



report & accounts
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ISO 9001:2008 &
ISO 14001:2004 Certified



Security Papers
LIMITED

Major

E v e n t s

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 (<i>Obsolete PM-1 made redundant and scrapped</i>)	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
Modification and upgrading of plant	2011

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Board of Directors



Board of Directors



Mrs. Naiyer Muzafar Husain
Chairperson & Chief Executive



Mr. Mustapha A. Chinoy



Sheikh Mohammad Aijaz Akhtar



Mr. Hasan Irfan



Mrs. Ayla Akin



Mr. Ansar Hussain



Mr. Jamal Nasim



Mr. Mazhar-ul-Hassan Shah



Mr. Mohammad Reza Roshani Moghaddam

Board Meeting in Progress



Chairperson's Review

Dear shareholders,

It is indeed a matter of privilege for me to present to you the Annual Report together with the audited financial statements of the Company for the year ended June 30, 2011.

The business environment remained challenging during the financial year under review. Sharp increase in the price of cotton comber which is a major constituent of banknote paper has resulted in substantial increase in the cost of production and decline in gross margin. The revenue of the Company is largely dependent on increase in selling prices obtained from the major customer i.e. Pakistan Security Printing Corporation (Pvt.) Limited. During the year under review, price increase allowed is substantially lower than the increase in the cost of production. However, our focused strategy, reinforced cost control measures, operational efficiencies, effective risk management and financial management has significantly added to the profitability.

Production activities

The Company managed to achieve the desired output keeping in view the sales orders from its customers. No major operational problems occurred and technical matters were handled well by trained and experienced team of dedicated engineers and technicians. The Company aims at producing high quality banknote and other security papers. Keeping in view the overall objectives, all production processes are effectively monitored, corrective actions are taken and preventive measures are planned and implemented accordingly.

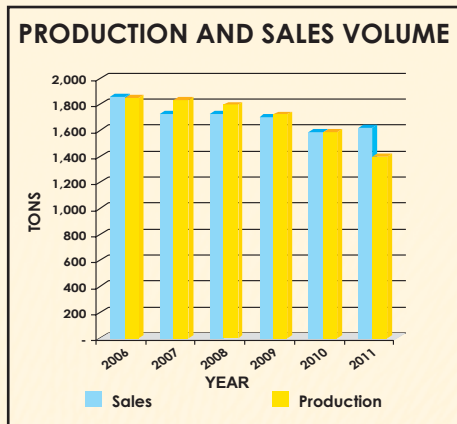
Operational Performance

Production

The Company's production during the year was 1,402 tons as against 1,587 tons in the previous year. The decrease in production of 185 tons (11.66%) is mainly due to plant upgrade followed by trial runs and extended scheduled maintenance of the plant.

Sales

The sales during the year under review have increased by Rs 150.51 million compared to last year mainly due to increased pricing. The Company achieved a sales volume of 1,622 tons as against 1,587 tons during the corresponding period. The marginal increase in sales of 35 tons (2.2%) is mainly due to additional sales orders.



Product diversification

We have continued our efforts to expand the product base to achieve economy of scales and optimize the production capacity. After completion of plant modifications and trial runs we are now able to supply cheque paper in reel form. Cheque and passport paper production is our main focus in utilizing surplus capacity. The commercial production of the cheque paper and passport paper will be started during the next financial year.

Upgrading of the Plant

In its effort to modernize and upgrade the existing plant, following projects have been commissioned during the year:

- Up-gradation of process control system PCS-7
- On-line monitoring and control of quality parameters
- Modification of equipments pertaining to finishing section
- On-line surface inspection system
- Automatic packaging line

Chairperson's Review

Moreover following Projects have been signed and are in final stages of completion, hopefully would be commissioned by middle of next financial year.

- Broke re-pulping plant
- Upgrading of mould shop machineries including automatic embossing, E-type welding and spot & seam welding

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

Co-generation Power Plant

The 2.8 mega watt co-generation power plant installed in 2009 is working satisfactorily. The plant has helped in substantially reducing the production breakdown caused due to frequent power outages. Besides, the cost of our self power generation is considerably less than the cost charged by the public utility.

Integrated Quality and Environmental Management System (IMS)

In order to ensure compliance, regular audits are conducted by in-house as well as by the external agency M/s. SGS Pakistan for the effective monitoring of the Integrated Quality and Environmental Management System of ISO 9001:2008 and ISO 14001:2004. During the year, annual surveillance audit has been carried out by M/s. SGS Pakistan for both the Quality and Environmental Management Systems who have reconfirmed the same.

Quality Management System

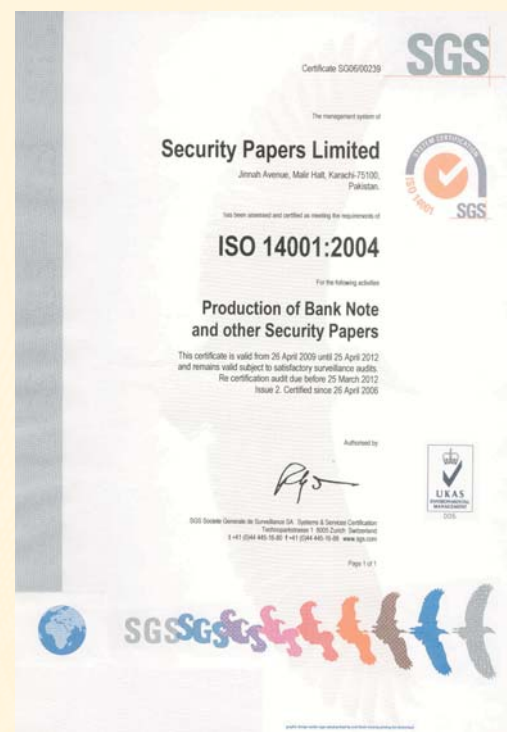
Conformance to customer specification and its continuous assurance is an integral part of our Quality Management System. All the stages of processes of production are being monitored properly, and quality of raw materials and finished products are being tested according to their standard specification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

Environmental Management System

The Company is committed to deliver quality products with minimum environmental impacts along with compliance of National Environmental Quality Standard (NEQS).

The Company has a comprehensive environmental management system (EMS), which is certified and periodically audited by M/s. SGS Pakistan. We mitigate the environmental impact by effective implementation of ISO 14001:2004 to comply applicable laws and regulations. Detailed procedures are available for the identification of environmental aspects and impact analyses.

Our efforts are directed toward providing safe and environmental friendly atmosphere not only to employees but also to the community. Processes are continually monitored to control and reduce the environmental impact.



Chairperson's Review

Environmental Reporting Award 2010

During the year, the Association of Chartered Certified Accountants - World Wildlife Fund (ACCA-WWF) Pakistan have awarded "commendation for commitment to environmental reporting 2010" to the Company.

Previously, the Company was short listed for the Pakistan Environmental Reporting Award 2009.

Research and Development (R&D)

The Company is pursuing research and development based activities. This is necessary due to continuous technology change and development and the changing preference of customers. Through R&D we also aim to reduce the process losses of the plant, increase the profitability of the product and enhance customer satisfaction.

Occupational Health, Safety and Sustainable Development

As responsible corporate citizens, ethical and sustainable development receives primary importance for the growth of business and improving profitability.

Hazards identification and risk management activities are performed and reviewed continually. All possible situations of incident or accident are analysed and preventive measures are taken to minimize them. Comprehensive training is imparted to employees in the area of health and safety. Fire fighting system is available with all necessary facilities to tackle any emergency. Medical check-up of employees is regularly carried out.

Business process re-engineering

Continuing development and deployment of information system and networks are key stimulus for re-engineering. During the year, the Company has carried out upgrading of various business processes by bringing in latest innovations and technological advancements through a team of trained professional staff. The aim of these efforts is to improve product quality, security, customer satisfaction and confidence.

Energy Conservation

Although the Company has a self co-generation power plant yet we are mindful of our obligation toward energy conservation and the energy crisis prevailing in the country. Areas having energy saving possibilities are identified and analysed for initiating energy saving projects. Employees are encouraged to switch off lighting, computer systems, electronic equipments and air-conditioners when not in use. Also heat insulation is provided in steam line and tanks to avoid the heat losses. All electrical equipments are properly maintained to save the energy.

Safety and Security

In the wake of internal and external security threats faced by the country, the Company is constantly reviewing and upgrading its safety and security system in an endeavour to protect its capital and human assets. A Crises Management Cell and Under Vehicle Surveillance System have been added to augment existing security arrangements. To enhance product security and to make the delivery of the product internationally compatible, a shrink packaging line has been commissioned. Besides, upgrading of CCTV and Access Control System has also been carried out.

Internal Audit

Internal Audit (IA) function is involved in a comprehensive pre-audit procedure covering procurements, capital expenditures and all payments. IA also closely monitors critical areas such as production

Chairperson's Review

losses, raw material costs and inventory accumulation. For the year 2011-12, IA plans to shift its focus further towards operational aspects of the Company and make a tangible contribution in terms of efficiency, quality of operations and the financial bottom line.

Risks and Challenges

Inflationary pressure continues to be a major challenge for the Company. Sharply rising raw materials and manufacturing costs are seriously affecting the Company's profitability. The increase in cost of production on multiple accounts may squeeze margins and affect the Company's profitability.

However, the Company is taking appropriate measures to face these challenges through improved planning process, operational efficiencies, expanding its product base, prudent management of funds, cost control and cost reduction.

Business Ethics and Anti-Corruption Measures

The Company has a comprehensive Code of Ethics and Business Practices. All Directors and Employees are required to certify its compliance annually. Also, the Company has a policy on detection and prevention of corruption. Authorities and responsibilities are defined and appropriately delegated for transparent operation.

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 247 million as compared to Rs 306 million during the corresponding period. In addition, the Company has also made foreign exchange savings of US\$ 15.20 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 entity ratings of Security Papers Limited (SPL) at 'AAA/A-1+' (Triple A/A-One Plus). Outlook on the medium to long term rating is 'Stable'.

Information Technology

The information technology steering committee provides guidelines and ensures oversight of the management information systems (MIS) as per the business requirements. The Company terms effective and rapid flow of information as a key to the quality management and services and recognizes information technology as the most essential tool for sustaining the business growth.

Leveraging information technology in business operations has created a significant competitive advantage. The implementation of Oracle based application facilitates new ways to achieve efficiencies in all key business processes. An awareness programme has been initiated about Oracle and greater emphasis is being laid on providing hands on training to staff for optimizing Oracle utilization. Use of Oracle applications may allow the Company to advance new ways for controlling costs and these cost savings may be passed on to the customers.

Corporate Excellence Award

It is matter of pride for the Company that the Management Association of Pakistan (MAP) has awarded 27th Corporate Excellence Award trophy to the Company in Miscellaneous Sector.

The Corporate Excellence Awards are conferred by the MAP, a premier body of professional managers and entrepreneurs, with an objective to recognize the listed companies which excel in corporate and management practices.

Chairperson's Review

This award is considered the most prestigious accolade in the corporate sector. The quality of management practices of the companies in different areas like corporate governance, planning human resources, production management, R&D and regard for social responsibilities are appraised by the MAP.

The Company already holds 24th, 25th and 26th Award.

Best Corporate Report Award

The Annual Report - 2003 and 2006 to 2009 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

Corporate governance rating is based on evaluation of key governance elements of the rated enterprise, which includes Ownership Structure, Regulatory Compliance, Composition and Operations of the Board of Directors and Executive Management, Financial Transparency, Self-Regulation, and Stakeholder Relations. The rating is measured on a scale ranging from CGR-1 (lowest) to CGR-10 (highest).

Because of the increasing need to highlight differences in governance practices of companies within the same rating band, JCR-VIS has expanded the corporate governance rating scales. Accordingly, ratings from 1 to 9 have been appended with the symbol '+' and '++'. The definition associated with each rating band will remain the same. Accordingly, the Company has been assigned a rating of CGR-8+ in place of previous rating of CGR-8.

During the year, JCR-VIS Credit Rating Company Limited has reaffirmed the Corporate Governance Rating of the Company at CGR-8+ denoting 'high level of corporate governance'.

Top Companies Award

During the year under review the Company has received Top Companies Award of the Karachi Stock Exchange for the year 2009. The Awards for the year 2000 to 2007 were also received by the Company.

The Award is conferred on the basis of comprehensive criteria, which includes dividend payout, return on equity, compliance with listing regulations and good corporate governance.

Corporate Social Responsibility (CSR)

The Company is a socially responsible organization. It supports charities, community projects and other noble causes. In the year 2010-11, Corporate Social Responsibility donations were made to the following Non Government Organizations/Non Profit Organizations:

- Friends of Burn Centre (FOBC) - Donation for Ventilator
- SOS Children Villages of Sindh - Donation for complete Winter uniform and accessories
- Sindh Institute of Urology and Transplantation (SIUT)
- Layton Rahmatulla Benevolent Trust (LRBT)
- Dowites'78 OT Complex - Civil
- Nigahban Welfare Association
- Koohi Goath Hospital

Chairperson's Review

The Company was actively involved in the flood relief activity during the year. Truck loads with the essential food items were sent to affected areas. Also, pillows, quilts, duvet beddings and tents with complete accessories were delivered to the homeless people in the district of Shahdaddock, Sindh.

Human Resource and Administration

The Company believes that finding, hiring and retaining good employees are enabling factors for the success of the organization. We have a team of appropriately qualified, trained and experienced employees who are capable to deliver the performance expected from them.

We also provide positive and innovative work environment for all employees of the Company.

Training and Organizational Development under Professional Development Program (PDP)

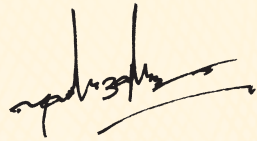
We place special emphasis on training and organizational development in order to upgrade and maintain alignment, increase efficiencies in processes, adopt new technologies and methods. For this purpose, various comprehensive training programs were arranged to increase quality and quantity of work performance, enhance knowledge, skills and positive attributes, increase job satisfaction and decrease wastages and productivity losses.

New employees have attended on the job training and orientation programs. This helps them to maintain and improve job skills while prepares them for jobs requiring greater skills with improved interpersonal skills.

Employees identified in line with training need analyses, were sent to attend relevant training programs in reputable organizations. After acquiring trainings, employees shared the knowledge through conducting the same training within the Company to develop more employees, under the concept of train the trainer and for the purpose of evaluation and feedback.

Acknowledgement

I am proud of my team of officers and workers who performed very well to achieve sustained results under difficult economic and business conditions. I am also thankful to the members of the Board of Directors of the Company, shareholders, customers, bankers and other stakeholders.



MRS. NAIYER MUZAFAR HUSAIN
Chairperson & Chief Executive

Karachi

Dated: July 27, 2011

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, 2011.

Financial Results

The operating results of the Company for the year ended June 30, 2011 are summarized as follows:

	2011	2010
	(Rupees in '000)	
Profit before taxation	421,528	520,257
Taxation		
Current - for the year	25,347	159,346
Current - for prior Year	(405)	(74)
	24,942	159,272
Deferred	81,510	12,894
	106,452	172,166
Profit after taxation	315,076	348,091

Subsequent Appropriations

The Directors have recommended (i) final cash dividend of Rs 5/- per share, i. e. 50% (2010: Rs 5/- per share, i.e. 50%) and appropriation of Rs 109.00 million (2010: Rs 142.30 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 at Rs 10.24 and Rs 7.66 (2010: Rs 12.64 and Rs 8.46) respectively.

