Member of Board Investment Committee.

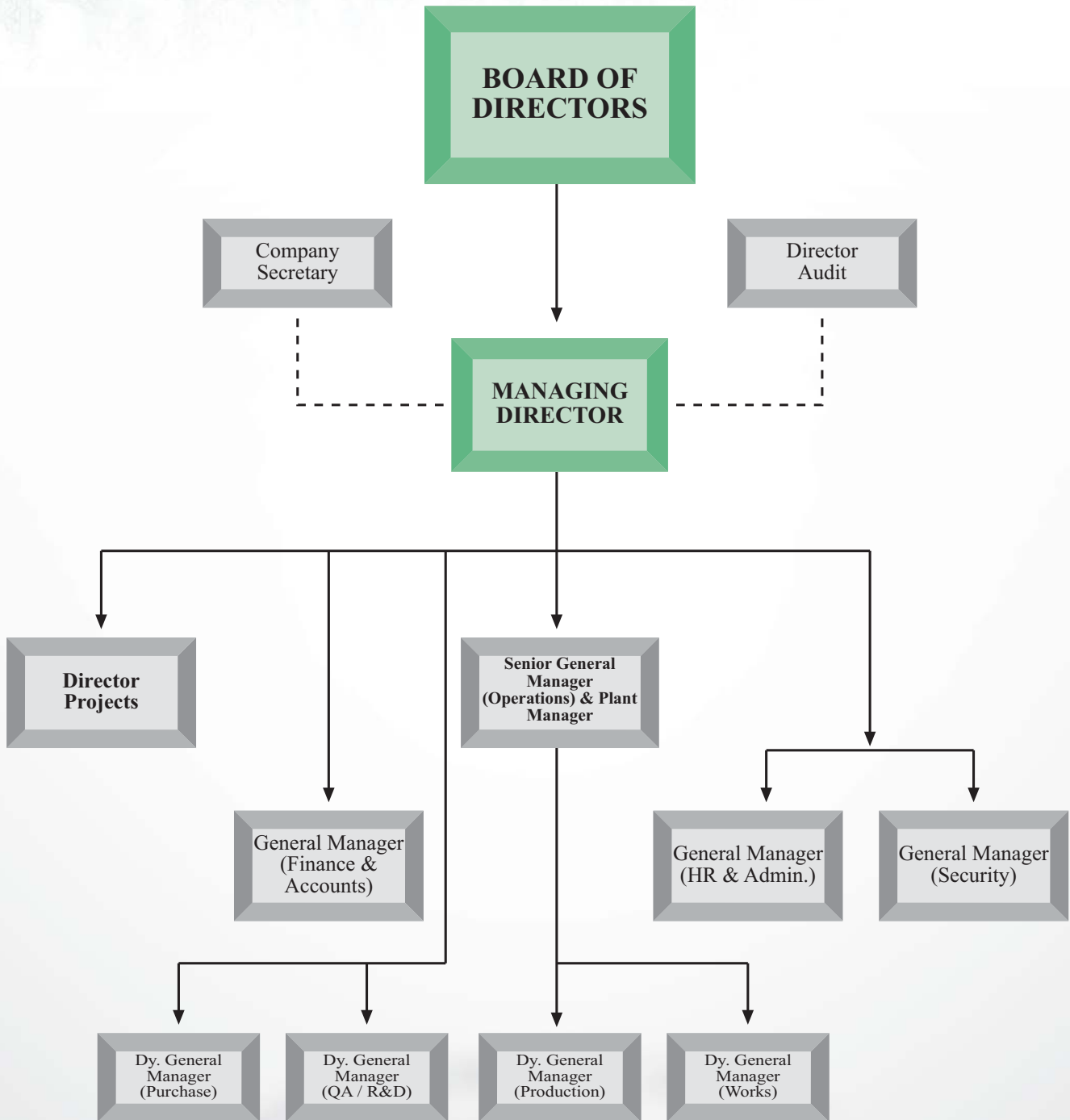
He is B.Com, M.A. (Economics), LLB, Executive MBA (UK), FCMA and M. Phill (Finance).

Mr. Ansar has over 38 years' experience in Finance, Accounting and Taxation.

He is presently serving as General Manager in SLIC.

Other Directorship: Alpha Insurance Co. Limited, Pakistan Cables Limited, Shahtaj Sugar Mills Limited, Nina Industries Limited, State Life Abdullah Haroon Properties (Pvt.) Limited and State Life Lackie Road Properties Limited.

Organization Chart



Criteria to Evaluate Board's Performance

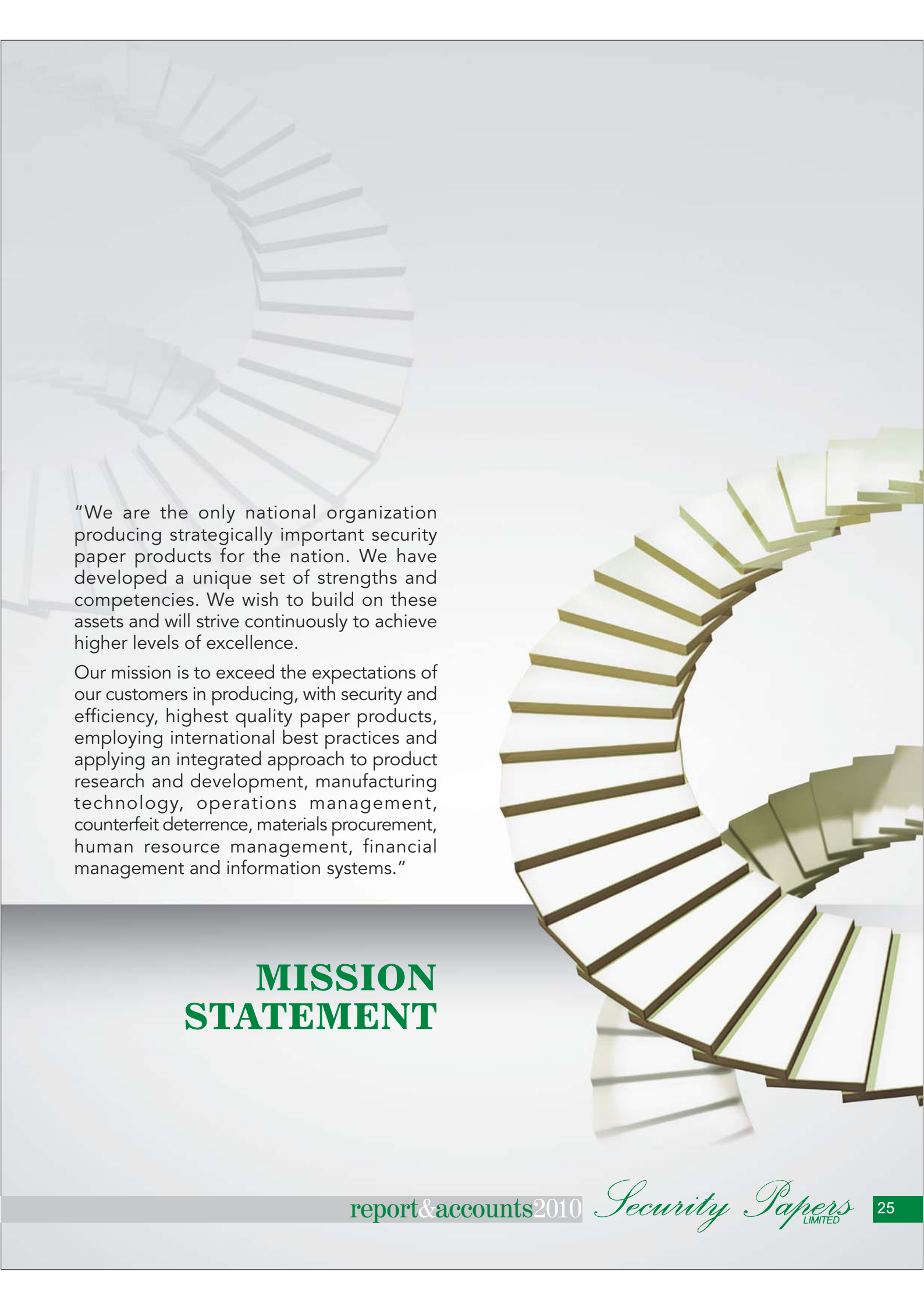
Following areas of responsibility forms the basis of criteria to evaluate Board's performance:

- a. Adherence to the laws, rules and regulations, etc. as laid down under the Companies Ordinance, 1984 and as may be specified from time to time by the Securities and Exchange Commission of Pakistan, the Memorandum and Articles of Association of the Company and the Listing Regulations of Stock Exchange.
- b. Adherence to the requirements of the Code of Corporate Governance in all material respects.
- c. Determining and monitoring the Company's values to be applied in all its operations.
- d. Establishing and evaluating strategic direction of the Company.
- e. Approving Company's policies and monitoring implementation.
- f. Ensuring adequate financial resources.
- g. Ensuring risk management and ways to mitigate the risks.
- h. Providing effective fiscal oversight.
- i. Delegating to Board's Committees.
- j. Approving hiring, compensation, salary reviews, and dismissals of top management.
- k. Overseeing the succession planning of the Company's top management.
- l. Ensuring that the Company has defined the operating principles of internal control and monitors the functions of such control.
- m. Supporting the Chief Executive.
- n. Enhancing Company's public image.



"To be a nationally and internationally recognized and accepted security paper producing organization, providing highest quality paper to our customers, both in Pakistan and abroad."

VISION STATEMENT



“We are the only national organization producing strategically important security paper products for the nation. We have developed a unique set of strengths and competencies. We wish to build on these assets and will strive continuously to achieve higher levels of excellence.

Our mission is to exceed the expectations of our customers in producing, with security and efficiency, highest quality paper products, employing international best practices and applying an integrated approach to product research and development, manufacturing technology, operations management, counterfeit deterrence, materials procurement, human resource management, financial management and information systems.”

MISSION STATEMENT



Core Values

1. Striving for continuous improvement and innovation with commitment and responsibility.
2. Treating stakeholders with respect, courtesy and competence.
3. Practicing highest personal and professional integrity.
4. Maintaining teamwork, trust and support, with open and candid communication.
5. Ensuring cost consciousness in all decisions and operations.





Strategic Goals

- a. Providing Customer Satisfaction by serving with quality products, security paper needs of national and international customers.
- b. Ensuring Quality Manufacturing by production of state-of-the-art security paper products with highest quality at lowest cost.
- c. Deterring Counterfeiting by producing security paper products that have built-in deterrence against counterfeiting so as to contribute to public confidence and facilitation of commercial transactions.
- d. Ensuring Security and Accountability by creating an environment of security and accountability for employees, production facilities and products.
- e. Expanding Customer Base by exploring new national and international markets and undertaking product research and development in security paper.
- f. Ensuring Efficient Resource Management by managing human, financial, technical and infra-structural resources so as to support the above strategic goals and to ensure highest possible value addition to stakeholders.



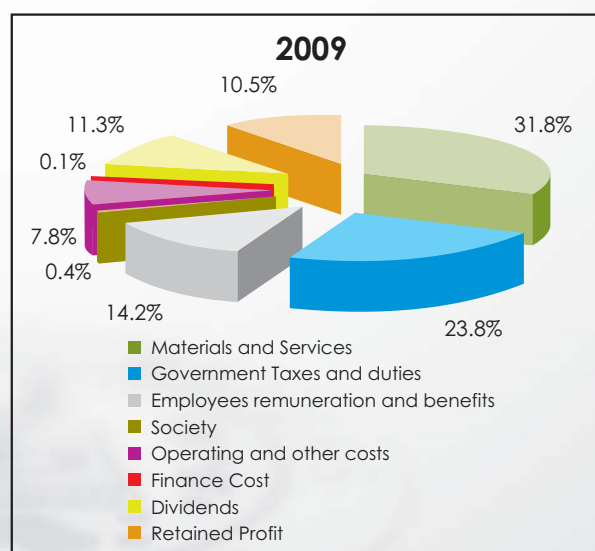
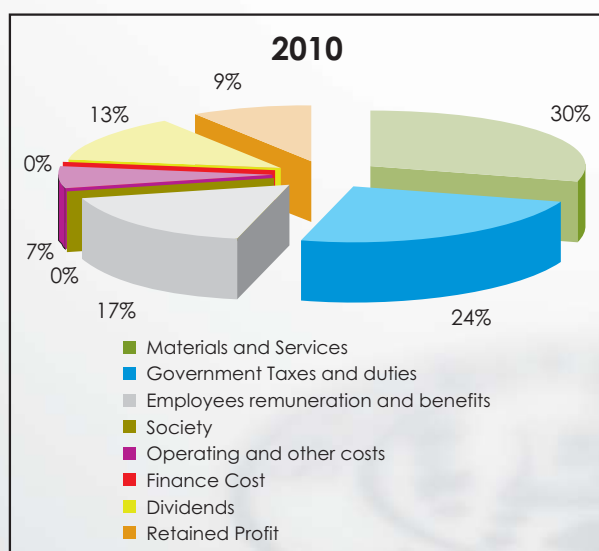
Code of ethics and business practices

1. Maintaining integrity and scrupulous dealings.
2. Reporting violations.
3. Maintaining correct books and records of the Company.
4. Strictly observing the laws of the country.
5. Strictly avoiding questionable and improper payments or use of the Company's assets.
6. Strictly avoiding conflicts of interest.
7. Strictly avoiding political contributions.
8. Expediting payment of amounts due customers, agents or distributors.
9. Strictly avoiding giving and receiving of gifts.
10. Treating means to be as important as ends.

