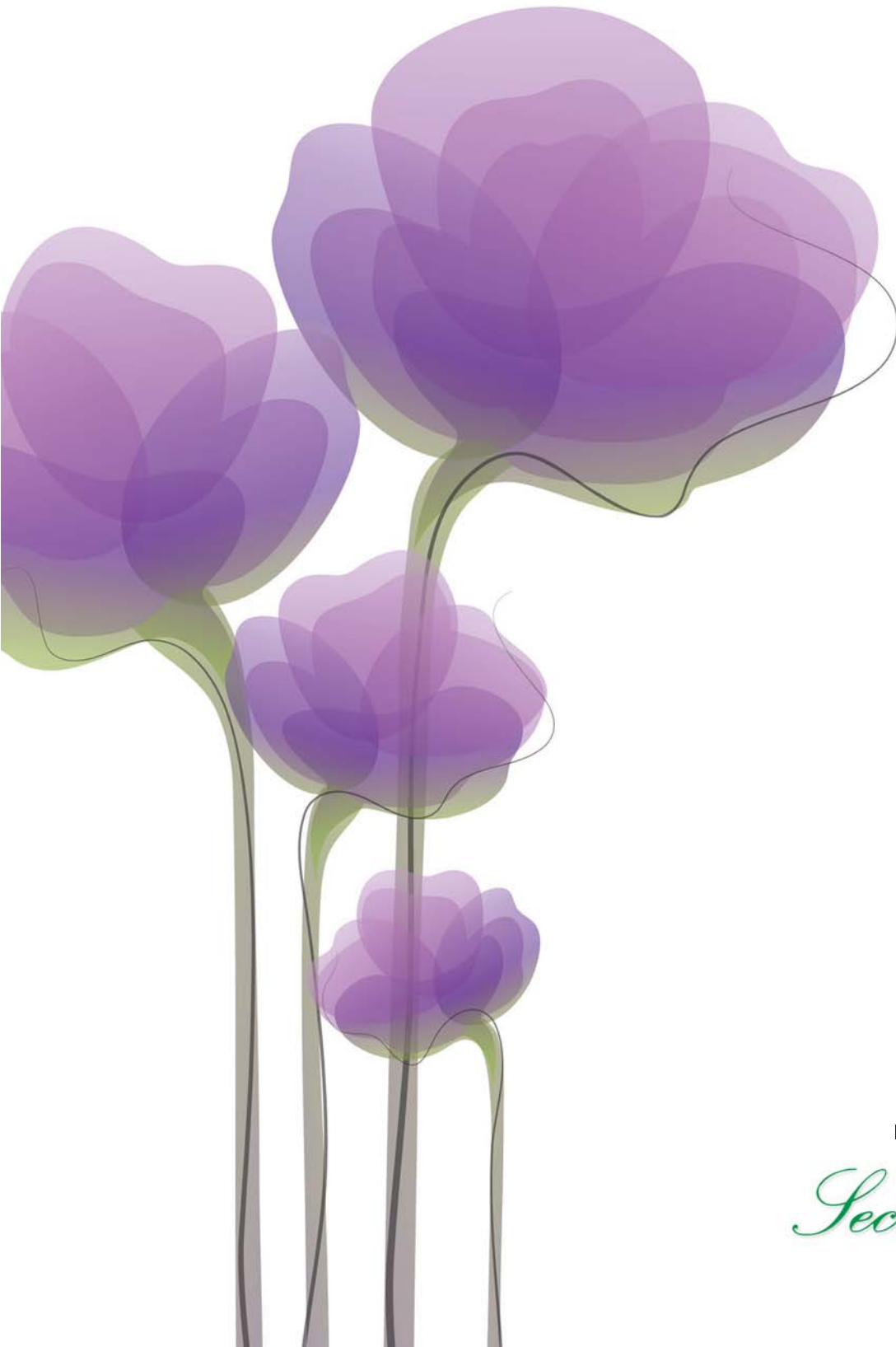


Annual report 2013



ISO 9001 : 2008 &
ISO 14001 : 2004 Certified



Security Papers
LIMITED

2013

MAJOR

Events

Incorporation of the Company (as a private Company)	1965
Signing of contract for the supply of Paper Machine-1 (PM-1) with Mills-Paugh, U. K.	1966
Conversion into public Company	1967
Listing on the Karachi Stock Exchange	1967
Start of commercial production of PM-1	1969
Signing of contract for supply of Paper Machine-2 (PM-2) with Voith Paper, Germany (<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
Commissioning of new Mould Cover preparation building	2012

Board of Directors	4
Corporate Award	6
Chairman's Review	7
Directors' Report	13
Profile of the Members of the Board of Directors	18
Organization Chart	23
Criteria to Evaluate Board's Own Performance	24
Shareholders' Information	25
Vision Statement	28
Mission Statement	30
Core Values	32
Strategic Goals	33
Code of Ethics and Business Practices	34
Statement of Value Addition and its Distribution	35
Key Operating and Financial Data	36
Horizontal Analysis	37
Vertical Analysis	38
Management Review	39

Contents

Security Papers
LIMITED

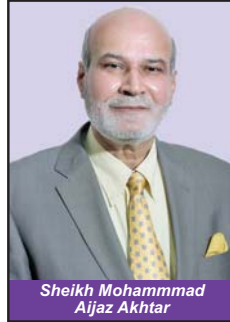
Statement of Compliance with the Code of Corporate Governance	51
Review Report to the Members	54
Auditors' Report to the Members	55
Balance Sheet	56
Profit and Loss Account	57
Statement of Comprehensive Income	58
Cash Flow Statement	59
Statement of Changes in Equity	60
Notes to the Financial Statements	61
Pattern of Shareholding	93
Company Information	96
Information on Board Committees	98
Notice of Annual General Meeting	100
Environment	102
Form of Proxy	

BOARD OF
DIRECTORS



Board of Directors

Security Papers
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Chairman's Review

In a challenging business environment the Company has shown good results this year, operational excellence and management skills have positioned the Company to achieve sustained and qualitative growth in the long run.

To pass on the benefit of this achievement to shareholders, the Board recommended a payment of 40% cash dividend and 20% bonus shares for the financial year 2012-13

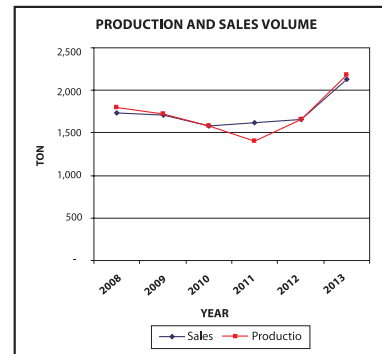
Business and performance Review

The year under review has been a momentous year for the Company. The Company has performed very well on the financial as well as operational front. Overall, the profit before tax stood at Rs 468 million and after tax adjustments, the Company earned net profit of Rs 320 million for the year ended 30 June 2013. The decline in profitability is mainly due to rising costs of energy and production overheads and decrease in other income owing to reduction in mark-up rates. The operational results recorded for the year under review demonstrate performance consolidation. A quality approach was deployed with a basic theme of empowerment, ownership and accountability. The directors and the management are closely monitoring the performance of the business with a focus to achieve continued improvements in productivity and efficiency while optimizing cost and processes to ensure sustainable growth of the Company.



Production

The Company has been operating at optimum production capacity to the increasing sales requirements. The Company produced 2,181 tons of banknote and other security papers as against 1,661 tons in the last year. At the same time, the supply chain team working closely with all vendors has built flexibilities into their supply operations. No major operational problems occurred and technical matters were handled well by trained and experienced 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.



Sales

The Company registered increase in net sales of Rs 286 million showing an improvement of 18.20% over the last year. The Company achieved a sales volume of 2,126 tons as against 1,658 tons during the last year. The increase in sales has been mainly contributed by banknote and other security papers.

Banknote paper

Banknote paper sales grew by 13.67% during the year under review. The growth is mainly derived from increase in sales volume. Margins remained under pressure due to rising cost of energy and production overheads. The cost prices of imported raw materials i.e., security thread and chemicals increased sharply due to higher price demanded by suppliers and rupee depreciation. A combination of cost effectiveness program and cost absorption helped to manage profitability for the business.

Other Security Paper

Other security paper (OSP) mainly includes non-Judicial paper, prize bond paper, Pakistan National Defence Certificates (PNDC) parchment paper, cheque paper, educational degree and certificate papers. Sales of these products grew by 33.56% mainly due to higher demand from our customers. However, margins remained under pressure from rising commodity cost and currency devaluation. The growth mainly comes from higher sales volume as well as price adjustments.

Risk Management Framework

The Board has overall responsibility for ensuring that an effective risk management process is in place. This encompasses identification and prioritization of strategic, financial, operational, legal and external risks and ensuring appropriate controls to mitigate these risks.

Strategic risks arising from unfavourable economic policies and conditions, security concerns and customers demand create a risk of loss of business and related margins. This risk is addressed through strategic business alignment and its effects are addressed in the budgeting process of the Company.

Operational risks relate to customers relationship, project management risks, health and safety risks, supply chain management risks, human resource related risks and risks pertaining to information technology. The Company addresses these risks by determining risks response strategies for such risks which includes avoid, transfer, reduce and accept strategy. The response plan is devised for such risks and remedial actions are executed thereafter.

Financial risks include credit risks, market risks and liquidity risks. The Company manages its foreign currency risks by hedging its exposure wherever possible; credit risk is addressed by following internal guidelines such as approving counterparties and approving credits. During the year, the Company followed a conscious strategy of low risk and placed surplus funds in government securities. The Company addresses liquidity risks by ensuring that as far as possible sufficient liquidity is available to meet liabilities when due.

Future outlook

Going forward, there are considerable macro economic, political and social challenges. The external account pressure, law & order situation, fiscal deficit and energy crisis are the most immediate threats to the economy. Faced with these challenges, we continue to focus on our agenda of strengthening ourselves through continuous innovations, increased consumer focus, and a strong performance culture within the organization. Our people remain crucial for the continued growth of the business.

However, uncertain economic environment, inflation, energy shortages, law & order situation and adverse impact of rupee depreciation continue to pose challenges for the future.

Business process Re-engineering

The Company's business process re-engineering initiative is focusing on analysis and design of work flows and processes to help the organization to improve customer service, cut operational costs and become a high quality banknote and other security papers manufacturing company. During the year under review business process re-engineering efforts have resulted in substantial reduction in production losses, improvement in quality of paper and customer service.

Internal Audit

The Internal Audit function is an independent appraisal activity within the Company engaged in continuous review of operations with an emphasis on accounting, financial, and operational implications. It acts as a managerial control and resident value adding consultant to all departments. Internal audit procedures are guided by the principles of independence, objectivity and value addition. Outcome of these procedures are operational efficiency, safeguard of profitability and Company's interests, and establishment and observance of internal controls.

During the year in review Internal Audit function shifted its emphasis to provide greater assurance in the areas of operational efficiency, sustainability, and financial prudence. Based on the instructions, recommendations and guidance of the Board Audit Committee, the Internal Audit function adopted a risk-based approach that also ensured that the audit cycle resulted in genuine value addition to the Company's operations.

The function performs risk assessment and recommends improvements in internal control, through application of the 'Committee of Sponsoring Organizations of the Tread way Commission' (COSO) and Control Self Assessment (CSA) provisions.

Health, Safety and Environment

The Company continued to demonstrate its strong commitment to HSE. We continuously strive to improve our HSE standard to make workers lives better at the work place and outside. A Health & Safety Surveillance Committee (HSSC) has been formed with the objective to obtain OHSAS 18001. The Health & Safety Committee address the weaknesses raised by risk analysis assessments of the work environment.

During the year a work shop on awareness and implementation of Occupational Health & Safety Management Systems (OHSAS) 18001-2007 was organized for awareness and training.



The Best Safety Official of the Quarter program has also been initiated to appreciate safety officials making significant contribution. "Personal Protective Equipments (PPE)" have been provided to all the departments to ensure their usage. Quality awareness signs, dangerous area identification sign boards and safety supervisor boards for assigning responsibility at potential high risk areas have been placed. The process of incident reporting has also been revamped and made comprehensive. The Company continues to provide medical facilities like ambulance and dispensary to the workers. All employees are covered under the health insurance plan.

Quality & Environmental Management System

Quality Management System

Continuation of implemented ISO 9001 Quality Management System is progressing smoothly with increasing ownership. We maintain high standard of quality in the production of banknote and other security papers. Conformance to the quality parameters and desired specifications is an integral part of our quality management system. Maintaining ISO certification is a proof of the sustainability of achievement accomplished for the quality service provided to our customers and the increased level of customers' satisfaction as well as adopting and enhancing the best international practices and procedures with respect to the Quality Management System.



Environmental Management System

The Company has successfully implemented Environmental Management System ISO 14001 through planning and collective efforts to ensure delivery of quality products with minimum adverse environmental impacts and compliance with National Environmental Quality Standards (NEQS).

The ISO certification on environmental management system reassures safe environment for plant operations, workers and the community. We maintain cleanliness and green environment in and around the factory area with a view to control pollution.



Research & Development

The Company continues its Research and Development (R&D) activities to keep ahead of the field to attain efficiency and sustainability. It is a continuing process with a prime objective to improve product performance to provide competitive advantage and to obtain new knowledge, applicable to the Company's business needs. This eventually will result in new or improved products, processes, systems, or services that can increase the Company's sales and profits.

Safety and Security

The management is fully aware of the security challenges in the country and it is taking proactive measures for the protection of its employees and assets. We have established a system of surveillance through CCTV cameras. Our security systems include Fire Alarm System, Access Control System, Security Lighting System, Road Blockers, Walk through gate and Under Vehicle Surveillance System and a Crisis Management Cell is functional to monitor, identify and overcome any kind of subversive activities.

Fire & Safety Award

The management places utmost emphasis on protecting the life and property belonging to the Company from fire hazards. The efforts of the Company toward this end are recognized by National Forum for Environment & Health (NFEH) and Fire Protection Association of Pakistan (FPAP) in the form of Fire and Safety Award - 2012.

Corporate Social Responsibility

The Company undertakes Social Action Programs under its policy of Corporate Social Responsibility (CSR) which includes the provision of basic health facilities, promotion/education of underprivileged children & students, spending for under privileged classes and welfare schemes, Population groups and areas have been identified for CSR/Corporate Philanthropy activities. Priorities were given to certified non-profit / non-government organization (NPOs / NGOs).



Donations were made to the following NPOs/NGOs:

- Friends of Burn Centre (FOBC)
- Poor Patient Aid Society - Civil Hospital
- Aman Institute for Vocational Training

Contribution to the national exchequer and the economy of the country

During the year under review the Company made contribution to the national exchequer by way of taxes, levies, sales tax etc. amounted to Rs 318.40 million as compared to Rs 247 million during the corresponding period. In addition, the Company has also made foreign exchange savings of US\$ 18.76 million (approx.) through import substitution during the year as compared to US\$ 15.62 million in the corresponding period.

Energy Conservation

The Company is keenly striving to conserve energy in the organization. Employees are encouraged to switch off lighting, computer systems, electronic equipments and air-conditioners when not in use.

The Company has taken a number of initiatives to conserve energy. Some of these are:

- Balancing air-conditioning load
- Engineering improvements in manufacturing activity
- Heat insulation is provided in steam line and tanks
- Phasing out window air conditioners
- Re-utilizing process condensate water in the boilers for generation of steam

Human Capital

Our greatest asset is our employees. We are committed to attracting, retaining, and developing the highest quality and most dedicated work force. Therefore, we strive to hire and promote people on the basis of their qualifications, performance, and abilities and are determined to provide equal opportunities to our employees and to provide them a healthy work environment.

Trainings

The Company has comprehensive training programs for its employees. Employee training needs are periodically reviewed, various in-house and customized training programs are arranged for production, marketing, human resource, supply management and finance personnel. During the financial year 2012-13 training of 1,839 man hours were availed for development of soft and technical skills.



Statement of Ethical Practices

The Company has a comprehensive code of ethics and business practices. All employees must avoid conflict of interest between their private financial activities and conduct of Company's business. All business transactions on behalf of Security Papers Limited must be reflected accordingly in the accounts of the Company.

Every employee shall be responsible to see that there is no violation of laws within his/her area of responsibility which proper supervision could have prevented. The employee shall still be responsible if he / she delegates particular tasks.

Credit Rating

M/s. 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'.

Corporate Governance Rating

M/s. JCR-VIS Credit Rating Company Limited have upgraded the Corporate Governance Rating of Security Papers Limited (SPL) from 'CGR-8++' to 'CGR-9' which denotes 'Very High Level of Corporate Governance' for the year 2012-13. The rating is measured on a scale ranging from CGR-1 (lowest) to CGR-10 (highest).

It is a matter of great satisfaction that SPL is one of the four companies and the only one in the non-financial sector to have the honor of this high rating. The credit of this achievement goes to the management and the Board.

Corporate governance ratings are based on evaluation of key governance areas of the rated organization, which include Regulatory Compliance; Board Oversight; Management Profile; Self-regulation; Financial Transparency and Relationship with Stakeholders. The rating takes into consideration the continued commitment of the Board and management of the Company to maintain sound governance framework.

Corporate Excellence Award

The Company holds 24th to 28th Awards (five times running) of the Management Association of Pakistan (MAP) for the Forestry & Paper Sector. The Corporate Excellence Awards are conferred by the MAP with an objective to recognize the listed companies which excel in corporate and management practices.

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

Best Corporate Report Award

During the year Company has won the Best Corporate Report Award 2011.

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. 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 Annual Report - 2003 and 2006 to 2010 of the Company already won the Best Corporate Report Award.

Top Companies Award

The Company has the distinction of receiving Top Companies Award of the Karachi Stock Exchange (KSE) for the year 2000 to 2007 and 2009 to 2011.

The award is conferred by KSE on the basis of criteria which include Distribution to Shareholders, Return on Equity, Turnover of Shares, Number of Shareholders, Corporate Social Responsibility (CSR) and Good Corporate Governance/ Compliance with Code of Corporate Governance.

Acknowledgement

On behalf of the Board, I would like to record my gratitude to extremely valued shareholders, customers, suppliers, contractors, bankers and other stakeholders for their support, trust and confidence. Thanks are also due to all the employees for their loyalty, dedication and hard work which enabled the Company to achieve its objectives.

MUSTAPHA A. CHINYOY
Chairman

Karachi
Dated: July 31, 2013

Directors' Report

Security Papers
LIMITED



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, 2013.

Financial Results

The operating results of the Company for the year ended June 30, 2013 are summarized as follows:

Profit before taxation	
Taxation	
Current - for the year	
Current - for prior Year	
Deferred	
Profit after taxation	

2013 2012
(Rupees in '000)

468,080 510,222

165,382	12,127
(2,134)	(1,525)

163,248	10,602
(15,400)	121,519

147,848	132,121
---------	---------

320,232	378,101
---------	---------

Subsequent Appropriations

The Directors have recommended (i) final cash dividend of Rs 4/- per share, i. e. 40% (2012: Rs 6/- per share, i.e. 60%), (ii) bonus shares in the proportion of two shares for every ten shares held i.e. 20% (2012: nil) and appropriation of Rs 73.33 million (2012: Rs 131.20 million) to revenue reserves.

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

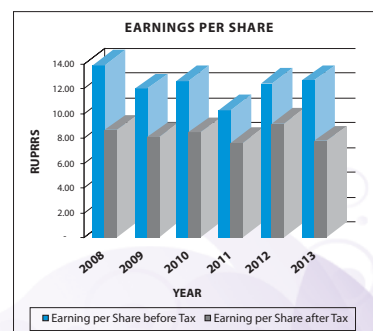
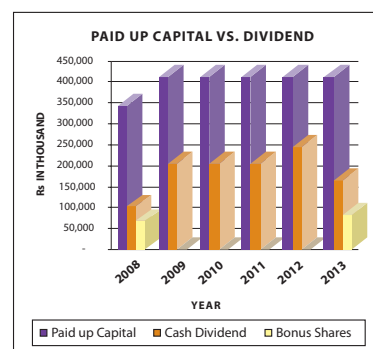
Earnings per share

The earnings per share (EPS) - before and after taxation are Rs 11.37 and Rs 7.78 (2012: Rs 12.4 and Rs 9.19) respectively.