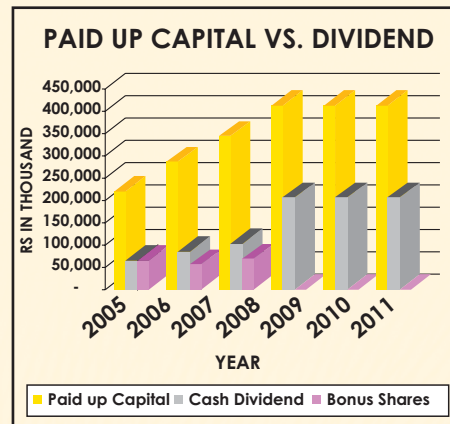
Operating Results

During the year under review, the net sales revenue is higher by Rs 150.51 million as compared to the previous year mainly due to increase in product pricing.

The Company earned a gross profit of Rs 344.00 million during the year under review as compared to Rs 458.18 million in the previous year. The decrease in gross profit during the current year as compared to the corresponding year is mainly attributable to sharp increase in the price of cotton comber which is a major constituent of banknote paper.

Other operating income increased by Rs 44.10 million during the current year as compared to the previous year mainly due to effective financial management.

The profit after tax of Rs 315.07 million has been earned for the year as compared to Rs 348.09 million during the previous year. The decline in Company's profitability during the year under review is mainly due to rising costs of raw materials and manufacturing overheads.



Directors' Report

Market and book value per share

The book value per share stood at Rs 78.25 as against Rs 75.59 in the previous year. The before and after tax return on equity was 13.09% and 9.78% compared to 16.72% and 11.19% in the corresponding period respectively.

The average market price during the year remained at Rs 42.20 (2010: Rs 52.10) per share. The market price as of June 30, 2011 was Rs 40.50 (2010: Rs 42.99).

Cash Flow Management

During the year under review an amount of Rs 234.68 million was generated from the operating activities of the Company and Rs 404.94 million obtained through external financing. The Company made an outlay of Rs 586.22 million (2010: Rs 88.54 million) on account of capital expenditure and paid Rs 205.75 million as dividend to the shareholders.

Long term debt equity and current ratios

The long term debt-equity and the current ratios of the Company as at June 30, 2011 were 1:5.8 and 4.9:1 (2010:1:20 and 6.46:1) 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.

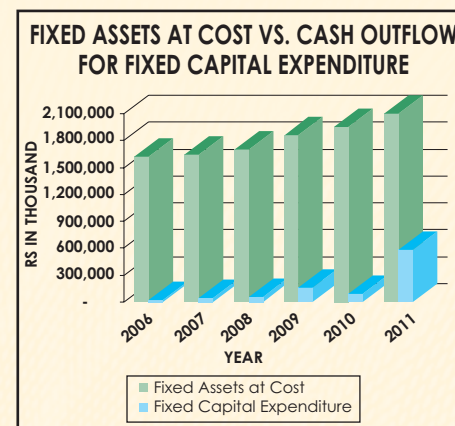
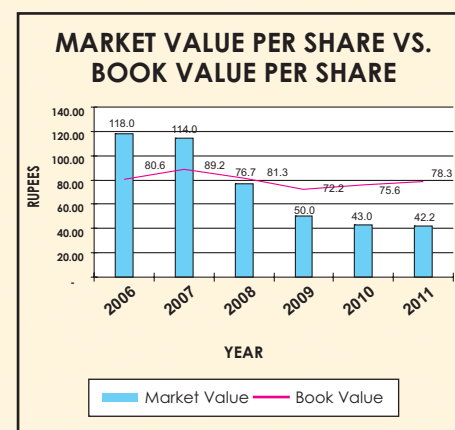
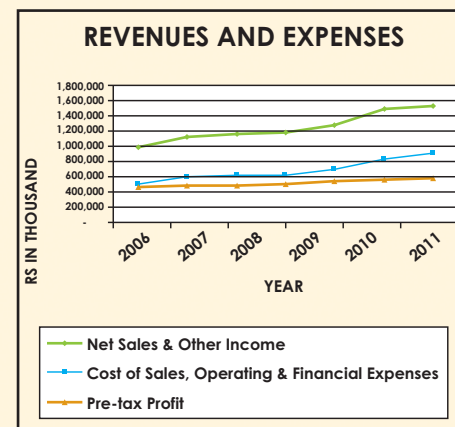
Financial Statements

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 2011-12.



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. Wazir Ali Khoja (Non-Executive Director Elected Nominee-NIT)	Mr. Firasat Ali (Non-Executive Director Elected Nominee-NIT)
Mr. Jamal Nasim (Non-Executive Director Elected Nominee-NIT)	Mr. Wazir Ali Khoja (Non-Executive Director Elected Nominee-NIT)
Mr. Mazhar-ul-Hassan Shah (Non-Executive Director Elected Nominee-PSPC)	Mr. Aamer Mahmood Hussain (Non-Executive Director Elected Nominee-PSPC)
Mr. Mohammad Reza Roshani Moghaddam (Non-Executive Director Elected Nominee-IDRO)	Mr. Mehdi Lori Amini (Non-Executive Director Elected Nominee-IDRO)

Board Human Resource & Compensation Committee

Incoming	outgoing
Sheikh Mohammad Ajaz Akhtar (Non-Executive Director Elected)	Mr. Firasat Ali (Non-Executive Director Elected Nominee-NIT)

Board Audit Committee

Incoming	outgoing
Mr. Ansar Hussain (Non-Executive Director Elected Nominee-SLIC)	Mr. Mehdi Lori Amini (Non-Executive Director Elected Nominee-IDRO)

The Board welcomes the new member and appreciates the contribution of the outgoing member 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 47).

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.
- The 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.
- There are no significant doubts upon the Company's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance as detailed in the Listing Regulations.

Directors' Report

- 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 238.22 million (ii) Gratuity Fund Rs 199.13 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	5
Mr. Firasat Ali	2	1
Mr. Mehdi Lori Amini - (Iran)	4	3
Sheikh Mohammad Aijaz Akhtar	7	5
Mr. Hasan Irfaan	7	7
Mrs. Ayla Akin - (Turkey)	7	0
Mr. Aamer Mahmood Hussain	4	2
Mr. Ansar Hussain	7	7
Mr. Wazir Ali Khoja	1	0
Mr. Jamal Nasim	4	3
Mr. Mazhar-ul-Hassan Shah	3	3
Mr. Mohammad Reza Roshani Moghaddam - (Iran)	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

The Gross Domestic Product (GDP) growth for 2010-11 is estimated to remain at around 2.4 percent compared to the target of 4.5 percent. The setback is attributable to the agriculture sector which was badly affected by floods. Large-scale manufacturing remained victim of power outages and lower domestic demand. The CPI inflation in July-May 2010-11 has escalated by 14.0 percent as against 11.6 percent in the corresponding period. The Wholesale Price Index (WPI) inflation is primarily driven by inordinate spike in cotton prices. The domestic environment is still affected by the intensification of war on terror and volatile security situation while external environment is affected by uncertainties surrounding external inflows and oil prices.

Future Prospects and Outlook

Security Papers Limited has achieved outstanding success in producing high quality banknote and other security papers. The Company on its part is geared up to face the future with a positive outlook through plant upgrade, product diversification, improving efficiencies, cost effectiveness, cost control and an appropriate price increase for its products. During the current year cost of production increased substantially due to increase in the prices of raw materials i.e. cotton comber. However, a declining trend has been observed subsequently and it is hoped that this trend will continue during the next financial year. Whereas inflationary pressures are expected to remain dominant, the profitability of the Company during the financial year 2011-12 will largely depend on the availability of raw materials at appropriate prices, positive business environment and growth oriented policies of the Government.

Chairperson's Review

The Board of Directors endorse the contents of the Chairperson's Review annexed (page 7).
 On behalf of the Board of Directors


MRS. NAIYER MUZAFAR HUSAIN
 Chairperson & Chief Executive

Karachi
 Dated: July 27, 2011

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 32 year 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, Director: National Bank Modaraba Management Company Limited.



MR. MUSTAPHA A. CHINYOY
Non-Executive Director

Mr. Mustapha A. Chinoy 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: (i) Travel Solutions (Pvt.) Limited and (ii) Global E Com Services (Pvt.) Limited, Director: (i) International Industries Limited (ii) International Steels Limited (iii) Pakistan Cables Limited (iv) Binary Vibes (Pvt.) Limited and (v) Intermark (Pvt.) Limited

Profile of the Members of the Board of Directors



SHEIKH MOHAMMAD AIJAZ AKHTAR
Non-Executive Director

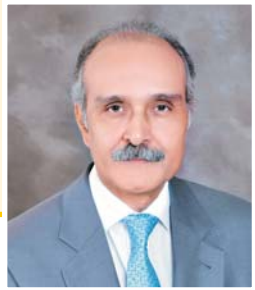
Sheikh Mohammad Aijaz Akhtar is on the Board of Directors Since 2006. He was elected to the Board of Directors in 2008.

Being a Non-Executive Director, he is also Member of Board Human Resource & Compensation Committee.

He is a Graduate (B.Sc.).

Sheikh Aijaz has about 38 year 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 25 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 about nine 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 high 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 a Graduate from Ankara University.

Mrs. Akin has over 25 year experience in government service.

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



MR. ANSAR HUSSAIN
Non-Executive Director

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

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

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

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

He is presently serving as General Manager in SLIC.

Other Directorship: (i) Alpha Insurance Co. Limited, (ii) Shahtaj Sugar Mills Limited, (iii) Nina Industries Limited, (iv) State Life Abdullah Haroon Properties (Pvt.) Limited and (v) State Life Lackie Road Properties Limited.

Profile of the Members of the Board of Directors



MR. JAMAL NASIM
Non-Executive Director

Mr. Jamal Nasim was appointed to the Board of Directors in 2010.

He is a Non-Executive Director being nominee of National Investment Trust Limited (NIT).

After having Bachelor of Commerce, he has done MBA from The Asian Institute of Management, Manila, Philippine.

Mr. Nasim has about 30 years professional experience in Banking, Finance and Audit fields.

He had been an ardent debater with a passion for poetry. He has taken part in declamation contests and won numerous prizes, gold medal and certificate of honour. He is fond of socializing and reading.

Presently he is Managing Director of Industrial Development Bank of Pakistan (IDBP).

Other Directorship: Managing Director: (i) Industrial Development Bank of Pakistan (IDBP)
Directors: (ii) Ellcot Spinning Mills Limited, (iii) Fazal Cloth Mills Limited, (iv) Mitchell's Fruit Farms Limited, (v) National Investment Trust Limited and (vi) National Bank Modaraba.



MR. MAZHAR-UL-HASSAN SHAH
Non-Executive Director

Mr. Mazhar-ul-Hassan Shah was appointed to the Board of Directors in 2011 as Non-Executive Director, being nominee of PSPC.

He is M.Sc. (Pakistan Studies). He has done Management course on 'Public Policy' from National School of Public Policy (NSPP).

Mr. Mazhar has about 10 year professional experience in the public sector gaining in depth knowledge of Government working systems and procedures. He is presently working with Ministry of Finance, Government of Pakistan.

Reading books and hiking are his hobbies.

Profile of the Members of the Board of Directors



MR. MOHAMMAD REZA ROSHANI MOGHADDAM
Non-Executive Director

Mr. Mohammad Reza Roshani Moghaddam is appointed to the Board of Directors in the year 2011.

He is Non-Executive Director, being nominee of Industrial Development & Renovation Organization of Iran (IDRO).

He is B.S in Mechanical Engineering from Sharif Industrial University and M.A. in MBA from Industrial Management Institute.

Mr. Roshani has more than 25 years rich experience in the fields of Machinery Design, Industrial Projects Management, Automotive and Oil & Gas field, etc.

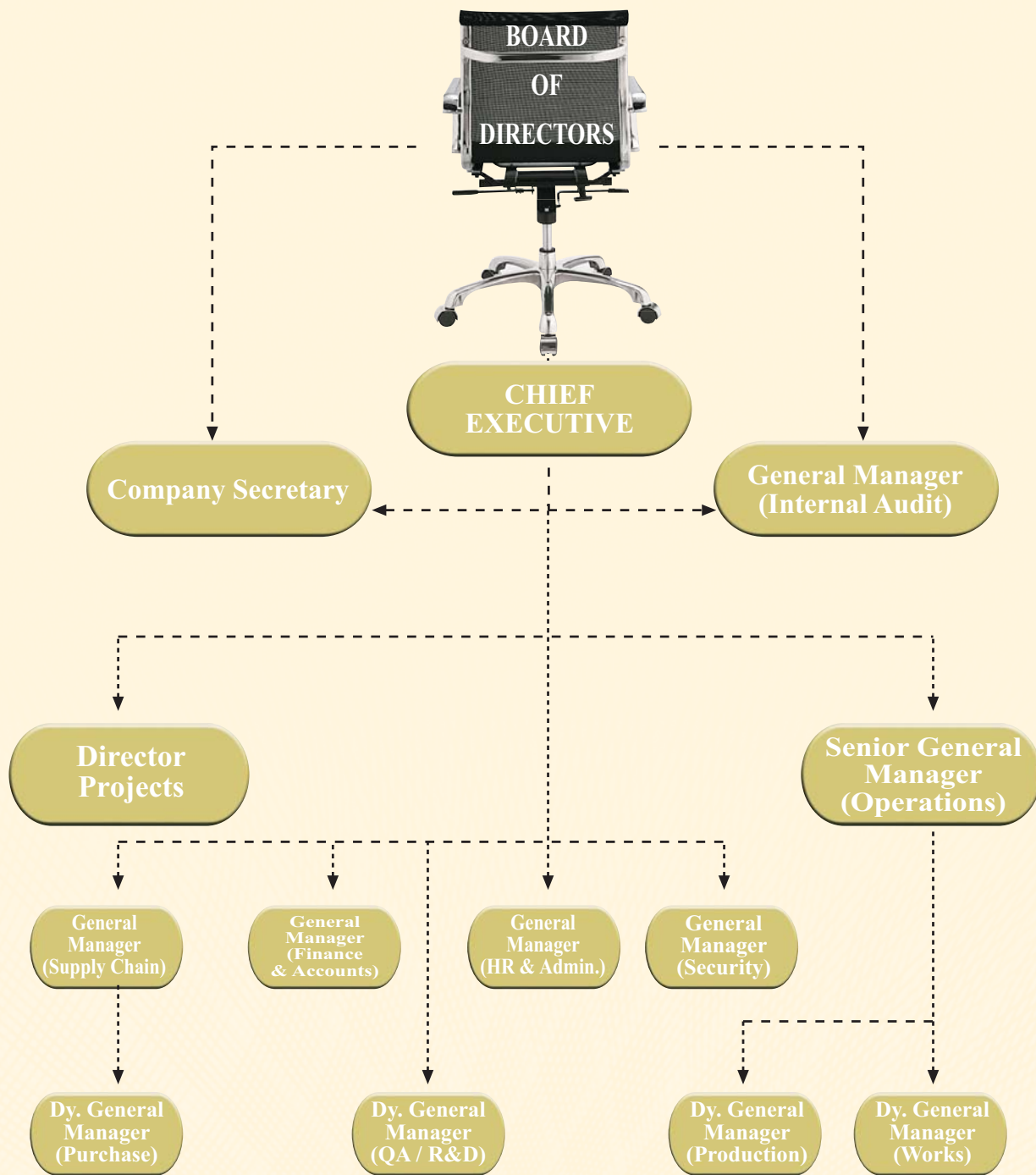
He has worked in the senior management positions with (i) Vice Chairman of J.T.s Co., (ii) Chairman of Soyaab Sanat Co., (Manufacturer of DC Motors), (iii) Chairman of Sardsaaz Khodro Co. (Manufacturer of A/C Systems), (iv) Chairman of Mavad Karan Co. (Gas Turbine Blade Manufacturer), (v) Board member and Vice President of Saipa Automotive Manufacturing Group, (vi) Chairman of Mega Motor Co., (Automotive Power Train Manufacturer), (vii) Vice Chairman of Pars Khodro Co., (Automotive Manufacturer), (viii) Board member of Renault Pars Co., (Joint venture between IDRO and Renault), (ix) CEO of Mega Motor Co. and (x) President of TYCO (E.P.C. Contractor).