Statement of Value Addition and its Distribution

	2010	%	2009	%
(Rupees in '000)				
VALUE ADDITION				
Net Sales including Sales Tax	1,348,437	86.3%	1,321,012	86.7%
Other Operating Income	213,518	13.7%	202,417	13.3%
	1,561,955	100%	1,523,429	100%

	2010	%	2009	%
VALUE DISTRIBUTION				
Materials and Services	460,976	29.5%	484,610	31.8%
Government Taxes and duties	378,675	24.2%	362,862	23.8%
Employees remuneration and benefits	264,826	17.0%	216,455	14.2%
Society	3,408	0.2%	6,100	0.4%
Operating and other costs	102,543	6.6%	119,460	7.8%
Finance Cost	1,875	0.1%	1,787	0.1%
Dividends	205,750	13.2%	171,458	11.3%
Retained Profit	143,902	9.2%	160,697	10.5%
	1,561,955	100%	1,523,429	100%



Key Operating and Financial Data

(Rs. In Thousand)

PARTICULARS	2010	2009	2008	2007	2006	2005
Financial Position						
Fixed Assets - Net	1,244,364	1,264,704	1,205,059	1,244,199	1,310,034	1,372,997
Investments	-	-	-	24,711	167,043	25,925
Other Assets	17,258	16,757	16,296	15,490	14,669	14,682
	<u>1,261,622</u>	<u>1,281,461</u>	<u>1,221,355</u>	<u>1,284,400</u>	<u>1,491,746</u>	<u>1,413,604</u>
Current Assets	2,372,344	2,166,062	1,973,044	1,543,842	1,000,458	777,940
Current Liabilities	367,021	337,016	310,448	217,863	148,242	160,697
Working Capital	<u>2,005,323</u>	<u>1,829,046</u>	<u>1,662,596</u>	<u>1,325,979</u>	<u>852,216</u>	<u>617,243</u>
	<u>3,266,945</u>	<u>3,110,507</u>	<u>2,883,951</u>	<u>2,610,379</u>	<u>2,343,962</u>	<u>2,030,847</u>
Less : Long Term & Deferred Liabilities	156,260	140,616	96,478	62,601	40,825	19,537
Shareholders' Equity	<u>3,110,685</u>	<u>2,969,891</u>	<u>2,787,473</u>	<u>2,547,778</u>	<u>2,303,137</u>	<u>2,011,310</u>
Paid-up-Capital	411,499	411,499	342,916	285,763	219,818	219,818
Reserves	2,699,186	2,558,392	2,444,557	2,262,015	2,083,319	1,791,492
Capital Employed	<u>3,110,685</u>	<u>2,969,891</u>	<u>2,787,473</u>	<u>2,547,778</u>	<u>2,303,137</u>	<u>2,011,310</u>
Trading Results						
Sales - Net	1,152,511	1,129,070	1,024,221	953,914	960,579	979,957
Gross Profit	458,179	460,262	466,500	455,166	465,248	493,283
Profit after Admn. & General Expenses	353,466	384,834	404,803	402,948	414,591	441,210
Other Income/Finance & Other Costs	168,429	108,377	72,649	51,215	21,371	(10,414)
Profit before Tax	520,257	493,211	477,452	454,163	435,962	430,796
Taxation	172,166	161,056	180,031	156,940	40,344	149,054
Profit after Tax	<u>348,091</u>	<u>332,155</u>	<u>297,421</u>	<u>297,223</u>	<u>395,618</u>	<u>281,742</u>
Investors Information						
Dividend *						
Cash - Value	205,750	205,750	102,875	85,729	65,945	109,909
Cash - %	50.00%	50.00%	30.00%	30.00%	30.00%	50.00%
Bonus - Value	-	-	68,583	57,153	65,945	-
Bonus - %	-	-	20.00%	20.00%	30.00%	-
Profit retained in Business - Value	142,341	126,405	125,963	154,341	263,728	171,833
Retention - %	40.89%	38.06%	42.35%	51.93%	66.66%	60.99%
Gross Profit to Sales %	39.75%	40.76%	45.55%	47.72%	48.43%	50.34%
EBTIDA (Rs '000)	636,622	598,791	579,139	552,725	531,583	642,873
EBTIDA Margin to Sales %	55.24%	53.03%	56.54%	57.94%	55.34%	65.60%
Profit before Tax to Sales %	45.14%	43.68%	46.62%	47.61%	45.39%	43.96%
Profit after Tax to Sales %	30.20%	29.42%	29.04%	31.16%	41.19%	28.75%
Return on Equity - before tax %	16.72%	16.61%	17.13%	17.83%	18.93%	21.42%
Return on Equity - after tax %	11.19%	11.18%	10.67%	11.67%	17.18%	14.01%
Return on Capital Employed %	10.65%	10.68%	10.31%	11.39%	16.88%	13.87%
Return on Assets - before tax %	14.32%	14.31%	14.95%	16.06%	17.49%	19.66%
Return on Assets - after tax %	9.58%	9.63%	9.31%	10.51%	15.87%	12.86%
Total Assets Turnover %	31.71%	32.75%	32.06%	33.73%	38.54%	44.72%
Stock Turnover - No. of Days	163	146	164	146	116	86
Debtor turnover Ratio - No. of Days	78	90	58	33	42	49
Creditor turnover Ratio - No. of Days	35	42	27	14	13	12
Operating Cycle	206	194	196	164	144	123
Current Ratio	6.46:1	6.43:1	6.36:1	7.09:1	6.75:1	4.84:1
Quick Ratio	5.49:1	5.65:1	5.47:1	6.04:1	5.60:1	3.95:1
Debt Equity Ratio	1:20	1:21	1:29	1:40	1:49	1:99
No. of Shares in issue - (Rs '000)	41,150	41,150	34,292	28,576	21,982	21,982
Bonus Shares Issued - No.	-	-	6,858	5,715	6,595	-
Cash Dividend per share (Rs.)	5.00	5.00	3.00	3.00	3.00	5.00
Earning per share - before tax (Rs.)	12.64	11.99	11.60	11.04	10.59	10.47
Earning per share - after tax (Rs.)	8.46	8.07	7.23	7.22	9.61	6.85
Break-up value per share (Rs) :						
- Without Surplus on Revaluation on Fixed Assets	75.59	72.17	67.74	61.91	55.97	48.88
- With Surplus on Revaluation on Fixed Assets	-	-	-	-	-	-
Price Earning Ratio - Year end Price (Rs.)	5.08	6.19	10.61	15.78	12.27	20.45
Earning Yield - Year end Price %	19.68%	16.14%	9.43%	6.34%	8.15%	4.89%
Dividend Payout %	59.11%	61.94%	57.65%	48.07%	33.34%	39.01%
Dividend Yield - Year end Price %	11.63%	10.00%	6.52%	4.39%	5.08%	3.57%
Dividend Cover - Times	1.69	1.61	1.73	2.08	3.00	2.56
Market Capitalization - Year end Price - Rs '000	1,769,034	2,057,495	2,628,794	3,256,269	2,593,876	3,077,452
SHARE PERFORMANCE						
Share Price - Highest (Rs.)	64.71	83.50	143.75	142.85	147.00	176.50
Share Price - Lowest (Rs.)	39.50	35.50	75.05	78.15	114.00	123.00
Share Price - Average (Rs.)	52.11	59.50	109.40	110.50	130.50	149.75
Share Price - At year end (Rs.)	42.99	50.00	76.66	113.95	118.00	140.00
Turnover of shares	2,383,636	1,068,200	4,295,000	1,417,100	850,200	96,000
PRODUCTION (Tonnes)						
Actual Production						
Banknote Paper	1,423	1,424	1,627	1,709	1,729	1,747
Non-Banknote Paper	164	300	171	130	126	383
Total	<u>1,587</u>	<u>1,724</u>	<u>1,798</u>	<u>1,839</u>	<u>1,855</u>	<u>2,130</u>
SALES (Tonnes)						
Banknote Paper	1,416	1,415	1,561	1,601	1,648	1,676
Non-Banknote Paper	171	293	171	129	210	299
	<u>1,587</u>	<u>1,708</u>	<u>1,732</u>	<u>1,730</u>	<u>1,858</u>	<u>1,975</u>
CASH FLOW SUMMARY						
Cash Flow from Operating activities	162,700	288,243	129,742	379,901	400,358	467,455
Net cash used in investing activities	(144,602)	(421,147)	(88,157)	(570,047)	(111,028)	14,277
Net cash used in financing activities	(211,364)	(105,782)	(87,488)	(66,004)	(109,193)	(121,054)
Cash and cash equivalents at beginning of the year	119,388	358,074	403,977	660,127	479,990	119,312
Cash and cash equivalents at end of the year	<u>(73,878)</u>	<u>119,388</u>	<u>358,074</u>	<u>403,977</u>	<u>660,127</u>	<u>479,990</u>

* Proposed cash dividend of Rs.205,750 million (i.e. Rs.5/- per share) is not reflected in the financial statements as referred to in note 36 of the financial statements.



Horizontal Analysis

	2010	2009	2008	2007	2006	2005
BALANCE SHEET						
ASSETS						
Non-current assets						
Property, plant and equipment	-1.61%	4.95%	-3.15%	-5.03%	-4.59%	-3.92%
Long-term deposits	2.99%	2.83%	5.20%	5.60%	-0.09%	4.38%
Investments	-	-	-100.00%	-85.21%	544.33%	100.00%
Current assets						
Stores, spares and loose tools	17.19%	12.21%	27.78%	34.94%	33.68%	22.89%
Stock-in-trade	36.86%	-4.39%	19.78%	34.57%	18.17%	69.07%
Trade debts - considered good	-30.06%	9.90%	314.16%	-41.02%	-2.26%	-27.41%
Advances, deposits, prepayments and other receivables	-31.82%	2.02%	153.22%	43.57%	36.49%	-13.75%
Accrued mark-up	285.03%	219.41%	81.50%	-33.51%	518.51%	108.28%
Loans, receivables & Investments	6.39%	19.68%	16.36%	109.55%	44.46%	223.20%
Cash and bank balances	-28.29%	-56.10%	-11.68%	-3.32%	19.47%	29.87%
Total assets	5.41%	7.92%	12.95%	13.48%	13.72%	13.22%
LIABILITIES						
Current liabilities						
Current portion of Long term liabilities						
- Lease/Loan	26.34%	23.24%	100.00%	-	-	-
Trade and other payables	13.05%	19.01%	36.29%	0.77%	10.27%	26.97%
Accrued mark-up on short term finance - secured	544.44%	125.00%	-50.00%	100.00%	-	-
Taxation - net	2.76%	-3.64%	48.94%	247.98%	-46.09%	100.00%
Non-current liabilities						
Liabilities against asset subject to finance lease	41.14%	37.89%	100.00%	-	-	-
Long Term Finance	-	-	-	-	-	-
Deferred taxation - net	9.63%	46.17%	46.37%	53.34%	108.96%	100.00%
Total liabilities	9.56%	17.38%	45.09%	48.34%	4.90%	109.34%
NET ASSETS	4.74%	6.54%	9.41%	10.62%	14.51%	8.75%
Issued, subscribed and paid-up capital	0.00%	20.00%	20.00%	30.00%	0.00%	0.00%
General reserve	5.69%	6.00%	7.95%	15.68%	11.40%	21.46%
Unappropriated profit	4.77%	11.66%	0.01%	-24.81%	40.33%	-27.26%
Surplus on re-measurement of investments classified as 'available for sale'	-100.00%	-96.80%	137.23%	189.73%	661.41%	100.00%
SHAREHOLDER'S EQUITY	4.74%	6.54%	9.41%	10.62%	14.51%	8.75%
Total liabilities & Shareholder Equity	5.41%	7.92%	12.95%	13.48%	13.72%	13.22%
Profit & Loss Account						
Sales - net	2.08%	10.24%	7.37%	-0.69%	-1.98%	14.43%
Cost of sales	3.82%	19.92%	11.82%	0.69%	1.78%	20.66%
Gross profit	-0.45%	-1.34%	2.49%	-2.17%	-5.68%	8.88%
Administration and general expenses	38.83%	22.26%	18.15%	3.08%	-2.72%	14.04%
Other operating income	5.48%	80.18%	27.81%	38.61%	203.43%	-25.85%
Other operating charges	-51.20%	126.08%	7.14%	-12.69%	34.18%	40.08%
Impairment loss on 'available for sale' investment	-55.75%	100.00%	-	-	-	-
Operating profit	5.48%	3.56%	5.21%	4.16%	1.21%	4.26%
Finance costs	4.92%	239.09%	318.25%	-25.88%	58.88%	-95.41%
Profit before taxation	5.48%	3.30%	5.13%	4.17%	1.20%	4.83%
Taxation - net	6.90%	-10.54%	14.71%	289.00%	-72.93%	536.68%
Profit after taxation	4.80%	11.68%	0.07%	-24.87%	40.42%	-27.30%

Vertical Analysis

	2010	2009	2008	2007	2006	2005
BALANCE SHEET						
ASSETS						
Non-current assets						
Property, plant and equipment	34.24%	36.68%	37.72%	43.99%	52.57%	62.65%
Long-term deposits	0.47%	0.49%	0.51%	0.55%	0.59%	0.67%
Investments	0.00%	0.00%	0.00%	0.87%	6.70%	1.18%
Current assets						
Stores, spares and loose tools	2.63%	2.37%	2.28%	2.01%	1.69%	1.44%
Stock-in-trade	9.85%	7.58%	8.56%	8.07%	6.81%	6.55%
Trade debts - considered good	5.59%	8.42%	8.27%	2.26%	4.34%	5.05%
Advances, deposits, prepayments and other receivables	0.62%	0.97%	1.02%	0.46%	0.36%	0.30%
Accrued mark-up	4.64%	1.27%	0.43%	0.27%	0.46%	0.08%
Loans, receivables & Investments	40.58%	40.21%	36.26%	35.20%	19.06%	15.00%
Cash and bank balances	1.37%	2.01%	4.95%	6.33%	7.43%	7.07%
Total assets	100%	100%	100%	100%	100%	100%
LIABILITIES						
Current liabilities						
Current portion of liabilities against asset subject to finance lease	0.06%	0.05%	0.04%	0.00%	0.00%	0.00%
Trade and other payables	6.13%	5.71%	5.18%	4.29%	4.84%	4.99%
Accrued mark-up on short term finance - secured	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Taxation - net	3.91%	4.01%	4.49%	3.41%	1.11%	2.34%
Non-current liabilities						
Liabilities against asset subject to finance lease	0.26%	0.19%	0.15%	0.00%	0.00%	0.00%
Long Term Finance	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Deferred taxation - net	4.04%	3.88%	2.87%	2.21%	1.64%	0.89%
Total liabilities	14.40%	13.85%	12.74%	9.92%	7.59%	8.22%
NET ASSETS	85.60%	86.15%	87.26%	90.08%	92.41%	91.78%
Issued, subscribed and paid-up capital	11.32%	11.94%	10.73%	10.10%	8.82%	10.03%
General reserve	64.70%	64.53%	65.70%	68.74%	67.43%	68.84%
Unappropriated profit	9.58%	9.64%	9.32%	10.52%	15.88%	12.87%
Surplus on re-measurement of investments classified as 'available for sale'	0.00%	0.04%	1.52%	0.72%	0.28%	0.04%
SHAREHOLDER'S EQUITY	85.60%	86.15%	87.26%	90.08%	92.41%	91.78%
Total liabilities & Shareholder Equity	100%	100%	100%	100%	100%	100%
Profit & Loss Account						
Sales - net	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of sales	60.25%	59.24%	54.45%	52.28%	51.57%	49.66%
Gross profit	39.75%	40.76%	45.55%	47.72%	48.43%	50.34%
Administration and general expenses	9.09%	6.68%	6.02%	5.47%	5.27%	5.31%
Other operating income	18.53%	17.93%	10.97%	9.21%	6.60%	2.13%
Other operating charges	3.75%	7.84%	3.82%	3.83%	4.36%	3.18%
Impairment loss on 'available for sale' investment	0.14%	0.33%	-	-	-	-
Operating profit	45.30%	43.84%	46.67%	47.62%	45.40%	43.97%
Finance costs	0.16%	0.16%	0.05%	0.01%	0.02%	0.01%
Profit before taxation	45.14%	43.68%	46.62%	47.61%	45.39%	43.96%
Taxation - net	14.94%	14.26%	17.58%	16.45%	4.20%	15.21%
Profit after taxation	30.20%	29.42%	29.04%	31.16%	41.19%	28.75%

Corporate Social Responsibility



**Friends of Burns Centre
SPL donated ventilator**



**Health Camp Organized by PAVHNA
Sponsored by SPL**

Corporate Social Responsibility



**SOS Children Village
Work in process by SPL on Children's Play Ground**



**SOS Children Village
Completed grassy play ground with seating for 200 children**



Management Review

report&accounts2010

ISO 9001:2008 &
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Security Papers
LIMITED

Operations

Production

This year Banknote paper demand was less than previous year due to low economic growth and other factors. Necessary operational measures were taken to reduce waste to achieve financial targets. To utilize the surplus capacity, a plan for diversification of product was undertaken. Accordingly, modification in paper machine was carried out in May-2010 to produce Cheque and Passport paper.

Up-gradation

To meet the present and future anticipated quality demand several modification and up gradation projects relating to plant are in process. This shows management's commitment to modernize its plant and machinery to cater for the quality as well as technological needs.

These projects include installation of Continuous Comber Pulping Plant, online Monitoring and Control System to measure some additional Quality parameters. Online Surface Inspection Unit to measure paper dimensions and detection of defects, modification of existing Re-winder and Cross cutter and modernization of mould shop etc.