Operating Results

During the year under review, the net sales revenue is higher by Rs 286.01 million as compared to the previous year mainly due to higher sales volume of banknote and other security papers.

The Company earned a gross profit of Rs 546.15 million during the year under review as compared to Rs 513.86 million in the previous year. The increase in gross profit during the current year as compared to the corresponding year is mainly attributable to higher sales volume, operational efficiencies and better absorption of fixed costs. Other operating income decreased by Rs 52.14 million during the current year as compared to the previous year mainly due to reduction in interest rates.



The profit after tax of Rs 320.23 million has been earned for the year as compared to Rs 378.10 million during the previous year. The decrease in Company's profitability during the year under review is mainly due to rising costs of energy and production overheads and decline in other operating income, increase in administration & general expenses and finance costs.

Market and book value per share

The book value per share stood at Rs 84.37 as against Rs 82.44 in the previous year. The before and after tax return on equity worked out to be 13.48% and 9.22% compared to 15.04% and 11.15% in the corresponding period respectively.

The average market price during the year remained at Rs 58.05 (2012: Rs 39.52) per share. The market price as of June 30, 2013 was Rs 66.99 (2012: Rs 44)

Cash Flow Management

During the year under review an amount of Rs 476.56 million was generated from the operating activities of the Company and Rs 189.57 million received on account of mark up on investment. The Company made an investment of Rs 235.09 million in treasury bills and mutual funds. The Company has paid an amount of Rs 160 million on account of repayment of long term loan and Rs 222.75 million has been paid 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, 2013 works out to 0.09:1 and 3.41:1 (2012:0.14:1 and 3.84:1) 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

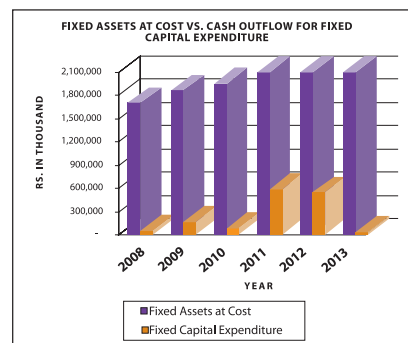
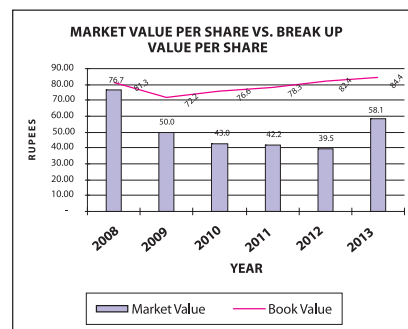
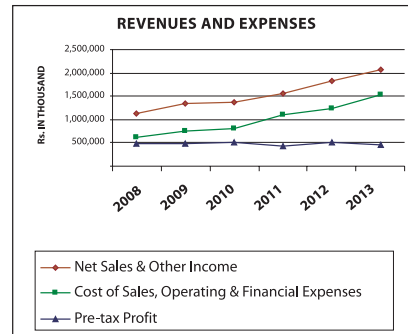
The auditors, M/s. KPMG Taseer Hadi & Co., Chartered Accountants, retire at the conclusion of the Annual General Meeting. Being eligible, they have offered themselves for re-appointment. Their re-appointment will be subject to change in engagement partner in compliance with the Code of Corporate Governance for listed companies.

As suggested by the Audit Committee, the Board recommends the appointment of M/s. Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants as auditors of the Company for the year 2013-14.

Board and Committee Changes

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

Mr. Rizwan Ahmed and Mr. Kazi Abdul Muktaadir, both Non-Executive Directors have joined the Board as nominees of Pakistan Security Printing Corporation (Pvt.) Limited in place Mrs. Naiyer Muzafar Husain and Mr. Hasan Irfaan.



Directors' Report

Security Papers
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Mr. Javed Iqbal, Non-Executive Director joined the Board as nominee of State Life Insurance Corporation of Pakistan in place of Mr. Shahid Aziz Siddiqi. The nomination of Mr. Javed Iqbal was withdrawn on the date of this report (Earlier, (i) Mr. Shahid Aziz Siddiqi joined the Board in place of Mr. Shoaib Mir and (ii) Mr. Shoaib Mir joined the Board in place of Ms. Yasmeen Saud).

Sheikh Mohammad Aijaz Akhtar, Independent Non-Executive Director has been appointed as member of the Board Audit Committee (BAC) in place of Mr. Hasan Irfaan. Subsequently he has been appointed as Chairman BAC. Also, Mr. Kazi Abdul Muktedir has been appointed as member BAC.

Mr. Rizwan Ahmed has been appointed as member of the Board Human Resource and Remuneration Committee.

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

Compliance with the Code of Corporate Governance

The "Statement of Compliance with the Code of Corporate Governance" (CCG) is annexed (page 51).

Statement on Corporate and Financial Reporting Framework

- The financial statements, prepared by the management of the Company, present its state of affairs fairly, 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 in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- The International Financial Reporting Standards (IFRS), as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has been adequately disclosed and explained.
- The system of internal control is sound in design and has been effectively implemented and monitored: and
- There are no significant doubts upon the Company's ability to continue as a going concern.
- Key operating and financial data of last six years in summarized form is annexed (page 36).
- Outstanding taxes and levies have been adequately disclosed in the annexed audited financial statements.
- The following is the value of investments based on respective latest audited accounts: (i) Provident Fund Rs 238.22 million (ii) Gratuity Fund Rs 245.35 million.
- The detail of number of Board and Committee meetings held during the year and attendance by each Director is as follows:

Name of Directors	Board		Committee					
			Audit		Human Resource & Remuneration		Investment	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
Mr. Mustapha A. Chinoy	7	7	6	6	2	2	1	1
Sheikh Mohammad Aijaz Akhtar	7	7	3	3	2	2		
Mrs. Ayla Akin - (Turkey)	7	0						
Mr. Jamal Nasim	7	6	6	5	2	2		
Mr. Mazhar-ul-Hassan Shah	7	4					1	1
Mr. Mohammad Reza Roshani Moghaddam - (Iran)	7	7						
Mr. Rizwan Ahmed	2	1						
Mr. Kazi Abdul Muktedir	1	1						
Mrs. Naiyer Muzafar Husain								
(Chief Executive Officer) Outgoing Directors	7	7			2	2	1	1
Mr. Hasan Irfaan	3	3	3	3				
Ms. Yasmin Saud	1	1						
Mr. Shoaib Mir	3	3						
Mr. Shahid Aziz Siddiqi	2	2						
Mr. Javed Iqbal	1	0						

- k. During the year Sheikh Mohammad Aijaz Akhtar, Mr. Jamal Nasim and Mr. Mazhar-UI-Hassan Shah have completed Directors' Training Program. In addition Mr. Mohammad Reza Roshani Moghaddam - (Iran) meets the criteria of exemption under clause (xi) of the Code of Corporate Governance and is accordingly exempted from Directors' Training Program.
- l. The pattern of shareholding is annexed (page 93).
- m. No trading in Company's shares was carried out by its Directors, CEO, CFO, Company Secretary, Head of Internal Audit, other Executives and their spouse(s) and minor children.

The Economy

The economy witnessed a modest recovery despite a challenging business environment. Inflationary pressures eased as the annualized inflation rate measured in terms of Consumer Price Index for 2012-13 averaged at 7.5 percent as against 10.9 percent in 2011-12. State Bank of Pakistan reduced the policy rate by 300 bps to 9% which helped reviving private sector investment. Workers' remittances reached US\$ 14 Billion.

On the other hand current account showed a deficit. The adverse law & order situation affected foreign direct investment. These factors coupled with scheduled repayments to the IMF reduced the forex reserves to US\$ 11 Billion. Falling reserves exerted pressure on Pak rupee to devaluation up to 8.5% as against US\$.

Overall agriculture economy holds the key to revival. Reasonable support prices, improved acreage in major crops and timely subsidies to farmers would assist in moving the economic cycle at a faster pace.

Future Prospects and Outlook

The profitability of the Company during the financial year 2013-14 will largely depend on the availability of raw materials at reasonable prices, positive business environment and growth oriented policies of the Government. The inflationary pressures are expected to remain dominant. However, 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.

Every effort will be made to convert risk and challenges into opportunities. All energies are focused on directing resources towards sustainable growth and development of the business.

Chairman's Review

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

On behalf of the Board of Directors

MRS. NAIYER MUZAFAR HUSAIN
Chief Executive Officer

Karachi
Dated: July 31, 2013

Attachment to the Directors' Report

ABSTRACT

(Under Section 218 of the Companies Ordinance, 1984)

To: All members of the Company

Subject: **Contract of Employment of Chief Executive Officer**

Dear Shareholders,

This is to inform the members of the Company that the Company has entered into a contract of employment with Mrs. Naiyer Muzafar Husain, Chief Executive Officer (CEO) of the Company on April 24, 2013 which will be effective from March 29, 2013 until completion of the remainder of her term of office expiring on August 24, 2014 at a gross salary of Rs 1,000,000/= (Rupees one million) per month. Other terms and conditions of employment will be as per contract of employment, the Company policy and determined by the Board of Directors from time to time.

No director of the Company is in any way concerned or interested in the contract of employment of Mrs. Naiyer Muzafar Husain.

Profile of the Members of the Board of Directors



MR. MUSTAPHA A. CHINOY
Non-Executive Director

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

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

Mr. Mustapha A. Chinoy is a Bachelor of Science in Economics from Wharton School of Finance, University of Pennsylvania, USA with majors in Industrial Management and Marketing.

Upon return from United States he took up the position of Marketing Manager at International Industries Limited. He is currently the Chief Executive of Intermark (Private) Limited.

He is also on the Board of:

- (i) Pakistan Cables Limited
- (ii) Travel Solutions (Pvt.) Limited
- (iii) Global E-Commerce Services (Pvt.) Limited
- (iv) International Industries Limited

He has previously served on the Board of Union Bank Limited until it was acquired by Standard Chartered Bank. He is the Honorary Consul General of Greece in Pakistan.



**SHEIKH MOHAMMAD
AIJAZ AKHTAR**
Non-Executive Director

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

He is a 'Certified Director'.

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

He is a Graduate (B.Sc.).

Sheikh Aijaz has about 40 year of experience with

- (i) family business
- (ii) Trade & Industry
- (iii) Steel Merchants and
- (iv) Gulf Builders & Developers (Pvt.) Limited.

Profile of the Members of the Board of Directors

Security Papers
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MRS. AYLA 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 27 year experience in government service.

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



MR. JAMAL NASIM
Non-Executive Director

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

He is a 'Certified Director'.

He is a Non-Executive Director being nominee of National Investment Trust Limited (NIT). He is also: Member of (i) Board Audit Committee and (ii) Board Human Resource & Remuneration Committee.

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

Mr. Nasim has about 33 year 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 Chairman / President of Industrial Development Bank Limited (IDBL).

Other Directorship: President: (i) Industrial Development Bank Limited (IDBL) Directors: (ii) Ellcot Spinning Mills Limited, (iii) Fazal Cloth Mills Limited, (iv) Mitchell's Fruit Farms Limited, (v) National Investment Trust Limited, (vi) National Bank Modaraba and (vii) Central Depository Company of Pakistan Limited.

He is also on the Board of Governors of Lahore University of Management Sciences (LUMS) and Lahore School of Economics (LSE).



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 Pakistan Security Printing Corporation (Pvt.) Limited. He is also Member of Board Investment Committee.

He is a 'Certified Director'.

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 12 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.



**MR. MOHAMMAD REZA
ROSHANI MOGHADDAM**
Non-Executive Director

Mr. Mohammad Reza Roshani Moghaddam was 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.S in MBA from Industrial Management Institute.

Mr. Roshani has more than 27 year rich experience in the fields of Machinery Design, Industrial Projects Management, Automotive and Oil & Gas industry, etc.

He has worked in the senior management positions with:

- (i) President of Tyco (E.P.C. Contractor)
- (ii) Vice Chairman of J.T.s Co. (E.P.C. Contractor)
- (iii) Chairman of Soyab Sanat Co. (Manufacturer of DC Motors)
- (iv) Chairman of Sard Saz Khodro Co. (Manufacturer of A/C Systems)
- (v) Chairman of Mavad Karan Co. (Gas Turbine Blade Manufacturer)
- (vi) Chairman & President of Mega Motor Co., (Automotive Power Train Manufacturer)
- (vii) Vice Chairman of Renault Pars (Joint venture between IDRO and Renault)
- (viii) Member Board and Vice President of Saipa Group (Automotive Manufacturer)
- (ix) Vice Chairman of Pars Khodro (Automotive Manufacturer)
- (x) Chairman of Saipa Kashan, (Automotive Manufacturer)
- (xi) Vice Chairman of AIRC Co., (R&D for Automotive Industries)
- (xii) Vice Chairman of IPMI (E.P.C Contractor in oil and gas fields)

Other Directorships: Presently he is (i) Deputy of IDRO and (ii) Chairman of RTI {Metro engineering, procurement, construction, installation (EPC) Contractor}.

Mr. Roshani is married and has three children.

He is widely traveled.

Profile of the Members of the Board of Directors

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MR. RIZWAN AHMED
Non-Executive Director

Mr. Rizwan Ahmed was appointed to the Board in April 2013.

He is Non-Executive Director nominated by M/s. Pakistan Security Printing Corporation (Pvt.) Limited (PSPC). He is also Member of Board Human Resource & Remuneration Committee.

Mr. Rizwan is a Master in Public Administration (MPA) from Kennedy School of Government, Harvard University, USA. He did Master in Science (Social Sciences) from Shaheed Zulfiqar Ali Bhutto Institute of Science and Technology, Karachi, Bachelor in Law (LLB) from Sind Muslim Law College, (Karachi University) and Bachelor in Engineering (Electronics) from Dawood College of Engineering (NED University).

He belongs to Pakistan Administrative Service (PAS), Central Superior Services, Government of Pakistan. He has more than 25 years of vast professional experience in law enforcement, administration, finance, management, personnel & human resource, public procurement and health etc.

He has served on the following senior management positions:

- (i) Assistant Commissioner - Mianwali, Bhawalnagar and Rahimyar Khan, Government of Punjab
- (ii) Additional Commissioner (Coordination) - Gujranwala Division, Government of Punjab
- (iii) Deputy Commissioner - District Hyderabad, Government of Sindh
- (iv) Additional Secretary - Law Enforcement, Home Department, Government of Sindh
- (v) Additional Secretary - Budget & Expenditure in Finance Department, Government of Sindh
- (vi) Director Provincial Program - Decentralization Support Program, Government of Sindh.
- (vii) Secretary - General Administration & Coordination Department, Government of Sindh.
- (viii) Executive Director - Personnel & Human Resource, Pakistan Steel Mills Limited, Ministry of Industries, Government of Pakistan.
- (ix) Managing Director - Sindh Public Procurement Regulatory Authority, Government of Sindh.
- (x) Secretary to Governor Sindh, Government of Sindh.
- (xi) Secretary - Health Department, Government of Sindh.
- (xii) Secretary - Implementation & Coordination SGA&CD, Government of Sindh.
- (xiii) Managing Director - ENAR Petrotech (Pvt.) Limited, Ministry of Production, Government of Pakistan.

He has also teaching experience and worked as Directing Staff in National Institute of Management, Karachi and Teaching Fellow at Kennedy School of Government, Harvard University, USA.

Mr. Rizwan is presently serving as Chairman, Trading Corporation of Pakistan and Director, Pakistan Security Printing Corporation (Pvt.) Limited.



MR. KAZI ABDUL MUKTADIR
Non-Executive Director

Mr. Kazi Abdul Muktadir was appointed to the Board of Directors in 2013.

He is a Non-Executive Director being nominee of Pakistan Security Printing Corporation (Pvt.) Limited. He is also a Member of Board Audit Committee.

Mr. Kazi completed his higher studies from McGill University Canada, London University, Sindh University and Karachi University. Holding Masters Degree, he has to his credit numerous diplomas and certificates in the field of Banking, Islamic Banking, Agri-business, Management, Planning, Energy etc.

Presently he is Deputy Governor, State Bank of Pakistan (SBP). Prior to taking over as SBP Deputy Governor, Mr. Kazi had been serving the State Bank of Pakistan as its Executive Director since December, 2002. He had been Group Head of Banking Supervision since June, 2010 and was responsible for On-Site Examination, Off-Site Surveillance and Enforcement actions over all banks in Pakistan. In this capacity, he gained repute within the banking community as a high caliber professional known to handle difficult issues and situations.

Before joining the SBP in January 1997, Mr. Kazi served many distinguished organizations such as Habib Bank Limited and the then Pakistan Banking Council in prominent capacities. Prior to that, he worked in Canada. He also served Sindh Agricultural University Tandojam, Agha Khan Rural Support Program (AKRSP), International Labour Organization (ILO) project, Food and Agriculture Organization (FAO) and Rabka Limited Karachi.

Mr. Kazi represented Pakistan at different international forums and has been a member of a number of bodies and task forces, including the Conference of Banking Supervisors of Bank for International Settlements, HR Task Force of Islamic Financial Services Board (IFSB), Selection Board, Allama Iqbal Open University, Islamabad, Board of Studies of a number of Universities, committee on formulation of the National Housing Policy and implementation committee on the Trade Policy, Ministry of Commerce.

Other business, occupation and directorship:

Directorship:	(i)	Pakistan Security Printing Corporation (Pvt.) Limited
	(ii)	SECP Policy Board
	(iii)	Trade Development Authority of Pakistan

Member Selection Board:	(iv)	Allama Iqbal Open University, Islamabad
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MRS. NAIYER MUZAFAR HUSAIN
Chief Executive Officer

Mrs. Naiyer Muzafar Husain was appointed as Chief Executive Officer of the Company in 2008. She is also: Chairperson of (i) Board Investment Committee and Member of (ii) Board Human Resource & Remuneration Committee.