Other Directorships: Presently he is (i) Vice President of IDRO, (ii) Chairman of Saipa Kashan, (Automotive Manufacturer), (iii) Vice Chairman of AIRC Co., (R&D for Automotive Industries) and (iv) Chairman of RTI {Metro engineering, procurement, construction and installation (EPC) Contractor}.

Mr. Roshani is married and has three children.

He is widely traveled.

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.

Vision Statement

"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."



Mission 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."

Security Papers
LIMITED



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

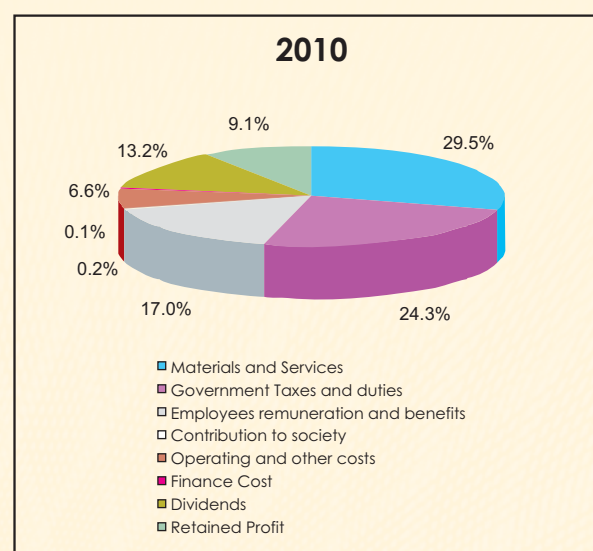
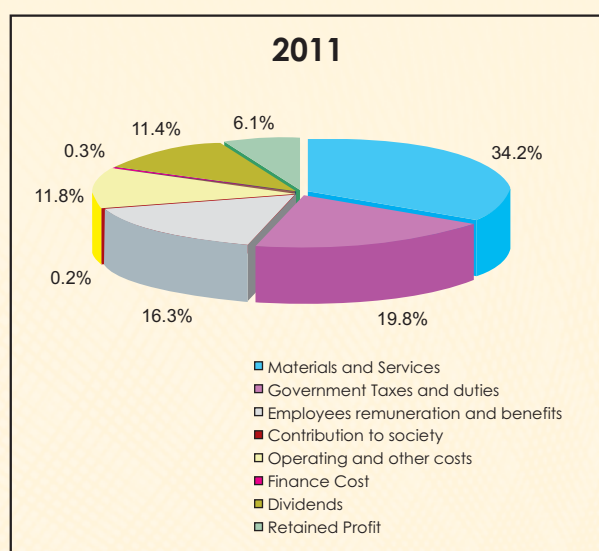
- a. **Providing Customer Satisfaction by serving with quality products, security paper needs of national and international customers.**
- b. **Ensuring Quality Manufacturing by production of state-of-the-art security paper products with highest quality at lowest cost.**
- c. **Detering Counterfeiting 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

	2011	%	2010	%
VALUE ADDITION				
(Rupees in '000)				
Net Sales including Taxes	1,544,289	85.7%	1,348,437	86.3%
Other Operating Income	257,621	14.3%	213,518	13.7%
	1,801,910	100%	1,561,955	100%
VALUE DISTRIBUTION				
Materials and Services	615,380	34.2%	460,976	29.5%
Government Taxes and duties	355,987	19.8%	378,675	24.3%
Employees remuneration and benefits	293,298	16.3%	264,826	17.0%
Contribution to society	4,103	0.2%	3,408	0.2%
Operating and other costs	211,801	11.8%	104,138	6.70%
Finance Cost	6,265	0.3%	1,841	0.1%
Dividends	205,750	11.4%	205,750	13.2%
Retained Profit	109,326	6.1%	142,341	9.1%
	1,801,910	100%	1,561,955	100%



Key Operating and Financial Data

PARTICULARS	(Rupees In '000)					
	2011	2010	2009	2008	2007	2006
Financial Position						
Fixed Assets - Net	1,713,993	1,244,364	1,264,704	1,205,059	1,244,199	1,310,034
Investments	-	-	-	-	24,711	167,043
Other Assets	17,436	17,258	16,757	16,296	15,490	14,669
	1,731,429	1,261,622	1,281,461	1,221,355	1,284,400	1,491,746
Current Assets	2,564,953	2,372,344	2,166,062	1,973,044	1,543,842	1,000,458
Current Liabilities	520,822	367,021	337,016	310,448	217,863	148,242
Working Capital	2,044,131	2,005,323	1,829,046	1,662,596	1,325,979	852,216
Less: Long Term & Deferred Liabilities	3,775,560	3,266,945	3,110,507	2,883,951	2,610,379	2,343,962
Shareholders' Equity	555,549	156,260	140,616	96,478	62,601	40,825
	3,220,011	3,110,685	2,969,891	2,787,473	2,547,778	2,303,137
Paid-up-Capital	411,499	411,499	411,499	342,916	285,763	219,818
Reserves	2,808,512	2,699,186	2,558,392	2,444,557	2,262,015	2,083,319
Capital Employed	3,220,011	3,110,685	2,969,891	2,787,473	2,547,778	2,303,137
Trading Results						
Sales - Net of taxes	1,303,019	1,152,511	1,129,070	1,024,221	953,914	960,579
Gross Profit	344,000	458,179	460,262	466,500	455,166	465,248
Profit after Admn. & General Expenses	215,188	353,466	384,934	404,803	402,948	414,591
Other Income/Finance & Other Costs	206,340	166,791	108,377	72,649	51,215	21,371
Profit before Tax	421,528	520,257	493,211	477,452	454,163	435,962
Taxation	106,452	172,166	161,056	180,031	156,940	40,344
Profit after Tax	315,076	348,091	332,155	297,421	297,223	395,618
Investors Information						
Dividend *						
Cash - Value	205,750	205,750	205,750	102,875	85,729	65,945
Cash - %	50.00%	50.00%	50.00%	30.00%	30.00%	30.00%
Bonus - Value	-	-	-	68,583	57,153	65,945
Bonus - %	-	-	-	20.00%	20.00%	30.00%
Profit retained in Business - Value	109,326	142,341	126,405	125,963	154,341	263,728
Retention - %	34.70%	40.89%	38.06%	42.35%	51.93%	66.66%
Gross Profit to Sales %	26.40%	39.75%	40.76%	45.55%	47.72%	48.43%
EBITDA (Rs '000)	549,987	636,622	598,791	579,244	552,803	531,671
EBITDA Margin to Sales %	42.21%	55.24%	53.03%	56.55%	57.95%	55.35%
Profit before Tax to Sales %	32.35%	45.14%	43.68%	46.62%	47.61%	45.39%
Profit after Tax to Sales %	24.18%	30.20%	29.42%	29.04%	31.16%	41.19%
Return on Equity - before tax %	13.09%	16.72%	16.61%	17.13%	17.83%	18.93%
Return on Equity - after tax %	9.78%	11.19%	11.18%	10.67%	11.67%	17.18%
Return on Capital Employed %	8.35%	10.65%	10.68%	10.31%	11.39%	16.88%
Return on Assets - before tax %	9.81%	14.32%	14.31%	14.95%	16.06%	17.49%
Return on Assets - after tax %	7.33%	9.58%	9.63%	9.31%	10.51%	15.87%
Total Assets Turnover %	30.33%	31.71%	32.75%	32.06%	33.73%	38.54%
Stock Turnover - No. of Days	136	163	146	164	146	116
Debtor turnover Ratio - No. of Days	66	67	77	61	29	36
Creditor turnover Ratio - No. of Days	26	35	42	27	14	13
Operating Cycle	176	195	181	188	160	139
Current Ratio	4.92:1	6.46:1	6.43:1	6.36:1	7.09:1	6.75:1
Quick Ratio	4.24:1	5.49:1	5.65:1	5.47:1	6.04:1	5.60:1
Cash to Current Liabilities	0.07:1	0.14:1	0.35:1	1.15:1	1.85:1	4.45:1
Cash flow from operations to Sales	0.18:1	0.25:1	0.26:1	0.13:1	0.40:1	0.42:1
Long Term Debt to Equity	0.102:1	0.003:1	0.00:1	0.00:1	0.00:1	0.00:1
Long Term Debt to Asset	0.076:1	0.003:1	0.002:1	0.002:1	0.000:1	0.000:1
Debt Equity Ratio	1.6	1.20	1.21	1.29	1.40	1.49
Interest cover ratio	86:1	340:1	335:1	1,099:1	4,387:1	3,127:1
No. of Shares in issue - (Rs '000)	41,150	41,150	41,150	34,292	28,576	21,982
Bonus Shares Issued - No.	-	-	-	6,858	5,715	6,595
Cash Dividend per share (Rs)	5.00	5.00	5.00	3.00	3.00	3.00
Earning per share - before tax (Rs)	10.24	12.64	11.99	11.60	11.04	10.59
Earning per share - after tax (Rs)	7.66	8.46	8.07	7.23	7.22	9.61
Break-up value per share (Rs) :						
- Without Surplus on Revaluation on Fixed Assets	78.25	75.59	72.17	67.74	61.91	55.97
- With Surplus on Revaluation on Fixed Assets						
Price Earning Ratio - Year end Price (Rs)	5.29	5.08	6.19	10.61	15.78	12.27
Earning Yield - Year end Price (Rs)	18.91%	19.68%	16.14%	9.43%	6.34%	8.15%
Dividend Payout %	65.30%	59.11%	61.94%	57.65%	48.07%	33.34%
Dividend Yield - Year end Price %	12.35%	11.63%	10.00%	6.52%	4.39%	5.08%
Dividend Cover - Times	1.53	1.69	1.61	1.73	2.08	3.00
Market Capitalization - Year end Price - Rs '000	1,666,571	1,769,034	2,057,495	2,628,794	3,256,269	2,593,876
SHARE PERFORMANCE						
Share Price - Highest (Rs)	50.40	64.71	83.50	143.75	142.85	147.00
Share Price - Lowest (Rs)	34.00	39.50	35.50	75.05	78.15	114.00
Share Price - Average (Rs)	42.20	52.11	59.50	109.40	110.50	130.50
Share Price - At year end (Rs)	40.50	42.99	50.00	76.66	113.95	118.00
Turnover of shares	2,215,905	2,383,636	1,068,200	4,295,000	1,417,100	850,200
PRODUCTION (Ton)						
Actual Production						
Banknote Paper	1,199	1,423	1,424	1,627	1,709	1,729
Non-Banknote Paper	203	164	300	171	130	126
Total	1,402	1,587	1,724	1,798	1,839	1,855
SALES (Ton)						
Banknote Paper	1,433	1,416	1,415	1,561	1,601	1,648
Non-Banknote Paper	189	171	293	171	129	210
	1,622	1,587	1,708	1,732	1,730	1,858
CASH FLOW SUMMARY						
Cash Flows from Operating activities	234,684	286,335	288,243	129,742	379,901	400,358
Net cash used in investing activities	(441,575)	(144,602)	(421,147)	(88,157)	(570,047)	(111,028)
Net cash used in financing activities	194,726	(211,364)	(105,782)	(87,488)	(66,004)	(109,193)
Cash and cash equivalents at beginning of the year	49,757	119,388	358,074	403,977	660,127	479,990
Cash and cash equivalents at end of the year	37,592	49,757	119,388	358,074	403,977	660,127

* 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

BALANCE SHEET

ASSETS

Non-current assets

Property, plant and equipment	37.74%	-1.61%	4.95%	-3.15%	-5.03%	-4.59%
Long-term deposits	1.03%	2.99%	2.83%	5.20%	5.60%	-0.09%
Investments	-	-	-	-100.00%	-85.21%	544.33%

Current assets

Stores, spares and loose tools	-9.82%	17.19%	12.21%	27.78%	34.94%	33.68%
Stock-in-trade	-0.14%	36.86%	-4.39%	19.78%	34.57%	18.17%
Trade debts - considered good	60.75%	-30.06%	9.90%	314.16%	-41.02%	-2.26%
Advances, deposits, prepayments and other receivables	-59.34%	-31.82%	2.02%	153.22%	43.57%	36.49%
Accrued mark-up	101.05%	285.03%	219.41%	81.50%	-33.51%	518.51%
Loans, receivables & Investments	-4.45%	6.39%	19.68%	16.36%	109.55%	44.46%
Cash and bank balances	-24.45%	-28.29%	-56.10%	-11.68%	-3.32%	19.47%

Total assets	18.23%	5.41%	7.92%	12.95%	13.48%	13.72%
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LIABILITIES

Current liabilities

Current portion of Long term liabilities - Lease/Loan	4334%	26.34%	23.24%	100.00%	-	-
Trade and other payables	46.81%	13.05%	19.01%	36.29%	0.77%	10.27%
Accrued mark-up on short term finance - secured	10377%	544.44%	125.00%	-50.00%	100.00%	-
Taxation - net	-32.71%	2.76%	-3.64%	48.94%	247.98%	-46.09%

Non-current liabilities

Liabilities against asset subject to finance lease	19.85%	41.14%	37.89%	100.00%	-	-
Long Term Finance	100%	-	-	-	-	-
Deferred taxation - net	55.52%	9.63%	46.17%	46.37%	53.34%	108.96%

Total liabilities	105.70%	9.56%	17.38%	45.09%	48.34%	4.90%
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NET ASSETS

Issued, subscribed and paid-up capital	0.00%	0.00%	20.00%	20.00%	30.00%	0.00%
General reserve	6.05%	5.69%	6.00%	7.95%	15.68%	11.40%
Unappropriated profit	-9.47%	4.77%	11.66%	0.01%	-24.81%	40.33%
Surplus on re-measurement of investments classified as 'available for sale'	0.00%	-100.00%	-96.80%	137.23%	189.73%	661.41%

SHAREHOLDER'S EQUITY	3.51%	4.74%	6.54%	9.41%	10.62%	14.51%
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Total liabilities & Shareholder Equity	18.23%	5.41%	7.92%	12.95%	13.48%	13.72%
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Profit & Loss Account