Quality

In order to exceed the customer satisfaction, the sizeable investment in above projects depicts the management's commitment towards quality and to acquire latest technology in banknote paper making. Training to improve the human skill is no doubt as important as investment in equipment and machinery. For this our up gradation program includes foreign and in house training to our operational staff to equip with the latest technological expertise.



Engineering

The Engineering Department has the core responsibility to run the paper machine and auxiliary units in good running condition. Efforts are made to get maximum output of the machine with minimum breakdowns through proper preventive maintenance and planning.

All the required jobs were timely performed which included the following:

- Co-generation plant has been installed and commissioned for the smooth supply of Electric Power to the paper plant.
- New Fire fighting system has been installed which is covering mill area as well residential area of SPL.
- Plant Shutdown carried out during March-2010 to improve the performance of plant and equipments to enhance their working life.
- Modification in size and vat section carried out to start production of passport and cheque paper in the near future.
- Added new lathe machine and blade grinding machine to quickly fulfill the requirements of paper plant.
- Replacement of all motors of storage chests.
- Auto dozing of HCL Acid.

Quality Assurance and Research & Development

Quality Assurance

To achieve the highest degree of customer satisfaction, quality system procedures have been built-in in the entire management system. This is done by setting the quality objectives and targets for the whole year with continuous improvement in the existing Integrated Quality & Environmental Management System (IMS) of ISO 9001:2008 and ISO 14001:2004.

Keeping in view the long term planning regarding the quality of products which should conform to customer requirements, all the stages of process of production from acceptance of raw materials to release of final finished products to customers are effectively monitored by the implementation of quality management system.

The Company is also committed to provide safe and environmental friendly atmosphere not only to its employees but also to its community by ensuring compliance to National Environmental Quality Standards (NEQS). The Company is putting sustained efforts to monitor its processes which may pollute the environment to mitigate any environmental impact. The Continuity of the Integrated Quality & Environmental Management System (IMS) of ISO 9001:2008 & ISO 14001:2004, clearly indicate the commitment of the management towards the quality and environment of the Company. Periodical internal and external quality and environmental audits provide an excellent opportunity to timely address the critical and weak areas of the system.

SPL submitted its Environmental Report 2009 to the Association of Chartered Certified Accountant - Worldwide Fund (ACCA-WWF) for participation in Pakistan Environmental Reporting Award (PERA) 2009. The report was short listed among the best 19 environmental reports for the year 2009.

Research & Development

Research & Development has been given due importance to ensure continuous improvement and product quality, reduction in process and material losses thus achieving cost effective product leading to higher customer satisfaction. During the year, following activities were carried out in the R&D Department:

- (i) Cost reduction by using alternate raw material.
- (ii) Cost reduction by the use of lower cost processing chemicals to replace expensive chemicals.
- (iii) New product formulation has been developed regarding cheque paper and passport paper as per customers' requirement.



Security

General

It is our endeavour to enhance latest security and safety techniques on the principles of progressive security and up gradation of procedure and systems.

Special importance is given to counter the terrorist activities by taking further measures to thwart such attempts and ensure strict adherence to security procedures.

Upgrading of communication system, closed circuit television (CCTV), watch tower, fencing of outer perimeter wall and access control system were carried out. The Company, being a security installation, was visited by the Provincial Survey Team to inspect the security procedure and arrangement. SPL has been graded "Very Good" by the Inspection Team.

Training

Courses on Bomb Disposal, Discipline and Disciplinary Procedures, Fireman and Basic Fire Fighting First Aid Training were held.

Crises Management

The "Crisis Management Course" organized by the Interior Ministry in Civil Defence Academy Lahore was attended. This was the first course organized by the Government of Pakistan to train the Senior Officers against the crisis and emergency.

To counter and handle any untoward crisis situation, a Crisis Management Cell has been established in the Company.

A booklet has been prepared and circulated on "Principles of First Aid and Disaster Management" to all the departments. The subject is covered in detail to handle wounded casualties and dead persons in case of real crisis / emergency.

The ultimate objective of all the foregoing steps is to enhance the level of trust and confidence of existing and potential customers with respect to high level of safety and security arrangements available for the Company and its products.

Finance & Accounts

The Finance and Accounts Department has core responsibility to develop policies, procedures, internal controls, management information systems and the performance indicators with a view to:

- Ascertain financial implications of key strategic decisions.
- Comply with generally accepted accounting practices and procedures.
- Ensure timely statutory and management financial reporting.
- Maintain effective budgetary and internal control systems.
- Company wide risk management
- Effective working capital management
- Cost reduction programmes
- Use of fixed cost to maximize earnings
- Cost control, product pricing and management controls.

Finance and Accounts Department will continue to strive for taking the Company to new heights with dedication, team work, and face new challenges to excel the expectation of the management and the shareholders.



Information Technology

Information Technology (IT) consists of all the hardware and software that the Company needs to achieve business objectives. The IT Department is committed to focus on effective and rapid communication as a key area for quality management and services and recognizes that IT is the most essential tool for sustaining the current business status and future business growth.

During the year IT Department has successfully implemented and maintained Oracle General Ledger, Inventory, Purchase and Fixed Assets modules. IT strategic plans have been developed to ensure that all investment on hardware and software are in line with Company's long term plans.

IT Department coordinates the system development and ensures that continuous improvements are being made in Oracle applications in order to attain business efficiency. The Department believes in maintaining a flow of quality and timely support to all operating business units of the Company to enhance their productivity, effectiveness and decision making capabilities to support consistent growth of the Company.

Internal Audit

The Internal Audit department assists the Board Audit Committee comprising of non executive Directors and the Board in fulfilling their responsibilities. The head of the Internal Audit department reviews and reports to the Chairman Audit Committee on the following aspects of Company's management:

- Focusing on adequacy and effectiveness of the internal controls
- Managing financial risks
- Ascertaining that financial accounting and other records and reports show results of actual operation accurately and properly
- Ensuring compliance with policies, plans and procedures as laid down by the management
- Ensuring statutory compliance i.e. corporate governance provisions impacting the role of internal auditor with specific reference to interactions with external auditor, Companies Ordinance 1984, International Accounting Standards, International Auditing Guidelines, and International reporting framework structure.

The Internal Audit function is an independent appraisal activity in the Company for the review of accounting financial and operational matters and acts as a managerial control. Internal audit reviews are being directed towards operational matters, minimizing losses and increasing efficiency and profitability by carrying out system based auditing. In Addition to the operational audit, the department has extended the scope towards financial and management audit to ensure effectiveness of management policies and its consistent application.

The function also aims to provide continuous assurance, using six sigma techniques for risk assessment and recommend improvement in existing controls through application of "The Committee of Sponsoring Organizations of the Treadway Commission" (COSO) and "Control Self-Assessment" (CSA) provisions.



Human Resource and Administration

During the year Human Resource Management conducted job analysis exercise for assessment of all employees' work progress, working conditions and better utilization of time. Job analysis directly affects the following, if implemented with true spirit:

- Strategic HR Planning
- Recruitment and Selection
- Performance Management
- Training & Development
- Compensation & Benefits.
- Right person at right place

Job analysis exercise outcomes are numerous. This provides us the accurate job descriptions, job specifications & ultimately evaluation of job in the organization as per the market standards & HR best practice. The most important is the informal feedback of employees from various departments with regards to improvement in the system, processes & suggestions for continuous improvement.

After completion of this task and finalization of report will positively effect working efficiency, right person for right place, training & development, performance evaluation & management, succession & career planning, compensation & benefits and last but not least future business plan of SPL.

The existing HR policies are around 10 years old. HR & Admin Department has taken initiative to review all HR policies & procedures to meet the HR best practices, up till now we have revised & implemented following policies and procedures where revisions were deemed essential.

- Car Policy
- Car Repair & Maintenance Policy
- Compensation upon the death of an active employee.
- Training & development

In continuation, more than dozens of different HR policies has been revised at the end of HR department and ready for submission to Chairperson & Managing Director for kind approval.

After this revision we will be able to keep our employees up to date & motivated and this exercise will enhance the efficiency of our employees towards achievement of organizational objectives & targets.

During the year the Company celebrated world environment day in June 2010. On this occasion, the employees of the Company had collected more than 300 bags of garbage from the surrounding locality of SPL Factory. The event generated awareness in the residents of the locality for keeping a clean environment.

Corporate

- Matters relevant to shareholders received top priority. All relevant information was conveyed to the respective stakeholders well before the legally allowed time limit. Statutory functions were meticulously performed.
- Effective liaison was made with internal and external stakeholders.
- All board meetings and the annual general meeting were held in a timely and efficient manner.
- Dividend was paid to shareholders well before the legally allowed time.
- All other elements of corporate routine were successfully performed.
- The Department understands its role and responsibilities toward corporate governance.



Purchase

The Purchase Department ensures that purchases are made using modern techniques. Efforts are made to maintain stock levels of essential raw materials. Keeping in view the uncertain supply of these essential items due to varied reasons.

The Department is taking all necessary measures to ensure uninterrupted supply of materials and services to all the relevant departments. This includes vigorous monitoring of the situation in local as well as foreign markets regarding for achieving production targets.

Being the prime responsibility of this Department, all out efforts are being made to register larger number of competitive sources for fair and transparent procurement.

Optimum use of Oracle-based Purchase and Inventory System is helping a lot in keeping proper check on purchases and maintaining inventories in a very professional way and to take necessary steps for further improvement.

The Department will continue to use its resources for the satisfaction of all internal and external stakeholders.



Statement of Compliance with the Code of Corporate Governance

Name of Company: **Security Papers Limited**
Year Ended: **June 30, 2010**

This statement is being presented to comply with the Code of Corporate Governance contained in Regulation No. 35 of listing regulations of Karachi Stock Exchange (Guarantee) Limited 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.

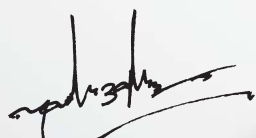
The Company has applied the principles contained in the Code in the following manner:

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes six independent non-executive directors and six directors representing minority shareholders.
2. The directors have confirmed that none of them is serving as a director in more than ten 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 NBFIs or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. No casual vacancy has occurred during the period under review. However, such vacancies as and when occur are duly filled up as per requirements of the Companies Ordinance, 1984.
5. The Company has prepared a 'Statement of Ethics and Business Practices', which has been signed by all the directors and employees of the Company.
6. The Board has developed a vision/mission statement, overall corporate strategy and formulated 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 have been taken by the Board.
8. The meetings of the Board were presided over by the Chairperson and, in her 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 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 arranges orientation course for its directors as and when needed to apprise them of their duties and responsibilities. The incoming directors are also provided with appropriate briefing and orientation material to enable them first hand knowledge on the working of the Company.
10. The Board had approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment, as determined by the CEO.

Statement of Compliance with the Code of Corporate Governance

11. 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.
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 three members, of whom all are non-executive directors including the chairman of the committee.
16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference of the committee have been formed and advised to the committee for compliance.
17. The Board has set-up an effective internal audit function.
18. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan, that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by Institute of Chartered Accountants of Pakistan.
19. 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.
20. The Company maintains a list of related parties which is updated on a regular basis. All transactions with related parties are placed before the Board Audit Committee on a quarterly basis and are approved by the Board along with the methods of pricing.
21. We confirm that all other material principles contained in the Code have been complied with.

On behalf of the Board of Directors



MRS. NAIYER MUZAFAR HUSAIN
Chairperson & Chief Executive

Karachi
Dated: July 29, 2010



Financial Statements

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ISO 9001:2008 &
ISO 14001:2004 Certified



Security Papers
LIMITED

Review Report to the Members on Statement of Compliance with best practices of the Code of Corporate Governance



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Chartered Accountants
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Karachi, 75530 Pakistan

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Fax + 92 (21) 3568 5095
Internet www.kpmg.com.pk

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 **Security Papers Limited** ("the Company") to comply with the Listing Regulation No. 35 (previously Regulation No. 37) of Karachi Stock Exchange (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 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 control 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.

Further, Sub- Regulation (xiii) of Listing Regulation No. 35 notified by The Karachi Stock Exchange (Guarantee) Limited vide circular KSE/N-269 dated 19 January 2009 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 30 June 2010.

Date: 29 JUL 2010

Karachi

KPMG Taseer Hadi & Co.
Chartered Accountants
Moneeza Usman Butt

KPMG Taseer Hadi & Co., a Partnership firm registered in Pakistan and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Auditors' Report to the Members



KPMG Taseer Hadi & Co.
Chartered Accountants
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Karachi, 75530 Pakistan

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Auditors' Report to the Members

We have audited the annexed balance sheet of **Security Papers Limited** ("the Company") as at 30 June 2010 and the related profit and loss account, statement of comprehensive income, cash flow statement 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 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 as described in note 2.5 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, 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 30 June 2010 and of the profit, total comprehensive income, cash flows and changes in equity for the year then ended; and
- d) in our opinion, Zakat deductible at source under the Zakat and Ushr Ordinance, 1980, was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

Date: 29 JUL 2010

Karachi

Moneeza Usman Butt

KPMG Taseer Hadi & Co.
Chartered Accountants
Moneeza Usman Butt

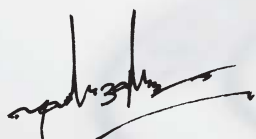
KPMG Taseer Hadi & Co., a Partnership firm registered in Pakistan and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Balance Sheet

As At 30 June 2010

	Note	2010 (Rupees in '000)	2009
ASSETS			
Non-current assets			
Property, plant and equipment	4	1,244,364	1,264,704
Long-term deposits	5	17,258	16,757
		<u>1,261,622</u>	<u>1,281,461</u>
Current assets			
Stores, spares and loose tools	6	95,705	81,665
Stock-in-trade	7	357,767	261,420
Trade debts - considered good	8	203,020	290,289
Advances, deposits, prepayments and other receivables	9	22,693	33,284
Accrued mark-up	10	168,634	43,798
Investments	11	1,474,768	1,386,218
Cash and bank balances	12	49,757	69,388
		<u>2,372,344</u>	<u>2,166,062</u>
Total assets		<u>3,633,966</u>	<u>3,447,523</u>
LIABILITIES			
Current liabilities			
Current portion of liabilities against asset subject to finance lease	15	2,077	1,644
Trade and other payables	14	222,728	197,025
Accrued mark-up on short term finance - secured		58	9
Taxation - net		142,158	138,338
		<u>367,021</u>	<u>337,016</u>
Non-current liabilities			
Liabilities against asset subject to finance lease	15	9,435	6,685
Deferred taxation - net	16	146,825	133,931
		<u>156,260</u>	<u>140,616</u>
Total liabilities		<u>523,281</u>	<u>477,632</u>
Contingencies and commitments	17		
NET ASSETS		<u>3,110,685</u>	<u>2,969,891</u>
FINANCED BY:			
Authorised share capital 70,000,000 (2009: 70,000,000) ordinary shares of Rs 10 each		<u>700,000</u>	<u>700,000</u>
Issued, subscribed and paid-up capital	18	411,499	411,499
General reserve		2,351,089	2,224,589
Surplus on re-measurement of investments classified as 'available for sale'		-	1,547
Unappropriated profit		348,097	332,256
SHAREHOLDER'S EQUITY		<u>3,110,685</u>	<u>2,969,891</u>

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



Naiyer Muzafar Husain
Chief Executive



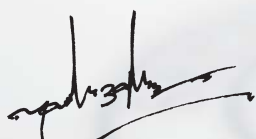
Mustapha A. Chinoy
Director

Profit and Loss Account

For the year ended 30 June 2010

	Note	2010 (Rupees in '000)	2009
Sales - net	19	1,152,511	1,129,070
Cost of sales	20	694,332	668,808
Gross profit		458,179	460,262
Administration and general expenses	21	104,713	75,428
		353,466	384,834
Other operating income	23	213,518	202,417
		566,984	587,251
Other operating charges	24	43,214	88,551
Impairment loss on 'available for sale' investment		1,638	3,702
Operating profit		522,132	494,998
Finance costs	25	1,875	1,787
Profit before taxation		520,257	493,211
Taxation - net	26	172,166	161,056
Profit after taxation		348,091	332,155
		(Rupees)	
Earnings per share	27	8.46	8.07