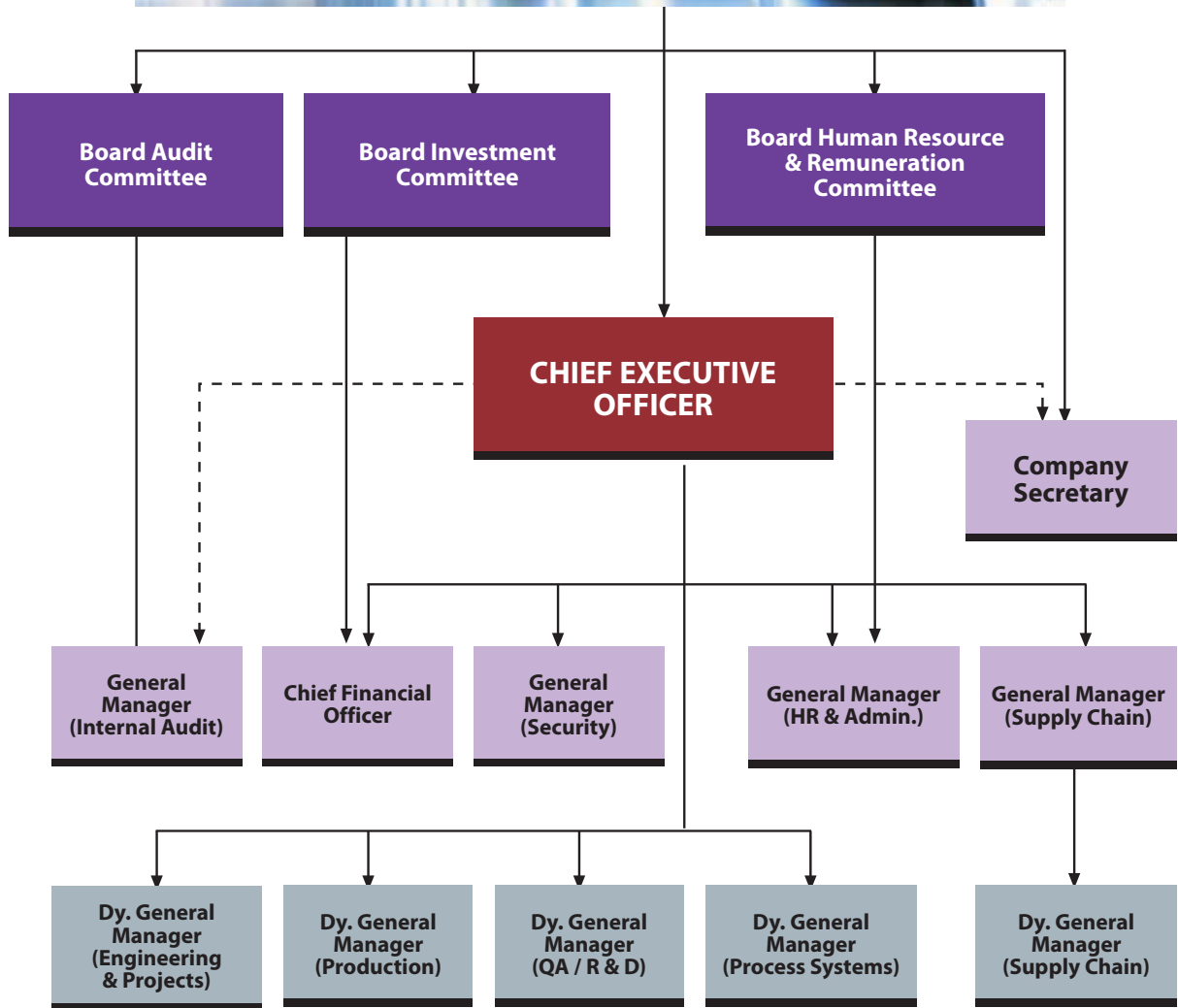
She is a 'Certified Director'.

She holds Masters Degree in Pakistan Studies.

Mrs. Naiyer has over 34 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.

She has served as Chairperson and Managing Director of Pakistan Security Printing Corporation (Pvt.) Limited.

Organization Chart



LEGENDS

- Functional Reporting
- - - - - Administrative Reporting

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.

A mechanism is in place for an annual evaluation of the Boards' own performance on the basis of foregoing criteria.

Shareholders' Information

Security Papers
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Annual General Meeting

The Annual General Meeting of Security Papers Limited will be held on Thursday, the August 29, 2013 at 11:00 AM at Hotel Ramada Plaza Karachi, Star Avenue, Terminal No.1, Jinnah International Airport, Karachi.

Eligible shareholders are encouraged to participate and vote.

Registered Office

Jinnah Avenue, Malir Halt,
Karachi-75100
Telephone: 99248285
Fax: 99248286
E-mail: splcs@cyber.net.pk and comsec@security-papers.com
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
Timings: 8:30 AM to 1:00 PM & 2:00 PM to 3:30 PM

Auditors

KPMG Taseer Hadi & Co.
Chartered Accountants

Investor Relations Contact

Mr. Muhammad Abdul Aleem
Company Secretary
Telephone: 99248285
Fax: 99248286
E-mail: splcs@cyber.net.pk and comsec@security-papers.com

Web Reference

The Company maintains a functional website. Annual, Half-yearly and Quarterly reports are regularly posted at the Company's website: <http://security-papers.com>.

Stock Exchange Listing

Security Papers Limited is listed on Karachi Stock Exchange Limited. The symbol code for dealing in shares of the Company is SEPL.

Karachi Stock Exchange Share Prices 2012-13			
Period	Price in Rupees		
	High	Low	Average
1st Quarter - September 30, 2012	63.20	43.10	53.15
2nd Quarter - December 31, 2012	53.26	48.51	50.89
3rd Quarter - March 31, 2013	55.49	48.01	51.75
4th Quarter - June 30, 2013	73.00	52.75	62.88

Reporting

Period	Financial Results
1st Quarter - September 30, 2012	October 23, 2012
2nd Quarter - December 31, 2012	January 29, 2013
3rd Quarter - March 31, 2013	April 24, 2013
4th Quarter - June 30, 2013	July 31, 2013

Dividend

The Board of Directors have recommended in their meeting held on July 31, 2013 payment of final cash dividend at the rate of Rs 4/- per share i.e. 40% and bonus shares in proportion of two (02) shares for every ten (10) shares held i.e. 20% for the year ended June 30, 2013.

Dividend Mandate [Optional]

As per Securities and Exchange Commission of Pakistan (SECP) Notification vide S.R.O. No.753 (I)/2012 dated 18th June 2012, transferee of shares may exercise option for dividend mandate by using the revised "Form of Transfer Deed". The revised form of transfer deed will enable the transferees to receive cash dividend directly in their bank accounts, if such transferee provides particulars of its bank account which he/she/it desires to be used for credit of cash dividend. The existing shareholders have the option to seek the dividend mandate by using the standardized "Dividend Mandate Form" if they so desires. Both the forms are available on SPL's website: <http://security-papers.com>.

Printing of Computerized National Identity Card (CNIC) Number of Registered Member on the Dividend Warrant

In compliance with the requirement of Securities and Exchange Commission of Pakistan Notification vide SRO No.779 (1)/2011 dated 18th August 2011, the Dividend Warrant(s) should have CNIC Number of the registered member or the authorized person except in case of minor(s) and corporate members.

Requirement of CNIC Number / National Tax Number (NTN) / Certificate or Passport Number

Members are requested to provide a copy of the following valid document(s), as may be relevant, by post, fax or e-mail (if not yet submitted) to enable the Company comply with relevant laws:

- (i) CNIC [in case of local individual(s)]
- (ii) NTN Certificate [in case of corporate entities] or
- (iii) Passport Number [in case of foreigner(s)]

Delivery of the Unclaimed/Undelivered Shares

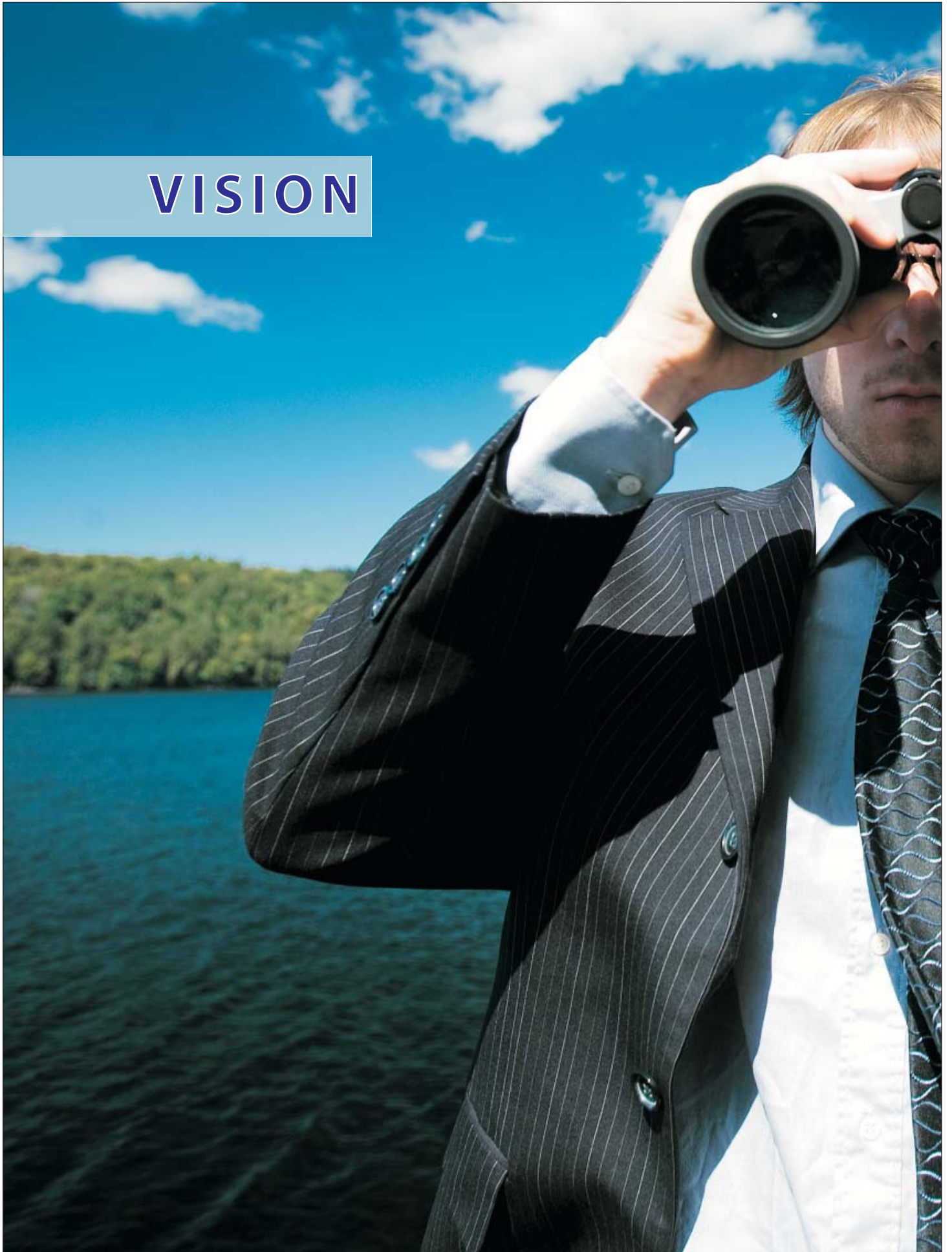
Securities and Exchange Commission of Pakistan in their letter dated December 22, 2011 have advised the listed companies and their Share Registrars & Transfer Agents (SRTA) to make every effort to deliver the unclaimed/undelivered shares lying with them, if any to the respective members/shareholders. Such shares include, shares issued pursuant to IPOs, Bonus Issues, Right Issues, etc.

Members are requested to contact the Registered Office of the Company or the Share Registrar, M/s. FAMCO Associates (Pvt.) Limited for collection of their shares which were not received due to any reasons.

Training & Development



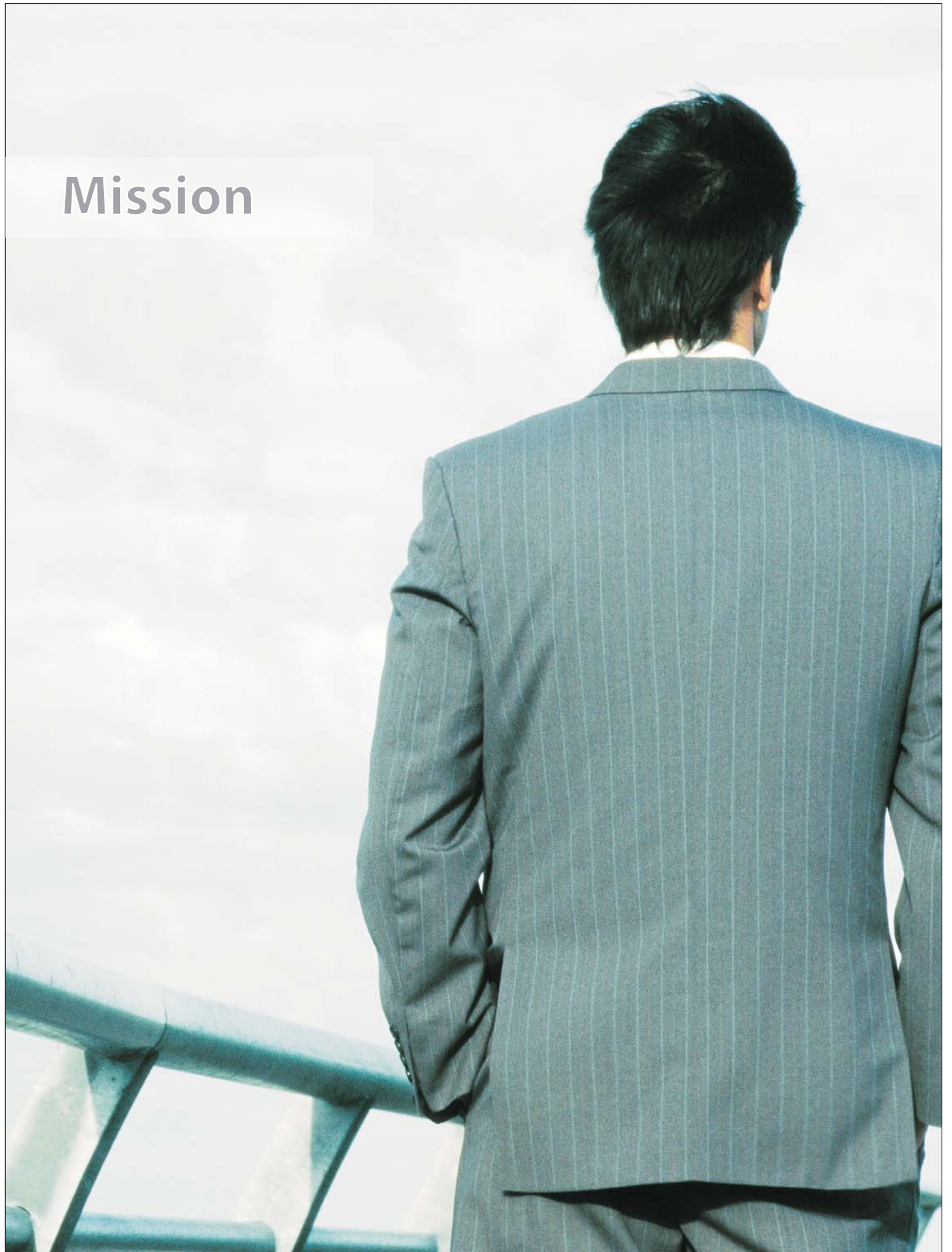
VISION



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



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."

Core Values

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

Strategic Goals

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

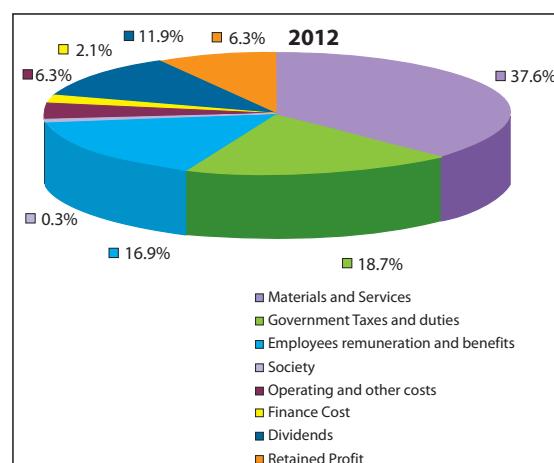
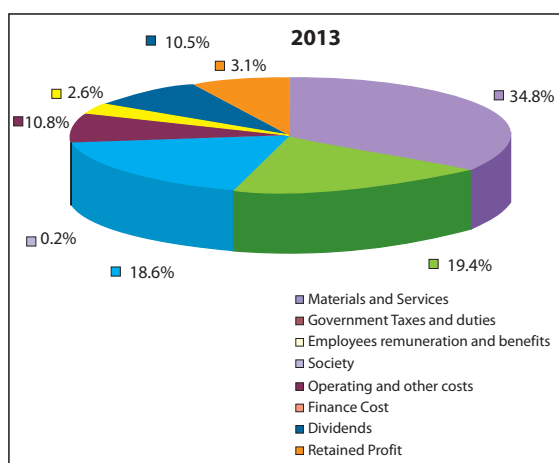
Code of ethics and business practices

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

A detailed policy for actual and perceived conflicts of interest and its resolution relating to the members of the Board of Directors and employees is in place.

Statement of Value Addition and its Distribution

	2013	%	2012	%
(Rupees in '000)				
VALUE ADDITION				
Net Sales including Taxes	2,155,145	91.5%	1,823,688	87.8%
Other Operating Income	200,437	8.5%	252,575	12.2%
	2,355,582	100%	2,076,263	100%
VALUE DISTRIBUTION				
Materials and Services	819,091	34.8%	780,175	37.6%
Government Taxes and duties	457,091	19.4%	388,782	18.7%
Employees remuneration and benefits	438,477	18.6%	350,317	16.9%
Society Welfare	4,622	0.2%	5,854	0.3%
Operating and other costs	255,036	10.8%	129,823	6.3%
Finance Cost	61,033	2.6%	43,211	2.1%
Dividends	246,900	10.5%	246,900	11.9%
Retained Within the Business	73,332	3.1%	131,201	6.3%
	2,355,582	100%	2,076,263	100%