Sales - net	13.06%	2.08%	10.24%	7.37%	-0.69%	-2%
Cost of sales	38.12%	3.82%	19.92%	11.82%	0.69%	1.78%
Gross profit	-24.92%	-0.45%	-1.34%	2.49%	-2.17%	-5.68%
Administration and general expenses	23.01%	38.83%	22.26%	18.15%	3.08%	-2.72%
Other operating income	20.66%	5.48%	80.18%	27.81%	38.61%	203.43%
Other operating charges	-2.41%	-51.20%	126.08%	7.14%	-12.69%	34.18%
Impairment loss on 'available for sale' investment	67.03%	-55.75%	100.00%	-	-	-
Operating profit	-18.05%	5.48%	3.56%	5.21%	4.16%	1.21%
Finance costs	239.79%	4.92%	239.09%	318.25%	-25.88%	58.88%
Profit before taxation	-18.98%	5.48%	3.30%	5.13%	4.17%	1.20%
Taxation - net	-38.17%	6.90%	-10.54%	14.71%	289.00%	-72.93%
Profit after taxation	-9.48%	4.80%	11.68%	0.07%	-24.87%	40.42%

Vertical Analysis

BALANCE SHEET

ASSETS

Non-current assets

Property, plant and equipment	39.89%	34.24%	36.68%	37.72%	43.99%	52.57%
Long-term deposits	0.41%	0.47%	0.49%	0.51%	0.55%	0.59%
Investments	0.00%	0.00%	0.00%	0.00%	0.87%	6.70%

Current assets

Stores, spares and loose tools	2.01%	2.63%	2.37%	2.28%	2.01%	1.69%
Stock-in-trade	8.32%	9.85%	7.58%	8.56%	8.07%	6.81%
Trade debts - considered good	7.60%	5.59%	8.42%	8.27%	2.26%	4.34%
Advances, deposits, prepayments and other receivables	0.21%	0.62%	0.97%	1.02%	0.46%	0.36%
Accrued mark-up	7.89%	4.64%	1.27%	0.43%	0.27%	0.46%
Loans, receivables & Investments	32.80%	40.58%	40.21%	36.26%	35.20%	19.06%
Cash and bank balances	0.87%	1.37%	2.01%	4.95%	6.33%	7.43%

Total assets	100%	100%	100%	100%	100%	100%
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LIABILITIES

Current liabilities

Current portion of liabilities against asset subject to finance lease	2.14%	0.06%	0.05%	0.04%	0.00%	0.00%
Trade and other payables	7.61%	6.13%	5.71%	5.18%	4.29%	4.84%
Accrued mark-up on short term finance - secured	0.14%	0.00%	0.00%	0.00%	0.00%	0.00%
Taxation - net	2.23%	3.91%	4.01%	4.49%	3.41%	1.11%

Non-current liabilities

Liabilities against asset subject to finance lease	0.26%	0.26%	0.19%	0.15%	0.00%	0.00%
Long Term Finance	7.35%	0.00%	0.00%	0.00%	0.00%	0.00%
Deferred taxation - net	5.31%	4.04%	3.88%	2.87%	2.21%	1.64%

Total liabilities	25.05%	14.40%	13.85%	12.74%	9.92%	7.59%
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NET ASSETS

Issued, subscribed and paid-up capital	9.58%	11.32%	11.94%	10.73%	10.10%	8.82%
General reserve	58.03%	64.70%	64.53%	65.70%	68.74%	67.43%
Unappropriated profit	7.33%	9.58%	9.64%	9.32%	10.52%	15.88%
Surplus on re-measurement of investments classified as 'available for sale'	0.00%	0.00%	0.04%	1.52%	0.72%	0.28%
SHAREHOLDER'S EQUITY	74.95%	85.60%	86.15%	87.26%	90.08%	92.41%

Total liabilities & Shareholder Equity	100%	100%	100%	100%	100%	100%
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Profit & Loss Account

Sales - net	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of sales	73.60%	60.25%	59.24%	54.45%	52.28%	51.57%
Gross profit	26.40%	39.75%	40.76%	45.55%	47.72%	48.43%
Administration and general expenses	9.89%	9.09%	6.68%	6.02%	5.47%	5.27%
Other operating income	19.77%	18.53%	17.93%	10.97%	9.21%	6.60%
Other operating charges	3.24%	3.75%	7.84%	3.82%	3.83%	4.36%
Impairment loss on 'available for sale' investment	0.21%	0.14%	0.33%	-	-	-
Operating profit	32.84%	45.30%	43.84%	46.67%	47.62%	45.40%
Finance costs	0.49%	0.16%	0.16%	0.05%	0.01%	0.02%
Profit before taxation	32.35%	45.14%	43.68%	46.62%	47.61%	45.39%
Taxation - net	8.17%	14.94%	14.26%	17.58%	16.45%	4.20%
Profit after taxation	24.18%	30.20%	29.42%	29.04%	31.16%	41.19%

Corporate Social Responsibility

DONATIONS

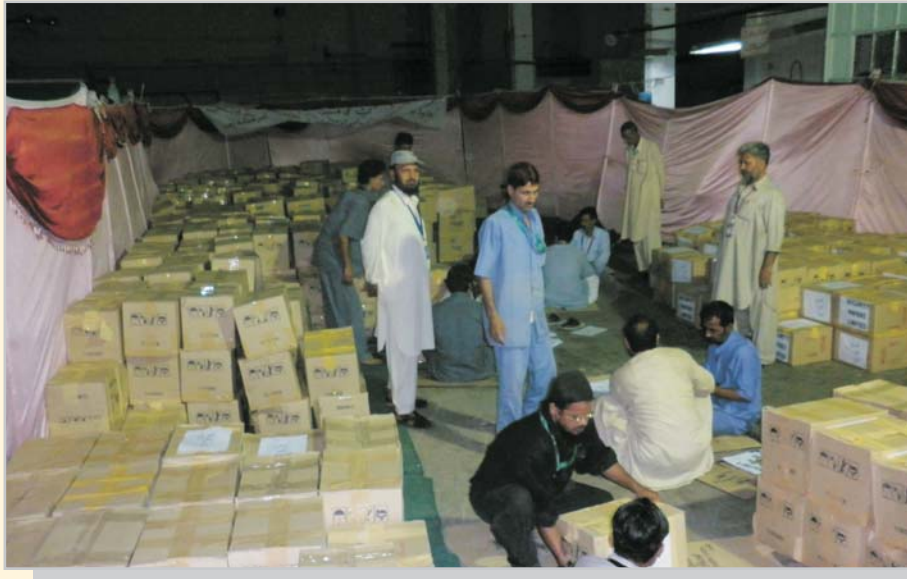


To SOS children Village



To Friends of Burns Center

Corporate Social Responsibility FLOOD RELIEF ACTIVITY



At the SPL Factory



At the relief camp

Management Review

ISO 9001:2008 &
ISO 14001:2004 Certified



Security Papers
LIMITED

The Management



Front row from left to right:
Mr. Muhammad Abdul Aleem, Khawaja Saqib Ahmad, Mr. Ghulam Hussain Akhtar,
Mr. Rizwan Ul Haq Khan, Syed Muhammad Haris and Mr. Talha Bin Hamid

Back row from left to right:
Mr. Faiz-Ul-Islam, Mr. Saadat Ali and Maj. (Retd.) Muhammad Ali Niazi

Operations

Production

Machine production was comparatively less than the previous year due to stoppage of paper machine on account of modification and upgrading of plant and its machinery.

The modification and upgrading of plant will not only increase the production but will also improve the quality of product as well. SPL will increase its potential and capability to produce paper of international quality once all the projects are completed. In addition, the installation of new machinery and modification in existing one will eliminate the potential risk of any major breakdown on old paper plant components.

Training and Skill Development

We believe that training is one of the fundamentals to make people professionally competent for better process and product control. In this context, in-house as well as foreign trainings were arranged for most relevant technical employees. This is an ongoing process to continuously improve skills of our workforce for better performance.

Engineering

The core function of the Engineering Department is to run the plant on maximum efficiency with careful manpower planning & preventive maintenance.

During the year 2010-11 following important jobs have been attended to further improve the performance of the plant:

- New quality control system for online paper testing installed in November 2010 with additional quality parameter of ash content and thickness
- Modification of Slitter/Rewinder Machine with auto positioning of Slitters
- Modification of Sheeter Machine with additional layboy and reel splicing system
- Modification in Size Kitchen
 - o Old size kitchen room extended and new size supply tank of stainless steel manufactured and installed in-house to facilitate the operation and maintenance of the plant
- Installation of Flow Lines
 - o New arrangement of two flow lines equipped with paper cutting, inspection and counting machine in parallel in a hall to meet chain process requirement of Sheeter machine and shrink wrap paper machine
- Construction of new Scrap Yard to keep various scrap materials before disposal
- Installation of new Air Circuit Breakers rating 630 Amps in Sub-station # 1
- Installation of new fills in cooling tower of Absorption Chiller
- Epoxy flooring for new Flow Lines area

Quality Assurance and Research & Development

Quality Assurance and Research & Development Department has set a frame work plan to:

- Pursue and achieve the Quality Objectives to meet the current and future customers needs and
- Strive continually to exceed customers' expectation by maintaining and improving the status of Integrated Management System (IMS) (ISO 9001:2008 Quality Management System/ISO 14001:2004 Environment Management System) recognized by international certification body SGS (Society General de Surveillance) Pakistan

The Association of Chartered Certified Accountants - World Wildlife Fund (ACCA - WWF) Pakistan have awarded "commendation for commitment to environmental reporting 2010" to the Company.

Quality Assurance

Quality Assurance Activities are focused on:

- process used to create the deliverable through structural approach
- management methodology to minimize defects, enhance productivity, reducing cycle times and waste by implementing GMP (good manufacturing practices)
- applying safe and healthy work environment and Standard Operating Procedures to mitigate significant negative impact on local or regional environments complying NEQS (National Environmental Quality Standards)

Appropriate and timely actions (both corrective and preventive) are executed for non conformance until its final disposal.

Test plans are executed in most efficient manner for in-process, raw materials, semi finished and finished products.

Regular and frequent customers' feed back provide valuable data and information for specific decision making to establish appropriate bench marks.

In order to provide confidence to the work force, safety has been ensured by planned and systematic activities with periodic surveillance, internal audits and timely reviews for appropriate preventive measures.

Research and Development (R&D)

To meet future challenges, we are constantly in search of areas of improvement. For this purpose we are already engaged in balancing, up gradation and modernization for existing capital assets and resources. We feel that the research and development activities are the backbone of sustainability.

Efforts are being made to reduce process and material losses to ensure continuous improvement in efficiency. The objective is to increase customer satisfaction.

During the year, following activities were carried out in the R&D Department for achieving the objectives:

- Cost reduction by using cost effective alternate raw material and chemicals
- New product formulation and design modification have been developed (such as cheque and national passport papers) according to customers' requirement
- Relative Humidity Impact on stage wise products has been improved significantly through intensive efforts of team members which reduced process losses

Security

General

In order to achieve continually improved results in the field of security in relation to men, material and information, we are endeavoring to further enhance latest security, fire and safety techniques.

Packing Line

An internationally compatible Packing Line has been added in our security system to enhance security and safety of product and to improve customer satisfaction.

Under Vehicle Surveillance System (UVSS)

A new under vehicle surveillance system has been installed to have a more effective security system in the field of surveillance. The system is based on latest technology and meant to improve effective checking and security clearance of incoming vehicles.

Crisis Management Cell

In view of law and order situation and security threats prevailing in the country, a new building has been constructed for the Crisis Management Cell (CMC). The Cell has been commissioned to counter and handle any untoward crisis situation. Standard Operating Procedures have been prepared and issued on the functioning of CMC to all the departments. During the year a number of employees (both male and female) are trained to help and provide first aid in case of any emergency. Various teams are formed to manage all type of crisis.

Training

A booklet has been prepared and issued to all the departments on "Safety Policy and Fire Orders". The said book is prepared in Urdu for easy understanding of everyone. This book comprehensively cover topics related to safety and fire.

Like every year two "First Aid and Fire" training sessions were arranged in-house through Civil Defence Authorities with the aim to train maximum employees.

Upgrading

During the year CCTV, Access Control and Surveillance Systems have been upgraded to improve operational efficiency.

Finance & Accounts

The Finance and Accounts Department manages Company's finances and has core responsibility for organizing the financial and accounting affairs including the preparation and presentation of financial information. Its key role is to develop policies, procedures, internal controls, management information systems including the following:

- Provide strategic financial information for business and operational planning
- Fulfill external and internal financial reporting requirements
- Preparation and compilation of budget estimates and to maintain an effective budgetary control system
- Control of expenditure and economy measures
- Advise on the financial aspect of all transactions
- Comply generally accepted accounting practices and procedures
- Introduce cost effectiveness and profit improvement plans
- Strive for overall corporate health
- Undertake strategic planning
- Monitor capital structure and debt equity ratios
- Working capital and funds management
- Tax Planning, Production Pricing and Cost reduction & Cost Control

The Finance and Accounts Department is committed to maintain highest standards of ethics and professionalism and play a proactive role in achieving Company's objectives. With the dedication and teamwork the Department will continue to add value, face new challenges and to exceed the expectation of the management and the shareholders.

Information Technology

The Information Technology (IT) Department is responsible for the Company's IT requirements. It develops, maintains and enforces IT policies procedures and standards throughout the Company. The Department focuses on effective and rapid communication as a key area for quality management and services and recognizes IT as the most essential tool for sustaining the current business status and for future business progress.

The Department promotes use of IT and acts as a co-ordinator to build an IT interface with the rest of the Company. The Department has been set up with the following functions and duties:

- Implementation of Oracle applications
- Attain business efficiency through Oracle systems
- Hardware and software support and management
- Coordinate the systems development
- Users training and design workflow of IT Department
- Formulation of IT policy
- Preparation of disaster recovery plan
- Implementation of data backup management policies
- Planning of different IT related programmes
- Management of Company's website and e-mail
- Proactive promotion of IT
- Maintenance of Local Area Network

Oracle based applications are in place and continuous improvements are being made in these applications in order to attain business efficiency. The Department coordinates the systems development and ensures that all investment on hardware and software are in line with Company's long term plans.

Internal Audit

The Internal Audit Department is governed by the Board Audit Committee (BAC) which consists of non-executive directors. It assists the BAC 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 operations:

- Adequacy and effectiveness of internal controls
- Management of financial risk
- Continued assurance that financial accounting and other records and reports provide a true and fair view of Company's operations
- Safeguard of Company's assets, processes, information and interests by the management
- Compliance of Company's operations with applicable regulatory framework, including Companies Ordinance 1984, Code of Corporate Governance, other applicable statutes, International Accounting Standards (as adopted by Institute of Chartered Accountants of Pakistan) and best practices
- Compliance of respective departments with policies, plans and procedures as laid down by the management
- Compliance of Company's internal control structure with corporate governance provisions and International Professional Practices Framework issued by Institute of Internal Auditors, USA

The Internal Audit function is an independent appraisal activity in the Company for the review of accounting, financial and operational matters. It acts as a managerial control and resident value adding agent. Internal audit reviews are risk-based and impartial. The broad targets of these reviews are operational efficiency, safeguard of profitability and Company's interests, establishment and observance of internal controls. Internal Audit's scope covers financial as well as operational aspects and is an effective tool to monitor compliance with management policies.