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



Naiyer Muzafar Husain
Chief Executive



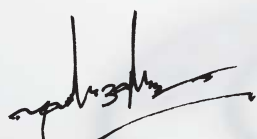
Mustapha A. Chinoy
Director

Statement of Comprehensive Income

For the year ended 30 June 2010

	2010 (Rupees in '000)	2009
Profit for the year	348,091	332,155
Other comprehensive income for the year		
Unrealised diminution during the year on remeasurement of investments classified as 'available for sale'	(1,578)	(2,820)
Realised appreciation during the year on redemption of investments classified as 'available for sale'	(1,607)	(47,744)
Impairment loss on 'available for sale' investment transferred to profit and loss account	1,638	3,702
	(1,547)	(46,862)
Total comprehensive income for the year	346,544	285,293

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



Naiyer Muzafar Husain
Chief Executive



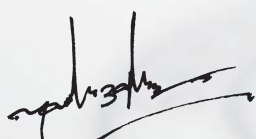
Mustapha A. Chinoy
Director

Cash Flow Statement

For the year ended 30 June 2010

	Note	2010 (Rupees in '000)	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	31	444,113	413,074
Long-term deposits		(501)	(461)
Taxes paid		(155,451)	(123,978)
Finance costs paid		(1,826)	(392)
Net cash generated from operating activities		286,335	288,243
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure		(88,536)	(164,105)
Proceeds from sale of property, plant and equipment		5,891	884
Proceeds from sale of investments		515,359	920,469
Investments made during the year		(647,969)	(1,300,520)
Mark-up received		70,653	122,125
Net cash used in investing activities		(144,602)	(421,147)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments against lease obligations		(5,614)	(2,907)
Dividend paid		(205,750)	(102,875)
Net cash used in financing activities		(211,364)	(105,782)
Net decrease in cash and cash equivalents		(69,631)	(238,686)
Cash and cash equivalents at beginning of the year		119,388	358,074
Cash and cash equivalents at end of the year	32	49,757	119,388

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



Naiyer Muzafar Husain
Chief Executive



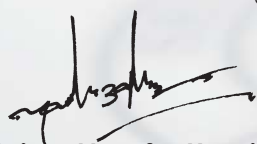
Mustapha A. Chinoy
Director

Statement of Changes in Equity

For the year ended 30 June 2010

	Issued, subscribed and paid-up share capital	Reserve for issue of bonus shares	General reserve	Surplus on re- measurement of Investments Classified as 'available for sale'	Unappro- priated profit	Total
	----- (Rupees in thousand) -----					
Balance as at 30 June 2008	342,916	-	2,098,589	48,409	297,559	2,787,473
Total comprehensive income for the year ended 30 June 2009						
Profit for the year	-	-	-	-	332,155	332,155
Other comprehensive income - available for sale investments	-	-	-	(46,862)	-	(46,862)
	-	-	-	(46,862)	332,155	285,293
Transactions with owners - Final cash dividend @ Rs 3.00 per share for the year ended 30 June 2008	-	-	-	-	(102,875)	(102,875)
Transfer to general reserves made subsequent to the year end	-	-	126,000	-	(126,000)	-
Transfer to reserve for issue of bonus shares made subsequent to the year end	-	68,583	-	-	(68,583)	-
Bonus shares issued @ 20% for the year ended 30 June 2008	68,583	(68,583)	-	-	-	-
Balance as at 30 June 2009	411,499	-	2,224,589	1,547	332,256	2,969,891
Total comprehensive income for the year ended 30 June 2010						
Profit for the year	-	-	-	-	348,091	348,091
Other comprehensive income - available for sale investments	-	-	-	(1,547)	-	(1,547)
	-	-	-	(1,547)	348,091	346,544
Transactions with owners - Final cash dividend @ Rs 5.00 per share for the year ended 30 June 2009	-	-	-	-	(205,750)	(205,750)
Transfer to general reserves made subsequent to the year end	-	-	126,500	-	(126,500)	-
Balance as at 30 June 2010	411,499	-	2,351,089	-	348,097	3,110,685

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



Naiyer Muzafar Husain
Chief Executive



Mustapha A. Chinoy
Director

Notes to the Financial Statements

For the year ended 30 June 2010

1. STATUS AND NATURE OF BUSINESS

Security Papers Limited ("the Company") is incorporated and domiciled in Pakistan as a public company limited by shares. The address of its registered office is Jinnah Avenue, Malir Halt, Karachi, Pakistan. The Company is listed on the Karachi Stock Exchange.

The principal activity of the Company is manufacturing of specialised paper for banknote and non-bank note security documents.

2. BASIS OF PREPARATION

2.1 Statement of compliance

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 Basis of measurement

These financial statements have been prepared under the historical cost convention except that certain investments are carried at fair value in accordance with the criteria laid down in International Accounting Standard 39 (IAS 39) 'Financial Instruments: Recognition and Measurement' and obligation in respect of gratuity scheme is measured at present value.

2.3 Functional and presentation currency

These financial statements are presented in Pak Rupees which is the Company's functional and presentation currency and rounded to the nearest thousand rupee.

2.4 Use of estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires management to make estimates, assumptions and use judgments that affect the application of policies and the reported amounts of assets, liabilities, income and expenses.

Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including reasonable expectations of future events. Revisions to accounting estimates are recognised prospectively commencing from the period of revision.

Judgments and estimates made by management that may have a significant risk of material adjustments to the financial statements in subsequent years are as follows:

- Residual values and useful lives of property, plant and equipment (Note 3.1)
- Provision for slow moving and obsolete stores and spares and stock-in-trade (Note 3.4, 3.5)
- Estimates of liability in respect of employee retirement gratuity and employees' compensated absences (Note 3.11, 3.12 and 22)
- Taxation (Note 3.14)
- Fair value of investments classified as 'available for sale' (Note 3.3, 33.4)

Notes to the Financial Statements

2.5 Changes in accounting policies

Starting 1 July 2009, the Company has changed its accounting policies in the following areas:

- IAS 1 (Revised), 'Presentation of financial statements' (effective from January 1, 2009). The revised standard prohibits the presentation of items of income and expenses (i.e. non owner changes in equity) in the statement of changes in equity, requiring non-owner changes in equity to be presented separately from owner changes in equity. All non owner changes in equity are required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and the statement of comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated balance sheet as at the beginning of comparative period in addition to the current requirement to present balance sheet at the end of current period and comparative period. The Company has preferred to present two statements; a profit and loss account (income statement) and statement of comprehensive income.
- IFRS 8 - Operating Segments (effective from January 1, 2009). This standard requires the Company to determine and present operating segments based on the information that is provided internally to the Company's Chief Operating Decision Maker, that is, the organisation's function which allocates resources to and assesses performance of its operating segments. Management has determined that the Company has a single reportable segment and therefore the adoption of the said IFRS has only resulted in some entity wide disclosures.

Comparative information has been re-presented so that it is in conformity with the revised / new standards. Since the change in accounting policies only affect presentation / disclosures of financial statements, there is no impact on profit for the year and earnings per share.

2.6 Other accounting developments

Disclosures pertaining to fair values and liquidity risk for financial instruments

The Company has applied Improving Disclosures about Financial Instruments (Amendments to IFRS 7), issued in March 2009, that require enhanced disclosures about fair value measurements and liquidity risk in respect of financial instruments.

Apart from above certain other standards, amendments to published standards and interpretations of accounting standards became effective during the year, however, they did not affect the Company's financial statements.

2.7 New / revised accounting standards, amendments to published accounting standards and interpretations that are not yet effective

The following standards, amendments and interpretations of approved accounting standards are only effective for accounting periods beginning from the dates specified below. These standards are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than increased disclosures in certain cases:

- Amendment to IFRS 2 – Share-based Payment – Group Cash-settled Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2010). Amendment provides guidance on the accounting for share based payment transactions among group entities.

Notes to the Financial Statements

- Amendments to IAS 32: Classification of Rights Issues (effective for period beginning on or after 1 February 2010). Under the amendment to IAS 32 rights, options and warrants – otherwise meeting the definition of equity instruments in IAS 32.11 – issued to acquire a fixed number of an entity's own non-derivative equity instruments for a fixed amount in any currency are classified as equity instruments, provided the offer is made pro-rata to all existing owners of the same class of the entity's own non-derivative equity instruments.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). IFRIC 19 clarifies the accounting when an entity extinguish the liability by issuing its own equity instruments to the creditor.
- International Accounting Standard (IAS) 24 (revised): Related Party Disclosures (effective for annual period beginning on or after 1 January 2011). The amendments to IAS 24 simplify the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a government (referred to as government-related entities) and clarify the definition of a related party.
- Amendments to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2011). IFRIC 14 IAS 19 –The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction has been amended to remedy an unintended consequence of IFRIC 14 where entities are in some circumstances not permitted to recognise prepayments of minimum funding contributions, as an asset.
- The International Accounting Standards Board made certain amendments to existing standards as part of its second and third annual improvements project. The effective dates for these ammdements vary by standards.

3. SUMMARY OF 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 except as explained in note 2.5.

3.1 Property, plant and equipment

Owned

These are stated at cost less accumulated depreciation and accumulated impairment losses (if any), except for capital work-in-progress, leasehold and freehold land which are stated at cost less accumulated impairment losses (if any). All expenditures connected to the specific assets incurred during installation and construction period are carried under capital work-in-progress. These are transferred to specific assets as and when assets are available for use.

Subsequent costs are included in the asset's carrying amounts or recognised as a separate asset, as appropriate, only when it is probable that future benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

The value assigned to the leasehold land is not depreciated as the leases are expected to be renewed for further periods on payment of relevant rentals. Annual lease rentals are charged to income and premium paid at the time of renewal, if any, is amortised over the remaining lease period.

An asset's carrying amount is written down immediately to its recoverable amount if the carrying amount is greater than the recoverable amount.

Notes to the Financial Statements

Depreciation on all property, plant and equipment is charged using the straight line method in accordance with the rates specified in note 4.1 to these financial statements and after taking into account residual values, if any. The residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each balance sheet date.

Depreciation on additions is charged from the month in which the assets become available for use, while no depreciation is charged in the month of disposal.

Repairs and maintenance are charged to income as and when incurred.

Gains or losses on disposal of property, plant and equipment are included in income.

Leased

Assets held under finance lease are stated at the lower of their fair value or present value of minimum lease payments at inception less accumulated depreciation and accumulated impairment losses, if any. The outstanding obligations under the lease agreements are shown as a liability net of finance charges allocable to future periods.

The finance charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of return on the outstanding liability.

Depreciation on assets held under finance lease is charged in a manner consistent with that for depreciable assets which are owned by the Company.

3.2 Borrowing cost

Borrowing cost are recognised as an expense in the period in which these are incurred except to the extent of borrowing cost that are directly attributable to the acquisition, construction or production of a qualifying asset. Such borrowing cost, if any, are capitalised as part of the cost of the relevant asset.

3.3 Financial instruments

Financial instruments carried on the balance sheet include investments, deposits, trade debts and other receivables, accrued mark-up on investments, cash and bank balances, trade and other payables, accrued mark-up on short term finance and liabilities against assets subject to finance lease.

Financial assets

The Company classifies its financial assets in held to maturity, available-for-sale and loans and receivables categories. The classification depends on the purpose for which the financial assets are acquired. Management determines the classification of its financial assets at initial recognition.

(a) Held-to-maturity

These are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Company has the positive intention and ability to hold till maturity.

(b) Available for sale

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.

Notes to the Financial Statements

(c) Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

All financial assets are recognised at the time when the Company becomes a party to the contractual provisions of the instrument. Regular purchases and sales of investments are recognised on trade date - the date on which the Company commits to purchase or sale the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the right to receive the cash flows from the assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownerships.

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Fair value of available for sale investments are determined on the basis of rates notified by Mutual Fund Association of Pakistan for debt securities and the relevant redemption prices for the open-end mutual funds.

Available-for-sale financial assets are subsequently carried at fair value with changes in fair value recognised in other comprehensive income until derecognised or impaired. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustment recognised in equity are included in the profit and loss account as gains and losses from investment securities. Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit and loss account. Dividends on available-for-sale equity instruments are recognised in the profit and loss account when the Company's right to receive the dividends is established.

The Company assesses at the end of each reporting 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 is recognised 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.

Financial liabilities

All financial liabilities are recognised at the time when the Company becomes a party to the contractual provisions of the instruments. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

Offsetting of financial assets and financial liabilities

Financial assets and liabilities are off-set and the net amount is reported in the financial statements only when the Company has a legally enforceable right to off-set the recognised amounts and the Company intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

3.4 Stores, spares and loose tools

These are valued at lower of moving average cost and net realisable value. Items in transit are valued at cost comprising invoice value and other charges incurred thereon.

Provision for obsolete and slow moving stores, spares and loose tools is determined based on management's estimate regarding their future usability.

Net realisable value signifies the estimated selling price in the ordinary course of business less the estimated costs necessary to be incurred to make the sale.

Notes to the Financial Statements

3.5 Stock-in-trade

Raw materials are valued at the lower of moving average cost and net realisable value except for items in transit which are stated at cost incurred to date.

Work-in-process, semi-finished and finished goods are valued at lower of cost (calculated on weighted average basis) and net realisable value. Cost in relation to work-in-process, semi finished and finished goods, represents direct cost of materials, direct wages and an appropriate portion of production overheads.

Net realisable value signifies the estimated selling price in the ordinary course of business less the estimated cost of completion and the costs necessary to be incurred to make the sale.

3.6 Trade debts and other receivables

Trade debts and other receivables are stated initially at fair value and subsequently measured at amortised cost using the effective interest rate method less provision for impairment. A provision for impairment is established where there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is charged to profit and loss account. Trade debts and receivables are written off when considered irrecoverable.

3.7 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. Cash and cash equivalents include cash in hand, balances with banks and other short-term highly liquid investments with original maturities of three months or less.

3.8 Liabilities against assets subject to finance lease

Liabilities against assets subject to finance lease are accounted for at the net present value of minimum payments under the lease arrangements.

Finance charges under lease arrangements are allocated to periods during the lease term so as to produce a constant periodic rate of financial cost on the remaining balance of principal liability for each period.

3.9 Trade and other payables

Trade and other payables are recognised initially at fair value, and subsequently carried at amortised cost.

3.10 Provisions

Provisions are recognized in balance sheet when the Company has a 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 outflow can be made. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Notes to the Financial Statements

3.11 Employee retirement benefits

The Company operates:

- (a) an approved contributory provident fund for all eligible employees; and
- (b) an approved funded gratuity fund for all permanent employees. Annual contributions are made to the fund based on actuarial recommendations. The actuarial valuations are carried out using the Projected Unit Credit Method. The unrecognised actuarial gains or losses at each valuation date are amortised over the average remaining working lives of the employees in excess of the higher of the following corridor limits:
 - (i) 10 % of the present value of the defined benefit obligation; and
 - (ii) 10 % of the fair value of the plan assets.

Employee retirement benefits are payable to eligible employees on completion of the prescribed qualifying period of service under these funds.

3.12 Employees' compensated absences

Liability in respect of employees' compensated absences is accounted for in the year in which these are earned on the basis of actuarial valuations carried out using the Projected Unit Credit Method. Actuarial gains or losses at each valuation date, if any, are recognised immediately.