PARTICULARS	2013	2012	2011	2010	2009	(Rs. In Thousand) 2008
Financial Position						
Fixed Assets - Net	1,958,464	2,111,951	1,713,993	1,244,364	1,264,704	1,205,059
Investments	582,209	577,710	-	-	-	-
Other Assets	14,359	24,188	17,436	17,258	16,757	16,296
	<u>2,555,032</u>	<u>2,713,849</u>	<u>1,731,429</u>	<u>1,261,622</u>	<u>1,281,461</u>	<u>1,221,355</u>
Current Assets	2,240,360	2,041,806	2,564,953	2,372,344	2,166,062	1,975,094
Current Liabilities	657,603	531,327	520,822	367,021	337,016	310,448
Working Capital	<u>1,582,757</u>	<u>1,510,479</u>	<u>2,044,131</u>	<u>2,005,323</u>	<u>1,829,046</u>	<u>1,662,596</u>
Less : Long Term Loan	4,137,789	4,224,328	3,775,560	3,266,945	3,110,507	2,883,951
Less: Deferred Liabilities	331,543	482,112	327,214	9,435	6,685	4,848
Shareholders' Equity	<u>334,454</u>	<u>349,854</u>	<u>228,335</u>	<u>166,825</u>	<u>133,931</u>	<u>91,630</u>
	<u>3,471,792</u>	<u>3,392,362</u>	<u>3,220,011</u>	<u>3,110,685</u>	<u>2,969,891</u>	<u>2,787,473</u>
Paid-up-Capital	411,499	411,499	411,499	411,499	411,499	342,916
Reserves	3,060,293	2,980,863	2,808,512	2,699,186	2,558,392	2,444,557
Capital Employed	<u>3,471,792</u>	<u>3,392,362</u>	<u>3,220,011</u>	<u>3,110,685</u>	<u>2,969,891</u>	<u>2,787,473</u>
* Trading Results						
Sales - Net of taxes	1,856,926	1,570,912	1,303,019	1,152,511	1,129,070	1,024,221
Gross Profit	546,156	513,856	344,000	458,179	460,262	466,500
Profit after Admn. & General Expenses	383,841	370,675	215,188	353,466	384,834	404,803
Other Income	200,437	252,575	257,621	213,518	202,417	112,344
Finance & Other Cost	116,199	113,028	51,281	46,727	94,040	39,695
Profit before Tax	468,080	510,222	421,528	520,257	493,211	477,452
Taxation	147,848	132,121	106,452	172,166	161,056	180,031
Profit after Tax	<u>320,232</u>	<u>378,101</u>	<u>315,076</u>	<u>348,091</u>	<u>332,155</u>	<u>297,421</u>
* Investors Information						
Dividend *						
Cash - Value	164,600	246,900	205,750	205,750	205,750	102,875
Cash - %	40.00%	60.00%	50.00%	50.00%	50.00%	30.00%
Bonus - Value	82,300	-	-	-	-	68,583
Bonus - %	20.00%	-	-	-	-	20.00%
Profit retained in Business - Value	73,332	131,201	109,326	142,341	126,405	125,963
Retention - %	22.9%	34.70%	34.70%	40.89%	38.06%	42.35%
* Profitability Ratios						
Gross Profit to Sales %	29.41%	32.71%	26.40%	39.75%	40.76%	45.55%
EBITDA (Rs '000)	723,535	705,114	549,987	636,622	598,791	579,244
EBITDA Margin to Sales %	38.96%	44.89%	42.21%	55.24%	53.03%	56.55%
Profit before Tax to Sales %	25.21%	32.48%	32.35%	45.14%	43.68%	46.62%
Profit after Tax to Sales %	17.25%	24.07%	24.18%	30.20%	29.42%	29.04%
Return on Equity - before tax %	13.48%	15.04%	13.09%	16.72%	16.61%	17.13%
Return on Equity - after tax %	9.22%	11.15%	9.78%	11.19%	11.18%	10.67%
Return on Capital Employed %	8.42%	9.76%	8.88%	11.16%	11.16%	10.65%
* Activity / Turnover Ratios						
Return on Assets - before tax %	9.76%	10.73%	9.81%	14.32%	14.31%	14.95%
Return on Assets - after tax %	6.68%	7.95%	7.33%	9.58%	9.63%	9.31%
Total Assets Turnover %	38.72%	33.03%	30.33%	31.71%	32.75%	32.06%
Stock Turnover - No. of Days	113	131	136	163	146	164
Debtor turnover Ratio - No. of Days	52	67	63	67	77	51
Creditor turnover Ratio - No. of Days	31	30	26	35	42	27
Operating Cycle	134	168	173	195	181	188
* Liquidity Ratios						
Current Ratio	3.41:1	3.84:1	4.92:1	6.46:1	6.43:1	6.36:1
Quick Ratio	2.79:1	3.09:1	4.24:1	5.65:1	5.47:1	5.47:1
Cash to Current Liabilities	0.06:1	0.03:1	0.07:1	0.14:1	0.35:1	1.15:1
Cash flow from operations to Sales	0.26:1	0.17:1	0.18:1	0.25:1	0.26:1	0.13:1
* Capital Structure Ratios						
Long Term Debt to Equity	0.10:1	0.14:1	0.10:1	0.00:1	0.00:1	0.00:1
Long Term Debt to Asset	0.07:1	0.10:1	0.08:1	0.00:1	0.00:1	0.00:1
Debt Equity Ratio	0.10:1	0.14:1	0.14:1	0.14:1	0.14:1	0.14:1
Interest cover ratio	12:1	16:1	86:1	340:1	335:1	1,099:1
* Investment / Market Ratios						
No. of Shares in Issue - No.	41,150	41,150	41,150	41,150	41,150	34,292
Bonus Shares Issued - No.	8,230	-	-	-	-	6,858
Cash Dividend per share (Rs)	4.00	6.00	5.00	5.00	5.00	3.00
Earning per share - before tax (Rs) **	11.37	12.40	10.24	12.64	11.99	11.60
Earning per share - after tax (Rs) **	7.78	9.19	7.66	8.46	8.07	7.23
Break-up value per share (Rs) -						
- Without Surplus on Revaluation on Fixed Assets	84.37	82.44	78.25	75.59	72.17	67.74
- With Surplus on Revaluation on Fixed Assets						
Price Earning Ratio - Year end Price (Rs)	8.61	4.79	5.29	5.08	6.19	10.61
Earning Yield - Year end Price %	11.62%	20.88%	18.91%	19.68%	16.14%	9.43%
Dividend Payout %	77.10%	65.30%	65.30%	59.11%	61.94%	57.65%
Dividend Yield - Year end Price %	8.96%	13.64%	12.35%	11.63%	10.00%	6.52%
Dividend Cover - Times	1.30	1.53	1.53	1.69	1.61	1.73
SHARE PERFORMANCE						
Share Price - Highest (Rs)	73.00	47.85	50.40	64.71	83.50	143.75
Share Price - Lowest (Rs)	43.10	31.20	34.00	39.50	35.50	75.05
Share Price - Average (Rs)	58.05	39.52	42.20	52.11	59.50	109.40
Share Price - At year end (Rs)	66.99	44.00	40.50	42.99	50.00	76.66
Market Capitalization - Year end Price - (Rs '000)	2,756,632	1,810,596	1,666,571	1,769,034	2,057,495	2,628,794
Turnover of shares - No.	3,293,458	2,239,201	2,215,905	2,383,636	1,068,200	4,295,000
RODUCTION (Ton)						
Actual Production						
Banknote Paper	1,513	1,243	1,199	1,423	1,424	1,627
Non-Banknote Paper	668	418	203	164	300	171
Total	<u>2,181</u>	<u>1,661</u>	<u>1,402</u>	<u>1,587</u>	<u>1,724</u>	<u>1,798</u>
SALES (Ton)						
Banknote Paper	1,516	1,241	1,433	1,416	1,415	1,561
Non-Banknote Paper	610	419	189	171	293	171
Total	<u>2,126</u>	<u>1,660</u>	<u>1,622</u>	<u>1,587</u>	<u>1,708</u>	<u>1,732</u>
CASH FLOW SUMMARY						
Cash Flows from Operating activities	476,555	263,604	234,684	286,335	288,243	129,742
Net cash used in investing activities	(81,122)	(319,519)	(441,575)	(144,602)	(421,147)	(88,157)
Net cash used in financing activities	(374,685)	34,821	194,726	(211,364)	(105,782)	(87,488)
Cash and cash equivalents at beginning of the year	16,497	37,592	49,757	119,388	358,074	403,977
Cash and cash equivalents at end of the year	<u>37,245</u>	<u>16,498</u>	<u>37,592</u>	<u>49,757</u>	<u>119,388</u>	<u>358,074</u>

* Proposed cash dividend of Rs164.600 million (i.e. Rs 4 /- per share) and Bonus Issue of 20% are not reflected in the financial statements as referred to in note 38 of the financial statements.

** EPS before & after tax are not reflecting the impact of Proposed Bonus Issue @ 20%.

Horizontal Analysis

	2013	2012	2011	2010	2009	2008
BALANCE SHEET						
ASSETS						
Non-current assets						
Property, plant and equipment	(7.27%)	23.22%	37.74%	(1.61%)	4.95%	(3.15%)
Long-term deposits	(40.64%)	38.72%	1.03%	2.99%	2.83%	5.20%
Investments	0.78%	100%	0.00%	0.00%	0.00%	(100.00%)
Current assets						
Stores, spares and loose tools	(1.72%)	32.17%	(9.82%)	17.19%	12.21%	27.78%
Stock-in-trade	1.51%	12.57%	(0.14%)	36.86%	(4.39%)	19.78%
Trade debts - considered good	(16.77%)	0.47%	60.75%	(30.06%)	9.90%	314.16%
Advances, deposits, prepayments and other receivables	(20.21%)	57.49%	(59.34%)	(31.82%)	2.02%	153.22%
Accrued mark-up	1.45%	(90.91%)	101.05%	285.03%	219.41%	81.50%
Loans, receivables & Investments	20.35%	(19.40%)	(4.45%)	6.39%	19.68%	16.36%
Cash and bank balances	125.77%	(56.12%)	(24.45%)	(28.29%)	(56.10%)	(11.68%)
Total assets	0.84%	10.69%	18.23%	5.41%	7.92%	12.95%
LIABILITIES						
Current liabilities						
Current portion of Long term liabilities - Lease/Loan	1.83%	76.09%	4334.33%	26.34%	23.24%	100.00%
Trade and other payables	15.35%	9.19%	46.81%	13.05%	19.01%	36.29%
Accrued mark-up on short term finance - secured	(37.22%)	35.80%	10,376.89%	544.44%	125.00%	(50.00%)
Taxation - net	1,859.29%	(95.98%)	(32.71%)	2.76%	(3.64%)	48.94%
Non-current liabilities						
Liabilities against asset subject to finance lease	(3.04%)	(26.19%)	19.85%	41.14%	37.89%	100.00%
Long Term Finance	(31.73%)	49.97%	100.00%	0.00%	0.00%	0.00%
Deferred taxation - net	(4.40%)	53.22%	55.52%	9.63%	46.17%	46.37%
Total liabilities	(2.91%)	26.66%	105.70%	9.56%	17.38%	45.09%
NET ASSETS						
NET ASSETS	2.34%	5.35%	3.51%	4.74%	6.54%	9.41%
Issued, subscribed and paid-up capital	0.00%	0.00%	0.00%	0.00%	20.00%	20.00%
General reserve	5.06%	4.37%	6.05%	5.69%	6.00%	7.95%
Unappropriated profit	(15.39%)	20.10%	(9.47%)	4.77%	11.66%	0.01%
Surplus on re-measurement of investments classified as 'available for sale'	100.00%	0.00%	0.00%	(100.00%)	(96.80%)	137.23%
SHAREHOLDERS' EQUITY	2.34%	5.35%	3.51%	4.74%	6.54%	9.41%
Total liabilities & Shareholders' Equity	0.84%	10.69%	18.23%	5.41%	7.92%	12.95%
Profit & Loss Account						
Sales - net	18.21%	20.56%	13.06%	2.08%	10.24%	7.37%
Cost of sales	24.00%	10.22%	38.12%	3.82%	19.92%	11.82%
Gross profit	6.29%	49.38%	(24.92%)	(0.45%)	(1.34%)	2.49%
Administration and general expenses	13.36%	11.16%	23.01%	38.83%	22.26%	18.15%
Other operating income	(20.64%)	(1.96%)	20.66%	5.48%	80.18%	27.81%
Other operating charges	(20.99%)	65.55%	(2.41%)	(51.20%)	126.08%	7.14%
Impairment loss on 'available for sale' investment	0.00%	(100.00%)	67.03%	(55.75%)	100.00%	0.00%
Operating profit	(4.39%)	29.34%	(18.05%)	5.48%	3.56%	5.21%
Finance costs	41.24%	578.25%	239.79%	4.92%	239.09%	318.25%
Profit before taxation	(8.26%)	21.04%	(18.98%)	5.48%	3.30%	5.13%
Taxation - net	11.90%	24.11%	(38.17%)	6.90%	(10.54%)	14.71%
Profit after taxation	(15.31%)	20.00%	(9.48%)	4.80%	11.68%	0.07%

Vertical Analysis

BALANCE SHEET

ASSETS

Non-current assets

Property, plant and equipment	40.84%	44.41%	39.89%	34.24%	36.68%	37.72%
Long-term deposits	0.30%	0.51%	0.41%	0.47%	0.49%	0.51%
Long Term Investments	12.14%	12.15%	-	-	-	-

Current assets

Stores, spares and loose tools	2.34%	2.40%	2.01%	2.63%	2.37%	2.28%
Stock-in-trade	8.51%	8.46%	8.32%	9.85%	7.58%	8.56%
Trade debts - considered good	5.69%	6.90%	7.60%	5.59%	8.42%	8.27%
Advances, deposits, prepayments and other receivables	0.24%	0.31%	0.21%	0.62%	0.97%	1.02%
Accrued mark-up	0.65%	0.65%	7.89%	4.64%	1.27%	0.43%
Loans, receivables & Investments	28.51%	23.88%	32.80%	40.58%	40.21%	36.26%
Investments	0.00%	0.00%	-	-	-	-
Cash and bank balances	0.78%	0.35%	0.87%	1.37%	2.01%	4.95%

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	3.44%	3.41%	2.14%	0.06%	0.05%	0.04%
Trade and other payables	8.59%	7.51%	7.61%	6.13%	5.71%	5.18%
Accrued mark-up on short term finance - secured	0.11%	0.17%	0.14%	0.00%	0.00%	0.00%
Taxation - net	1.57%	0.08%	2.23%	3.91%	4.01%	4.49%

Non-current liabilities

Liabilities against asset subject to finance lease	0.17%	0.18%	0.26%	0.26%	0.19%	0.15%
Long Term Finance	6.75%	9.96%	7.35%	0.00%	0.00%	0.00%
Deferred taxation - net	6.97%	7.36%	5.31%	4.04%	3.88%	2.87%

Total liabilities	27.60%	28.67%	25.05%	14.40%	13.85%	12.74%
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NET ASSETS	72.40%	71.33%	74.95%	85.60%	86.15%	87.26%
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Issued, subscribed and paid-up capital	8.58%	8.65%	9.58%	11.32%	11.94%	10.73%
General reserve	57.01%	54.72%	58.03%	64.70%	64.53%	65.70%
Unappropriated profit	6.68%	7.96%	7.33%	9.58%	9.64%	9.32%
Surplus on re-measurement of investments classified as 'available for sale'	0.13%	0.00%	0.00%	0.00%	0.04%	1.52%

SHAREHOLDERS' EQUITY	72.40%	71.33%	74.95%	85.60%	86.15%	87.26%
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Total liabilities & Shareholders' 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	70.59%	67.29%	73.60%	60.25%	59.24%	54.45%
Gross profit	29.41%	32.71%	26.40%	39.75%	40.76%	45.55%
Administration and general expenses	8.74%	9.11%	9.89%	9.09%	6.68%	6.02%
Other operating income	10.79%	16.08%	19.77%	18.53%	17.93%	10.97%
Other operating charges	2.97%	4.44%	3.24%	3.75%	7.84%	3.82%
Impairment loss on 'available for sale' investment	0.00%	0.00%	0.21%	0.14%	0.33%	0.00%
Operating profit	28.49%	35.23%	32.84%	45.30%	43.84%	46.67%
Finance costs	3.29%	2.75%	0.49%	0.16%	0.16%	0.05%
Profit before taxation	25.21%	32.48%	32.35%	45.14%	43.68%	46.62%
Taxation - net	7.96%	8.41%	8.17%	14.94%	14.26%	17.58%
Profit after taxation	17.25%	24.07%	24.18%	30.20%	29.42%	29.04%

2013



**Management
Review**

Following are the achievements of the Production department during the year:

- Process re-engineering which enhanced machine speed to a significantly high level
- Effective capacity management to meet customer's unscheduled demand
- Improved working environment through counseling and motivation
- Enhanced plant design and modified
- Energy saving efforts with improved results
- Significant reduction in production losses
- Cost reduction projects have paved way for cost control, enhance process efficiency and improvement in quality parameters
- Reduced conditioning time of finished paper at the Company's warehouse. This has enabled quick delivery to the customer and reduction in inventory carrying cost
- Effective use of total quality management tools including brain storming and continuous improvement techniques to identify, evaluate and resolve surrounding issues

Engineering & Projects

During the year Engineering & Projects department has played the key role in improving the plant efficiencies as follows:

- Successful plant shut down completed in April 2013 in which major overhauling of equipments and electrical substations was done, resulting improved and efficient operation of the plant
- Modification work made in size cooking section with the in house fabrication of size tank
- Commissioning of broke re-pulping plant completed which is operating efficiently
- Complete renovation and reconstruction of Main Entrance Gate and Security Office has been carried out
- New improved lighting provided in the Paper Finishing Section

Task in Progress

- Renovation work of Finance department
- Independent Power Distribution System
- Recycling of rejected water of Reverse Osmosis (RO) Plant
- Rehabilitation of Short Former
- Renovation work of QA/R&D Laboratory

Future Plans

- Installation of the equipments for the Dry Cleaning of Comber noil
- Construction of building for Dry Cleaning Equipments
- 30,000 Hours major overhauling of Gas Engines

Quality Assurance (QA)

During the year the department has effectively ensured quality of product as per customer's requirement. Our aim is to lead the Company towards long term sustainable development.

We have a systematic Quality Plan to test and analyze the incoming raw materials against the developed standard specifications. We also monitor all the stages of production process from raw material to final finished product.

Continuity of the Integrated Quality & Environmental Management System (IMS) of ISO 9001:2008 & ISO 14001:2004 clearly indicates the commitment of the management towards the quality and environment of the Company. Periodical internal and external quality and environmental audits provide an excellent opportunity to timely address the critical and weak area of the system.

Research & 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 ultimate objective is to increase customer satisfaction.

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

- Developed and implemented the raw material mix recipe to improve customer satisfaction and eliminate the feathering effect in non judicial stamp paper and other security papers
- With the coordination of Production department reduced the cost of processing chemicals and reduced the spoil % in the Machine House as well as in the Finishing department
- New product formulation has been developed such as cheque and national passport paper according to the customer's requirement. The Company has developed capability to undertake commercial production of cheque paper

Process Systems department is responsible for setting up of structured systems into the production process so that the parameters of a product are uniform throughout the batch run.

In this regards the Process Systems department has taken a number of initiatives like:

- Installation of display boards depicting production target and month to date runs to know the total and current picture of production
- Introduced positive control plans called Positrols for every type of product produced so as to specify the role and responsibilities of each individual responsible for control of particular parameter. This ensures delegation of authority and responsibility to the individuals on floor
- Introduction of personnel performance displays on floor to identify and motivate the achiever by inculcating a culture of competition and pride at workplace
- Identified areas of improvements in process from past records and launched improvement projects by forming cross functional teams from production, engineering & projects and quality assurance departments which resulted in significant reduction in production losses

The Supply Chain department effectively performed its role during the year in contributing to the success of the organization.

The department remained fully engaged in planning, procurement, storage and also in the coordination activities with the customers.

The supplier base was increased as well as few new customers were added during the year.

The department worked throughout the year to ensure uninterrupted supplies for raw materials/allied items and engineering spares at most competitive prices meeting the specifications in all respect.

Special focus was given for our major raw material i.e. Comber, keeping a close track for its prices in the local and international market along with an eye on demand / supply position in the market. We feel happy to share that our procurement order timings/quantities are very effectively contributing towards the positive financial results of the Company.

Similarly we kept working on the quality aspect of our raw material with close interaction of suppliers as well as technical support of our Production / Quality departments. We were able to persuade them to work towards meeting the excellence in quality parameters which contributed in achieving the product quality objectives.

Introduction of new suppliers to ensure competitiveness remained in our focus and we believe that this resulted in getting better input materials at very competitive prices.

We also maintained inventory levels around the predetermined range so that no un-necessary stock is stored and the Company resources are effectively utilized. Good Warehouse practices also remained our priority to ensure that all stored items are properly kept.

1. The Company maintains highest security status which is classified as Category 1A. Therefore, the safety and security is the prime concern owing to the prevailing law and order situation particularly in Karachi.
2. Keeping in view the objectives, our focus always remains on acquiring newest and latest technology. We also continue to review the existing system for further enhancement of safety and security of our products and premises against any pilferage theft or sabotage.
3. During the year following measures have been undertaken:

a. Outer Parameter Security Fence

The residential area adjacent to the main factory has been protected from security threats by installation of fence in front of residential area. Erection of fence in front of main factory area was already completed during the previous year.

b. Main Gate Construction.

The structure of main gate is renovated and strengthened. A main gate, reception office and two security check posts are constructed for smooth security clearance.

c. Up-Gradation of CCTV, Access Control & Fire Alarm System

The following areas have been upgraded by replacing some equipment:

- Fire alarm system has been installed in Motor Control Center (MCC) room and Co-Generation plant and now both locations are covered in the network of fire alarm system
- For swift operation the mechanical locks of Access Control System (ACS) doors are replaced with the latest magnetic locks in security fence
- Some more cameras and related equipments have been installed at vital high and semi high security locations to achieve desired results. Moreover, one dome camera is installed to cover and monitor all activities/movements in the surrounding of the factory

d. Up-gradation of Fire Equipment

During the year fire related equipment i.e. fire extinguishers, fire suit, fire masks, gas masks and fire ladders have been upgraded/replaced to improve the efficiency of the fire section.

e. Basic Fire Fighting & First Aid Training

A batch of 43 employees, 36 Male and 07 female were trained in Basic Fire Fighting and First Aid Training by the Civil Defence Authorities.