The function performs risk assessment and recommends improvements in internal control, 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 following policies were implemented or updated:

- Travel Policy
- Telephone Facility - Mobile Phone
- Provident Fund (contributions)
- Policy for deceased employee's family under CSR approach
- Management Trainee Officer Policy
- Medical Facility
- Succession Planning (01 - 05 Years)

Human Resource & Administration Department is committed to support the mission of the Company by becoming the primary employer of choice for employees at all job levels who share our values of:

- Exceptional customer services & positive response to change
- Continuous improvement & open communication
- Personal and professional career development
- Team productivity and equal opportunity employer

Many steps have been taken to:

- Educate, train & develop the masses
- Building a foundation for career and succession planning
- Create a competitive environment
- Improve the motivational level of employees

Corporate

During the year, all Board meetings and Annual General meeting were held much before the mandatory time limit ensuring compliance with the requirements of the corporate laws and good governance in all material respects.

All the requirements of shareholders were met in quickest possible manner to meet their satisfaction. No shareholder queries were left pending. Dividend was paid to the shareholders well before the mandatory time limit.

Effective communication was maintained with all the stakeholders including Board of Directors, management and relevant agencies.

It is the resolve of the Department to keep performing core function of corporate affairs in a most efficient manner.

Supply Chain

During the year, the Supply Chain Department ensured uninterrupted supply of raw materials, allied items, engineering spares etc. at most competitive prices for smooth operation of the Plant.

All-out efforts were made to induct new suppliers particularly for raw materials like comber and denim cuttings, creating a situation which ensured maximum benefit to our organization.

In the current scenario of international crisis and uncertainty, the role of the Department became even more important to come out with the options which could create maximum benefit for the organization. We certainly tried to do that and surely our price correlated international trends thus ensuring that no additional burden had to be borne by the organization.

During this year, major upgrading was carried out at our plant involving import of equipments for different projects. The Department ensured timely clearance of all consignments which had sophisticated components and needed utmost precautions.

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

Statement of Compliance with the Code of Corporate Governance

Name of Company: **Security Papers Limited**
Year Ended: **June 30, 2011**

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.

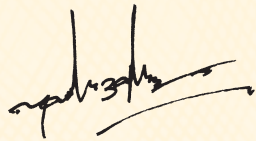
The Company has applied the principles contained in the Code in the following manner:

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 who also represent 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. Two casual vacancies have occurred during the period under review. These vacancies were 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. Three directors of the Company have completed Part I of the Corporate Governance Leadership Skills (CGLS) Program of the Pakistan Institute of Corporate Governance (PICG).
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 27, 2011

Financial Statements

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



KPMG Taseer Hadi & Co.
Chartered Accountants
Sheikh Sultan Trust Building No. 2
Beaumont Road
Karachi, 75530 Pakistan

Telephone + 92 (21) 3568 5847
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 the year ended 30 June 2011.

Date: 27 July 2011

Karachi

KPMG Taseer Hadi & Co.
KPMG Taseer Hadi & Co.
Chartered Accountants
Moneeza Usman Butt

Auditors' Report to the Members



KPMG Taseer Hadi & Co.
Chartered Accountants
Sheikh Sultan Trust Building No. 2
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Karachi, 75530 Pakistan

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

Auditors' Report to the Members

We have audited the annexed balance sheet of **Security Papers Limited** ("the Company") as at 30 June 2011 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;
 - 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 2011 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: **27 JUL 2011**

Karachi


KPMG Taseer Hadi & Co.
Chartered Accountants
Moneeza Usman Butt

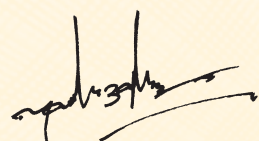
KPMG Taseer Hadi & Co., a Partnership firm registered in Pakistan and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Balance Sheet

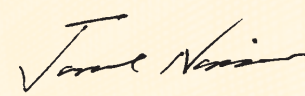
As At 30 June 2011

	Note	2011 (Rupees in '000)	2010
ASSETS			
Non-current assets			
Property, plant and equipment	4	1,713,993	1,244,364
Long-term deposits	5	17,436	17,258
		<u>1,731,429</u>	<u>1,261,622</u>
Current assets			
Stores, spares and loose tools	6	86,303	95,705
Stock-in-trade	7	357,264	357,767
Trade debts - considered good	8	326,355	203,020
Advances, deposits, prepayments and other receivables	9	9,228	22,693
Accrued mark-up	10	339,033	168,634
Investments	11	1,409,178	1,474,768
Cash and bank balances	12	37,592	49,757
		<u>2,564,953</u>	<u>2,372,344</u>
Total assets		<u>4,296,382</u>	<u>3,633,966</u>
LIABILITIES			
Current liabilities			
Trade and other payables	13	326,982	222,728
Accrued mark-up		6,077	58
Current maturity of long term loan	15	89,033	-
Current portion of liabilities against asset subject to finance lease	16	3,068	2,077
Taxation - net		95,662	142,158
		<u>520,822</u>	<u>367,021</u>
Non-current liabilities			
Long term loan	15	315,906	-
Liabilities against asset subject to finance lease	16	11,308	9,435
Deferred taxation - net	17	228,335	146,825
		<u>555,549</u>	<u>156,260</u>
Total liabilities		<u>1,076,371</u>	<u>523,281</u>
Contingencies and commitments	18		
NET ASSETS		<u>3,220,011</u>	<u>3,110,685</u>
FINANCED BY:			
Authorised share capital 70,000,000 (2010: 70,000,000) ordinary shares of Rs 10 each		<u>700,000</u>	<u>700,000</u>
Issued, subscribed and paid-up capital	19	411,499	411,499
General reserve		2,493,389	2,351,089
Unappropriated profit		315,123	348,097
SHAREHOLDER'S EQUITY		<u>3,220,011</u>	<u>3,110,685</u>

The annexed notes 1 to 37 form an integral part of these financial statements.



Naiyer Muzafar Husain
Chief Executive



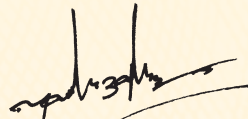
Jamal Nasim
Director

Profit and Loss Account

For the year ended 30 June 2011

	Note	2011 (Rupees in '000)	2010
Sales - net	20	1,303,019	1,152,511
Cost of sales	21	(959,019)	(694,332)
Gross profit		344,000	458,179
Administration and general expenses	22	(128,812)	(104,713)
		215,188	353,466
Other operating income	24	257,621	213,518
		472,809	566,984
Other operating charges	25	(42,174)	(43,214)
Impairment loss on 'available for sale' investment	11.1	(2,736)	(1,638)
Operating profit		427,899	522,132
Finance costs	26	(6,371)	(1,875)
Profit before taxation		421,528	520,257
Taxation - net	27	(106,452)	(172,166)
Profit after taxation		315,076	348,091
		(Rupees)	
Earnings per share	28	7.66	8.46

The annexed notes 1 to 37 form an integral part of these financial statements.


Naiyer Muzafar Husain
 Chief Executive

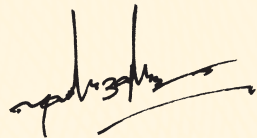

Jamal Nasim
 Director

Statement of Comprehensive Income

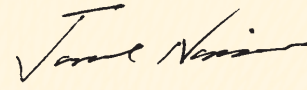
For the year ended 30 June 2011

	2011 (Rupees in '000)	2010
Profit for the year	315,076	348,091
Other comprehensive income for the year		
Unrealised diminution during the year on remeasurement of investments classified as 'available for sale'	2,736	(1,578)
Realised appreciation during the year on redemption of investments classified as 'available for sale'	-	(1,607)
Impairment loss on 'available for sale' investment transferred to profit and loss account	(2,736)	1,638
	-	(1,547)
Total comprehensive income for the year	315,076	346,544

The annexed notes 1 to 37 form an integral part of these financial statements.



Naiyer Muzafar Husain
Chief Executive



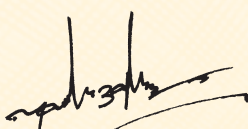
Jamal Nasim
Director

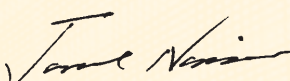
Cash Flow Statement

For the year ended 30 June 2011

	Note	2011 (Rupees in '000)	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	32	306,652	444,113
Long-term deposits		(178)	(501)
Taxes paid		(71,438)	(155,451)
Finance costs paid		(352)	(1,826)
Net cash generated from operating activities		234,684	286,335
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure		(586,221)	(88,536)
Proceeds from sale of property, plant and equipment		12,510	5,891
Proceeds from sale of investments		61,254	515,359
Investments made during the year		-	(647,969)
Mark-up received		70,882	70,653
Net cash used in investing activities		(441,575)	(144,602)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long term loan		404,939	-
Payments against lease obligations		(4,463)	(5,614)
Dividend paid		(205,750)	(205,750)
Net cash used in financing activities		194,726	(211,364)
Net decrease in cash and cash equivalents		(12,165)	(69,631)
Cash and cash equivalents at beginning of the year		49,757	119,388
Cash and cash equivalents at end of the year		37,592	49,757

The annexed notes 1 to 37 form an integral part of these financial statements.


Naiyer Muzafar Husain
 Chief Executive


Jamal Nasim
 Director

Statement of Changes in Equity

For the year ended 30 June 2011

	Issued, subscribed and paid-up share capital	General reserves	Surplus on re- measurement of investments classified as available-for- sale	Unappro- priated profit	Total
----- (Rupees in 000) -----					
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
Total comprehensive income for the year ended 30 June 2010					
Profit for the year	-	-	-	315,076	315,076
Other comprehensive income - available for sale investments	-	-	-	-	-
	-	-	-	315,076	315,076
Transactions with owners - Final cash dividend @ Rs 5.00 per share for the year ended 30 June 2010	-	-	-	(205,750)	(205,750)
Transfer to general reserves made subsequent to the year end	-	142,300	-	(142,300)	-
Balance as at 30 June 2011	411,499	2,493,389	-	315,123	3,220,011

The annexed notes 1 to 37 form an integral part of these financial statements.


Naiyer Muzafar Husain
Chief Executive


Jamal Nasim
Director

Notes to the Financial Statements

For the year ended 30 June 2011

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-banknote 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 of 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 3.10, 3.11 and 23)
- Taxation (Note 3.15)
- Fair value of investments classified as 'available for sale' (Note 3.3, 33.4)

Notes to the Financial Statements

2.5 Standards, amendments or interpretations which became effective during the year

During the year certain amendments to Standards and new interpretations became effective however they did not have any material effect on the financial statements of the Company.

2.6 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 annual periods beginning from the dates specified below. Except for the amendment in IAS 19 which results in immediate recognition of actuarial gains or losses and revised basis of calculation for net finance cost, 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:

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1: Presentation of Financial Statements) effective for annual periods beginning on or after 1 July 2012.
- Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12) effective for annual periods beginning on or after 1 January 2012.
- IAS 19 Employee Benefits (amended 2011) effective for annual periods on or after 1 January 2013.
- Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14) effective for annual periods beginning on or after 1 January 2011.
- IAS 24 Related Party Disclosures (revised 2009) effective for annual periods beginning on or after 1 January 2011.
- Disclosures – Transfers of Financial Assets (Amendments to IFRS 7) effective for annual periods beginning on or after 1 July 2011.

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.

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.

Notes to the Financial Statements

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

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, loans receivables and available-for-sale 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.

Notes to the Financial Statements

(b) Loans and receivables

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

(c) 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.

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 sell 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.

The Company follows trade date accounting for regular way purchase and sales of securities.

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, 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.

Notes to the Financial Statements

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.

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 other 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 Trade and other payables

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

3.9 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

3.10 Employee retirement benefits

The Company operates:

- (a) an approved contributory provident fund for all eligible employees. Contributions are made equally by the Company and employees at the rate of 6.451% of gross salary; 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.

3.11 Employees' compensated absences

The liability for accumulated compensated absences of employees is recognized in the period in which employees render service that increases their entitlement to future compensated absences.

3.12 Mark-up bearing borrowings

Mark-up bearing borrowings are recognized initially at fair value, less attributable transaction costs. Subsequent to initial recognition, mark-up bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the profit and loss account over the period of the borrowings on an effective interest basis.

3.13 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.

3.14 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 is recognized when goods are dispatched and miscellaneous receipts are recognised on receipt basis.

Notes to the Financial Statements

3.15 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.

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.

3.16 Expenses

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

3.17 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.

3.18 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.

3.19 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	2011 (Rupees in '000)	2010
Operating fixed assets	4.1	1,570,615	1,244,364
Capital work-in-progress	4.4	143,378	-
		1,713,993	1,244,364

Notes to the Financial Statements

4.1 Operating fixed assets

	2011												
	Land		Buildings on		Plant and machinery	Laboratory equipment	Furniture and fixtures	Electric, water and gas installation	Office and security equipment	Computers and computer accessories	Motor vehicles		Total
	Leasehold	Freehold	Leasehold land	Freehold land							Owned	Leased	
	(Rupees in '000)												
At 1 July 2010													
Cost	417	293	1,015	61,377	1,744,711	26,300	2,545	54,869	27,604	8,389	7,256	13,852	1,948,628
Accumulated depreciation	-	-	(872)	(11,615)	(625,496)	(13,522)	(1,243)	(22,454)	(13,813)	(7,482)	(5,028)	(2,739)	(704,264)
Net book value	417	293	143	49,762	1,119,215	12,778	1,302	32,415	13,791	907	2,228	11,113	1,244,364
During the year													
Additions	-	-	-	1,677	434,279	-	-	4,333	742	1,462	350	7,327	450,170
Disposals:													
Cost	-	-	-	-	(5,279)	-	-	-	(121)	-	(2,323)	(2,397)	(10,120)
Depreciation	-	-	-	-	5,279	-	-	-	94	-	2,184	732	8,289
Depreciation charge for the year	-	-	(25)	(1,366)	(106,641)	(2,605)	(115)	(3,112)	(3,342)	(474)	(926)	(3,482)	(122,088)
Closing net book value	417	293	118	50,073	1,446,853	10,173	1,187	33,636	11,164	1,895	1,513	13,293	1,570,615
At 30 June 2011													
Cost	417	293	1,015	63,054	2,173,711	26,300	2,545	59,202	28,225	9,851	5,283	18,782	2,388,678
Accumulated depreciation	-	-	(897)	(12,981)	(726,858)	(16,127)	(1,358)	(25,566)	(17,061)	(7,956)	(3,770)	(5,489)	(818,063)
Net book value	417	293	118	50,073	1,446,853	10,173	1,187	33,636	11,164	1,895	1,513	13,293	1,570,615
Depreciation rate % per annum	-	-	2.5%	2.5%	6% & 25%	10%	6%	6%	15%	25%	20%	20%	
	2010												
	Land		Buildings on		Plant and machinery	Laboratory equipment	Furniture and fixtures	Electric, water and gas installation	Office and security equipment	Computers and computer accessories	Motor vehicles		Total
	Leasehold	Freehold	Leasehold land	Freehold land							Owned	Leased	
	(Rupees in '000)												
At 1 July 2009													
Cost	417	293	1,015	57,761	1,671,161	25,070	2,520	51,988	20,025	7,922	8,223	10,728	1,857,123
Accumulated depreciation	-	-	(847)	(10,312)	(526,788)	(11,004)	(1,136)	(19,570)	(10,938)	(7,051)	(4,908)	(2,909)	(595,463)
Net book value	417	293	168	47,449	1,144,373	14,066	1,384	32,418	9,087	871	3,315	7,819	1,261,660
During the year													
Additions	-	-	-	3,616	75,136	1,280	36	2,982	7,659	538	333	8,796	100,376
Disposals:													
Cost	-	-	-	-	1,586	50	11	101	80	71	1,300	5,672	8,871
Depreciation	-	-	-	-	(1,586)	(50)	(10)	(72)	(68)	(71)	(1,232)	(2,600)	(5,689)
Depreciation charge for the year	-	-	(25)	(1,303)	(100,294)	(2,568)	(117)	(2,956)	(2,943)	(502)	(1,352)	(2,430)	(114,490)
Closing net book value	417	293	143	49,762	1,119,215	12,778	1,302	32,415	13,791	907	2,228	11,113	1,244,364
At 30 June 2010													
Cost	417	293	1,015	61,377	1,744,711	26,300	2,545	54,869	27,604	8,389	7,256	13,852	1,948,628
Accumulated depreciation	-	-	(872)	(11,615)	(625,496)	(13,522)	(1,243)	(22,454)	(13,813)	(7,482)	(5,028)	(2,739)	(704,264)
Net book value	417	293	143	49,762	1,119,215	12,778	1,302	32,415	13,791	907	2,228	11,113	1,244,364
Depreciation rate % per annum	-	-	2.5%	2.5%	6% & 25%	10%	6%	6%	15%	25%	20%	20%	

Notes to the Financial Statements

4.1.1 Additions during the year in plant and machinery include borrowing costs capitalised amounting to Rs 18.999 million which relate to long term loan acquired for the balancing, modernisation and replacement project of the plant and machinery of the Company.