3.13 Revenue recognition

- Sales are recorded on dispatch of goods when significant risk and rewards of ownership are transferred to the customers.
- Return on bank deposits is recognised on accrual basis taking into account the effective yield.
- Income on available for sale debt securities, held-to-maturity investments and loans and receivables are recognised using effective interest rate method.
- Dividend income is recognised when the Company's right to receive the dividend is established.
- Gains / (losses) arising on sale of investments are included in the profit and loss account in the period in which they arise.
- Sale of waste materials and miscellaneous receipts are recognised on receipt basis.

3.14 Taxation

Current

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account tax credits and rebates available, if any. The charge for the current tax also includes adjustments where necessary, relating to prior years which arise from assessments framed / finalised during the year.

Deferred

Deferred tax is recognized using the balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities used for financial reporting purposes and amounts used for taxation purposes. Deferred tax is calculated using the rates that are expected to apply to the period when the differences reverse based on tax rates that have been enacted at the balance sheet date.

Notes to the Financial Statements

Deferred tax liabilities are recognized for all taxable temporary differences. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax asset is reduced to the extent that it is no longer probable that the related tax benefits will be realized.

3.15 Expenses

All expenses are recognized in the profit and loss account on an accrual basis.

3.16 Impairment

The carrying amount of the Company's assets is reviewed at each balance sheet date to determine whether there is any objective evidence that an asset or group of assets may be impaired. If any such evidence exists, the asset or group of assets' recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit and loss account

3.17 Foreign currency transactions

Transactions in foreign currencies are accounted for in rupees at the foreign exchange rates prevailing on the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into rupees at the foreign exchange rates approximating those prevailing at the balance sheet date. Exchange differences are taken to the profit and loss account.

3.18 Proposed dividend and transfer between reserves

Dividend distributions to the Company's shareholders is recognised as a liability in the period in which dividends are approved. Transfer between reserves made subsequent to the balance sheet date is considered as non-adjusting event and is recognised in the financial statements in the period in which such transfers are made.

4. PROPERTY, PLANT AND EQUIPMENT	Note	2010 (Rupees in '000)	2009
Operating fixed assets	4.1	1,244,364	1,261,660
Capital work-in-progress	4.4	-	3,044
		<u>1,244,364</u>	<u>1,264,704</u>



Notes to the Financial Statements

4.2 The depreciation charge for the year has been allocated as follows:

Note	2010 (Rupees in '000)	2009
20	109,810	99,830
21	4,680	3,963
	114,490	103,793

4.3 Particulars of operating fixed assets disposed off during the year

	Cost	Accumulated depreciation	Net book value	Sales proceeds	Mode of disposal	Particulars of buyers	Location
----- (Rupees in '000) -----							
Vehicle - leased	As per						
Suzuki Alto	519	198	321	370	Company's policy	Major (R) Niazi	Karachi
Honda city	891	356	535	654	Company's policy	S.M. Qureshi	Karachi
Honda city	891	356	535	654	Company's policy	Aftab Alam	Karachi
Suzuki Alto	505	438	67	156	Company's policy	Shahid Hussain	Karachi
Honda city	891	430	461	609	Company's policy	Khawja Saqib	Karachi
Suzuki Mehran	403	201	202	247	Company's policy	Khalil Ahmed	Karachi
Suzuki Alto	519	258	261	331	Company's policy	Ayaz Ahmed	Karachi
Suzuki Alto	519	258	261	331	Company's policy	Shahadat Ali	Karachi
Suzuki Alto	519	258	261	331	Company's policy	Imran Awan	Karachi
Suzuki Alto	519	284	235	304	Company's policy	Sajid Hussain	Karachi
	6,176	3,037	3,139	3,987			
Items with book value below Rs. 50,000							
	2,695	2,653	42	1,903			
2010	8,871	5,690	3,181	5,890			
2009	1,175	508	667	884			

4.4 Capital work-in-progress

Note	2010 (Rupees in '000)	2009
Plant and machinery	-	912
Office and security equipment	-	2,132
	-	3,044
The movement in capital work-in-progress is as follows:		
Balance as at beginning of the year	3,044	8,742
Additions during the year		
- Plant and machinery	43,663	127,467
- Office and security equipment	1,892	2,132
- Building	-	1,075
	45,555	130,674
Transfers to operating fixed assets		
- Plant and machinery	(44,575)	(135,297)
- Office and security equipment	(4,024)	-
- Building	-	(1,075)
	(48,599)	(136,372)
Balance at end of the year	-	3,044
5. LONG-TERM DEPOSITS		
Security deposits	5.1	16,757
	17,258	

Notes to the Financial Statements

- 5.1 These include deposits amounting to Rs 11.661 million and Rs 3.705 million (2009: Rs 11.661 million and Rs 3.705 million) given to the Karachi Electric Supply Corporation Limited (KESC) and the Sui Southern Gas Company Limited (SSGC) respectively on which interest is received @ 5% per annum.

	Note	2010 (Rupees in '000)	2009
6. STORES, SPARES AND LOOSE TOOLS			
Stores		8,579	6,015
Spares - in hand		101,331	94,631
Spares - in transit		-	1,793
Less: Spares written off		-	(6,587)
		101,331	89,837
Loose tools		136	154
		110,046	96,006
Less: Provision for slow moving and obsolete stores and spares		(14,341)	(14,341)
		<u>95,705</u>	<u>81,665</u>
7. STOCK-IN-TRADE			
Raw materials - in hand		147,982	87,395
Raw materials - in transit		-	10,538
		147,982	97,933
Less: Slow moving raw material written off		-	(1,632)
		147,982	96,301
Work-in-process		6,385	5,791
Semi-finished goods		49,337	35,501
		55,722	41,292
Finished goods		155,705	161,312
Less: Finished goods written off during the year		-	(35,843)
Provision for slow moving and obsolete stock-in-trade		(1,642)	(1,642)
		154,063	123,827
		<u>357,767</u>	<u>261,420</u>
8. TRADE DEBTS - considered good			
Unsecured			
Due from Pakistan Security Printing Corporation (Private) Limited - related party	8.1	203,020	290,289
8.1 The maximum amount due from the related party, Pakistan Security Printing Corporation (Private) Limited, at the end of any month during the year was Rs. 274.527 million (2009: Rs. 371.308 million).			

Notes to the Financial Statements

	Note	2010 (Rupees in '000)	2009
9. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES			
Advances - considered good			
- employees - secured		-	26
- suppliers - unsecured		2,359	3,630
		<u>2,359</u>	<u>3,656</u>
Due from related parties			
Receivable from provident fund		7,146	-
Receivable from gratuity fund	22.1.2	11,668	21,476
		<u>18,814</u>	<u>21,476</u>
Due from others			
Short-term deposits		25	35
Short-term prepayments		456	6,648
Others		1,039	1,469
		<u>1,520</u>	<u>8,152</u>
		<u>22,693</u>	<u>33,284</u>
10. ACCRUED MARK-UP			
Deposit and savings accounts		-	4
Special saving certificates		165,352	36,606
Term finance certificates		1,439	430
Certificates of investments		1,467	3,194
Term deposit receipts		3	3,002
Security deposits		373	562
		<u>168,634</u>	<u>43,798</u>
11. INVESTMENTS			
Available for sale			
Term finance certificates			
B.R.R. Guardian Modaraba			
4,400 (2009: 4,400) units of Rs 5,000 each	11.1	19,236	21,092
Mutual Funds			
Dawood Money Market Fund			
Nil (2009: 155,823) units of Rs 100 each		-	12,628
		<u>19,236</u>	<u>33,720</u>
Held to maturity			
Treasury Bills	11.2	455,482	102,453
Loans and receivables			
Having maturity more than three months			
Term deposit receipts	11.3	50	100,045
Certificate of investments	11.4	50,000	150,000
Special Saving Certificates	11.5	950,000	950,000
Having maturity upto three months			
Term deposit receipts	11.3	-	50,000
		<u>1,000,050</u>	<u>1,250,045</u>
		<u>1,474,768</u>	<u>1,386,218</u>

Notes to the Financial Statements

- 11.1** This represents investment in 5 years term finance certificates and carries profit at the rate of six months KIBOR plus 1.3% (2009: six months KIBOR plus 1.3%) per annum with maturity on 7 July 2014.
- 11.2** This represents investment in six months treasury bill and carries profit ranging from 12.08% to 12.12% (2009: 13%) per annum with maturity in November 2010. Fair value of the treasury bill as at 30 June 2010 is Rs. 455.182 million (2009: Rs. 102.578 million).
- 11.3** These represent term deposit receipts with Faysal Bank Limited maturing on November 2010. Return on these investments is 10.75% per annum (2009: 11.5 % to 14.5 % per annum).
- 11.4** This represents investment in certificates of investment of Pak Brunei Investment Company Limited carrying profit at the rate of 12.75% (2009: 13.4%) per annum and maturing on 6 October 2010.
- 11.5** This represents investments in special saving certificates carrying profit ranging from 13% to 14.4%. The profit payments are semi annually and investments can be withdrawn at any time after one month of investment. The certificates mature on various dates by 2012, however management intends to encash these certificates by next year to meet liquidity requirements.

	Note	2010 (Rupees in '000)	2009
12. CASH AND BANK BALANCES			
Cash in hand		335	282
With banks in:			
- Current accounts		310	4,015
- Deposit accounts		487	3,622
- Saving accounts	14.3	42,760	56,928
- Dividend accounts		5,865	4,541
		49,422	69,106
		49,757	69,388

13. SHORT-TERM FINANCE AND OTHER FACILITIES - secured

13.1 Running finance

As at 30 June 2010, the Company has an unavailed running finance facility from National Bank of Pakistan amounting to Rs 100 million (2009: Rs 100 million).

The arrangement is secured by way of hypothecation on stores, spares, loose tools, stock-in-trade and book debts of the Company and is available till 31 December 2010. The outstanding balance against this facility will be subject to mark-up at the rate prevailing on the last day of each quarter of Karachi Inter Bank Offered Rate (KIBOR) plus 75 basis points (2009: one month's average KIBOR plus 50 basis points).

13.2 Import letter of credit (sight / usance)

As at 30 June 2010, the Company has a facility from the National Bank of Pakistan relating to import letters of credit (sight / usance) amounting to Rs 100 million (2009: Rs 100 million).

13.3 Letter of Guarantee Facility

As at 30 June 2010, the Company has two facilities from the National Bank of Pakistan relating to letter of guarantee:

Notes to the Financial Statements

	Note	2010 (Rupees in '000)	2009
- Letter of Guarantee facility (sublimit of running finance facility)		100,000	100,000
- Letter of Guarantee facility (by earmarking running finance facility)		14,040	14,040
14. TRADE AND OTHER PAYABLES			
Creditors		29,012	39,090
Utilities		7,964	10,545
Provision for fire tax	14.1	36,560	34,704
Salaries, wages and benefits payable		41,460	35,458
Provision for employees compensated absences	14.2	21,010	14,686
Payable to provident fund		-	197
Sales tax payable		16,698	7,257
Special excise duty payable		906	827
Deposits repayable on demand	14.3	7,040	5,967
Advances from customers		15,312	1,363
Workers' profit participation fund	14.4	2,557	683
Workers' welfare fund		25,055	24,301
Unclaimed dividend		5,867	4,576
Others		13,287	17,371
		222,728	197,025
14.1 Provision for fire tax			
Balance as at 1 July		34,704	32,858
Add: Charge for the year		1,856	1,846
		36,560	34,704

The Karachi Metropolitan Corporation (KMC) vide notification no.FB/DCFO/ENH-F.T-81/2001 dated 23/05/2001 changed the basis of charging Fire Tax and specified that this tax should be charged on the basis of water consumed. Previously, the fire tax was being levied on the basis of net annual rental value of the property as part of the property tax. The Company has filed a constitutional petition before the Honourable High Court of Sindh, Karachi challenging the above notification which is still pending. As a matter of abundant caution and without prejudice to the Company's contention in appeal, the management has made full provision in respect of the above tax based on the notification issued by KMC.

	2010 (Rupees in '000)	2009
14.2 Employees' compensated absences		
Opening present value of obligation	14,686	12,032
Cost for the year	6,324	2,654
Closing present value of obligation	21,010	14,686

	2010	2009	2008	2007	2006
	----- (Rupees in '000) -----				
Present value of obligation	21,010	14,686	12,032	9,468	10,798

Notes to the Financial Statements

- 14.3** These represent interest free security deposits received from various contractors / suppliers which are kept in a separate savings bank account (Note 12).

	Note	2010 (Rupees in '000)	2009
14.4 Workers' profit participation fund			
Balance as at 1 July		683	2,910
Add:			
Allocation for the year	24	27,943	26,684
Interest on funds utilised in the company's business	25	34	209
		<u>27,977</u>	<u>26,893</u>
		28,660	29,803
Less: Paid during the year		(26,103)	(29,120)
		<u>2,557</u>	<u>683</u>

15. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2010			2009		
	Minimum lease payments	Finance charge	Present value of minimum lease payments	Minimum lease payments	Finance charge	Present value of minimum lease payments
	----- (Rupees in '000) -----					
Not later than one year	3,523	1,446	2,077	2,656	1,012	1,644
Later than one year and not later than five years	11,604	2,169	9,435	7,963	1,278	6,685
	<u>15,127</u>	<u>3,615</u>	<u>11,512</u>	<u>10,619</u>	<u>2,290</u>	<u>8,329</u>

The Company has entered into Ijarah arrangement with a financial institution in respect of vehicles. Islamic Financial Accounting Standard (IFAS) No.2 "Ijarah" was notified by SECP vide S.R.O. 431 (I) / 2007 on 22 May 2007. The said IFAS requires the Ujrah payments under such arrangements to be recognised as an expense over the ijarah term. The Company intends to acquire such asset at the end of the lease term and has consequently recorded such arrangements under IAS-17 "Leases". The liability under the agreements is payable by January 2015 in monthly installments and is subject to annual finance charge rates at KIBOR plus 200 to 300 basis points (2009: KIBOR plus 200 to 300 basis points).

	Note	2010 (Rupees in '000)	2009
16. DEFERRED TAXATION - net			
Deferred tax liability arising due to accelerated tax depreciation		162,145	139,704
Deferred tax asset arising in respect of:			
Provision for slow moving inventory and fire tax		(15,110)	(5,594)
Assets acquired on finance lease		(210)	(179)
		<u>(15,320)</u>	<u>(5,773)</u>
		<u>146,825</u>	<u>133,931</u>
17. CONTINGENCIES AND COMMITMENTS			
17.1 Contingencies			
Income tax	17.2	10,221	10,221
Claims against the Company not acknowledged as debt		1,120	2,057
		<u>11,341</u>	<u>12,278</u>

Notes to the Financial Statements

- 17.2** The Income Tax authorities had raised demand of Rs. 43.991 million against the Company under Section 12(9A) of the repealed Income Tax Ordinance, 1979 in respect of assessment year 2000-01. The Company had filed appeal against this demand before Income Tax Appellate Tribunal (ITAT). The Company had also filed reference before the Alternate Dispute Resolution Committee (ADRC). Based on the recommendation of the ADRC, the Revenue Division, Federal Board of Revenue (formerly Central Board of Revenue) had issued an order as a result of which the above demand was reduced to approximately Rs. 10.221 million.

During the financial year ended 30 June 2006, the ITAT through its order dated 15 September 2005 has decided the matter in favour of the Company by deleting the above demand of Rs 43.991 million. The Income Tax department has filed an appeal against this order before the Sindh High Court, which is currently pending. Management is confident that the eventual outcome of the matter will be decided in favour of the Company and accordingly no provision has been made in these financial statements in respect of this demand.