The Finance & Accounts (F&A) department takes responsibility for organizing the financial and accounting affairs including the preparation and presentation of financial information. The F&A effectively played its role in the achievement of the Company's goals and objectives. During the year the F&A remained engaged in performing following key tasks ensuring that quality financial information is provided:

- Responding to the changing requirements and priorities
- Partnering with other departments to leverage resources that are essential toward achieving related objectives
- The F&A has successfully planned and coordinated the preparation of annual plan monitoring expenditures
- The F&A is responsible for financial report, financial analysis and compliance with all areas of generally accepted accounting principles and their governing bodies
- The F&A ensure timely receipt of revenues, identifying and accounting for all funds received and review all sources of revenue
- The F&A closely monitors financial data as it moves through processes and systems to ensure integrity in reported results
- To record and make payment of expenditures and maintain a system of accounts to accumulate classify and report on all financial activities
- The F&A strives to overall corporate health through strategic planning, cost effectiveness and profit improvement plans
- The F&A is responsible for financial management, working capital, funds management, tax planning, product pricing, cost reduction and cost control

The Finance and Accounts department is committed to ensure complete and accurate accounting of all transactions and to report all financial information in accordance with the requirement of the Companies Ordinance, 1984 and International Financial and Reporting Standards (FIRS). The F&A continues to maintain highest standards of ethics and proactive role in achieving company's objectives.

Information Technology

The information Technology (IT) department is committed to providing a reliable, cost effective and quality information technology services to the Company as follows:

- The IT department values professionalism, communication, integrity and team work
- Create business value by allowing IT to leverage people, process and technology in support of users needs
- Provides training necessary to ensure proficiency, and require highest standard of professional behavior
- Believes that communication is the key to the success of any organization. We listen to all and provide solution
- Developed and implemented Oracle applications in the Company to attain business efficiency through Oracle systems
- Developed security applications within Oracle environment to ensure security of application and data bas
- Maintains Company's website, Local Area Network and provides hardware & software support and its management
- Formulated IT policy and has prepared disaster recovery plan

The Information Technology department promotes use of IT and acts as a coordinator to build on IT interface with the rest of the departments. IT co-ordinates the systems development and ensures that all investment in IT is as per Company's objectives.

Internal Audit (IA) department, in line with Internal Audit Charter and Internal Audit Manual duly approved by Board of Directors (BoD), assists the Board Audit Committee (BAC) in carrying out its mandate of monitoring business performance, strategic planning and keeping an eye on compliance and internal controls.

Head of Internal Audit reports directly to the Chairman of BAC, who is an independent, non-executive Director. As such, all the procedures carried out by IA are under the direct instruction and supervision of BAC and the management of the Security Papers Limited (SPL) does not have any influence on the same at any stage.

IA monitors, analyses and reports on critical areas such as production efficiency, raw material costs, profitability, inventory management and compliance. IA is also involved in a comprehensive pre-audit procedure covering procurements, capital expenditures and all payments. IA works in accordance with an annual audit plan covering all departments of the Company. The practices of the department are governed by an Internal Audit Manual which aims to bring the same in line with the latest Internal Auditing Standards as issued by Institute of Internal Auditors, USA and other best practices.

IA has also added considerable value to SPL's operations by advising on various affairs and providing guidance and assistance in the areas of compliance and efficiency. There have been several instances where the Company has experienced genuine value addition and material gains as a result of IA procedures.

The Head of the Internal Audit department reviews and reports to the Chairman BAC on the following aspects of Company's operations:

- Adequacy and effectiveness of internal controls
- Management of financial risk
- Watching for indications of fraud and other malpractices and ensuring that the Company has adequate safeguards against this 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
- Monitoring and advise on Company's profitability and risks affecting business continuity
- 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

Human Resource & Administration

The Human Resource & Administration department remained a strategic partner of the Company by aligning their goals with the goals of the Company. People are an increasingly important factor in distinguishing one company from another. As a result, many consider the human resource function - critical to business success. HR department plays a pivotal and expanding role in shaping the success of any organization. HR department played a critical role in the following areas:

- Improve staff motivation in order to take individuals to full potential. Climate Survey was conducted to align our HR policies with the requirements of the workforce and at the same time gave us the inside sentiments as a group for different categories
- Identify employees training needs and facilitate the arrangements of training process to improve the skills. HR organizes internal and external training programs for the career path and succession planning to:
 - o Increase productivity
 - o Improve employees attitude towards work
 - o Develop greater work satisfaction
- Work to develop the loyalty of the employees which resulted in:
 - o Reduce turnover
 - o Retention of valuable employees
- Encourage individuals to communicate and come up with creative suggestions and ideas
- Employee focused human resource department to bring cultural change
- Support and advise managers and employees as they pursue the organizational strategies
- Ensure that right people are placed at right time. We have also inducted young talented employees to strengthen the core departments
- Provide competitive and market based compensation structure

During the year all the corporate activities were timely and efficiently performed which includes:

Legal

- Compliance with all applicable provision:
 - o Filing all statutory returns / forms
- Furnishing all the relevant information as required under:
 - o The Companies Ordinance, 1984 and allied laws
 - o Listing regulations of the Karachi Stock Exchange Limited

General

- Matters related to the shareholders were quickly disposed. No shareholder related issues remain unresolved
- All Board meetings were arranged within the time frame required by the law.
- Annual General Meeting of the Company was held within the period of two month as against the allowed time period of four month.
- Dividend Warrants were dispatched within 10 days instead of the requirement of 30 days.

A high level of coordination has been maintained among the share registrar, shareholders and other stakeholders.

The department has facilitated the shareholders to exceed their expectations.

Statement of Compliance with the Code of Corporate Governance

Name of Company: **Security Papers Limited**
Year Ended: **June 30, 2013**

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

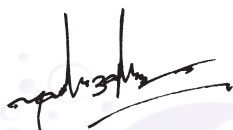
1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors. At present the Board includes:

Name of Director	Category of Director		
	Independent (01)	Non-Executive (09)	Executive (01)
Mr. Mustapha A. Chinoy		✓	
Sheikh Mohammad Aijaz Akhtar	✓	✓	
Mrs. Ayla Akin - (Turkey)		✓	
Mr. Jamal Nasim		✓	
Mr. Mazhar-ul-Hassan Shah		✓	
Mr. Mohammad Reza Roshani Moghaddam - (Iran)		✓	
Mr. Rizwan Ahmed		✓	
Mr. Kazi Abdul Muktadir		✓	
Mrs. Naiyer Muzafar Husain			✓

2. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including this Company.
3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.
4. Three casual vacancies have occurred during the period under review. These vacancies were immediately filled up. One casual vacancy occurred on the date of this report.
5. The Company has prepared a 'Statement of Ethics and Business Practices' and has ensured that appropriate steps have been taken to disseminate it throughout the Company along with its supporting policy and procedures.
6. The Board has developed a vision/mission statement, overall corporate strategy and significant policies of the Company. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been maintained.
7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, other executive and non-executive directors, have been taken by the Board/Shareholders.
8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose 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 Directors' Training Program during the period under review. In addition one director meets the criteria of exemption under clause (xi) of CCG and is accordingly exempted from directors' training program.
10. The Board had approved appointment of CFO, Company Secretary and Head of Internal Audit, including their remuneration and terms and conditions of employment.
11. The directors' report for this year has been prepared in compliance with the requirements of the CCG 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 CCG.
15. The Board has formed an Audit Committee. It comprises three members, of whom all are non-executive directors and the Chairman of the Committee is an independent director.
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 CCG. The terms of reference of the Committee have been formed and advised to the Committee for compliance.
17. The Board has formed an HR and Remuneration Committee. It comprises five members, of whom four are non-executive directors and the Chairman of the Committee is a non-executive director.
18. The Board has set-up an effective internal audit function.
19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review programme of the Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by ICAP.
20. The statutory auditors or the persons associated with them have not been appointed to provide other services except in accordance with the listing regulations and the auditors have confirmed that they have observed IFAC guidelines in this regard.
21. The 'closed period', prior to the announcement of interim/final results, and business decisions, which may materially affect the market price of Company's securities, was determined and intimated to directors, employees and stock exchange.
22. Material/price sensitive information has been disseminated among all market participants at once through stock exchange.
23. We confirm that all other material principles enshrined in the CCG have been complied with.

On behalf of the Board of Directors



MRS. NAIYER MUZAFAR HUSAIN
Chief Executive Officer

Karachi
Dated: July 31, 2013

2013

A decorative illustration of several stylized flowers with layered, overlapping petals, rendered in a light gray, semi-transparent style. The flowers are positioned on the left side of the page, with their stems extending downwards. The overall aesthetic is clean and modern.

**Financial
Statements**



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 Regulations of Karachi Stock Exchange where the Company is listed.

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

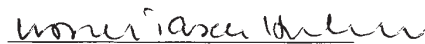
As part of our audit of financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board's statement on internal control covers all risks 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 (x) of Listing Regulations 35 notified by the Karachi Stock Exchange Limited 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 under taken at arm's length price or not.

Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code of Corporate Governance as applicable to the Company for the year ended 30 June 2013.

Date: 31 July 2013

Karachi


KPMG Taseer Hadi & Co.
Chartered Accountants

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

Auditors' Report to the Members

Security Papers
LIMITED



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

Auditors' Report to the Members

We have audited the annexed balance sheet of **Security Papers Limited** ("the Company") as at 30 June 2013 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 accounts 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 accounts 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 2013 and of the profit, its 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: 31 July 2013

Karachi

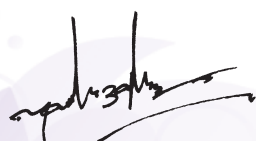
Moneeza Usman Butt
KPMG Taseer Hadi & Co.
Chartered Accountants
Moneeza Usman Butt

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

As At 30 June 2013

	Note	2013 (Rupees in '000)	2012
ASSETS			
Non-current assets			
Property, plant and equipment	4	1,958,464	2,111,951
Long-term deposits	5	14,359	24,188
Long-term investments	6	582,209	577,710
		2,555,032	2,713,849
Current assets			
Stores, spares and loose tools	7	112,101	114,067
Stock-in-trade	8	408,215	402,159
Trade debts - considered good	9	272,925	327,903
Advances, deposits, prepayments and other receivables	10	11,596	14,533
Accrued mark-up	11	31,258	30,812
Investments	12	1,367,020	1,135,835
Cash and bank balances	13	37,245	16,497
		2,240,360	2,041,806
Total assets		4,795,392	4,755,655
LIABILITIES			
Current liabilities			
Trade and other payables	14	411,856	357,047
Accrued mark-up		5,181	8,252
Current maturity of long term loan	16	161,214	158,792
Current portion of liabilities against asset subject to finance lease	17	3,939	3,387
Taxation - net		75,413	3,849
		657,603	531,327
Non-current liabilities			
Long term loan	16	323,451	473,766
Liabilities against asset subject to finance lease	17	8,092	8,346
Deferred taxation - net	18	334,454	349,854
		665,997	831,966
Total liabilities		1,323,600	1,363,293
Contingencies and commitments	19		
NET ASSETS		3,471,792	3,392,362
FINANCED BY:			
Authorised share capital 70,000,000 (2012: 70,000,000) ordinary shares of Rs 10 each		700,000	700,000
Issued, subscribed and paid-up capital	20	411,499	411,499
Capital reserve		6,098	-
Revenue reserve		3,054,195	2,980,863
SHAREHOLDER'S EQUITY		3,471,792	3,392,362

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



Naiyer Muzafar Husain
Chief Executive



Sheikh Mohammad Aijaz Akhtar
Director

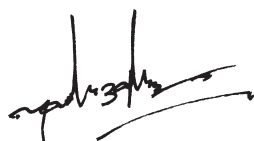
Profit and Loss Account

For the year ended 30 June 2013

Security Papers
LIMITED

	Note	2013 (Rupees in '000)	2012
Sales - net	21	1,856,926	1,570,912
Cost of sales	22	(1,310,772)	(1,057,056)
Gross profit		546,154	513,856
Administration and general expenses	23	(162,313)	(143,181)
Other income	25	200,437	252,575
Other operating charges	26	(55,165)	(69,817)
Operating profit before finance cost		529,113	553,433
Finance costs	27	(61,033)	(43,211)
Profit before taxation		468,080	510,222
Taxation - net	28	(147,848)	(132,121)
Profit after taxation		320,232	378,101
		(Rupees)	
Earnings per share	29	7.78	9.19

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



Naiyer Muzafar Husain
Chief Executive



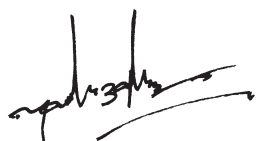
Sheikh Mohammad Aijaz Akhtar
Director

Statement of Comprehensive Income

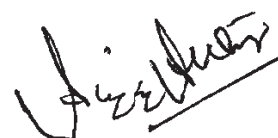
For the year ended 30 June 2013

	2013 (Rupees in '000)	2012
Profit for the year	320,232	378,101
Other comprehensive income for the year		
Unrealised appreciation during the year on remeasurement of investments classified as 'available for sale'	6,098	-
Total comprehensive income for the year	326,330	378,101

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



Naiyer Muzafar Husain
Chief Executive



Sheikh Mohammad Aijaz Akhtar
Director

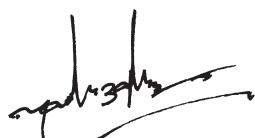
Cash Flow Statement

For the year ended 30 June 2013

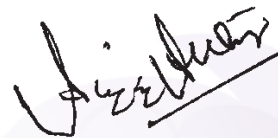
Security Papers
LIMITED

	Note	2013 (Rupees in '000)	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	33	622,295	413,807
Long-term deposits		9,829	(6,752)
Taxes paid		(91,465)	(102,416)
Finance costs paid		(64,104)	(41,036)
Net cash generated from operating activities		476,555	263,603
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure		(36,990)	(549,152)
Proceeds from sale of property, plant and equipment		1,397	2,142
Investment made during the year - net		(235,099)	(277,215)
Mark-up received		189,570	504,706
Net cash used in investing activities		(81,122)	(319,519)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long term loan		12,110	348,795
Repayment of long term loan		(160,003)	(121,176)
Payments against lease obligations		(4,038)	(4,892)
Dividend paid		(222,754)	(187,906)
Net cash (used in) / generated from financing activities		(374,685)	34,821
Net increase / (decrease) in cash and cash equivalents		20,748	(21,095)
Cash and cash equivalents at beginning of the year		16,497	37,592
Cash and cash equivalents at end of the year		37,245	16,497

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



Naiyer Muzafar Husain
Chief Executive



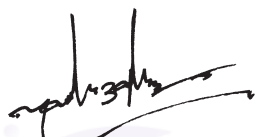
Sheikh Mohammad Aijaz Akhtar
Director

Statement of Changes in Equity

For the year ended 30 June 2013

	Issued, subscribed and paid-up share capital	Capital reserves Unrealized gain on Available for sale	General reserves	Revenue reserve Unappropriated profit	Sub-total reserves	Total
----- (Rupees in '000) -----						
Balance as at 30 June 2011	411,499	-	2,493,389	315,123	2,808,512	3,220,011
Total comprehensive income for the year ended 30 June 2012						
Profit for the year	-	-	-	378,101	378,101	378,101
Transactions with owners - Final cash dividend @ Rs 5.00 per share for the year ended 30 June 2011	-	-	-	(205,750)	(205,750)	(205,750)
Transfer to general reserves	-	-	109,000	(109,000)	-	-
Balance as at 30 June 2012	411,499	-	2,602,389	378,474	2,980,863	3,392,362
Total comprehensive income for the year ended 30 June 2013						
Profit for the year	-	6,098	-	320,232	320,232	326,330
Transactions with owners - Final cash dividend @ Rs 6.00 per share for the year ended 30 June 2012	-	-	-	(246,900)	(246,900)	(246,900)
Transfer to general reserves	-	-	131,200	(131,200)	-	-
Balance as at 30 June 2013	411,499	6,098	2,733,589	320,606	3,054,195	3,471,792

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



Naiyer Muzafar Husain
Chief Executive



Sheikh Mohammad Aijaz Akhtar
Director

Notes to the Financial Statements

For the year ended 30 June 2013

Security Papers
LIMITED

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 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 and 3.5)
- Estimates of liability in respect of employee retirement gratuity and employees' compensated absences (Note 3.10, 3.11 and 24)
- Taxation (Note 3.15)
- Fair value of investments classified as 'available for sale' (Note 3.3, 34.4)

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:

- IAS 19 Employee Benefits (amended 2011) - (effective for annual periods beginning on or after 1 January 2013). The amended IAS 19 includes the amendments that require actuarial gains and losses to be recognised immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under IAS 19; and that the expected return on pl recognised in profit or loss is calculated based on the rate used to discount the defined benefit obligation. The Company's policy was to account for actuarial gains losses using the corridor method and with the change unrecognized actuarial gains amounting to rs 30.004 million at 30 June 2013 would need to be recognized in other comprehensive income.
- IAS 27 Separate Financial Statements (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 27 (2011) supersedes IAS 27 (2008). Three new standards IFRS 10 - Consolidated Financial Statements, IFRS 11- Joint Arrangements and IFRS 12 - Disclosure of interest in other entities dealing with IAS 27 would be applicable effective 1 January 2013. IAS 27 (2011) carries forward the existing accounting and disclosure requirements for separate financial statements, with some minor clarifications. The amendments have no impact on financial statements of the Company.
- IAS 28 Investments in Associates and Joint Ventures (2011) - (effective for annual periods beginning on or after 1 January 2013). IAS 28 (2011) supersedes IAS 28 (2008). IAS 28 (2011) makes the amendments to apply IFRS 5 to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture. The amendments have no impact on financial statements of the Company.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) – (effective for annual periods beginning on or after 1 January 2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32 Financial Instruments: Presentation. The amendments clarify the meaning of 'currently has a legally enforceable right of set-off'; and that some gross settlement systems may be considered equivalent to net settlement.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) – (effective for annual periods beginning on or after 1 January 2013). The amendments to IFRS 7 contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting agreement or similar arrangement.
- Annual Improvements 2009–2011 (effective for annual periods beginning on or after 1 January 2013). The new cycle of improvements contains amendments to the following four standards, with consequential amendments to other standards and interpretations.
- IAS 1 Presentation of Financial Statements is amended to clarify that only one comparative period – which is the preceding period – is required for a complete set of financial statements. If an entity presents additional comparative information, then that additional information need not be in the form of a complete set of financial statements. However, such information should be accompanied by related notes and should be in accordance with IFRs Furthermore, it clarifies that the 'third statement of financial position', when required, is only required if the effect of restatement is material to statement of financial position.

Notes to the Financial Statements

- IAS 16 Property, Plant and Equipment is amended to clarify the accounting of spare parts, stand-by equipment and servicing equipment. The definition of 'property, plant and equipment' in IAS 16 is now considered in determining whether these items should be accounted for under that standard. If these items do not meet the definition, then they are accounted for using IAS 2 Inventories.
- IAS 32 Financial Instruments: Presentation - is amended to clarify that IAS 12 Income Taxes applies to the accounting for income taxes relating to distributions to holders of an equity instrument and transaction costs of an equity transaction. The amendment removes a perceived inconsistency between IAS 32 and IAS 12.
- IAS 34 Interim Financial Reporting is amended to align the disclosure requirements for segment assets and segment liabilities in interim financial reports with those in IFRS 8 Operating Segments. IAS 34 now requires the disclosure of a measure of total as in addition, such disclosure is only required when the amount is regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the last annual financial statements for that reportable segment.

The amendments have no impact on financial statements of the Company.