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

	Note	2011 (Rupees in '000)	2010
Cost of sales	21	116,807	109,810
Administration and general expenses	22	5,281	4,680
		122,088	114,490

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) -----						
Plant and Machinery							
Paper Machine - 1	5,279	5,279	-	10,272	Tender	Asher Impex	Karachi
Office equipment							
Canon copier	121	94	27	25	Trade-in	Shirazi Trading Company (Private) Limited	Karachi
Vehicle - owned							
Honda City	876	861	15	131	Company policy	M.Abdul Aleem	Karachi
Toyota Corolla	1,350	1,283	67	268	Company policy	Naiyer Muzafar	Karachi
Vehicle - leased							
Toyota Corolla	1,239	309	930	1,098	Company policy	Aftab Alam	Karachi
Suzuki Cultus	795	199	596	707	Company policy	Ayaz Qureshi	Karachi
Suzuki Mehran	363	224	139	-	Company policy	Ghazala Nasir	Karachi
	10,023	8,249	1,774	12,501			
Items with book value below Rs. 50,000	97	40	57	9			
2011	10,120	8,289	1,831	12,510			
2010	8,871	5,690	3,181	5,890			

4.4 Capital work-in-progress

	2011 (Rupees in '000)	2010
Building	994	-
Advance against purchase of plant and machinery	142,384	-
	143,378	-

Capital work in progress includes borrowing costs capitalised amounting to Rs 12.643 million which relate to long term loan acquired for the balancing, modernisation and replacement project of the plant and machinery of the Company.

Notes to the Financial Statements

	Note	2011 (Rupees in '000)	2010
The movement in capital work-in-progress is as follows:			
Balance as at beginning of the year		-	3,044
Additions during the year			
- Plant and machinery		575,259	43,663
- Building		2,546	-
- Office and security equipment		-	1,892
- Others		416	-
		578,221	45,555
Transfers to operating fixed assets			
- Plant and machinery		(432,875)	(44,575)
- Building		(1,552)	-
- Office and security equipment		-	(4,024)
- Others		(416)	-
		(434,843)	(48,599)
Balance at end of the year		143,378	-
5. LONG-TERM DEPOSITS			
Security deposits	5.1	17,436	17,258

5.1 These include deposits amounting to Rs 11.661 million and Rs 3.705 million (2010: 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.

	2011 (Rupees in '000)	2010
6. STORES, SPARES AND LOOSE TOOLS		
Stores	6,527	8,579
Spares - in hand	93,938	101,331
Loose tools	179	136
	100,644	110,046
Provision for slow moving and obsolete stores and spares	(14,341)	(14,341)
	86,303	95,705
7. STOCK-IN-TRADE		
Raw materials - in hand	190,977	147,982
Raw materials - in transit	1,260	-
	192,237	147,982

Notes to the Financial Statements

	Note	2011 (Rupees in '000)	2010
Work-in-process		7,245	6,385
Semi-finished goods		104,205	49,337
		111,450	55,722
Finished goods		61,076	155,705
		364,763	359,409
Provision for slow moving inventories		(7,499)	(1,642)
		357,264	357,767
8. TRADE DEBTS - considered good			
<i>Unsecured</i>			
Due from Pakistan Security Printing Corporation (Private) Limited - related party	8.1	326,355	203,020
- considered good		4,749	-
- considered doubtful		331,104	203,020
		(4,749)	-
- provision for doubtful debts		326,355	203,020

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 326.355 million (2010: Rs 274.527 million).

	Note	2011 (Rupees in '000)	2010
9. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES			
Advance to suppliers - unsecured		8,507	2,359
Due from related parties			
Receivable from provident fund		-	7,146
Receivable from gratuity fund	23.1.2	-	11,668
		-	18,814
Short-term deposits		67	25
Short-term prepayments		384	456
Others		270	1,039
		721	1,520
		9,228	22,693
10. ACCRUED MARK-UP			
Special saving certificates		335,826	165,352
Term finance certificates		2,828	1,439
Certificates of investments		-	1,467
Security deposits		373	373
Term deposit receipts		4	3
Deposit and savings accounts		2	-
		339,033	168,634

Notes to the Financial Statements

	Note	2011 (Rupees in '000)	2010
11. INVESTMENTS			
Available for sale			
Term finance certificates B.R.R. Guardian Modaraba 4,400 (2010: 4,400) units of Rs 5,000 each	11.1	16,500	19,236
Held to maturity			
Treasury Bills	11.2	442,623	455,482
Loans and receivables			
Term deposit receipts	11.3	55	50
Certificate of investments		-	50,000
Special Saving Certificates	11.4	950,000	950,000
		<u>950,055</u>	<u>1,000,050</u>
		<u>1,409,178</u>	<u>1,474,768</u>

11.1 The term finance certificates originally had a term of 5 years and carried profit at the rate of six months KIBOR plus 1.3% (effective annual rate of 15.65%) payable semi annually with maturity on 7 July 2014. However, during the year, the issuer defaulted in payment of interest due on 7 January 2011 and subsequently entered into a restructuring agreement with the TFC holders. As per the revised terms, the principal amount will be redeemed in varying monthly principal installments commencing from 7 August 2011 and ending on 7 December 2016. The certificates now carry markup at the rate of one month KIBOR (effective rate annual rate of 14.503%) payable on monthly basis alongwith the accrued profit before the restructuring.

During the year, the decline in value of this investment of Rs 2.736 million has been transferred from equity to profit and loss account representing impairment loss on investment.

11.2 These represent investments in two treasury bills of six months carrying profit at the rate of 13.44% and 13.55% (2010: 12.08% to 12.12%) per annum with maturity in 25 August 2011 and 17 November 2011 respectively. Fair value of the treasury bills as at 30 June 2011 is Rs 420.064 million (2010: Rs 455.182 million).

11.3 These represent term deposit receipts with Faysal Bank Limited maturing on November 2011. Return on these investments is 10.75% per annum (2010: 10.75% per annum).

11.4 These represent investments in special saving certificates carrying profit ranging from 13% to 14.4% (effective rate of 13.57 to 15.01%) 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.

Notes to the Financial Statements

12. CASH AND BANK BALANCES	Note	2011 (Rupees in '000)	2010
Cash in hand		100	335
With banks in:			
- Current accounts		170	310
- Deposit accounts		62	487
- Saving accounts		28,110	42,760
- Dividend accounts		9,150	5,865
		37,492	49,422
		37,592	49,757
13. TRADE AND OTHER PAYABLES			
Creditors		41,341	29,012
Payable against purchase of operating fixed assets		52,479	-
Salaries, wages and benefits payable		41,622	41,460
Provision for employees compensated absences	13.1	23,638	21,010
Sales tax payable		33,089	16,698
Special excise duty payable		5,784	906
Withholding tax payable		1,814	-
Provision for fire tax	13.2	37,023	36,560
Unclaimed dividend		27,650	5,867
Workers' welfare fund		22,915	25,055
Workers' profit participation fund	13.3	(376)	2,557
Advances from customers		15,706	15,312
Utilities		9,237	7,964
Payable to provident fund		3,248	-
Payable to gratuity fund	23.1.2	834	-
Deposits repayable on demand	13.4	3,102	7,040
Others		7,876	13,287
		326,982	222,728
13.1 Employees' compensated absences			
Balance at beginning of the year		21,010	14,686
Cost for the year		2,628	6,324
Balance at end of the year		23,638	21,010
13.2 Provision for fire tax			
Balance as at 1 July		36,560	34,704
Add: Charge for the year		463	1,856
		37,023	36,560

The Karachi Metropolitan Corporation (KMC) vide notification no.FB/DCFO/ENH-F.T-81/2001 dated 23 May 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 provision in respect of the above tax based on the bills received from KMC.

Notes to the Financial Statements

13.3 Workers' profit participation fund	Note	2011 (Rupees in '000)	2010
Balance as at 1 July		2,557	683
Add:			
Allocation for the year	25	22,744	27,943
Interest on funds utilised in the Company's business	26	106	34
		<u>22,850</u>	<u>27,977</u>
		25,407	28,660
Less: Paid during the year		<u>(25,783)</u>	<u>(26,103)</u>
		<u>(376)</u>	<u>2,557</u>

13.4 These represent interest free security deposits received from various contractors / suppliers.

14. SHORT TERM FINANCE AND OTHER FACILITIES

14.1 Running finance

At 30 June 2011, the Company has an unavailed running finance facility from National Bank of Pakistan and Bank Al Habib Limited of Pakistan amounting to Rs 100 million each (2010: Rs 100 million facility from National Bank of Pakistan).

The arrangements are secured by way of hypothecation on stores, spares, loose tools, stock-in-trade and book debts of the Company and are available till 31 December 2011. The outstanding balance against these facilities 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 for National Bank of Pakistan (2010: one month's average KIBOR plus 50 basis points) and three months KIBOR for Bank Al Habib Limited.

14.2 Import letter of credit (sight / usance)

As at 30 June 2011, the Company has facilities from the National Bank of Pakistan and Bank AL Habib Limited relating to import letters of credit (sight / usance) amounting to Rs 100 million each (2010: Rs 100 million facility from National Bank of Pakistan).

14.3 Letter of Guarantee Facility

As at 30 June 2011, the Company has facilities from National Bank of Pakistan and Bank Al Habib Limited relating to letters of guarantee as follows:

	2011 (Rupees in '000)	2010
Unavailed at year end		
- Letter of Guarantee facility (sublimit of running finance facility)	200,000	100,000
Availed at year end		
- Letter of Guarantee facility (by earmarking running finance facility)	14,040	14,040
15. LONG TERM LOAN - secured		
Long term loan obtained during the year	445,165	-
Repayments during the year	<u>(40,226)</u>	-
	404,939	-
Current maturity shown under current liabilities	<u>(89,033)</u>	-
	<u>315,906</u>	-

Notes to the Financial Statements

The Company has acquired facility amounting to Rs 900 million from a financial institution for retirement of import documents for Company's balancing, modernisation and replacement project. The entire financing is to be availed by 31 December 2011 and carries mark-up at three months Karachi Inter Bank Offer Rate (KIBOR) (effective annual rate of 13.6%).

The facility is secured by Special Saving Certificates of the Company having face value of Rs 950 million. The facility availed is re-payable in 5 years in 20 equal quarterly installments starting from the date of disbursement. The Company has an option to prepay the loan without incurring any penalty.

16. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2011			2010		
	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	4,783	1,715	3,068	3,523	1,446	2,077
Later than one year and not later than five years	13,580	2,272	11,308	11,604	2,169	9,435
	<u>18,363</u>	<u>3,987</u>	<u>14,376</u>	<u>15,127</u>	<u>3,615</u>	<u>11,512</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 Ujarah 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 (2010: KIBOR plus 200 to 300 basis points).

17. DEFERRED TAXATION - net

	Note	2011 (Rupees in '000)	2010
Deferred tax liability arising due to accelerated tax depreciation		248,929	162,145
Deferred tax asset arising in respect of: Provision for slow moving inventory, doubtful debts and fire tax Leased assets		(20,148) (446) (20,594)	(15,110) (210) (15,320)
		<u>228,335</u>	<u>146,825</u>

18. CONTINGENCIES AND COMMITMENTS

18.1 Contingencies

	Note	2011	2010
Income tax	18.2	10,221	10,221
Claims against the Company not acknowledged as debt		1,120	1,120
		<u>11,341</u>	<u>11,341</u>

Notes to the Financial Statements

18.2 The Income Tax authorities had raised a 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 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.

18.3 Commitments

	2011 (Rupees in '000)	2010
Capital expenditure contracted for but not incurred	352,528	885
Commitments against letters of credit	11,681	19,990
	<u>364,209</u>	<u>20,875</u>

19. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

	2011 (Number of shares)	2010		2011	2010
	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	398,999	398,999
	<u>41,149,989</u>	<u>41,149,989</u>	bonus shares	<u>411,499</u>	<u>411,499</u>

19.1 The following shares were held by the related parties of the Company as at 30 June 2011:

Name of related party	2011		2010	
	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%

20. SALES - net

	2011 (Rupees in '000)	2010
Banknote paper	1,410,001	1,225,359
Non-banknote paper:		
- Commercial paper	8,449	20,227
- Others	125,839	102,851
	<u>134,288</u>	<u>123,078</u>
	1,544,289	1,348,437
Less: Sales tax / special excise duty	<u>(241,270)</u>	<u>(195,926)</u>
	<u>1,303,019</u>	<u>1,152,511</u>

Notes to the Financial Statements

21. COST OF SALES	Note	2011 (Rupees in '000)	2010
Opening stock of raw materials		147,982	97,933
Add: Purchases - net		495,166	358,312
		<u>643,148</u>	<u>456,245</u>
Less: Closing stock of raw materials	7	<u>(192,237)</u>	<u>(147,982)</u>
Raw materials consumed		450,911	308,263
Salaries, wages and benefits	21.1	182,960	164,721
Technical assistance fee		11,602	10,762
Stores, spares and loose tools consumed		49,610	31,434
Utilities		82,261	91,655
Repairs and maintenance		22,036	18,862
Insurance		2,882	2,347
Rent, rates and taxes		831	936
Depreciation	4.2	116,807	109,810
Other expenses		218	208
		<u>920,118</u>	<u>738,998</u>
Opening stock of work-in-process and semi-finished goods		55,722	41,292
Less: Closing stock of work-in-process and semi-finished goods		<u>(111,450)</u>	<u>(55,722)</u>
Cost of goods manufactured		864,390	724,568
Opening stock of finished goods		155,705	125,469
Less: Closing stock of finished goods		<u>(61,076)</u>	<u>(155,705)</u>
		<u>959,019</u>	<u>694,332</u>

21.1 Employee retirement benefits

Salaries, wages and benefits include Rs 15.99 million (2010: Rs 11.463 million) in respect of employee retirement benefits.