17.3 Commitments	2010	2009
	(Rupees in '000)	
Capital expenditure contracted for but not incurred	885	13,429
Commitments against letters of credit	19,990	40,398
	20,875	53,827

18. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2010	2009		2010	2009
(Number of shares)				
1,250,000	1,250,000	Ordinary shares fully paid in cash	12,500	12,500
39,899,989	39,899,989	Ordinary shares issued as fully paid bonus shares	398,999	398,999
41,149,989	41,149,989		411,499	411,499

- 18.1** The following shares were held by the related parties of the Company as at 30 June 2010:

	2010		2009	
	Shares held	Percentage	Shares held	Percentage
Pakistan Security Printing Corporation (Private) Limited	16,473,430	40.03%	16,473,430	40.03%
Summer Holding A.S. (Turkey)	4,114,976	10.00%	4,114,976	10.00%
Industrial Development & Renovation Organisation of Iran, Tehran (Iran)	4,114,976	10.00%	4,114,976	10.00%

19. SALES - net	2010	2009
	(Rupees in '000)	
Banknote paper	1,225,359	1,151,540
Non-banknote paper:		
- Commercial paper	20,227	18,886
- Others	102,851	150,586
	123,078	169,472
	1,348,437	1,321,012
Less: Sales tax / special excise duty	(195,926)	(191,942)
	1,152,511	1,129,070

Notes to the Financial Statements

20. COST OF SALES	Note	2010 (Rupees in '000)	2009
Opening stock of raw materials		97,933	124,693
Add: Purchases - net		358,312	293,874
		<u>456,245</u>	<u>418,567</u>
Less: Closing stock of raw materials	7	<u>(147,982)</u>	<u>(97,933)</u>
Raw materials consumed		308,263	320,634
Salaries, wages and benefits	20.1	164,721	133,407
Technical assistance fee		10,762	9,120
Stores, spares and loose tools consumed		31,434	37,717
Utilities		91,655	107,119
Repairs and maintenance		18,862	10,020
Insurance		2,347	2,517
Rent, rates and taxes		936	514
Depreciation	4.2	109,810	99,830
Other expenses		208	277
		<u>738,998</u>	<u>721,155</u>
Opening stock of work-in-process and semi-finished goods		41,292	24,987
Less: Closing stock of work-in-process and semi-finished goods		<u>(55,722)</u>	<u>(41,292)</u>
Cost of goods manufactured		724,568	704,850
Opening stock of finished goods		125,469	125,270
Less: Closing stock of finished goods		<u>(155,705)</u>	<u>(161,312)</u>
		<u>694,332</u>	<u>668,808</u>

20.1 Employee retirement benefits

Salaries, wages and benefits include Rs 11.463 million (2009: Rs 9.428 million) in respect of employee retirement benefits.

21. ADMINISTRATION AND GENERAL EXPENSES	Note	2010 (Rupees in '000)	2009
Salaries, wages and benefits	21.1	72,128	56,155
Rent, rates and taxes		509	578
Travelling expenses including those of directors Rs 3.369 million (2009: Rs 0.224 million)		8,395	1,307
Printing and stationery		1,873	1,900
Repairs and maintenance		4,748	4,790
Packing and forwarding		379	353
Advertisement		2,734	1,159
Training		961	55
Software expenses		449	1,134
Communication		1,469	886
Entertainment		1,142	827
Legal and professional		3,178	1,441
Depreciation	4.2	4,680	3,963
Others		2,068	880
		<u>104,713</u>	<u>75,428</u>

21.1 Employee retirement benefits

Salaries, wages and benefits include Rs.4.913 million (2009: Rs 3.295 million) in respect of employee retirement benefits.

22. EMPLOYEE RETIREMENT BENEFITS

Notes to the Financial Statements

22.1 Gratuity

The Company operates an approved gratuity fund for its eligible employees. The actuarial valuation is carried out on an annual basis and the latest valuation was carried out at 30 June 2010. The projected unit credit method, using the following significant assumptions has been used for the actuarial valuation.

22.1.1 Actuarial assumptions	2010	2009
	(in Percent)	
a) Discount rate	14	14
b) Expected rate of increase in salary	14	14
c) Expected return on plan assets	14	14

22.1.2 Amounts recognised in the balance sheet are as follows:

	Note	2010	2009
		(Rupees in '000)	
Present value of defined benefit obligations	22.1.3	236,357	214,568
Less: Fair value of plan assets	22.1.4	230,219	216,679
		6,138	(2,111)
Unrecognised actuarial loss (Asset) on balance sheet		(17,806)	(19,365)
		<u>(11,668)</u>	<u>(21,476)</u>

22.1.3 Movement in present value of defined benefit obligations

Opening present value of obligation	214,568	199,339
Current service cost	4,987	2,821
Interest cost	11,286	5,706
Benefits paid	(22,281)	(21,480)
Actuarial (gain) / loss on obligation	(2,641)	7,710
Income distributed among the members	30,335	20,472
Past Service Cost - Vested	103	-
Closing present value of obligation	<u>236,357</u>	<u>214,568</u>

22.1.4 Movement in the fair value of plan assets

Opening fair value of plan assets	216,679	204,718
Expected return on plan assets	30,335	20,472
Actuarial loss on plan assets	(1,083)	(8,511)
Benefits paid	(22,281)	(21,480)
Contribution by Company	6,569	21,480
Closing fair value of plan assets	<u>230,219</u>	<u>216,679</u>

22.1.5 Expense recognised in the profit and loss account

Current service cost	4,987	2,821
Interest cost	11,286	5,706
Past service cost- vested	103	-
Cost for the year	<u>16,376</u>	<u>8,527</u>

22.1.6 Plan assets comprised of following

Defence Saving Certificates (DSCs)	17%	21%
Regular Income Certificates (RICs)	37%	61%
Special Saving Certificates (SSCs)	33%	11%
Bank account and short-term deposits	3%	6%
Others (FIBs, PIBs, TFCs)	10%	1%
	<u>100%</u>	<u>100%</u>

Notes to the Financial Statements

22.1.7 (Surplus) / deficit on the plan assets are as follows:

	2010	2009	2008	2007	2006
	----- (Rupees in '000) -----				
Present value of defined benefit obligation	236,357	214,568	199,339	179,650	151,808
Fair value of plan assets	230,219	216,679	204,718	180,878	155,028
Deficit / (surplus)	<u>6,138</u>	<u>(2,111)</u>	<u>(5,379)</u>	<u>(1,228)</u>	<u>(3,220)</u>

22.1.8 5 years data on experience adjustments are as follows:

	2010	2009	2008	2007	2006
	----- (Rupees in '000) -----				
(Gain) / loss on obligation	(2,641)	7,710	-	3,541	(1,770)
(Loss) on plan assets	(1,083)	(8,511)	-	-	-

22.1.9 Based on actuarial advice the Company intends to charge an amount of approximately Rs. 16.397 million in respect of gratuity fund in the financial statements for the year ending 30 June 2011.

22.1.10 The investment income of the fund is distributed among the members of the fund. Accordingly, expected return on plan assets has not been taken in the gratuity cost for the year ended 30 June 2010.

22.1.11 The information provided in notes 22.1.1 to 22.1.10 has been obtained from the valuation carried out by independent actuaries as at 30 June 2010.

22.2 Defined contribution plan

An amount of Rs. 5.477 million (2009: Rs 4.196 million) has been charged during the year in respect of contributory provident fund maintained by the Company.

23. OTHER OPERATING INCOME

	2010	2009
	(Rupees in '000)	
Income from financial assets		
Gain on redemption of investment in mutual funds	1,607	46,318
Amortisation of discount on Pakistan Investment Bond and Term Finance Certificates	-	168
Mark-up on:		
- Pakistan Investment Bonds	-	2,006
- Treasury bills	12,057	22,968
- Term deposit receipts	26,218	57,520
- Special saving certificates	128,746	36,606
- Certificate of investments	21,068	3,194
- Term finance certificates	3,007	430
- Bank deposits and savings account	11,200	27,409
- Security deposits	707	737
	<u>204,610</u>	<u>197,356</u>
Income from non-financial assets		
Gain on sale of property, plant and equipment	2,711	217
Sale of waste materials	4,091	4,407
Other income	2,106	437
	<u>8,908</u>	<u>5,061</u>
	<u>213,518</u>	<u>202,417</u>

Notes to the Financial Statements

	Note	2010 (Rupees in '000)	2009
24. OTHER OPERATING CHARGES			
Auditors' remuneration	24.1	732	680
Exchange loss		513	1,060
Workers' profit participation fund	14.4	27,943	26,684
Workers' welfare fund		10,618	9,864
Stores and spares written off		-	6,587
Slow moving raw materials written off		-	91
Finished goods written off		-	35,843
Provision for slow moving raw materials		-	1,642
Donation	24.2	3,408	6,100
		<u>43,214</u>	<u>88,551</u>
24.1 Auditors' remuneration			
Audit fee		500	500
Audit of funds, special certification and other services		110	180
Out of pocket expenses		122	-
		<u>732</u>	<u>680</u>
24.2 Donation			
None of the directors or their spouses had any interest in any of the donees.			
25. FINANCE COSTS			
Interest / mark-up on:			
- Short-term finance		126	27
- Workers' profit participation fund	14.4	34	209
- Finance leases		1,272	1,390
Bank charges		443	161
		<u>1,875</u>	<u>1,787</u>
26. TAXATION - net			
Current - for the year		159,346	117,953
Current - for prior year		(74)	802
		<u>159,272</u>	<u>118,755</u>
Deferred		12,894	42,301
		<u>172,166</u>	<u>161,056</u>
26.1 Reconciliation between tax expense and accounting profit			
Accounting profit before taxation		<u>520,257</u>	<u>493,211</u>
Tax on accounting profit @ 35% (2009: 35%)		182,090	172,624
Tax for prior year		(74)	802
Income exempted from tax		(562)	(16,212)
Others		(9,288)	3,842
		<u>172,166</u>	<u>161,056</u>

The income tax assessments of the Company have been finalised up to and including the assessment year 2002-2003. Tax returns of subsequent tax years are deemed to be assessed under provisions of the Income Tax Ordinance, 2001 ("the Ordinance") unless selected for an audit by the taxation authorities. The Commissioner of Income Tax may, at any time during a period of five years from date of filing of return, select the deemed assessment order for audit.

Notes to the Financial Statements

The Company had previously exercised option of being assessed under the Final Tax Regime (FTR) in respect of goods manufactured by it, which was valid for tax years 2005 to 2007. However, due to the amendments made by the Finance Act 2005 and insertion of clause (41A) of Part IV of the second schedule to the Ordinance, the facility of assessment under FTR available for tax years 2006 and 2007 has been withdrawn. The Company has filed the constitutional petition with the High Court challenging the withdrawal of the facility upto and including tax year 2007. The High Court has admitted the petition for hearing. Based on legal advice, the Company has filed returns of income for tax years 2006 and 2007 under FTR. The liability for the aforesaid tax years has however been recorded in these financial statements under the Normal Tax Regime.

27. EARNINGS PER SHARE

Profit after taxation		<u>348,091</u>	<u>332,155</u>
		(Number of shares)	
Weighted average number of ordinary shares	18	<u>41,149,989</u>	<u>41,149,989</u>
		(Rupees)	
Earnings per share		<u>8.46</u>	<u>8.07</u>

27.1 There were no convertible dilutive potential ordinary shares in issue as at 30 June 2010 and 30 June 2009.

28. REMUNERATION OF CHIEF EXECUTIVE, DIRECTORS AND EXECUTIVES

The aggregate amount charged in the financial statements for remuneration including certain benefits to the Chief Executive, Directors and Executives of the Company are as follows:

	2010			2009		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
	----- (Rupees in '000) -----					
Directors' fee	-	818	-	-	285	-
Managerial remuneration (including bonus)	-	-	15,174	-	-	9,880
Housing, utilities and other perquisites	1,261	-	9,171	1,008	-	6,236
Retirement benefits	-	-	1,289	-	-	805
Medical	-	-	1,118	-	-	681
Total	<u>1,261</u>	<u>818</u>	<u>26,752</u>	<u>1,008</u>	<u>285</u>	<u>17,602</u>
Number of persons	<u>1</u>	<u>8</u>	<u>13</u>	<u>1</u>	<u>8</u>	<u>9</u>

28.1 The Chief Executive is provided with free use of Company's owned and maintained car.

28.2 The Company also bears the travelling expenses of the Chief Executive and Directors relating to travel for official purposes including expenses incurred in respect of attending Board meetings.

28.3 The above figures do not include amounts and facilities paid or provided for by the associated company to the Chief Executive.

Notes to the Financial Statements

28.4 The Chief Executive, Directors and Executives as above represent key management personnel of the Company, i.e the personnel having authority and responsibility for planning, directing and controlling the activities of the Company.

29. TRANSACTIONS WITH RELATED PARTIES

	2010		
	Key Management Personnel	Associated under-takings	Total
	----- (Rupees in '000) -----		
Transactions during the year:			
Sale of goods to Pakistan Security Printing Corporation (Private) Limited - net	-	-	-
Remuneration to key management personnel	28,831	1,137,694	1,137,694
			28,831
Balance outstanding at the year end			
Receivable from Pakistan Security Printing Corporation (Private) Limited - net	-	197,157	197,157
	2009		
	Key Management Personnel	Associated under-takings	Total
Transactions during the year:			
Sale of goods to Pakistan Security Printing Corporation (Private) Limited - net	-	1,114,013	1,114,013
Remuneration to key management personnel	18,895	-	18,895
Balance outstanding at the year end			
Receivable from Pakistan Security Printing Corporation (Private) Limited - net	-	286,898	286,898

The Company has related party relationship with its associated undertakings, employee benefit plans and its directors and executive officers. Transactions with related parties essentially entail sale and purchase of goods and / or services from the aforementioned concerns.

All sales transactions with Pakistan Security Printing Corporation (Private) Limited are carried out by the Company using the "Cost Plus Mark-up Method". Transactions with employee benefit funds are carried out based on the terms of employment of the employees and according to the actuarial advice. All other transactions are carried out on commercial terms.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity. The Company considers all members of their management team, including the Chief Executive Officer and Directors to be its key management personnel.

There are no transactions with key management personnel other than under their terms of employments / entitlements. Balances outstanding from related parties are interest free, unsecured and repayable on demand. Particulars of transactions with workers' profit participation fund and employee retirement benefit and contribution funds are disclosed in notes 14.4 and 22 to the financial statements.

Notes to the Financial Statements

30. PRODUCTION CAPACITY	2010	2009
	(Tonnes)	
Total Installed Capacity - on three shift basis	<u>2,000</u>	<u>2,000</u>
Available installed capacity -based on available three shift working days	<u>1,905</u>	<u>1,890</u>
Actual production	<u>1,587</u>	<u>1,724</u>

The short capacity utilization during the year was due to scheduled plant (PM-2) shut down of 38 days (2009 :20 days) for maintenance purpose.