- IFRIC 20 - Stripping cost in the production phase of a surface mining (effective for annual periods beginning on or after 1 January 2013). The interpretation requires production stripping cost in a surface mine to be capitalized if certain criteria are met. The amendments have no impact on financial statements of the Company.
- IFRIC 21- Levies 'an Interpretation on the accounting for levies imposed by governments' (effective for annual periods beginning on or after 1 January 2014). IFRIC 21 is an interpretation of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.
- Amendment to IAS 36 "Impairment of Assets" Recoverable Amount Disclosures for Non-Financial Assets (effective for annual periods beginning on or after 1 January 2014). These narrow-scope amendments to IAS 36 Impairment of Assets address the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal, if specific conditions are met (in this context, a novation indicates that parties to a contract agree to replace their original counterparty with a new one).
- IAS 39 Financial Instruments: Recognition and Measurement- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39) (effective for annual periods beginning on or after 1 January 2014). The narrow-scope amendments will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated to effect clearing with a central counterparty as a result of laws or regulation,

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below and 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. 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 other 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, long term loan, accrued mark-up on short term finance and liabilities against assets subject to finance lease.

Notes to the Financial Statements

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.

(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, relevant redemption prices for the open-end mutual funds, or PKRV sheets.

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.

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.

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 6.45% 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.

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	2013 (Rupees in '000)	2012
Operating fixed assets	4.1	1,958,062	2,083,182
Capital work-in-progress	4.4	402	2,558
Spares held for capital expenditure - in transit		-	26,211
		<u>1,958,464</u>	<u>2,111,951</u>

Notes to the Financial Statements

4.1 The following is a statement of Company's operating fixed assets.

	-----2013-----													
	Land		Buildings on		Plant and machinery	Spare parts and stand-by equipment	Laboratory equipment	Furniture and fixtures	Electric, water and gas installation	Office and security equipment	Computers and computer accessories	Motor vehicles		
	Lease-hold	Free-hold	Leasehold land	Freehold land								Owned	Leased	Total
	----- (Rupees in '000) -----													
At 1 July 2012														
Cost	417	293	1,015	95,655	2,747,711	22,468	26,300	6,734	86,073	31,212	10,457	5,233	18,425	3,051,993
Accumulated depreciation	-	-	(922)	(14,545)	(856,775)	(4,362)	(18,724)	(1,543)	(29,471)	(20,830)	(8,746)	(4,631)	(8,262)	(968,811)
Net book value	417	293	93	81,110	1,890,936	18,106	7,576	5,191	56,602	10,382	1,711	602	10,163	2,083,182
During the year														
Additions	-	-	-	5,015	3,526	35,907	238	697	16,110	2,826	898	140	4,336	69,693
Disposals:														
Cost	-	-	-	-	-	-	-	-	-	-	-	(883)	(2,680)	(3,563)
Depreciation	-	-	-	-	-	-	-	-	-	-	-	855	2,317	3,172
	-	-	-	-	-	-	-	-	-	-	-	(28)	(363)	(391)
Depreciation charge for the year	-	-	(25)	(2,239)	(163,318)	(12,167)	(2,299)	(375)	(5,426)	(3,389)	(783)	(558)	(3,843)	(194,422)
Closing net book value	417	293	68	83,886	1,731,144	41,846	5,515	5,513	67,286	9,819	1,826	156	10,293	1,958,062
At 30 June 2013														
Cost	417	293	1,015	100,670	2,751,237	58,375	26,538	7,431	102,183	34,038	11,355	4,490	20,081	3,118,123
Accumulated depreciation	-	-	(947)	(16,784)	(1,020,093)	(16,529)	(21,023)	(1,918)	(34,897)	(24,219)	(9,529)	(4,334)	(9,788)	(1,160,061)
Net book value	417	293	68	83,886	1,731,144	41,846	5,515	5,513	67,286	9,819	1,826	156	10,293	1,958,062
Depreciation rate % per annum	-	-	2.5%	2.5%	6%	25%	10%	6%	6%	15%	25%	20%	20%	

	-----2012-----													
	Land		Buildings on		Plant and machinery	Spare parts and stand-by equipment	Laboratory equipment	Furniture and fixtures	Electric, water and gas installation	Office and security equipment	Computers and computer accessories	Motor vehicles		
	Lease-hold	Free-hold	Leasehold land	Freehold land								Owned	Leased	Total
	----- (Rupees in '000) -----													
At 1 July 2011														
Cost	417	293	1,015	63,054	2,170,164	3,547	26,300	2,545	59,202	28,225	9,851	5,283	18,782	2,388,678
Accumulated depreciation	-	-	(897)	(12,981)	(725,266)	(1,592)	(16,127)	(1,358)	(25,566)	(17,061)	(7,956)	(3,770)	(5,489)	(818,063)
Net book value	417	293	118	50,073	1,444,898	1,955	10,173	1,187	33,636	11,164	1,895	1,513	13,293	1,570,615
During the year														
Additions	-	-	-	32,601	577,547	18,921	-	4,189	26,871	2,987	606	38	2,248	666,008
Disposals:														
Cost	-	-	-	-	-	-	-	-	-	-	-	(88)	(2,605)	(2,693)
Depreciation	-	-	-	-	-	-	-	-	-	-	-	25	908	933
	-	-	-	-	-	-	-	-	-	-	-	(63)	(1,697)	(1,760)
Depreciation charge for the year	-	-	(25)	(1,564)	(131,509)	(2,770)	(2,597)	(185)	(3,905)	(3,769)	(790)	(886)	(3,681)	(151,681)
Closing net book value	417	293	93	81,110	1,890,936	18,106	7,576	5,191	56,602	10,382	1,711	602	10,163	2,083,182
At 30 June 2012														
Cost	417	293	1,015	95,655	2,747,711	22,468	26,300	6,734	86,073	31,212	10,457	5,233	18,425	3,051,993
Accumulated depreciation	-	-	(922)	(14,545)	(856,775)	(4,362)	(18,724)	(1,543)	(29,471)	(20,830)	(8,746)	(4,631)	(8,262)	(968,811)
Net book value	417	293	93	81,110	1,890,936	18,106	7,576	5,191	56,602	10,382	1,711	602	10,163	2,083,182
Depreciation rate % per annum	-	-	2.5%	2.5%	6%	25%	10%	6%	6%	15%	25%	20%	20%	

4.1.1 Additions during the year in plant and machinery include borrowing costs capitalised amounting to Rs nil (2012: Rs 42.893 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	2013	2012
(Rupees in '000)			
Cost of sales	22	188,606	145,823
Administration and general expenses	23	5,816	5,858
		194,422	151,681

4.3 Particulars of operating fixed assets disposed off during the year.

	Cost	Accumulated depreciation	Net book value	Sales proceeds	Mode of disposal	Particulars of buyers	Location
----- (Rupees in '000) -----							
Vehicle - owned							
Trackers	125	97	28	19	Company's policy	Various	Karachi
Suzuki Van Bolan	367	367	-	303	Quotation	Mr. Sahib Gul	Karachi
Suzuki Van Bolan	367	367	-	300	Quotation	Mr. Muhammad Ilyas	Karachi
Honda Bike	24	24	-	4	Quotation	Mr. Saeed-ur-Rehman	Karachi
Vehicles - leased							
Toyota Corolla - XLI	915	915	-	137	Company's policy	Mr. Ghulam Hussain Akhtar	Karachi
Suzuki Cultus	770	424	346	484	Company's policy	M. Shahid Hussain DGM	Karachi
Honda City	995	978	17	149	Company's policy	Purchases Rizwan-ul-Haq Khan	Karachi
	2013	3,563	3,172	391	1,397		
	2012	2,693	933	1,760	2,142		

4.4 Capital work-in-progress

	2013	2012
(Rupees in '000)		
Building	402	86
Advance against purchase of plant and machinery	-	933
Others	-	1,539
	402	2,558

Notes to the Financial Statements

	Note	2013 (Rupees in '000)	2012
The movement in capital work-in-progress is as follows:			
Balance as at beginning of the year		2,558	143,378
Additions during the year			
- Plant and machinery		1,661	435,835
- Building		4,945	31,692
- Others		858	26,306
		7,464	493,833
Transfers to operating fixed assets			
- Plant and machinery		(2,594)	(577,285)
- Building		(4,629)	(32,602)
- Others		(2,397)	(24,766)
		(9,620)	(634,653)
Balance at end of the year		402	2,558
5. LONG-TERM DEPOSITS			
Security deposits	5.1	14,359	24,188

5.1 These include deposits amounting to Rs 11.661 million and Rs nil (2012: Rs 11.661 million and Rs 10.145 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.

6. LONG-TERM INVESTMENT

Held to maturity			
Pakistan Investment Bond - 5 years	6.1	582,209	577,710

6.1 These represents investments in Pakistan Investment Bonds (PIB's) carrying profit at a rate of 11.5% (effective yield of 12.4% to 12.96%) per annum with maturity in August 2016. The profit payments are made semi annually. Fair value of the PIB's as at 30 June 2013 is Rs 582.356 million. The fair value has been determined using PKRV sheet.

	Note	2013 (Rupees in '000)	2012
7. STORES, SPARES AND LOOSE TOOLS			
Stores		10,048	8,658
Spares - in hand		115,772	105,561
Spares in transit		407	13,942
Loose tools		215	247
		126,442	128,408
Provision for slow moving and obsolete stores and spares		(14,341)	(14,341)
		112,101	114,067
8. STOCK-IN-TRADE			
Raw materials - in hand		162,465	159,224
Raw materials - in transit		24,723	12,619
		187,188	171,843
Less: Raw materials written off		(599)	(8,629)
		186,589	163,214
Work-in-process		9,250	11,163
Semi-finished goods		161,026	193,327
		170,276	204,490
Finished goods		92,426	65,444
		449,291	433,148
Provision for slow moving inventories		(41,076)	(30,989)
		408,215	402,159
9. TRADE DEBTS - considered good			
Unsecured			
Due from Pakistan Security Printing Corporation (Private) Limited - related party	9.1		
- considered good		272,925	327,903
- considered doubtful		1,904	9,498
		274,829	337,401
- provision for doubtful debts	9.2	(1,904)	(9,498)
		272,925	327,903

9.1 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 413.501 million (2012: Rs 475.417 million).

9.2 The Company has recognised a provision of Rs 1.904 million (2012: Rs 4.749 million) for doubtful debts while an amount of Rs 9.498 million (2012: Rs nil) was written off during the year against provision.

Notes to the Financial Statements

	Note	2013 (Rupees in '000)	2012
10. ADVANCES, DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES			
Advance to suppliers - unsecured and considered good		2,333	7,453
Receivable from gratuity fund	24.1.2	-	1,642
Short-term deposits		8,010	3,962
Short-term prepayments		632	616
Loan to employees - considered good	10.1	140	504
Others		481	356
		11,596	14,533
10.1 This represents loan provided to three employees carrying interest rate at 12% per annum with maturity between 30 May 2014 and 30 August 2014.			
11. ACCRUED MARK-UP			
Pakistan Investment Bond		24,953	25,307
Term Finance Certificates		5,550	5,127
Security deposits		750	373
Term deposit receipts		3	3
Deposit and savings accounts		2	2
		31,258	30,812
12. INVESTMENTS			
Available for sale			
Term finance certificates B.R.R. Guardian Modaraba 3,946 (2012: 4,249) units of Rs 5,000 each	12.1	14,798	15,744
Units of Mutual Funds	12.2	206,098	-
Held to maturity			
Treasury Bills	12.3	1,146,058	1,120,031
Loans and receivables			
Term deposit receipts	12.4	66	60
		1,367,020	1,135,835

12.1 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. On 7 January 2011 the borrower defaulted in the payment of interest and entered into a restructuring agreement with the TFC holder. As per the revised terms, the principal amount will be redeemed in varying monthly principal instalments commencing from 7 August 2011 and ending on 7 December 2016. The certificates now carry markup at the rate of one month KIBOR (effective annual rate of 12.09%) payable on monthly basis along with the accrued profit before the restructuring. The fair value of the above investment has been valued using rate notified by Mutual Fund Association of Pakistan.

2013 (Number of units)	2012	Name of Investee Company	Note	2013 (Rupees in '000)	2012
512,509	-	UBL Liquidity Plus Fund		51,290	-
507,738	-	HBL money market		51,406	-
511,701	-	MCB Cash Management Optimizer - Growth Fund		51,697	-
5,162,710	-	NAFA Money Market Fund		51,705	-
6,694,658	-			206,098	-

Cost of the above investments is Rs 200 million.

12.2 These represent investments in six treasury bills of six months and one year carrying profit rate ranging from 8.913% to 11.942% (2012: 11.76% to 11.94%) per annum with maturity ranging from July 2013 to November 2013. Fair value of the treasury bills as at 30 June 2013 is Rs 1,146.763 million (2012: Rs 1,119.376 million). The fair value has been determined using PKRV sheet.

12.3 These represent term deposit receipts with Faysal Bank Limited maturing in December 2013. Return on investment is 7.90% per annum (2012: 10% per annum).

13. CASH AND BANK BALANCES

Cash in hand

With banks in:

- Current accounts
- Saving accounts
- Deposit account
- Dividend accounts

13.1

2013
(Rupees in '000)

2012

347	140
1,333	345
25,479	7,653
62	62
10,024	8,297
36,898	16,357
37,245	16,497

13.1 Saving accounts carry profit ranging from 5% to 8.25% per annum (2012: 5% to 10% per annum).

14. TRADE AND OTHER PAYABLES

Creditors

Payable against purchase of operating fixed assets

Salaries, wages and benefits payable

Provision for employees compensated absences

Sales tax payable - net of provision of Rs 4.8 million)

Withholding tax payable

Provision for fire tax

Unclaimed dividend

Workers' welfare fund

Workers' profit participation fund

Advances from customers

Utilities

Payable to gratuity fund

Deposits repayable on demand

Others

24.1.2

14.5

14.6

45,987	48,926
33,275	56,661
67,163	43,866
36,212	25,950
2,605	40,988
6,665	4,159
37,023	37,023
69,640	45,494
24,635	18,626
24,802	2,500
8,636	2,500
14,013	12,195
17,126	-
3,914	3,256
20,160	14,903
411,856	357,047

Notes to the Financial Statements

	Note	2013 (Rupees in '000)	2012
14.1 Employees' compensated absences			
Balance at beginning of the year		25,950	23,638
Cost for the year		10,262	2,312
Balance at end of the year		36,212	25,950

14.2 Provision for fire tax

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.

		2013 (Rupees in '000)	2012
14.3 Workers' welfare fund			
Balance as at 1 July		18,626	22,915
Provision for the year		9,985	3,976
Reversal of prior year charge		(130)	(4,470)
Payments / adjustments during the year		(3,846)	(3,795)
		24,635	18,626

14.4 Workers' profit participation fund

		2013	2012
Balance as at 1 July		2,500	(376)
Add:			
Allocation for the year	26	25,179	28,877
Interest on funds utilised in the Company's business	27	333	-
		25,512	28,877
		28,012	28,501
Less: Paid during the year		(3,210)	(26,001)
		24,802	2,500

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

14.6 This includes an amount of Rs 12.216 million (2012: Rs 6.255 million) to Pakistan Security Printing Corporation (Private) Limited, in respect of certain expenses incurred on behalf of the Company.

15. SHORT TERM FINANCE AND OTHER FACILITIES

15.1 Running finance

At 30 June 2013, the Company has an unavailed running finance facility from National Bank of Pakistan and Bank Al Habib Limited amounting to Rs 100 million each (2012: Rs 100 million facility from National Bank of Pakistan and Bank Al Habib Limited).

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 2013. The outstanding balance against these facilities will be subject to mark-up at the rate prevailing on the last day of each quarter of one month Karachi Inter Bank Offered Rate (KIBOR) plus 1.75 basis points for National Bank of Pakistan (2012: one month's Karachi Inter Bank Offered Rate (KIBOR) plus 1.25 basis points) and three months KIBOR of preceding 6 working days of each calendar quarter on the basis of arithmetic mean for Bank Al Habib Limited.

15.2 Import letter of credit (sight / usance)

As at 30 June 2013, 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 (2012: Rs 100 million facility from National Bank of Pakistan and Bank Al Habib Limited).

15.3 Letter of Guarantee Facility

As at 30 June 2013, the Company has facilities from National Bank of Pakistan and Bank Al Habib Limited relating to letters of guarantee as follows:

	2013 (Rupees in '000)	2012
Total facility available	120,000	200,000
Utilized facility	28,002	20,480
16. LONG TERM LOAN - secured		
Balance as at 1 July	632,558	404,939
Long term loan obtained during the year	12,110	348,795
Repayments during the year	(160,003)	(121,176)
	484,665	632,558
Current maturity shown under current liabilities	(161,214)	(158,792)
	323,451	473,766

The Company has acquired facility amounting to Rs 605.805 million (2012: Rs 900 million) from Bank Al Habib Limited for purchase & installation of plant and machinery for balancing, modernisation and replacement of existing machinery out of which the Company has availed facility of Rs 12.110 million (2012: Rs 793.96 million). The entire financing is to be availed by 31 December 2013 (2012: 31 December 2012) and carries mark-up at three months Karachi Inter Bank Offer Rate (KIBOR) at effective annual rate of 10.30% (2012: 12.47%).

These facilities are secured by Pakistan Investment Bond and Treasury Bills 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.

17. LIABILITIES AGAINST ASSETS SUBJECT TO FINANCE LEASE

	2013			2012		
	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	5,067	1,128	3,939	4,675	1,288	3,387
Later than one year and not later than five years	9,175	1,083	8,092	9,565	1,219	8,346
	14,242	2,211	12,031	14,240	2,507	11,733

Notes to the Financial Statements

The Company has entered into Ijarah arrangement with a financial institution in respect of vehicles. Islamic Financial Accounting Standard (IFAS) No.2 "Ijarah" was notified by SECP vide S.R.O. 431 (I) / 2007 on 22 May 2007. The said IFAS requires the Ujrah payments under such arrangements to be recognised as an expense over the ijarah term. The Company intends to acquire such asset at the end of the lease term and has consequently recorded such arrangements under IAS-17 "Leases". The liability under the agreements is payable by May 2018 in monthly installments and is subject to annual finance charge rates ranging from 10.98% to 12.07% (2012: 12.07% to 12.22%).

	Note	2013 (Rupees in '000)	2012
18. DEFERRED TAXATION - net			
Deferred tax liability arising due to accelerated tax depreciation		366,333	381,155
Deferred tax asset arising in respect of:			
Provision for slow moving inventory, doubtful debts and fire tax		(31,289)	(30,689)
Leased assets		(591)	(612)
		(31,879)	(31,301)
		334,454	349,854
19. CONTINGENCIES AND COMMITMENTS			
19.1 Contingencies			
Income tax	19.2	10,221	10,221
Claims against the Company not acknowledged as debt	19.3	1,120	1,120
		11,341	11,341

19.2 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.

19.3 This represents claims filed by certain ex-employees against the Company.

2013
(Rupees in '000)

2012

19.4 Commitments

Capital expenditure contracted for but not incurred
Commitments against letters of credit

	5,300	4,877
	76,375	30,163
	81,675	35,040

20. ISSUED, SUBSCRIBED AND PAID-UP CAPITAL

2013 (Number of shares)	2012		2013	2012
1,250,000	1,250,000	Ordinary shares fully paid in cash	12,500	12,500
39,899,989	39,899,989	Ordinary shares issued as fully paid bonus shares	398,999	398,999
41,149,989	41,149,989		411,499	411,499

20.1 The following shares are held by the related parties of the Company as at 30 June 2013:

Name of related party	2013		2012	
	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%

2013
(Rupees in '000)

2012

21. SALES - net

Banknote paper

Non-banknote paper:

- Commercial paper

- Others

Less: Sales tax

	1,603,868	1,410,935
	17,368	40,924
	533,909	371,829
	551,277	412,753
	2,155,145	1,823,688
	(298,219)	(252,776)
	1,856,926	1,570,912

Notes to the Financial Statements

21.1 Pakistan Security Printing Corporation (Private) Limited (PSPC), the company's major customer has communicated to the Company about its intention to decrease the sales prices for the year from last year prices owing to the downward trend of raw material prices. Management has not agreed with the extent of reduction as according to it there are errors in the calculation in the basis of decrease being sought by PSPC. Accordingly management has prepared its own calculations of reduction in sales prices for the year and has recorded the same. Management is confident that there would be no revision in the selling prices other than that already recorded in the financial statements and that it shall be able to defend and ultimately prevail with its contention.