22. ADMINISTRATION AND GENERAL EXPENSES

Salaries, wages and benefits	22.1	87,489	72,128
Rent, rates and taxes		594	509
Travelling expenses including those of directors Rs 2.523 million (2010: Rs 3.369 million)		9,875	8,395
Printing and stationery		1,593	1,873
Repairs and maintenance		4,181	4,748
Packing and forwarding		400	379
Advertisement		1,876	2,734
Training		2,009	961
Software expenses		383	449
Communication		2,301	1,469
Entertainment		3,288	1,142
Legal and professional		3,309	3,178
Provision for doubtful debts		4,749	-
Depreciation	4.2	5,281	4,680
Others		1,484	2,068
		<u>128,812</u>	<u>104,713</u>

22.1 Salaries, wages and benefits include Rs 10.646 million (2010: Rs 4.913 million) in respect of employee retirement benefits.

Notes to the Financial Statements

23. EMPLOYEE RETIREMENT BENEFITS

23.1 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 2011. The projected unit credit method, using the following significant assumptions has been used for the actuarial valuation.

	Note	2011	2010
23.1.1 Actuarial assumptions			
a) Discount rate		14%	14%
b) Expected rate of increase in salary		14%	14%
c) Expected return on plan assets		14%	14%
(Rupees in '000)			
23.1.2 Amounts recognised in the balance sheet are as follows:			
Present value of defined benefit obligations	23.1.3	243,342	236,357
Fair value of plan assets	23.1.4	(215,605)	(230,219)
		27,737	6,138
Unrecognised actuarial loss		(26,903)	(17,806)
Liability / (asset) on balance sheet		834	(11,668)
23.1.3 Movement in present value of defined benefit obligations			
Opening present value of obligation		236,357	214,568
Current service cost		5,665	4,987
Interest cost		13,026	11,286
Benefits paid		(33,242)	(22,281)
Actuarial (gain) on obligation		(9,676)	(2,641)
Income distributed among the members		31,212	30,335
Past Service Cost - vested		-	103
Closing present value of obligation		243,342	236,357
23.1.4 Movement in the fair value of plan assets			
Opening fair value of plan assets		230,219	216,679
Expected return on plan assets		31,208	30,335
Actuarial loss on plan assets		(18,768)	(1,083)
Benefits paid		(33,242)	(22,281)
Contribution by Company		6,188	6,569
Closing fair value of plan assets		215,605	230,219
23.1.5 Expense recognised in the profit and loss account			
Current service cost		5,665	4,987
Interest cost		13,026	11,286
Past service cost- vested		-	103
Cost for the year		18,691	16,376

Notes to the Financial Statements

23.1.6 Plan assets comprised of following:

	2011 (Rupees in '000)	2010
Defence Saving Certificates (DSCs)	13%	17%
Regular Income Certificates (RICs)	45%	37%
Special Saving Certificates (SSCs)	39%	33%
Bank account and short-term deposits	2%	3%
Others (FIBs, PIBs, TFCs)	1%	10%
	<u>100%</u>	<u>100%</u>

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

	2011	2010	2009	2008	2007
	----- (Rupees in '000) -----				
Present value of defined benefit obligation	243,342	236,357	214,568	199,339	179,650
Fair value of plan assets	215,605	230,219	216,679	204,718	180,878
Deficit / (surplus)	<u>27,737</u>	<u>6,138</u>	<u>(2,111)</u>	<u>(5,379)</u>	<u>(1,228)</u>

23.1.8 5 years data on experience adjustments are as follows:

(Gain) / loss on obligation	(9,676)	(2,641)	7,710	-	3,541
(Loss) on plan assets	(18,768)	(1,083)	(8,511)	-	-

23.1.9 Based on actuarial advice the Company intends to charge an amount of approximately Rs 19.244 million in respect of gratuity fund in the financial statements for the year ending 30 June 2012.

23.1.10 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 2011.

23.1.11 The information provided in notes 23.1.1 to 23.1.10 has been obtained from the valuation carried out by independent actuaries as at 30 June 2011.

23.2 Defined contribution plan

An amount of Rs 7.950 million (2010: Rs 5.477 million) has been charged during the year in respect of contributory provident fund maintained by the Company.

24. OTHER OPERATING INCOME

	2011 (Rupees in '000)	2010
Income from financial assets		
Gain on redemption of investment in mutual funds	-	1,607
Mark-up on:		
- Special saving certificates	170,474	128,746
- Treasury bills	55,985	12,057
- Bank deposits and savings account	7,741	11,200
- Term finance certificates	3,015	3,007
- Certificate of investments	1,712	21,068
- Security deposits	748	707
- Term deposit receipts	6	26,218
	<u>239,681</u>	<u>204,610</u>
Income from non-financial assets		
Gain on sale of property, plant and equipment	10,679	2,711
Sale of waste materials	3,873	4,091
Other income	3,388	2,106
	<u>17,940</u>	<u>8,908</u>
	<u>257,621</u>	<u>213,518</u>

Notes to the Financial Statements

25. OTHER OPERATING CHARGES	Note	2011 (Rupees in '000)	2010
Workers' profit participation fund	13.3	22,744	27,943
Workers' welfare fund		8,265	10,618
Provision for slow moving inventories		5,857	-
Donation	25.1	4,103	3,408
Auditors' remuneration	25.2	846	732
Exchange loss		359	513
		<u>42,174</u>	<u>43,214</u>
25.1 Donation			
None of the directors or their spouses had any interest in any of the donees.			
25.2 Auditors' remuneration			
Audit fee		550	500
Audit of funds, special certification and other services		171	110
Out of pocket expenses		125	122
		<u>846</u>	<u>732</u>
26. FINANCE COSTS			
Interest / mark-up on:			
- long-term finance		2,232	-
- short-term finance		1,441	126
- finance leases		2,135	1,272
- workers' profit participation fund	13.3	106	34
Bank charges		457	443
		<u>6,371</u>	<u>1,875</u>
27. TAXATION - net			
Current - for the year		25,347	159,346
Current - for prior year		(405)	(74)
		<u>24,942</u>	<u>159,272</u>
Deferred		81,510	12,894
		<u>106,452</u>	<u>172,166</u>
27.1 Reconciliation between tax expense and accounting profit			
Accounting profit before taxation		421,528	520,257
Tax on accounting profit @ 35% (2010: 35%)		147,535	182,090
Surcharge under section 4A of the Ordinance		1,077	-
Rebates under section 65A and 65B of the Ordinance		(45,046)	-
Expenses not admissible		1,365	-
Tax for prior year		(405)	(74)
Income exempted from tax		-	(562)
Others		1,926	(9,288)
		<u>106,452</u>	<u>172,166</u>

Notes to the Financial Statements

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.

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 a 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.

28. EARNINGS PER SHARE

	2011 (Rupees in '000)	2010
Profit after taxation	315,076	348,091
	(Number of shares)	
Weighted average number of ordinary shares	41,149,989	41,149,989
	(Rupees)	
Earnings per share - basic and diluted	7.66	8.46

28.1 There were no convertible dilutive potential ordinary shares in issue as at 30 June 2011 and 30 June 2010.

29. 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:

	2011			2010		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
	----- (Rupees in '000) -----					
Directors' fee	-	864	-	-	818	-
Managerial remuneration (including bonus)	-	-	22,511	-	-	15,174
Housing, utilities and other perquisites	1,374	-	14,228	1,261	-	9,171
Retirement benefits	-	-	2,074	-	-	1,289
Medical -	-	1,674	-	-	1,118	-
Total	1,374	864	40,487	1,261	818	26,752
Number of persons	1	8	23	1	8	13

Notes to the Financial Statements

- 29.1** The Chief Executive is provided with free use of Company's owned and maintained car.
- 29.2** 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.
- 29.3** The above figures do not include amounts and facilities paid or provided for by the associated company to the Chief Executive.
- 29.4** 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.

30. TRANSACTIONS WITH RELATED PARTIES

	2011		
	Key Management Personnel	Associated undertakings	Total
	----- (Rupees in '000) -----		
Transactions during the year:			
Sale of goods to Pakistan Security Printing Corporation (Private) Limited - net	-	1,295,933	1,295,933
Remuneration to key management personnel	42,725	-	42,725
Balance outstanding at the year end			
Receivable from Pakistan Security Printing Corporation (Private) Limited - net	-	323,134	323,134
	2010		
	Key Management Personnel	Associated undertakings	Total
	----- (Rupees in '000) -----		
Transactions during the year:			
Sale of goods to Pakistan Security Printing Corporation (Private) Limited - net	-	1,137,694	1,137,694
Remuneration to key management personnel	28,831	-	28,831
Balance outstanding at the year end			
Receivable from Pakistan Security Printing Corporation (Private) Limited - net	-	197,157	197,157

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 13.3 and 25 to the financial statements.

Notes to the Financial Statements

31. PRODUCTION CAPACITY

	2011	2010
	(Tons)	
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>1,888</u>	<u>1,905</u>
Actual production	<u>1,402</u>	<u>1,587</u>

The short capacity utilization during the year was due to scheduled plant (PM-2) shut down of 52 days (2010: 38 days) for maintenance purpose.

32. CASH GENERATED FROM OPERATIONS

	2011	2010
	(Rupees in '000)	
Profit before taxation	<u>421,528</u>	520,257
Adjustments for:		
Depreciation	<u>122,088</u>	114,490
Provision for slow moving inventories	<u>5,857</u>	-
Provision for doubtful debts	<u>4,749</u>	-
Gain on disposal of property, plant and equipment	<u>(10,679)</u>	(2,711)
Impairment loss on available for sale investments	<u>2,736</u>	1,638
Capital gain on redemption of investment in mutual funds	<u>-</u>	(1,607)
Mark-up on investments	<u>(238,927)</u>	(191,098)
Mark-up on bank deposits and saving accounts	<u>(748)</u>	(11,200)
Mark-up on security deposits	<u>(6)</u>	(707)
Finance costs	<u>6,371</u>	1,875
Working capital changes	<u>(6,317)</u>	13,176
	<u>(114,876)</u>	(76,144)
	<u>306,652</u>	<u>444,113</u>

32.1 Working capital changes

(Increase) / decrease in current assets		
Stores, spares and loose tools	<u>9,402</u>	(14,040)
Stock-in-trade	<u>(5,354)</u>	(96,347)
Trade debts	<u>(128,084)</u>	87,269
Advances, deposits, prepayments and other receivables	<u>13,465</u>	10,591
	<u>(110,571)</u>	(12,527)
Increase / (decrease) in current liabilities		
Trade and other payables	<u>104,254</u>	25,703
	<u>(6,317)</u>	13,176

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.

Notes to the Financial Statements

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 2,138.438 million (2010: Rs 1,914.501 million), the financial assets which are subject to credit risk amounted to Rs 463.487 million (2010: Rs 508.684 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 15.3% (2010: 11%) 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:

	2011 (Rupees in '000)	2010
Investments	16,555	69,286
Trade debts	326,355	203,020
Deposits, accrued mark up and other receivables	339,370	186,956
Bank balances	37,492	49,422
	<u>719,772</u>	<u>508,684</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.

	2011	2010
Term Finance Certificates	<u>*D</u>	<u>BBB+</u>
Certificates of Investments	<u>AA / A1+</u>	<u>AA+ / A1+</u>
Term Deposit Receipts	<u>AA+ / A-1+</u>	<u>AA+ / A1+</u>

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. 34.804 million (2010: 17.784 million) which fall in the past due category, all other outstanding invoices are non past due. Management has made a provision of Rs. 4.749 million against certain past due invoices. Based on its business history, the Company expects no default in recovery of other outstanding invoices.

* Refer note 11.1

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 facilities of running finance amounting to Rs 200 million to meet any deficit, if required to meet the short term liquidity commitment.

Notes to the Financial Statements

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

	2011					
	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						
Long term loans	404,939	(517,916)	(64,401)	(63,762)	(124,565)	(265,188)
Trade and other payables	243,968	(243,968)	(243,968)	-	-	-
Liabilities against asset subject to finance lease	14,376	(18,275)	(2,392)	(2,392)	(4,574)	(8,917)
Accrued mark up	6,077	(6,077)	(6,077)	-	-	-
	669,360	(786,236)	(316,838)	(66,154)	(129,139)	(274,105)

	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)

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 and fixed assets being denominated in US dollars and Euros.

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

	2011			
	USD	GBP	Euro	Total
	----- (Rupees in '000) -----			
Payable against purchase of operating fixed assets	-	-	52,479	52,479
Technical fee payable	-	-	4,078	4,078
Gross balance sheet exposure	-	-	56,557	56,557
Outstanding letters of credit	4,475	-	-	4,475
Net exposure	4,475	-	56,557	61,032

	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

Notes to the Financial Statements

The following significant rates have been applied:

	Average rate		Reporting date rate	
	2011	2010	2011	2010
USD to PKR	85.73	85.93	86.05	85.60
GBP to PKR	136.63	133.25	138.62	128.96
Euro to PKR	117.72	104.93	124.89	104.58

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 and liability against purchase of fixed assets.

Effect on profit	2011 (Rupees in '000)	2010
Increase / decrease	3,676	5 6

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	2011 Carrying amount (Rupees in '000)	2010
Financial assets			
<i>Fixed rate instruments</i>			
Special Saving Certificates	11	950,000	950,000
Treasury Bills	11	442,623	455,482
Certificates of Investment	11	-	50,000
Term deposit receipts	11	55	50
		<u>1,392,678</u>	<u>1,455,532</u>
<i>Variable rate instruments</i>			
Term finance certificates	11	16,500	19,236
Financial liabilities			
<i>Variable rate instruments</i>			
Long term loan	15	404,939	-
Liabilities against asset subject to finance lease	16	14,376	11,512
		<u>419,315</u>	<u>11,512</u>

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 2010.

Notes to the Financial Statements

	Effect on profit and loss	
	100 bp increase	100 bp decrease
	(Rupees in '000)	
As at 30 June 2011		
Cash flow sensitivity-Variable rate instruments	1,048	(1,048)
As at 30 June 2010		
Cash flow sensitivity-Variable rate instruments	72	(72)

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 term finance certificates of B.R.R. Guardian Modaraba. To manage its price risk arising from such investments, the Company regularly monitors them through its investment committee.

A 10% increase / decrease in MUFAP rates for B.R.R. Guardian Modaraba Term Finance Certificates at year end would have increased / decreased the Company's profit before tax and the value of investments as follows.

	2011	2010
	(Rupees in '000)	
B.R.R. Guardian Modaraba Term Finance Certificates	1,650	1,924

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).

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

	Level 1	Level 2	Level 3
	(Rupees in '000)		
30 June 2011			
<i>Available for sale investments</i>			
B.R.R. Guardian Modaraba Term Finance Certificates	-	-	16,500
30 June 2010			
<i>Available for sale investments</i>			
B.R.R. Guardian Modaraba Term Finance Certificates	-	-	19,236

Notes to the Financial Statements

34. OPERATING SEGMENTS

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

34.1 Revenue from bank notes represents 91.35% (2010 : 91%) 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 2011 are located in Pakistan.