31. CASH GENERATED FROM OPERATIONS	Note	2010	2009
		(Rupees in '000)	
Profit before taxation		520,257	493,211
Adjustments for:			
Depreciation		114,490	103,793
Gain on disposal of property, plant and equipment		(2,711)	(217)
Finished goods written off		-	35,843
Stores and spares written off		-	6,587
Provision for slow moving and obsolete stock-in-trade		-	1,642
Slow moving stores and spares written off		-	91
Impairment loss on available for sale investments		1,638	3,702
Capital gain on redemption of investment in mutual funds		(1,607)	(46,318)
Mark-up on investments		(191,098)	(122,724)
Mark-up on bank deposits and saving accounts		(11,200)	(27,409)
Mark-up on security deposits		(707)	(737)
Amortisation of discount on Pakistan investment bond and Term finance certificates		-	(168)
Finance costs		1,875	1,787
Working capital changes	31.1	13,176	(36,009)
		(76,144)	(80,137)
		444,113	413,074
31.1 Working capital changes			
(Increase) / decrease in current assets			
Stores, spares and loose tools		(14,040)	(15,473)
Stock-in-trade		(96,347)	(25,587)
Trade debts		87,269	(26,152)
Advances, deposits, prepayments and other receivables		10,591	(659)
Accrued mark-up		-	386
		(12,527)	(67,485)
Increase / (decrease) in current liabilities			
Trade and other payables		25,703	31,476
		(13,176)	(36,009)

32. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement comprise of the following balance sheet amounts:

Cash and bank balances	12	49,757	69,388
Short-term investments having maturity upto three months	11	-	50,000
		49,757	119,388

Notes to the Financial Statements

33. FINANCIAL INSTRUMENTS

The Company has exposures to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors has overall responsibility for the establishment and oversight of Company's risk management framework. The Board is also responsible for developing and monitoring the Company's risk management policies.

33.1 Credit risk

Credit risk represents the financial loss that would be recognised at the reporting date if counterparties fail completely to perform as contracted. Out of the total financial assets of Rs 1,914.501 million (2009: Rs 1,807.954 million), the financial assets which are subject to credit risk amounted to Rs 508.684 million (2009: Rs 755.219 million).

All investing transactions are settled / paid for upon delivery as per the advice of investment committee. The Company's policy is to enter into financial instrument contract by following internal guidelines such as approving counterparties and approving credits.

The bulk of the sales of the Company are made to Pakistan Security Printing Corporation (Private) Limited (PSPC) and the amount due from PSPC at the balance sheet constituted 11% (2009: 16%) of the total financial assets.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date is:

	2010 (Rupees in '000)	2009
Investments	69,286	333,765
Trade debts	203,020	290,289
Deposits, accrued mark up and other receivables	186,956	62,059
Bank balances	49,422	69,106
	<u>508,684</u>	<u>755,219</u>

Investments comprise of Term Finance Certificates, Certificates of Investments and Term Deposit Receipts. The analysis below summarises the credit quality of the Company's investments. Besides these investments, the Company also has investments in Special Saving Certificates and Treasury Bills as disclosed in note 11 to the financial statements.

	2010	2009
Term Finance Certificates	BBB+	A+
Dawood Money Market Fund Units	-	A(f)
Certificates of Investments	AA+/A1+	AA+/A1+
Term Deposit Receipts	AA+/A1+	AA+/A1+

Notes to the Financial Statements

All the counterparties are of domestic origin. All the trade debts of the Company relate to PSPC. Except for certain outstanding invoices of PSPC amounting to Rs. 17.784 million which fall in the past due 1-45 days category, all other outstanding invoices are non past due. The past due balances have been recovered subsequent to the balance sheet date. Based on its business history, the Company expects no default in recovery of other outstanding invoices.

33.2 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure as far as possible to always have sufficient liquidity to meet its liabilities when due. The Company is not materially exposed to liquidity risk as all obligations / commitments of the Company are short term in nature and are restricted to the extent of available liquidity. In addition, the Company has unavailed facility of running finance amounting to Rs 100 million to meet any deficit, if required to meet the short term liquidity commitment.

The following are the contractual maturities of the financial liabilities, including estimated interest payments:

	2010					
	Carrying amount	Contractual cash flows	Six months or less	Six to twelve months	One to two years	Two to five years
	----- (Rupees in '000) -----					
Financial Liabilities						
Trade and other payables	162,200	(162,200)	(162,200)	-	-	-
Liabilities against asset subject to finance lease	11,512	(15,127)	(1,762)	(1,761)	(3,651)	(7,953)
Accrued mark up	58	(58)	(58)	-	-	-
	173,770	(177,385)	(164,020)	(1,761)	(3,651)	(7,953)
	2009					
	Carrying amount	Contractual cash flows	Six months or less	Six to twelve months	One to two years	Two to five years
	----- (Rupees in '000) -----					
Financial Liabilities						
Trade and other payables	162,397	(162,397)	(162,397)	-	-	-
Liabilities against asset subject to finance lease	8,329	(10,619)	(1,328)	(1,328)	(3,526)	(4,437)
Accrued mark up	9	(9)	(9)	-	-	-
	170,735	(173,025)	(163,734)	(1,328)	(3,526)	(4,437)

33.3 Market risk

Market risk is the risk that changes in market price, such as foreign exchange rates, interest rates and equity prices will effect the Company's income or the value of its holdings of financial instruments.

33.3.1 Currency risk

The Company is exposed to currency risk on technical assistance fee payable to Eurotech's Claus Jung in Euros and import of raw materials being denominated in US dollars and Euros.

The Company's exposure to foreign currency risk is as follows:

Notes to the Financial Statements

	2010			
	USD	GBP	Euro	Total
	------(Rupees in '000)-----			
Gross balance sheet exposure- Technical fee payable	-	-	854	854
Outstanding letters of credit	8,821	2,157	9,011	19,989
Net exposure	8,821	2,157	9,865	20,843

	2009			
	USD	GBP	Euro	Total
	------(Rupees in '000)-----			
Gross balance sheet exposure- Technical fee payable	-	-	3,620	3,620
Outstanding letters of credit	14,318	-	26,080	40,398
Net exposure	14,318	-	29,700	44,018

The following significant rates have been applied:

	Average rate		Reporting date rate	
	2010	2009	2010	2009
USD to PKR	85.93	78.89	85.60	81.30
GBP to PKR	133.25	126.12	128.96	135.38
Euro to PKR	104.93	107.99	104.58	114.82

Sensitivity analysis

At reporting date, if the PKR had strengthened / weakened by 10% against the Euro with all other variables held constant, post-tax profit for the year would have been higher / lower by the amount shown below, mainly as a result of foreign exchange gain / loss on translation of technical fee obligation.

	2010	2009
	(Rupees in '000)	
Effect on profit		
Increase / decrease	56	235

The sensitivity analysis prepared is not necessarily indicative of the effects on profit for the year and liabilities of the Company.

33.3.2 Interest rate risk

At the reporting date the interest rate profile of the Company's interest bearing financial instruments was as follows:

	Note	2010	2009
		Carrying amount (Rupees in '000)	
Financial assets			
Fixed rate instruments			
Special Saving Certificates	11	950,000	950,000
Treasury Bills	11	455,482	102,453
Certificates of Investment	11	50,000	150,000
Term deposit receipts	11	50	150,045
		<u>1,455,532</u>	<u>1,352,498</u>
Variable rate instruments			
Term finance certificates	11	19,236	21,092
Financial liabilities			
Variable rate instruments			
Liabilities against asset subject to finance lease	15	11,512	8,329

Notes to the Financial Statements

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 and loss. Therefore a change in interest rates at the reporting date would not affect profit and loss account.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) profit for the year by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2009.

	Effect on profit and loss	
	100 bp increase	100 bp decrease
	(Rupees in '000)	
As at 30 June 2010		
Cash flow sensitivity-Variable rate instruments	<u>72</u>	<u>(72)</u>
As at 30 June 2009		
Cash flow sensitivity-Variable rate instruments	<u>25</u>	<u>(25)</u>

The sensitivity analysis prepared is not necessarily indicative of the effects on profit for the year and assets of the Company.

33.3.3 Other price risk

Other price risk arises from the Company's investment in units of mutual funds and term finance certificates of B.R.R. Guardian Modaraba. To manage its price risk arising from such investments, the Company diversifies its portfolio.

A 10% increase / decrease in redemption price of units / MUFAP rate of certificates at year end would have increased / decreased the Company's other comprehensive income, surplus on re-measurement of investments classified as 'available for sale' and the value of investments as follows.

	2010	2009
	(Rupees in '000)	
B.R.R. Guardian Modaraba Term Finance Certificates	<u>1,924</u>	<u>2,109</u>
Dawood Money Market Fund Units	<u>-</u>	<u>1,263</u>

The sensitivity analysis prepared is not necessarily indicative of the effects on other comprehensive income, equity and assets of the Company.

33.4 Fair value of financial instruments

The carrying values of the financial assets and financial liabilities approximate their fair values. 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.

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Notes to the Financial Statements

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

30 June 2010

	Level 1	Level 2	Level 3
Available for sale investments		(Rupees in '000)	
B.R.R. Guardian Modaraba Term Finance Certificates	-	-	19,236

30 June 2009

Available for sale investments			
B.R.R. Guardian Modaraba Term Finance Certificates	-	-	21,092
Dawood Money Market Fund Units	12,628	-	-

34 OPERATING SEGMENTS

These financial statements have been prepared on the basis of a single reportable segment.

- 34.1** Revenue from bank notes represents 91% (2009 : 92%) of the total revenue of the Company.
- 34.2** All the sales of the Company are made to customers located in Pakistan.
- 34.3** All non-current assets of the Company at 30 June 2010 are located in Pakistan.
- 34.4** One customer of the Company accounts for 99% (2009: 99%) of total revenue of the Company for the year.

35 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. The Company finances its operations through equity, short term borrowings and managing working capital. The Company has no gearing risk in current year that is to be managed as it does not have any long term borrowings.

36. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

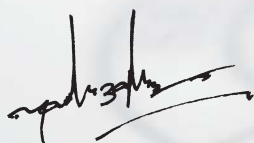
The Board of Directors in its meeting held on July 29, 2010 has proposed a cash dividend and in respect of the year ended 30 June 2010 of Rs 5/- per share i.e 50% (2009: cash dividend Rs 5.00 per share). In addition, the directors have also announced appropriation of Rs 142.30 million (2009 : Rs 126.50 million) to revenue reserves. These appropriations will be approved in the forthcoming Annual General Meeting. The financial statements for the year ended 30 June 2010 do not include the effect of these appropriations which will be accounted for subsequent to the year end.

37. CORRESPONDING FIGURES

Previous year's figure of loans and receivables of Rs 1,250,450 has been reclassified to investments for the purpose of better presentation. The effect of this reclassification is not material.

38. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on 29 July 2010 by the Board of Directors of the Company.



Naiyer Muzafar Husain
Chief Executive



Mustapha A. Chinoy
Director

Pattern of Shareholding

as at 30 June 2010

No. of Shareholders	*Shareholding		Total Shares Held
	From	To	
1	100	322	9,871
101	500	365	103,633
501	1,000	264	202,573
1,001	5,000	384	951,060
5,001	10,000	89	633,177
10,001	15,000	30	364,746
15,001	20,000	12	211,302
20,001	25,000	7	165,054
25,001	30,000	8	224,612
30,001	35,000	4	129,719
35,001	40,000	3	113,433
40,001	45,000	3	124,368
45,001	50,000	8	385,036
50,001	55,000	3	159,280
55,001	60,000	2	116,364
75,001	80,000	2	153,645
80,001	85,000	1	81,672
135,001	140,000	1	139,464
140,001	145,000	1	143,783
150,001	155,000	1	151,538
220,001	225,000	1	225,000
225,001	230,000	1	225,388
275,001	280,000	2	559,658
390,001	395,000	1	392,611
530,001	535,000	1	533,823
640,001	645,000	1	644,924
1,105,001	1,110,000	1	1,109,673
1,830,001	1,835,000	1	1,834,812
2,950,001	2,955,000	1	2,954,362
3,400,001	3,405,000	1	3,402,026
4,110,001	4,115,000	2	8,229,952
16,470,001	16,475,000	1	16,473,430
*Note: There is no Shareholding in the slabs not mentioned			
TOTAL		1,524	41,149,989

Pattern of Shareholding

as at 30 June 2010

Categories of Shareholders	Number	Shares held	Percentage
Associated Companies, Undertakings and Related Parties	3	24,703,382	60.03
SUMER HOLDING A.S.	1	4,114,976	10.00
INDUSTRIAL DEVELOPMENT & RENOVATION ORGANIZATION OF IRAN	1	4,114,976	10.00
PAKISTAN SECURITY PRINTING CORPORATION (PVT.) LIMITED	1	16,473,430	40.03
NIT and ICP	1	1,834,812	4.46
NATIONAL BANK OF PAKISTAN-TRUSTEE DEPARTMENT NI(U)T FUND	1	1,834,812	4.46
Directors, Chief Executive Officer and their spouses and minor children	3	21,614	0.05
SHEIKH MOHAMMAD AIJAZ AKHTAR	2	1,252	0.00
MUSTAPHA A.CHINOY	1	20,362	0.05
Executives	NIL	NL	-
Public Sector Companies and Corporations	NIL	NL	-
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas and Mutual Funds	19	9,048,528	21.99
CDC - TRUSTEE PAKISTAN STOCK MARKET FUND	1	76,522	0.19
CENTURY INSURANCE COMPANY LIMITED	1	46,296	0.11
E F U GENERAL INSURANCE LIMITED	1	525	0.00
FAYSAL BANK LIMITED	1	225,000	0.55
FIRST CAPITAL MUTUAL FUND LIMITED	1	6,900	0.02
HABIB BANK LIMITED	2	1,380	0.00
INNOVATIVE INVESTMENT BANK LIMITED	1	1,000	0.00
MERCANTILE COOPERATIVE FINANCE CORPORATION LIMITED	1	24,672	0.06
MUSLIM COMMERCIAL BANK LTD.	1	108	0.00
NATIONAL BANK OF PAKISTAN	1	1,109,673	2.70
NIB BANK LIMITED	1	151,538	0.37
PAKISTAN REINSURANCE COMPANY LIMITED	1	644,924	1.57
PREMIER INSURANCE LIMITED	1	10,611	0.03
STATE LIFE INSURANCE CORPORATION OF PAKISTAN	2	3,402,182	8.27
THE BANK OF PUNJAB	1	392,611	0.95
THE PUNJAB PROVINCIAL COOPERATIVE BANK	1	2,954,362	7.18
UNITED BANK LIMITED	1	224	0.00
General Public	1453	3,769,885	9.16
a. Local	1453	3,769,885	9.16
b. Foreign	-	-	-