	Note	2013 (Rupees in '000)	2012
22. COST OF SALES			
Opening stock of raw materials		171,843	192,237
Add: Purchases - net		558,598	547,281
		730,441	739,518
Less: Closing stock of raw materials	8	(187,188)	(171,843)
Raw materials consumed		543,253	567,675
Salaries, wages and benefits	22.1	288,677	219,922
Technical assistance fee		12,714	11,950
Stores, spares and loose tools consumed		79,610	54,788
Utilities		154,496	123,237
Repairs and maintenance		29,018	22,525
Insurance		4,289	3,776
Rent, rates and taxes		742	921
Depreciation	4.2	188,606	145,823
Other expenses		2,135	3,847
		1,303,540	1,154,464
Opening stock of work-in-process and semi-finished goods		204,490	111,450
Less: Closing stock of work-in-process and semi-finished goods		(170,276)	(204,490)
Cost of goods manufactured		1,337,754	1,061,424
Opening stock of finished goods		65,444	61,076
Less: Closing stock of finished goods		(92,426)	(65,444)
		1,310,772	1,057,056

22.1 Employee retirement benefits

Salaries, wages and benefits include Rs 22.119 million (2012: Rs 19.328 million) in respect of employee retirement benefits.

23. ADMINISTRATION AND GENERAL EXPENSES

Salaries, wages and benefits	23.1	124,288	101,518
Rent, rates and taxes		341	247
Travelling expenses including those of directors Rs 1.57 million (2012: Rs 0.853 million)		4,208	6,247
Printing and stationery		2,700	2,466
Repairs and maintenance		6,998	5,558
Packing and forwarding		718	788
Advertisement		1,193	1,739
Training		1,306	2,766
Software expenses		937	968
Communication		2,380	2,008
Entertainment		1,990	1,855
Legal and professional		3,438	3,602
Depreciation	4.2	5,816	5,858
Debtors written - off		263	-
Provision for doubtful debts		1,904	4,749
Others		3,833	2,812
		162,313	143,181

23.1 Salaries, wages and benefits include Rs11.691 million (2012: Rs 9.584 million) in respect of employee retirement benefits.

24. EMPLOYEE RETIREMENT BENEFITS

24.1 Gratuity

The Company operates an approved gratuity fund for its eligible employees. Actuarial valuation is carried out on an annual basis and the latest valuation was carried out at 30 June 2013. The projected unit credit method, using the following significant assumptions has been used for the actuarial valuation.

	2013	2012
24.1.1 Actuarial assumptions		
a) Discount rate	12%	12.5%
b) Expected rate of increase in salary	12%	12.5%
c) Expected return on plan assets	12%	12.5%

	Note	2013	2012
24.1.2 Amounts recognised in the balance sheet are as follows:		(Rupees in '000)	
Present value of defined benefit obligations	24.1.4	260,080	263,266
Fair value of plan assets	24.1.5	(272,958)	(254,221)
		(12,878)	9,045
Unrecognised actuarial gain		30,004	(10,687)
Liability / (asset) on balance sheet		17,126	(1,642)

24.1.3 Movement in net liability / (asset) recognized:

Opening net (asset) / liability	(1,642)	833
(Income) / expense	21,595	18,032
Contributions and benefits paid on behalf of the fund	(2,827)	(20,507)
Closing net (asset) / liability	17,126	(1,642)

24.1.4 Movement in present value of defined benefit obligations

Opening present value of obligation	263,266	243,342
Current service cost	7,512	6,658
Interest cost	14,083	10,945
Benefits paid	(31,545)	(20,110)
Actuarial gain on obligation	(24,867)	(7,809)
Income distributed among the members	31,631	30,240
Closing present value of obligation	260,080	263,266

24.1.5 Movement in the fair value of plan assets

Opening fair value of plan assets	254,221	215,605
Expected return on plan assets	31,631	30,240
Actuarial gain on plan assets	15,824	7,979
Benefits paid	(31,545)	(20,110)
Contribution by Company	2,827	20,507
Closing fair value of plan assets	272,958	254,221

Notes to the Financial Statements

24.1.6 Expense recognised in the profit and loss account

	2013	2012
	(Rupees in '000)	
Current service cost	7,512	6,658
Interest cost	14,083	10,945
Actuarial loss recognized	-	429
Cost for the year	<u>21,595</u>	<u>18,032</u>

24.1.7 Return on plan assets is as follows:

Expected return on plan assets	31,631	30,240
Actuarial gains on plan assets	15,824	7,979
Return on plan assets	<u>47,455</u>	<u>38,219</u>

24.1.8 Plan assets comprised of following

Defence Saving Certificates (DSCs)	11%	11%
Regular Income Certificates (RICs)	38%	38%
Special Saving Certificates (SSCs)	42%	39%
Bank account and short-term deposits	9%	7%
Treasury Bills (T Bills)	-	4%
OtheRs (FIBs, PIBs, TFCs)	-	1%
	<u>100%</u>	<u>100%</u>

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

	2013	2012	2011	2010	2009
	(Rupees in '000)				
Present value of defined benefit obligation	260,080	263,266	243,342	236,357	214,568
Fair value of plan assets	272,958	254,221	215,605	230,219	216,679
Deficit / (surplus)	<u>(12,878)</u>	<u>9,045</u>	<u>27,737</u>	<u>6,138</u>	<u>(2,111)</u>

24.1.10 5 year's data on experience adjustments are as follows:

(Gain) / loss on obligation	(24,867)	(7,809)	(9,676)	(2,641)	7,710
(Gain) / loss on plan assets	(15,824)	7,979	(18,768)	(1,083)	(8,511)

24.1.11 Based on actuarial advice the Company intends to charge an amount of approximately Rs 21.17 million in respect of gratuity fund in the financial statements for the year ending 30 June 2014.

24.1.12 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 2013.

24.1.13 The information provided in notes 24.1.1 to 24.1.10 has been obtained from the valuation carried out by independent actuaries as at 30 June 2013.

24.2 Defined contribution plan

The Company has set up provident fund for its permanent employees and the contributions were made by the Company to the Trust in accordance with the requirement of Section 227 of the Companies Ordinance, 1984. The total charge against provident fund for the year ended 30 June 2013 was Rs 12.216 million (2012: Rs 10.879 million). The audit of the provident fund for the years ended 30 June 2011 and 2012 is in progress. The net assets based on audited financial statements of provident fund as at 30 June 2010 were Rs 272.48 million out of which 96.34% was invested in different financial instruments categories as provided in Section 227 of the Companies Ordinance, 1984 and rules formulated for the purpose. The fair value and cost of investments of provident fund as at 30 June 2010 was Rs 238.501 million and Rs 238.247 million respectively. The above investments out of provident fund have been made in accordance with the requirement of Section 227 of the Companies Ordinance, 1984 and the rules formulated for this purpose.

25. OTHER INCOME

Note 2013 2012
(Rupees in '000)

Income from financial assets

Amortization of discount on Pakistan Investment Bond		4,499	1,085
Reversal of impairment on term finance certificates		567	-
Mark-up on:			
- Special saving certificates		-	128,491
- Pakistan investment bond		68,741	18,992
- Treasury bills		108,639	65,877
- Bank deposits and savings account		9,180	5,683
- Term finance certificates		2,090	2,712
- Security deposits		758	748
- Loan to employees		38	40
- Term deposit receipts		3	6
		194,515	223,634
Income from non-financial assets			
Gain on sale of property, plant and equipment		1,006	382
Sale of waste materials		4,916	3,903
Other income		-	24,656
		5,922	28,941
		200,437	252,575

26. OTHER OPERATING CHARGES

Workers' profit participation fund	14.4	25,179	28,877
Workers' welfare fund	14.3	9,855	(494)
Raw material written off		599	8,629
Provision for slow moving inventories		10,087	23,490
Donation	26.1	4,622	5,854
Auditors' remuneration	26.2	947	907
Exchange loss - net		3,876	2,554
		55,165	69,817

26.1 Donation

None of the directors or their spouses had any interest in any of the donees.

26.2 Auditors' remuneration

Audit fee		605	550
Audit of funds, special certification and other services		182	225
Out of pocket expenses		160	132
		947	907

Notes to the Financial Statements

	2013	2012
	(Rupees in '000)	
27. FINANCE COSTS		
Interest / mark-up on:		
- long-term finance	58,162	38,931
- short-term finance	714	1,857
- finance leases	1,334	1,883
- workers' profit participation fund	333	-
Bank charges	490	540
	61,033	43,211
28. TAXATION - net		
Current		
- for the year	165,382	12,127
- for prior year	(2,134)	(1,525)
	163,248	10,602
Deferred		
- relating to temporary differences	(5,563)	121,519
- resulting from reduction in tax rate	(9,837)	-
	(15,400)	121,519
	147,848	132,121
28.1 Reconciliation between tax expense and accounting profit		
Accounting profit before taxation	468,080	510,222
Tax on accounting profit @ 35% (2012: 35%)	163,828	178,578
Rebates under section 61, 65A and 65B of the Ordinance	(6,327)	(54,974)
Tax effect of permanent differences	(485)	5,894
Effect of reduction in tax rate	(9,837)	-
Expenses not admissible	(155)	1,658
Tax for prior year	(2,134)	(1,525)
OtheRs	2,958	2,490
	147,848	132,121

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.

During current year, the return of income for tax year 2011 has been selected for tax audit through parametric computer ballot by the Federal Board of Revenue on 25 February 2013 under section 214C of the Income Tax Ordinance 2001. The Tax Officer vide notice dated 21 March 2013, has required certain information in connection with the audit under section 177 of the Ordinance. The Company is currently furnishing the information as per the aforesaid notice.

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 tax 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. Further, the tax return for the tax years 2006 and 2007 are deemed to be assessed under provisions of the Income Tax Ordinance, 2001 ("the Ordinance") unless selected for an audit by the taxation authorities at any time during a period of five years from the date of filing. According to legal advice, since the period of five years has lapsed, tax years 2006 and 2007 are time barred for selection of audit.

29. EARNINGS PER SHARE

	2013 (Rupees in '000)	2012
Profit after taxation	<u>320,232</u>	<u>378,101</u>
	(Number of shares)	
Weighted average number of ordinary shares	<u>41,149,989</u>	<u>41,149,989</u>
	(Rupees)	
Earnings per share - basic and diluted	<u>7.78</u>	<u>9.19</u>

29.1 There were no convertible dilutive potential ordinary shares in issue as at 30 June 2013 and 30 June 2012.

30. 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:

	2013			2012		
	Chief Executive	Directors	Executives	Chief Executive	Directors	Executives
	----- (Rupees in '000) -----					
Directors' fee	-	2,900	-	-	1,570	-
Managerial remuneration (including bonus)	3,097	-	43,192	-	-	27,090
Housing, utilities and other perquisites	2,991	-	23,365	2,572	-	17,271
Retirement benefits	-	-	3,452	-	-	2,582
Medical	-	-	3,032	-	-	2,044
Total	<u>6,088</u>	<u>2,900</u>	<u>73,041</u>	<u>2,572</u>	<u>1,570</u>	<u>48,987</u>
Number of persons	<u>1</u>	<u>8</u>	<u>36</u>	<u>1</u>	<u>8</u>	<u>25</u>

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

30.2 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.

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

30.4 Housing, utilities and other perquisites include an amount of Rs 1.5 million (net of tax) as an award in recognition of her excellent performance and valuable services to the Company.

30.5 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.

Notes to the Financial Statements

31. TRANSACTIONS WITH RELATED PARTIES

	2013			
	Key Management Personnel	Associated under-takings	Others	Total
	----- (Rupees in '000) -----			
Transactions during the year:				
Sale of goods to Pakistan Security Printing Corporation (Private) Limited - net	-	1,841,953	-	1,841,953
Purchase of goods from Pakistan Cables Limited	-	-	547	547
Remuneration to key management personnel	82,029	-	-	82,029
Balance outstanding at the year end				
Receivable from Pakistan Security Printing Corporation (Private) Limited - net	-	262,613	-	262,613
Advance to Pakistan Cables Limited	-	-	30	30

	2012			
	Key Management Personnel	Associated under-takings	Others	Total
	----- (Rupees in '000) -----			
Transactions during the year:				
Sale of goods to Pakistan Security Printing Corporation (Private) Limited - net	-	1,538,122	-	1,538,122
Purchase of goods from Pakistan Cables Limited	-	-	606	606
Remuneration to key management personnel	53,129	-	-	53,129
Balance outstanding at the year end				
Receivable from Pakistan Security Printing Corporation (Private) Limited - net	-	331,169	-	331,169
Advance to Pakistan Cables Limited	-	-	19	19

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

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

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

There are no transactions with key management personnel other than under their terms of employments / entitlements. Balances outstanding from related parties are interest free, unsecured and repayable on demand. Particulars of transactions with workers' profit participation fund and employee retirement benefit and contribution funds are disclosed in notes 14.4 and 26 to the financial statements.

	Note	2013 (Tons)	2012
32. PRODUCTION CAPACITY			
Total Installed Capacity - on three shift basis		2,500	2,000
Available installed capacity -based on available three shift working days		2,435	1,949
Actual production		2,181	1,661

The short capacity utilization during the year was due to scheduled plant (PM-2) shut down of 18 days (2012: 18 days) for maintenance purposes.

33. CASH GENERATED FROM OPERATIONS

Profit before taxation		468,080	510,222
Adjustments for:			
Depreciation		194,422	151,681
Provision for slow moving inventories		10,686	23,490
Debtors written-off		263	-
Provision for doubtful debts		1,904	4,749
Gain on disposal of property, plant and equipment		(1,006)	(382)
Reversal of impairment on term finance certificates		(567)	-
Amortization of discount		(4,499)	(1,085)
Mark-up on investments		(180,078)	(216,118)
Mark-up on bank deposits and saving accounts		(9,180)	(5,683)
Mark-up on security deposits		(758)	(748)
Finance costs		61,033	43,211
Working capital changes	33.1	81,995	(95,530)
		154,215	(96,415)
		622,295	413,807

33.1 Working capital changes

(Increase) / decrease in current assets			
Stores, spares and loose tools		1,966	(27,764)
Stock-in-trade		(16,143)	(68,385)
Trade debts		62,572	(6,297)
Advances, deposits, prepayments and other receivables		2,937	(6,309)
		51,332	(108,755)
Increase / (decrease) in current liabilities			
Trade and other payables		30,663	13,225
		81,995	(95,530)

Notes to the Financial Statements

34. 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.

34.1 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 2,313.507 million (2012: Rs 2,131.399 million), the financial assets which are subject to credit risk amounted to Rs 585.033 million (2012: Rs 419.886 million).

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

The bulk of the sales of the Company are made to Pakistan Security Printing Corporation (Private) Limited (PSPC) and the amount due from PSPC at the balance sheet constituted 11.88% (2012: 15.8%) 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:

	2013	2012
	(Rupees in '000)	
Investments	220,962	15,804
Trade debts	272,925	327,903
Deposits, accrued mark up and other receivables	54,248	59,822
Bank balances	36,898	16,357
	585,033	419,886

Investments comprise of Term Finance Certificates, Units of Mutual Funds 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 Treasury Bills as disclosed in note 12 to the financial statements.

Term Finance Certificates (Refer note 12.1)	D	D
Term Deposit Receipts	AA / A-1+	A-1 / A-1+
UBL Liquidity Plus Fund	AA + (f)	-
HBL money market	AA (f)	-
MCB Cash Management Optimizer - Growth Fund	AA (f)	-
NAFA Money Market Fund	AA (f)	-

All the counterparties are of domestic origin. All the trade debts of the Company relate to PSPC the aging of which is as under:

	2013		2012	
	Gross	Impairment	Gross	Impairment
	----- (Rupees in '000) -----			
Not past due	111,759	-	299,196	-
31-90	147,107	-	11,342	-
91-180	14,059	-	6,612	-
181-360	-	-	8,848	-
360 and above	1,904	1,904	11,403	9,498
	<u>274,829</u>	<u>1,904</u>	<u>337,401</u>	<u>9,498</u>

The movement in the allowance for impairment in respect of trade debts is as follows:

	2013	2012
	(Rupees in '000)	
Opening balance	9,498	4,749
Provision during the year	1,904	4,749
Written off	(9,498)	-
Closing balance	<u>1,904</u>	<u>9,498</u>

Based on the past experience the management believes that no impairment allowance is necessary in respect of unprovided past due amounts as there are reasonable grounds to believe that the amounts will be recovered in short course of time.

34.2 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.

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

	2013					
	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	484,665	(575,589)	(107,551)	(103,748)	(192,238)	(172,052)
Trade and other payables	327,387	(327,387)	(327,387)	-	-	-
Liabilities against asset subject to finance lease	12,031	(14,242)	(2,515)	(2,552)	(4,294)	(4,881)
Accrued mark up	5,181	(5,181)	(5,181)	-	-	-
	<u>829,264</u>	<u>(922,399)</u>	<u>(442,634)</u>	<u>(106,300)</u>	<u>(196,532)</u>	<u>(176,933)</u>

Notes to the Financial Statements

	2012					
	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	632,558	(810,277)	(119,041)	(114,147)	(213,078)	(364,011)
Trade and other payables	288,274	(288,274)	(288,274)	-	-	-
Liabilities against asset subject to finance lease	11,733	(14,240)	(2,344)	(2,332)	(4,240)	(5,324)
Accrued mark up	8,252	(8,252)	(8,252)	-	-	-
	<u>940,817</u>	<u>(1,121,043)</u>	<u>(417,911)</u>	<u>(116,479)</u>	<u>(217,318)</u>	<u>(369,335)</u>

34.3 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.

34.3.1 Currency risk

The Company is mainly exposed to currency risk on technical assistance fee payable to SPTEC GmbH 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:

	2013			
	USD	GBP	Euro	Total
	----- (Rupees in '000) -----			
Payable against purchase of operating fixed assets	-	-	28,998	28,998
Technical fee payable	-	-	1,084	1,084
Gross balance sheet exposure	-	-	30,082	30,082
Outstanding letters of credit	4,841	16,978	54,556	76,375
Net exposure	<u>4,841</u>	<u>16,978</u>	<u>84,638</u>	<u>106,457</u>

	2012			
	USD	GBP	Euro	Total
	----- (Rupees in '000) -----			
Payable against purchase of operating fixed assets	-	-	56,661	56,661
Technical fee payable	-	-	7,492	7,492
Gross balance sheet exposure	-	-	64,153	64,153
Outstanding letters of credit	7,034	13,231	9,898	30,163
Net exposure	<u>7,034</u>	<u>13,231</u>	<u>74,051</u>	<u>94,316</u>

The following significant exchange rates have been applied:

	Average rate		Reporting date rate	
	2013	2012	2013	2012
USD to PKR	96.60	89.64	99.45	94.20
GBP to PKR	152.14	142.10	151.22	147.07
Euro to PKR	125.75	120.15	129.53	118.50

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.

	2013 (Rupees in '000)	2012
Effect on profit		
Increase / decrease	<u>1,955</u>	<u>4,170</u>

34.3.2 Interest rate risk

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

	Note	2013 Carrying amount (Rupees in '000)	2012
Financial assets			
<i>Fixed rate instruments</i>			
Pakistan Investment Bond	6	582,209	577,710
Treasury Bills	12	1,146,058	1,120,031
Term Deposit Receipts	12	66	60
		<u>1,728,333</u>	<u>1,697,801</u>
<i>Variable rate instruments</i>			
Term Finance Certificates	12	14,798	15,744
Financial liabilities			
<i>Variable rate instruments</i>			
Long Term Loan	16	484,665	632,558
Liabilities against asset subject to Finance Lease	17	12,031	11,733
		<u>496,696</u>	<u>644,291</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 2013.