34.4 One customer of the Company accounts for 99.47% (2010: 99%) of total revenue of the Company for the year.

35. CAPITAL RISK MANAGEMENT

The Company's objective when managing capital is to safe guard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and to maintain a strong capital base to support the sustained development of its businesses.

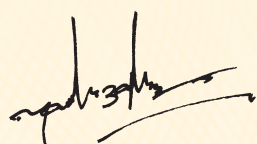
The Company manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to shareholders or issue new shares.

36. NON-ADJUSTING EVENT AFTER THE BALANCE SHEET DATE

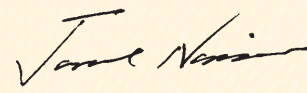
The Board of Directors in its meeting held on 27 July 2011 has proposed a cash dividend in respect of the year ended 30 June 2011 of Rs 5/- per share (2010: cash dividend Rs 5/- per share). In addition, the directors have also announced appropriation of Rs 109.00 million (2010 : Rs 142.30 million) to revenue reserves. These appropriations will be approved in the forthcoming Annual General Meeting. The financial statements for the year ended 30 June 2011 do not include the effect of these appropriations which will be accounted for subsequent to the year end.

37. DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorised for issue on 27 July 2011 by the Board of Directors of the Company.



Naiyer Muzafar Husain
Chief Executive



Jamal Nasim
Director

Pattern of Shareholding

As At June 30, 2011

Size of Holding Rs 10 Shares	Number of Shareholders	Number of Shares
1	100	345
101	500	359
501	1,000	262
1,001	5,000	390
5,001	10,000	90
10,001	15,000	32
15,001	20,000	14
20,001	25,000	9
25,001	30,000	4
30,001	35,000	6
35,001	40,000	2
40,001	45,000	1
45,001	50,000	8
50,001	55,000	1
55,001	60,000	3
75,001	80,000	1
80,001	85,000	1
95,001	100,000	4
135,001	140,000	1
150,001	155,000	1
170,001	175,000	1
225,001	230,000	1
275,001	280,000	1
330,001	335,000	1
390,001	395,000	1
530,001	535,000	1
640,001	645,000	1
935,001	940,000	1
1,830,001	1,835,000	1
2,950,001	2,955,000	1
3,485,001	3,490,000	1
4,110,001	4,115,000	2
16,470,001	16,475,000	1
TOTAL	1,548	41,149,989

Pattern of Shareholding

As At June 30, 2011

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 Officers and their spouse and minor children	3	21,614	0.05
SHEIKH MOHAMMAD AIJAZ AKHTAR	2	1,252	0.00
MUSTAPHA A.CHINYOY	1	20,362	0.05
Executives	NIL	NIL	-
Public Sector Companies and Corporations	-	-	-
STATE LIFE INSURANCE CORPORATION OF PAKISTAN	2	3,487,922	8.48
Banks, Development Finance Institutions, Non-Banking Finance Institutions, Insurance Companies, Modarabas and Mutual Funds	18	5,499,878	13.37
HABIB BANK LIMITED	2	1,380	0.00
UNITED BANK LIMITED	1	224	0.00
MERCANTILE COOPERATIVE FINANCE	1	24,672	0.06
MUSLIM COMMERCIAL BANK LIMITED	1	108	0.00
E F U GENERAL INSURANCE LIMITED	1	525	0.00
INNOVATIVE INVESTMENT BANK LIMITED	1	1,000	0.00
PREMIER INSURANCE LIMITED	1	10,611	0.03
FAYSAL BANK LIMITED	1	100,000	0.24
NIB BANK LIMITED	1	151,538	0.37
PAKISTAN REINSURANCE COMPANY LIMITED	1	644,924	1.57
THE PUNJAB PROVINCIAL COOPERATIVE BANK	1	2,954,362	7.18
NATIONAL BANK OF PAKISTAN	2	1,109,673	2.70
SAUDI PAK INV. CO.	1	50,000	0.12
THE BANK OF PUNJAB, TREASURY DIVISION	1	392,611	0.95
B.R.R. GUARDIAN MODARABA	1	11,000	0.03
NATIONAL INVESTMENT TRUST LIMITED	1	47,250	0.11
General Public	1479	4,032,352	9.80
a. Local	1479	4,032,352	9.80
b. Foreign	-	-	-

Pattern of Shareholding

As At June 30, 2011

Categories of Shareholders	Number	Shares held	Percentage
Others	42	1,570,029	3.82
ADMINISTRATOR ABANDONED PROPERTIES	1	279,670	0.68
FIKREE DEVELOPMENT CORPORATION	1	3,907	0.01
AZEEM SERVICES (PVT.) LIMITED	1	1	0.00
N. H. SECURITIES (PVT.) LIMITED	1	37	0.00
ASIAN SECURITIES LIMITED	1	97,500	0.24
UHF CONSULTING (PVT.) LIMITED	1	50	0.00
MOOSA, NOOR MOHAMMAD, SHAHZADA & CO. (PVT.) LIMITED	1	4,469	0.01
TRUSTEES D.G.KHAN CEMENT CO. LTD. EMPLOYEES PROVIDENT FUND	1	49,616	0.12
PRUDENTIAL SECURITIES LIMITED	1	38	0.00
MOOSANI SECURITIES (PVT.) LIMITED	1	17,122	0.04
TECHNOLOGY LINKS (PVT.) LIMITED	1	3,600	0.01
Y.S. SECURITIES & SERVICES (PVT) LIMITED	1	72	0.00
DAWOOD FOUNDATION	1	225,388	0.55
MILLWALA SONS (PVT.) LIMITED	1	45	0.00
MOHAMAD AMIN BROS (PVT.) LIMITED	1	6,000	0.01
PAKISTAN MEMON EDUCATIONAL & WELFARE SOC	1	5,000	0.01
CRESCENT STEEL AND ALLIED PRODUCTS LIMITED	1	11,067	0.03
TRUSTEES SAEEDA AMIN WAKF	1	46,500	0.11
TRUSTEES MOHAMAD AMIN WAKF ESTATE	1	81,672	0.20
TRUSTEES OF SANA IND LIMITED EMP GRAT FUND	1	23,980	0.06
TRUSTEES AL-BADER WELFARE TRUST	1	41,184	0.10
TECHNOLOGY LINKS (PVT.) LIMITED	1	1,080	0.00
S.H. BUKHARI SECURITIES (PVT.) LIMITED	1	645	0.00
CRESCENT SUGAR MILLS & DISTILLERY LIMITED	1	364	0.00
TRUSTEES D.G.KHAN CEMENT CO. LIMITED EMP. P.F	1	54,240	0.13
H M INVESTMENTS (PVT.) LIMITED	1	276	0.00
NH SECURITIES (PVT.) LIMITED	1	2,576	0.01
EXCEL SECURITIES (PVT.) LIMITED	1	172	0.00
DARSON SECURITIES (PVT.) LIMITED	1	1	0.00
ACE SECURITIES (PVT.) LIMITED	1	6,500	0.02
MULTILINE SECURITIES (PVT.) LIMITED	1	7,500	0.02
INVEST AND FINANCE SECURITIES LIMITED	1	5,616	0.01
FIRST NATIONAL EQUITIES LIMITED	1	5,017	0.01
CLIKTRADE LIMITED	1	1	0.00
DARSON SECURITIES (PVT.) LIMITED	1	8,300	0.02
MUHAMMAD SALIM KASMANI SECURITIES (PVT.) LIMITED	1	2,000	0.00
MUHAMMAD BASHIR KASMANI SECURITIES (PVT.) LIMITED	1	2,000	0.00
M.R. SECURITIES (SMC-PVT.) LIMITED	1	10,000	0.02
PEARL CAPITAL MANAGEMENT (PVT.) LIMITED	1	1,900	0.00
TRUSTEE - PPF EQUITY (SUB-FUND)	1	31,000	0.08
SEVEN STAR SECURITIES (PVT.) LIMITED	1	100	0.00
NATIONAL INVESTMENT TRUST LIMITED - ADMINISTRATION FUND	1	533,823	1.30
Total	1,548	41,149,989	100.00
Shareholders holding ten percent or more			
PAKISTAN SECURITY PRINTING CORP(PVT)LTD.		16,473,430	40.03

Company Information

BOARD OF DIRECTORS

Executive Director

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

Non-executive Directors

Mr. Mustapha A. Chinoy	Minority & Independent	- Elected
Sheikh Mohammad Aijaz Akhtar	Minority & Independent	- Elected
Mr. Hasan Irfaan		- Nominee - PSPC
Mrs. Ayla Akin - Turkey	Minority & Independent	- Nominee - SHAS
Mr. Ansar Hussain	Minority & Independent	- Elected - SLIC
Mr. Jamal Nasim	Minority & Independent	- Elected - NIT
Mr. Mazhar-ul-Hassan Shah		- Nominee - PSPC
Mr. Mohammad Reza Roshani Moghaddam - Iran	Minority & Independent	- Nominee - IDRO

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

Mr. Mustapha A. Chinoy Non-executive Director	-	Chairman
Mr. Hasan Irfaan Non-Executive Director	-	Member
Mr. Ansar Hussain Non-executive Director	-	Member
Mr. Talha Bin Hamid General Manager (Internal Audit)	-	Secretary

BOARD HUMAN RESOURCE AND COMPENSATION COMMITTEE

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

BOARD INVESTMENT COMMITTEE

Mrs. Naiyer Muzafar Husain Chairperson & Chief Executive	-	Chairperson
Mr. Mustapha A. Chinoy Non-executive Director	-	Member
Mr. Ansar Hussain Non-executive Director	-	Member
Mr. Rizwan Ul Haq Khan Chief Financial Officer	-	Secretary

Company Information

MANAGEMENT AND STRATEGIC PLAN COMMITTEE

Chairperson:

Mrs. Naiyer Muzafar Husain - Chairperson & Chief Executive

Members:

Mr. Ghulam Hussain Akhtar	-	Director Projects
Khawaja Saqib Ahmad	-	Sr. General Manager (Operations)
Mr. Rizwan Ul Haq Khan	-	Chief Financial Officer
Mr. Muhammad Abdul Aleem	-	Company Secretary
Maj. (Retd.) Muhammad Ali Niazi	-	General Manager (Security)
Syed Muhammad Haris	-	General Manager (HR&A)
Mr. Faiz-Ul-Islam	-	General Manager (Supply Chain)
Mr. Talha Bin Hamid	-	General Manager (Internal Audit)
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)
Mr. Adnan Yousuf	-	D.G.M. (Production)
Mr. Khalil Ahmed	-	D.G.M. (Works)

BANKERS

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

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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)

Five 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 announcement of results prior to publication.
- c) Review of quarterly, half yearly and annual financial statements of the Company, prior to their 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 standards
 - 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)

Three 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)

Two meetings were 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-sixth Annual General Meeting of Security Papers Limited will be held on Thursday, the August 25, 2011 at 10:00 AM at The Institute of Chartered Accountants of Pakistan, Chartered Accountants Avenue, Clifton, Karachi to transact the following business:

A. ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Financial Statements of the Company for the year ended June 30, 2011 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, 2011 as recommended by the Board of Directors.
3. To appoint Auditors for the year 2011-12 and to fix their remuneration.
4. To elect four Directors as fixed by the Board for a term of three years [other than those nominated by (i) Pakistan Security Printing Corporation (Pvt.) Limited (PSPC), (ii) Sumer Holding A.S. Genel Mudurlugu, Turkey (SHAS) and (iii) Industrial Development & Renovation Organization of Iran (IDRO)] in place of the following retiring Directors who are eligible for re-election:-

Mr. Mustapha A. Chinoy
Sheikh Mohammad Aijaz Akhtar
Mr. Ansar Hussain
Mr. Jamal Nasim

B. SPECIAL BUSINESS

To consider and approve borrowings by directors requiring sanction of the Company.

The shareholders are hereby informed that the Company has entered into financing documents in terms whereof Bank Al-Habib Limited has agreed to provide a finance facility of up to Rs 1.00 billion to the Company for the purposes of balancing, modernization and replacement (BMR) programme of the Company. The Company has, to date, availed an amount equal to Rs 445 million out of the said facility and has also made repayments of Rs 40 million. Accordingly, at close of the financial year an amount of Rs 404 million is appearing as outstanding in the books of the Company in respect of the said facility.

The Company now wishes to avail further financing from the limit of Rs 1 billion available to it in respect of the Bank Al-Habib Facility. However, in availing the original financing and in availing the additional financing, the Company has / will exceed the amount of the paid up capital of the Company which currently stands at Rs 411 million. In view of the same and as per the requirements of the Articles of Association of the Company, the ratification of the shareholders in a general meeting is required in respect of the previously availed financing and the approval of the shareholders of the Company is sought to enable the Company to avail the following finance facility: drawdown additional funds in respect of the Bank Al-Habib Facility up to the extent of the permitted limit of Rs 1.00 billion.

It is proposed to consider, approve and ratify the following resolution as a special resolution, subject to any amendment as may be proposed by the shareholders.

"RESOLVED that the Company be and is hereby authorized to avail / seek disbursement in respect of the financing facility obtained from Bank Al-Habib Limited to the extent of Rs 1.00 billion for the purposes of the balancing, modernization and replacement (BMR) programme of the Company on such terms and conditions as the directors of the Company may deem fit and to negotiate the terms of the said financing and execute the necessary financing and security documents with lenders in this respect."

"FURTHER RESOLVED that the amount previously obtained by the Company in excess of its paid up capital be and is hereby ratified by the shareholders."

NOTICE OF ANNUAL GENERAL MEETING

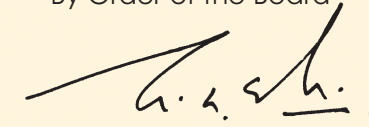
STATEMENT UNDER SECTION 160(1) (b) OF THE COMPANIES ORDINANCE, 1984

This statement sets out the material facts concerning the special business, given in agenda item.

As per Articles of Association of the Company, directors shall have powers from time to time at their discretion to borrow any sum or sums of money for the purposes of the Company provided that the total amount borrowed or secured shall not exceed the paid up capital of the Company without the sanction of the special resolution of the Company.

The Directors of the Company have no interest in the Special Business and/or the Resolution except to the extent of their respective shareholdings and remuneration in the Company.

By Order of the Board


(Muhammad Abdul Aleem)
Company Secretary

Karachi,
July 27, 2011

NOTES

1. The Share Transfer Books of the Company will remain closed from August 17 to August 25, 2011 (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 16, 2011 will be considered in time to determine the above mentioned entitlement and to attend and vote at the Meeting.
2. Any person who seeks to contest an election to the office of Director shall, whether he/she is a retiring Director or otherwise, file with the Company at its Registered Office not later than fourteen days before the date of the meeting, (i) a notice of his/her intention to offer himself/herself for election as a Director; (ii) a declaration (specimen may be obtained from Registered Office) on the matters required by the Code of Corporate Governance; (iii) a consent on prescribed Form 28 and (iv) attested copy of CNIC and NTN.
3. 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 under mentioned 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) along with proxy form to the Company.
4. 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.
 5. 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

Security Papers
LIMITED



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 46th
 ANNUAL GENERAL MEETING of the Company to be held on Thursday, August 25, 2011 and at any
 adjournment thereof.

Signed this _____ day of _____ 2011.

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

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

**Rs 5/-
 Revenue
 Stamp**

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) along with 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

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