Pattern of Shareholding

as at 30 June 2010

Categories of Shareholders	Number	Shares held	Percentage
Others	45	1,771,768	4.31
ADMINISTRATOR ABANDONED PROPERTIES	1	279,670	0.68
ARIF HABIB SECURITIES LIMITED	2	78,624	0.19
ASIAN SECURITIES LIMITED	1	143,783	0.35
AZEEM SERVICES (PVT.) LIMITED	1	1	0.00
CLIKTRADE LIMITED	1	1	0.00
CRESCENT SUGAR MILLS & DISTILLERY LIMITED	1	50,364	0.12
DARSON SECURITIES (PVT.) LIMITED	2	901	0.00
DAWOOD FOUNDATION	1	225,388	0.55
DURVESH SECURITIES (PVT.) LIMITED	1	57	0.00
EXCEL SECURITIES (PVT.) LIMITED	1	172	0.00
FAIR DEAL SECURITIES (PVT.) LIMITED	1	1,000	0.00
FIKREE DEVELOPMENT CORPORATION	1	3,907	0.01
GENERAL INVEST. & SECURITIES (PVT.) LIMITED	1	216	0.00
H M INVESTMENTS (PVT.) LIMITED	1	276	0.00
HORIZON INVESTMENTS (PRIVATE) LIMITED	1	77,123	0.19
INVEST AND FINANCE SECURITIES LIMITED	1	5,616	0.01
M.R. SECURITIES (SMC-PVT) LIMITED	1	9,000	0.02
MILLWALA SONS (PRIVATE) LIMITED	1	2,295	0.01
MOHAMAD AMIN BROS (PVT.) LIMITED	1	6,000	0.01
MOOSA, NOOR MOHAMMAD, SHAHZADA & CO. (PVT.) LIMITED	1	4,500	0.01
MOOSANI SECURITIES (PVT.) LIMITED	1	2,160	0.01
MUHAMMAD BASHIR KASMANI SECURITIES (PVT.) LIMITED	1	1,600	0.00
MUHAMMAD SALIM KASMANI SECURITIES (PVT.) LIMITED	1	2,000	0.00
MULTILINE SECURITIES (PVT.) LIMITED	1	7,500	0.02
N. H. SECURITIES (PVT.) LIMITED	1	37	0.00
NATIONAL INVESTMENT TRUST LIMITED	1	47,250	0.11
NATIONAL INVESTMENT TRUST LIMITED - ADMINISTRATION FUND	1	533,823	1.30
NH SECURITIES (PVT.) LIMITED	1	2,576	0.01
PAKISTAN MEMON EDUCATIONAL & WELFARE SOC	1	5,000	0.01
PRUDENTIAL SECURITIES LIMITED	1	38	0.00
RAMADA INVESTORS SERVICES LIMITED	1	67	0.00
S.H. BUKHARI SECURITIES (PVT.) LIMITED	1	645	0.00
SEVEN STAR SECURITIES (PVT.) LIMITED	1	100	0.00
TECHNOLOGY LINKS (PVT.) LIMITED	2	4,680	0.01
TIME SECURITIES (PVT.) LIMITED	1	1,500	0.00
TRUSTEES AL-BADER WELFARE TRUST	1	41,184	0.10
TRUSTEES D.G.KHAN CEMENT CO.LTD.EMP. P.F	2	103,856	0.25
TRUSTEES MOHAMAD AMIN WAKF ESTATE	1	81,672	0.20
TRUSTEES SAEEDA AMIN WAKF	1	46,500	0.11
UNITED CAPITAL SECURITIES (PVT.) LIMITED	1	614	0.00
Y.S. SECURITIES & SERVICES (PVT.) LIMITED	1	72	0.00
Total	1,524	41,149,989	100.00

Shareholders holding ten percent or more

NIL

NIL

-

Company Information

BOARD OF DIRECTORS

Executive Director

Mrs. Naiyer Muzafar Husain - Nominee - PSPC
Chairperson & Chief Executive

Non-executive Directors

Mr. Mustapha A. Chinoy - Elected Minority & Independent
Mr. Firasat Ali - Elected - NIT Minority & Independent
Mr. Mehdi Lori Amini - Iran - Nominee - IDRO Minority & Independent
Sheikh Mohammamad Aijaz Akhtar - Elected Minority & Independent
Mr. Hasan Irfaan - Nominee - PSPC
Mrs. Ayla Akin - Turkey - Nominee - SHAS Minority & Independent
Mr. Aamer Mahmood Hussain - Nominee - PSPC
Mr. Ansar Hussain - Nominee - SLIC Minority & Independent

PSPC	-	Pakistan Security Printing Corporation (Pvt.) Limited
NIT	-	National Investment Trust Limited
IDRO	-	Industrial Development and Renovation Organization of Iran
SHAS	-	Sumer Holding A.S. Genel Mudurlugu, Turkey (formerly SEKA)
SLIC	-	State Life Insurance Corporation of Pakistan

BOARD AUDIT COMMITTEE

Mustapha A. Chinoy - Chairman
Non-executive Director
Mr. Mehdi Lori Amini - Member
Non-executive Director
Mr. Hasan Irfaan - Member
Non-Executive Director
Mr. Aftab Alam - Secretary
Director Audit

BOARD HUMAN RESOURCE AND COMPENSATION COMMITTEE

Mrs. Naiyer Muzafar Husain - Chairperson
Chairperson & Chief Executive
Mr. Mustapha A. Chinoy - Member
Non-executive Director
Mr. Firasat Ali - Member
Non-executive Director
Syed Muhammad Haris - Secretary
General Manager (HR&A)

BOARD INVESTMENT COMMITTEE

Mrs. Naiyer Muzafar Husain - Chairperson
Chairperson & Chief Executive
Mr. Mustapha A. Chinoy - Member
Non-executive Director
Mr. Ansar Hussain - Member
Non-executive Director
Mr. Rizwan Ul Haq Khan - Secretary
General Manager (F&A)/CFO

Company Information

MANAGEMENT AND STRATEGIC PLAN COMMITTEE

Chairperson:

Mrs. Naiyer Muzafar Husain - Chairperson & Chief Executive

Members:

Mr. Ghulam Hussain Akhtar - Director Projects
Mr. Aftab Alam - Director Audit
Khawaja Saqib Ahmad - Sr. General Manager (Operations) & PM
Mr. Rizwan Ul Haq Khan - General Manager (F&A)/CFO
Mr. Muhammad Abdul Aleem - Company Secretary
Maj. (Retd.) Muhammad Ali Niazi - General Manager (Security)
Syed Muhammad Haris - General Manager (HR&A)
Mr. Ayaz Ahmad Qureshi - D.G.M. (Works)
Mr. Muhammad Imran Awan - D.G.M. (Production)
Mr. Shahid Hussain - D.G.M. (Purchase)
Mr. Saadat Ali - D.G.M. (QA/R&D)
Mr. Abdul Qadir Jilani - D.G.M. (Production)

BANKERS

National Bank of Pakistan
Faysal Bank Limited
Standard Chartered Bank Limited
Habib Metropolitan Bank Limited
Bank Alfalah Limited
Bank Al Habib Limited

AUDITORS

KPMG Taseer Hadi & Co.
Chartered Accountants

TAX CONSULTANTS

A. F. Ferguson & Co.
Chartered Accountants

LEGAL ADVISORS

Mohsin Tayebali & Co.
Advocates & Legal Consultants

REGISTERED OFFICE

Jinnah Avenue, Malir Halt,
Karachi-75100
Telephone: 99248285
Fax: 99248286
E-mail: splcs@cyber.net.pk
Website: <http://security-papers.com>

SHARE REGISTRAR

FAMCO Associates (Pvt.) Limited
1st Floor, State Life Building 1-A,
I. I. Chundrigar Road,
Karachi-74000.
Tel: 32427012, 32425467 & 32426597
Fax: 32426752 & 32428310

FACTORY

Jinnah Avenue, Malir Halt,
Karachi-75100
Telephone: 99248536-37
Fax: 99248616

Information on Board Committees

The following are the Board Committees, the number of meetings held by them during the year and terms of reference:

1. Board Audit Committee (BAC)

Four Meetings were held during the year.

The Board of Directors of the Company shall determine the terms of reference of the Audit Committee. The Audit Committee shall among other things, be responsible for recommending to the Board of Directors the appointment of external auditors by the Company's shareholders and shall consider any questions of resignation or removal of external auditors, audit fees and provision by external auditors of any service to the Company in addition to audit of its financial statements. In the absence of strong grounds to proceed otherwise, the Board of Directors shall act in accordance with the recommendations of the Audit Committee in all these matters.

Other terms of reference of the Audit Committee are as follows:

- a) Determination of appropriate measures to safeguard the Company's assets.
- b) Review of preliminary announcements of results prior to publication.
- c) Review of quarterly, half yearly and annual financial statements of the Company, prior to them approval by the Board of Directors focusing on:
 - Major judgmental areas
 - Significant adjustments resulting from the audit
 - The going concern assumption
 - Any changes in accounting policies and practices
 - Compliance with applicable accounting standard
 - Compliance with listing regulations and other statutory and regulatory requirements
- d) Facilitating the external audit and discussion with external auditors of major observations arising from interim and final audits and any matter that the auditors may wish to highlight (in the absence of management, where necessary).
- e) Review of management letter issued by external auditors and management's response thereto.
- f) Ensuring coordination between the internal and external auditors of the Company.
- g) Review of the scope and extent of internal audit and ensuring that the internal audit function has adequate resources and is appropriately placed within the Company.
- h) Consideration of major findings of Internal Investigations and management's response thereto.
- i) Ascertaining that the Internal Control System including financial and operational controls, accounting system and reporting structure are adequate and effective.
- j) Review of Company's statement on Internal Control System prior to endorsement by the Board of Directors.
- k) Instituting special projects, value for money studies or other investigations on any matter specified by the Board of Directors in consultation with the Chief Executive and to consider remittance of any matter to the external auditors or to any other external body.

Information on Board Committees

- l) Determination of compliance with relevant statutory requirements.
- m) Monitoring compliance with the best practices of corporate governance and identification of significant violations thereof.
- n) Consideration of any other issue or matter as may be assigned by the Board of Directors.
- o) Review of third party related transactions.

2. Board Human Resource & Compensation Committee (BHRCC)

Two meetings were held during the year.

The role of the Board Human Resource and Compensation Committee is to take a longer term view of the business that Security Papers Limited (SPL) is engaged in and to safeguard the rights of Company's shareholders and employees. Primary functions of the BHRCC are to ensure equitable and appropriate human resource policies relevant to:

- Management succession
- Employee development and resource methodologies
- Employee reward and performance management

The BHRCC consist of two non-executive Directors. The Chairperson of SPL will be the Chairperson of this Committee. The Head of Human Resource will act as the Committee's Secretary and provide relevant services.

The BHRCC will have authority to discuss any relevant matters with management and to request appropriate reports, explanations, accounts and/or activity modification.

The BHRCC Chairperson will respond to any queries relevant to the Committee's functions, at Board of Directors' meetings.

3. Board Investment Committee (BIC)

One meeting was held during the year.

The function of the BIC is to assist the Board of Directors (BoD) in their responsibilities regarding investment of funds. BIC will also assist and report on any other investment related matter(s) assigned to it by the BoD.

BIC has no executive powers relevant to recommendations made by it and therefore does not relieve the BoD of its responsibilities regarding such matters:

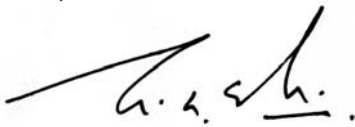
- BIC may recommend the appointment of an Investment Advisor of the Company to BoD.
- BIC may recommend investment policy of the Company to the BoD for approval.
- BIC may authorize Chairperson & Managing Director to take investment decisions as per investment policy from time to time. However, the Committee will ratify such investments in the succeeding meeting.
- For executing its duties BIC will have authority to discuss with management, any matter(s) relevant to exploring better investment opportunities.
- BIC is authorized by the Board to explore better investment proposals and other professional advice that may be necessary for the BIC to properly carry out responsibilities.

Notice of Annual General Meeting

Notice is hereby given that the Forty-fifth Annual General Meeting of Security Papers Limited will be held on Tuesday, the August 31, 2010 at 10:00 AM at The Institute of Chartered Accountants of Pakistan, Chartered Accountants Avenue, Clifton, Karachi to transact the following business:

1. To receive, consider and adopt the Audited Financial Statements of the Company for the year ended June 30, 2010 together with the Reports of the Auditors and the Directors.
2. To declare final cash dividend at the rate of Rs 5/- per share i.e. 50% for the year ended June 30, 2010 as recommended by the Board of Directors.
3. To appoint Auditors for the year 2010-11 and to fix their remuneration.

By Order of the Board


(Muhammad Abdul Aleem)
Company Secretary

Karachi,
July 29, 2010

NOTES

1. The Share Transfer Books of the Company will remain closed from August 24 to August 31, 2010 (both days inclusive). Transfers received in order at the office of our Share Registrar, M/s. FAMCO Associates (Pvt.) Limited, 1st Floor, State Life Building No.1-A, I. I. Chundrigar Road, Karachi-74000 by the close of business on August 23, 2010 will be considered in time to determine the above mentioned entitlement and to attend and vote at the Meeting.
2. A member entitled to attend and vote at this meeting may appoint any other member as his/her proxy to attend and vote on his/her behalf. The instrument appointing proxy must be received at the Registered Office of the Company duly stamped and signed not later than 48 hours before the meeting.

CDC Account Holders will further have to follow the undermentioned guidelines as laid down in Circular No.1 dated January 26, 2000 issued by the Securities & Exchange Commission of Pakistan.

A. For Attending the Meeting:

- (i) In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall authenticate his/her identity by showing his/her original Computerized National Identity Card (CNIC) or original passport at the time of attending the meeting.
- (ii) In case of corporate entity, the Board of Directors' resolution/ power of attorney with specimen signature of the nominee shall be produced (unless it has been provided earlier) at the time of the meeting.

Notice of Annual General Meeting

B. For Appointing Proxies:

- (i) In case of individuals, the account holder or sub-account holder and/or the person whose securities are in group account and their registration details are uploaded as per the Regulations, shall submit the proxy form as per the above requirement.
 - (ii) The proxy form shall be witnessed by two persons whose names, addresses and CNIC Numbers shall be mentioned on the form.
 - (iii) Attested copies of CNIC or Passport of the beneficial owners and the proxy shall be furnished with the proxy form.
 - (iv) The proxy shall produce his/her original CNIC or original Passport at the time of the meeting.
 - (v) In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature shall be submitted (unless it has been provided earlier) alongwith proxy form to the Company.
3. Members are requested to provide by mail or fax their National Tax No. (NTN) and CNIC or passport No. if foreigner (unless it has been provided earlier) to enable the Company comply with relevant laws.
 4. Members are requested to notify any change in their addresses immediately to our Share Registrar, M/s. FAMCO Associates (Pvt.) Limited, 1st Floor, State Life Building No.1-A, I. I. Chundrigar Road, Karachi-74000.

Green Environment Inside the Factory



Form of Proxy

I/We _____
of _____
being member(s) of SECURITY PAPERS LIMITED and holder of _____
Ordinary Shares as per Share Register Folio/CDC Account No. _____
hereby appoint _____ Folio/CDC Account No. _____
of _____ CNIC No. or Passport No. _____
or failing whom _____ Folio/CDC Account No. _____
of _____ CNIC No. or Passport No. _____ who is also a member
of the Company as my/our proxy to attend and vote for me/us and on my/our behalf at the 45th
ANNUAL GENERAL MEETING of the Company to be held on Tuesday, August 31, 2010 and at any
adjournment thereof.

Signed this _____ day of _____ 2010.

Witnesses: 1. Signature _____
Name: _____
Address: _____
CNIC or Passport No. _____
2. Signature _____
Name: _____
Address: _____
CNIC or Passport No. _____

Signature _____
(Signature should agree with the specimen
signature registered with the Company).
CNIC or Passport No. _____



IMPORTANT

1. This form of proxy, duly completed and signed, must be deposited at the Company's Registered Office not later than 48 hours before the meeting.
2. This form should be signed by the Member or by his/her attorney duly authorised in writing. If the Member is a Corporation, its common seal should be affixed to the instrument.
3. A Member entitled to attend and vote at the meeting may appoint any other Member as his/her proxy to attend and vote on his/her behalf except that a corporation may appoint a person who is not a Member.

For CDC Account Holders/Corporate Entities:

In addition to the above, following requirements have to be met:

- (i) The proxy form shall be witnessed by two persons whose names, addresses and CNIC or Passport Numbers shall be mentioned on the form.
- (ii) Attested copies of CNIC or Passport of the beneficial owners and the proxy shall be furnished with the proxy form.
- (iii) The proxy shall produce his/her original CNIC or original Passport at the time of the meeting.
- (iv) In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature shall be submitted (unless it has been provided earlier) alongwith proxy form to the Company.



ISO 9001:2008 &
ISO 14001:2004 Certified



Security Papers
LIMITED

REGISTERED OFFICE & SHARE DEPARTMENT
Jinnah Avenue, Malir Halt, Karachi-75100
Ph: (92)-021-99248285 Fax: (92)-021-99248286

FACTORY
Jinnah Avenue, Malir Halt, Karachi-75100
Ph: 99248536-37 Fax: 99248616