Notes to the Financial Statements

	Effect on profit and loss	
	100 bp increase	100 bp decrease
	(Rupees in '000)	
As at 30 June 2013		
Cash flow sensitivity - Variable rate instruments	<u>1,242</u>	<u>(1,242)</u>
As at 30 June 2012		
Cash flow sensitivity - Variable rate instruments	<u>1,611</u>	<u>(1,611)</u>

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

34.3.3 Other price risk

Other price risk is the risk that the fair value or future cashflows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). Other price risk arises from the company's investment in Units of Mutual Fund and Term Finance Certificates of B.R.R. Guardian Modaraba.

A 10% increase / decrease in MUFAP rates at year end would have decreased / increased surplus on re-measurement of investments as follows:

	2013	2012
	(Rupees in '000)	
B.R.R. Guardian Modaraba Term Finance Certificates	<u>1,480</u>	<u>1,574</u>
Units of mutual funds	<u>20,610</u>	<u>-</u>

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

34.4 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 inputs).

	Level 1	Level 2	Level 3
30 June 2013			
<i>Available for sale investments</i>			
B.R.R. Guardian Modaraba Term Finance Certificates	-	-	14,798
Units of Mutual Funds	206,098	-	-
30 June 2012			
<i>Available for sale investments</i>			
B.R.R. Guardian Modaraba Term Finance Certificates	-	-	15,744

35. OPERATING SEGMENTS

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

- 35.1** Revenue from bank notes represents 74.42% (2012 : 77.34%) of the total revenue of the Company.
- 35.2** All the sales of the Company are made to customers located in Pakistan.
- 35.3** All non-current assets of the Company at 30 June 2013 are located in Pakistan.
- 35.4** One customer of the Company accounts for 99.19% (2012: 97.89%) of total revenue of the Company for the year.

36. 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.

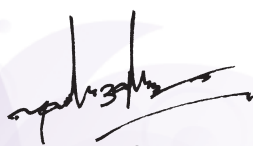
The Company manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend paid to shareholders or issue new shares.

37. CORRESPONDING FIGURES

Corresponding figures have been rearranged and reclassified for better presentation, wherever considered necessary, the effect of which is not material.

38. GENERAL

- 38.1** The Board of Directors in its meeting held on 31 July 2013 has proposed a cash dividend in respect of the year ended 30 June 2013 of Rs 4/- per share (2012: Rs 6/- per share) and bonus issue of 20% (2012: nil). In addition, the directors have also announced appropriation of Rs 73.33 million (2012: Rs 131.2 million) to revenue reserves. These appropriations will be approved in the forthcoming Annual General Meeting. The financial statements for the year ended 30 June 2013 do not include the effect of these appropriations which will be accounted for subsequent to the year end.
- 38.2** The number of employees including contractual employees of the Company as at 30 June 2013 were 403 (2012: 398) and weighted average number of employees were 402 (2012: 401).
- 38.3** These financial statements were authorised for issue on 31 July 2013 by the Board of Directors of the Company.



Naiyer Muzafar Husain
Chief Executive



Sheikh Mohammad Aijaz Akhtar
Director

Pattern of Shareholding

As At June 30, 2013

Security Papers
LIMITED

Number of Shareholders	Size of Holding Rs 10 Shares		Number of Shares
410	1	100	8,400
325	101	500	98,666
222	501	1,000	179,528
341	1,001	5,000	885,549
88	5,001	10,000	661,872
27	10,001	15,000	340,986
12	15,001	20,000	211,159
7	20,001	25,000	160,254
6	25,001	30,000	166,414
4	30,001	35,000	130,294
3	35,001	40,000	115,993
1	40,001	45,000	41,184
5	45,001	50,000	239,447
1	50,001	55,000	50,924
1	55,001	60,000	59,364
1	60,001	65,000	61,500
1	80,001	85,000	81,672
2	95,001	100,000	200,000
1	110,001	115,000	110,186
1	115,001	120,000	117,000
1	120,001	125,000	120,500
1	135,001	140,000	139,464
1	150,001	155,000	152,000
1	165,001	170,000	167,746
1	180,001	185,000	180,611
1	225,001	230,000	225,388
1	265,001	270,000	269,473
1	330,001	335,000	330,333
1	530,001	535,000	533,823
1	545,001	550,000	550,000
1	640,001	645,000	644,924
1	935,001	940,000	935,011
1	1,830,001	1,835,000	1,834,812
1	2,950,001	2,955,000	2,954,362
1	3,485,001	3,490,000	3,487,768
2	4,110,001	4,115,000	8,229,952
1	16,470,001	16,475,000	16,473,430
1,477	TOTAL		41,149,989

As At June 30, 2013

Categories of Shareholders	Number	Shares held	Percentage
i. Associated Companies, Undertakings and Related Parties	3	24,703,382	60.03
INDUSTRIAL DEVELOPMENT & RENOVATION ORGANIZATION OF IRAN	1	4,114,976	10.00
SUMER HOLDING A.S.	1	4,114,976	10.00
PAKISTAN SECURITY PRINTING CORPORATION (PVT.) LIMITED	1	16,473,430	40.03
ii. Mutual Funds	3	1,884,072	4.58
NATIONAL BANK OF PAKISTAN-TRUSTEE DEPARTMENT NI(U)T FUND	1	1,834,812	4.46
CDC - TRUSTEE AKD INDEX TRACKER FUND	1	3,500	0.01
TRUSTEE - PAKISTAN PENSION FUND - EQUITY SUB FUND	1	45,760	0.11
iii. Directors and their Spouse(s) and minor children	3	21,614	0.05
SHEIKH MOHAMMAD AIJAZ AKHTAR	2	1,252	0.00
MR. MUSTAPHA A.CHINOY	1	20,362	0.05
iv. Executives	-	-	-
v. Public Sector Companies and Corporations	5	4,936,144	12.00
STATE LIFE INSURANCE CORPORATION OF PAKISTAN	2	3,487,924	8.48
PAKISTAN REINSURANCE COMPANY LIMITED	1	644,924	1.57
DEPUTY ADMINISTRATOR ABANDONED PROPERTIES ORGANIZATION	1	269,473	0.65
NATIONAL INVESTMENT TRUST LIMITED - ADMINISTRATION FUND	1	533,823	1.30
vi. Banks, Development Finance Institutions, Non-Banking Finance Companies, Insurance Companies, Takaful, Modarabas and Pension Funds	15	4,866,669	11.83
HABIB BANK LIMITED	2	130	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
HABIB BANK LIMITED-TREASURY DIVISION	1	1,250	0.00
THE PUNJAB PROVINCIAL COOPERATIVE BANK	1	2,954,362	7.18
NATIONAL BANK OF PAKISTAN	2	936,041	2.27
SAUDI PAK INDUSTRIAL & AGRICULTURAL INVESTMENT CO. LTD.- CAD	1	50,000	0.12
THE BANK OF PUNJAB, TREASURY DIVISION	1	180,611	0.44
EFU LIFE ASSURANCE LIMITED	1	550,000	1.34
TRUSTEE NATIONAL BANK OF PAKISTAN EMPLOYEES PENSION FUND	1	167,746	0.41
General Public	1416	3,970,882	9.65
a. Local	1416	3,970,882	9.65
b. Foreign	-	-	-

Pattern of Shareholding

As At June 30, 2013

Security Papers
LIMITED

Categories of Shareholders	Number	Shares held	Percentage
Others	32	767,226	1.86
ADMINISTRATOR ABANDONED PROPERTIES	1	10,197	0.02
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	152,000	0.37
TRUSTEES D.G.KHAN CEMENT CO. LTD. EMPLOYEES PROVIDENT FUND	1	15,000	0.04
PRUDENTIAL SECURITIES LIMITED	1	38	0.00
Y.S. SECURITIES & SERVICES (PVT.) LIMITED	1	72	0.00
DAWOOD FOUNDATION	1	225,388	0.55
MILLWALA SONS (PRIVATE) LIMITED	1	45	0.00
MOHAMAD AMIN BROS (PVT.) LIMITED	1	6,000	0.01
TRUSTEES SAEEDA AMIN WAKF	1	46,500	0.11
TRUSTEES MOHAMAD AMIN WAKF ESTATE	1	81,672	0.20
TRUSTEES AL-BADER WELFARE TRUST	1	41,184	0.10
TECHNOLOGY LINKS (PVT.) LIMITED	1	4,680	0.01
CS CAPITAL (PVT) LIMITED	1	50,924	0.12
TRUSTEE NATIONAL BANK OF PAKISTAN EMP BENEVOLENT FUND TRUST	1	5,886	0.01
S.H. BUKHARI SECURITIES (PVT.) LIMITED	1	645	0.00
CRESCENT COTTON MILLS LIMITED	1	364	0.00
TRUSTEES D.G.KHAN CEMENT CO.LTD.EMP. P.F	1	100,000	0.24
H M INVESTMENTS (PVT.) LIMITED	1	276	0.00
NH SECURITIES (PVT.) LIMITED	1	2,576	0.01
UHF CONSULTING (PRIVATE) LIMITED	1	800	0.00
EXCEL SECURITIES (PVT.) LIMITED	1	172	0.00
MULTILINE SECURITIES (PVT.) LIMITED	1	7,500	0.02
CLIKTRADE LIMITED	1	1	0.00
MUHAMMAD SALIM KASMANI SECURITIES (PVT.) LIMITED	1	2,000	0.00
MUHAMMAD BASHIR KASMANI SECURITIES (PVT.) LIMITED	1	2,500	0.01
M.R. SECURITIES (SMC-PVT.) LIMITED	1	3,000	0.01
SEVEN STAR SECURITIES (PVT.) LIMITED	1	100	0.00
PEARL CAPITAL MANAGEMENT (PRIVATE) LIMITED	1	41	0.00
FIKREE'S (SMC-PVT.) LIMITED	1	3,720	0.01
Total	1,477	41,149,989	100.00
vii. Shareholders Holding five percent or more			
Voting Rights in the Listed Company	5	31,145,512	75.69
PAKISTAN SECURITY PRINTING CORPORATION (PVT.) LIMITED	1	16,473,430	40.03
SUMER HOLDING A.S.	1	4,114,976	10.00
INDUSTRIAL DEVELOPMENT & RENOVATION ORGANIZATION OF IRAN	1	4,114,976	10.00
STATE LIFE INSURANCE CORPORATION OF PAKISTAN	1	3,487,768	8.48
THE PUNJAB PROVINCIAL COOPERATIVE BANK	1	2,954,362	7.18

BOARD OF DIRECTORS

Non-executive Directors

Chairman

Mr. Mustapha A. Chinoy Minority - Elected

Directors

Sheikh Mohammmd Aijaz Akhtar	Minority & Independent	- Elected
Mrs. Ayla Akin - Turkey	Minority	- Nominee- SHAS
Mr. Jamal Nasim	Minority	- Elected - NIT
Mr. Mazhar-ul-Hassan Shah		- Nominee - PSPC
Mr. Mohammad Reza Roshani Moghaddam - Iran	Minority	- Nominee - IDRO
Mr. Rizwan Ahmed		- Nominee - PSPC
Mr. Kazi Abdul Muktadir		- Nominee - PSPC

Executive Director

Chief Executive Officer

Mrs. Naiyer Muzafar Husain - Executive

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

BOARD AUDIT COMMITTEE

Sheikh Mohammad Aijaz Akhtar Independent Director	- Chairman
Mustapha A. Chinoy Non-Executive Director	- Member
Mr. Jamal Nasim Non-executive Director	- Member
Mr. Kazi Abdul Muktadir Non-executive Director	- Member
Mr. Talha Bin Hamid General Manager (Internal Audit)	- Secretary

BOARD HUMAN RESOURCE AND REMUNERATION COMMITTEE

Mr. Mustapha A. Chinoy Chairman	- Chairman
Mrs. Naiyer Muzafar Husain Chief Executive Officer	- Member
Sheikh Mohammmd Aijaz Akhtar Non-executive Director	- Member
Mr. Jamal Nasim Non-executive Director	- Member
Mr. Rizwan Ahmed Non-executive Director	- Member
Mr. Nadeem Azhar General Manager (HR&A)	- Secretary

Company Information

Security Papers
LIMITED

BOARD INVESTMENT COMMITTEE

Mrs. Naiyer Muzafar Husain
Chief Executive Officer
Mr. Mustapha A. Chinoy
Non-executive Director
Mr. Mazhar-ul-Hassan Shah
Non-executive Director
Mr. Rizwan Ul Haq Khan
Chief Financial Officer

- Chairperson
- Member
- Member
- Secretary

MANAGEMENT AND STRATEGIC PLAN COMMITTEE

Chairperson:

Mrs. Naiyer Muzafar Husain

- Chief Executive Officer

Members:

Mr. Rizwan Ul Haq Khan
Mr. Muhammad Abdul Aleem
Maj. (Retd.) Muhammad Ali Niazi
Mr. Faiz-Ul-Islam
Mr. Talha Bin Hamid
Mr. Nadeem Azhar
Mr. Muhammad Imran Awan
Mr. Saadat Ali
Mr. Khalil Ahmed
Mr. Muhammad Abdul Qadir Jilani
Mr. Imad Ahmed Khan

- Chief Financial Officer
- Company Secretary
- General Manager (Security)
- General Manager (Supply Chain)
- General Manager (Internal Audit)
- General Manager (HR&A)
- D.G.M. (Production)
- D.G.M. (QA/R&D)
- D.G.M. (Engineering & Projects)
- D.G.M. (Supply Chain)
- D.G.M. (Process Systems)

BANKERS

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

AUDITORS

KPMG Taseer Hadi & Co.
Chartered Accountants

TAX CONSULTANTS

A. F. Ferguson & Co.
Chartered Accountants

LEGAL ADVISORS

Mohsin Tayebali & Co.
Advocates & Legal Consultants

REGISTERED OFFICE

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

SHARE REGISTRAR

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

FACTORY

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

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)

Six 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.
- l) Determination of compliance with relevant statutory requirements.

Information on Board Committees

- 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 & Remuneration Committee (HR&RC)

Two meetings were held during the year.

The purpose of Board Human Resource and Remuneration Committee (HR&RC) is to assist the Board to fulfill its oversight responsibilities for:

- Recommending human resource management policies to the Board
- Evaluate executive officer performance and review the Company's management succession plan
- Employee reward and performance management

The HR&RC will consist of at least three members comprising a majority of Non-executive Directors, including preferably an independent Director. The Managing Director/Chief Executive Officer (MD/CEO) may be included as a member of the Committee but not as the Chairman of the Committee. The MD/CEO if member of HR&RC shall not participate in the proceedings of the Committee on matters that directly relate to his/her performance and compensation. The Head of Human Resource & Administration (HR&A) will act as Secretary of the Committee.

To exercise its responsibilities, the HR&RC will have authority to discuss any relevant matters with management and to request appropriate reports, explanations, accounts and/or activity modifications.

The HR&RC may delegate its authority to the Chairman or any other member of the Committee when it deems appropriate and in the best interest of the Company.

3. Board Investment Committee (BIC)

One meeting was held during the year.

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

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

- BIC may recommend the appointment of an Investment Advisor of the Company to BoD
- BIC may recommend investment policy of the company to the BoD for approval
- BIC may authorize Managing Director/Chief Executive 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-eighth Annual General Meeting of Security Papers Limited will be held on Thursday, the August 29, 2013 at 11:00 AM at Hotel Ramada Plaza, Karachi, Star Avenue, Terminal No.1, Jinnah International Airport, 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, 2013 together with the Reports of the Auditors and the Directors.
2. To declare final cash dividend at the rate of Rs 4/- per share i.e. 40% for the year ended June 30, 2013 as recommended by the Board of Directors. This is in addition to the bonus shares issue in the ratio of 2:10 i.e. 20% which is considered under "Special Business" set out below.
3. To appoint Auditors for the year 2013-14 and to fix their remuneration.

One of the members has given Notice under Section 253 of the Companies Ordinance, 1984 proposing the name of M/s. Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants as external auditors of the Company in place of retiring auditors M/s. KPMG Taseer Hadi & Co., Chartered Accountants.

B. SPECIAL BUSINESS

4. To consider and, if deemed fit and proper, pass the following as ordinary resolution:

RESOLVED that a sum of Rs 82,299,980/- out of Company's reserve for issue of Bonus Shares be capitalized and applied to the issue of 8,229,998 ordinary shares of Rs 10/- each and allotted as fully paid Bonus Shares to the members of the Company whose names appeared in the Members' Register of the Company on August 20, 2013 in the ratio of two for ten shares held and that such shares shall rank pari passu as regards future dividends and in all other respects with the existing ordinary shares of the Company.

FURTHER RESOLVED that aggregate of the fractions of a share arising on such allotment be sold and that the net proceeds thereof be donated to any registered charitable / welfare institution.

FURTHER RESOLVED that the Chief Executive Officer and/or the Company Secretary be and are hereby authorized and empowered to give effect to this resolution and to do or cause to be done all acts, deeds and things that may be necessary for the issue, allotment and distribution of the Company's shares and the payment of the sale proceeds of the fractions."

5. To consider and if thought fit, to pass the following as ordinary resolution:

RESOLVED that the aggregate remuneration to be paid to non-executive Directors for attending meetings of the Board / Committee(s) of the Board; shall not exceed Rs 13.00 million in a financial year.

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

Item B 4: The Directors have recommended capitalization of reserve for issue of Bonus Shares. The Directors are interested in the business to the extent of Bonus Shares which they will be entitled to receive on their respective shareholding in the Company.

Notice of Annual General Meeting

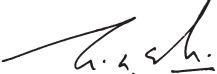
Security Papers
LIMITED

Item B 5: The existing annual lump sum amount of remuneration to be paid to non-executive Directors for attending the meetings of the Board / Committee(s) of the Board was previously fixed at Rs 6.25 million. The said lump sum amount has become inadequate and does not compensate the increasing level of roles and responsibilities of the Directors, the quantum of time put in and the commitment required. The proposed resolution seeks to revise the existing annual lump sum amount to Rs 13.00 million in the case of non-executive Directors.

The Directors are interested in the Business to the extent of their remuneration"

Karachi,
July 31, 2013

By Order of the Board


(Muhammad Abdul Aleem)
Company Secretary

NOTES

1. The Share Transfer Books of the Company will remain closed from August 21 to August 29, 2013 (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 20, 2013 will be considered in time to determine the above mentioned entitlement and to attend and vote at the Meeting.

2. A member entitled to attend and vote at this meeting may appoint any other member as his/her proxy to attend and vote on his/her behalf. The instrument appointing proxy must be received at the Registered Office of the Company duly stamped and signed not later than 48 hours before the meeting.

CDC Account Holders will further have to follow the 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.

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.

3. Members are requested to provide by mail or fax their National Tax No. (NTN) and CNIC or passport No. if foreigner (unless it has been provided earlier) to enable the Company comply with relevant laws.

4. Members are requested to notify any change in their addresses immediately to our Share Registrar, M/s. FAMCO Associates (Pvt.) Limited, 1st Floor, State Life Building No.1-A, I. I. Chundrigar Road, Karachi-74000.



Form of Proxy

Security Papers
LIMITED

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 48th ANNUAL GENERAL
MEETING of the Company to be held on Thursday, August 29, 2013 at 11:00 AM and at any adjournment thereof.

Signed this _____ day of _____ 2013.

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

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

**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) alongwith proxy form to the Company.



Security Papers
LIMITED

REGISTERED OFFICE & DEPARTMENT

Jinnah Avenue, Malir Halt, Karachi-75100
Ph:(92)-021-99248285 Fax: (92)-021-99248286

FACTORY

Jinnah Avenue, Malir Halt, Karachi-75100
Ph:(92)-021-99248536-37 Fax: (92)-021-99248616