

**NOTICE OF
EXTRA ORDINARY
GENERAL MEETING**

SAPPHIRE FIBRES LIMITED

Notice of Extra Ordinary General Meeting

NOTICE IS HEREBY GIVEN that pursuant to the Order dated the 14th day of October 2010 of the High Court of Sindh at Karachi passed in Judicial Petition No. JM 40 of 2010 an Extraordinary General Meeting of the shareholders of Sapphire Fibres Limited ("Sapphire") will be held at Trading Hall, Cotton Exchange Building, I.I.Chundrigar Road, Karachi, on November 11, 2010 at 3:30 p.m to consider and if thought fit, approve, adopt and agree to the Scheme of Arrangement for the transfer to SFL Limited of Sapphire's entire shareholding in Sapphire Finishing Mills Limited, Sapphire Dairies (Pvt.) Ltd, Diamond Fabrics Limited and Amer Cotton Mills (Pvt.) Limited.

One copy of the Scheme, the Statement as required under Section 160(1)(b) of the Companies Ordinance, 1984 setting out in detail the special business to be conducted in the Extraordinary General Meeting (the "160(1)(b) Statement") and the Statement under Section 286 of the Companies Ordinance, 1984 explaining effect of the Scheme (the "286 Statement") is being provided with the notice of the meeting sent to the shareholders. Further copies of the Scheme, 160(1)(b) Statement and 286 Statement may be obtained from the registered office of Sapphire, i.e. 316, Cotton Exchange Building, I.I. Chundrigar Road, Karachi, during normal office hours on application prior to the meeting by the shareholders.

Mr. Mohammad Abdullah has been appointed as the Chairman of the Meeting and will report the results thereof to the Court.

Please note that the Scheme will be subject to the subsequent approval of the honourable Court.

Karachi.
Dated. October 15, 2010

Company Secretary
Sapphire Fibres Limited

NOTES

1. A draft of the resolution proposed to be considered by the shareholders of the Company at the Extraordinary General Meeting is being attached herewith (Appendix 'A') as required by Section 164(1) of the Companies Ordinance. 1984.
2. All shareholders are entitled to attend and vote at the meeting.
3. A shareholder entitled to attend and vote is entitled to appoint a proxy to attend, speak, and vote for it.
4. An instrument of proxy for the meeting is being provided with the notice sent to the members (Appendix 'B'). Further copies of the instrument of proxy may be obtained from the registered office of Sapphire Fibres Limited.
5. Copies of the Scheme, Statement u/s 160(1)(b) and Statement u/s 286 are being sent to all shareholders alongwith this Notice.
6. The share transfer books of the Company will be closed from November 04, 2010 to November 11, 2010 (both days inclusive). Transfers received in order at the office of our Registrar, M/s THK Associates (Private) Limited, Ground Floor, State Life Building No.3, Dr. Ziauddin Ahmed Road, Karachi by the close of business (5:00 pm) on November 03, 2010 will be treated as being in time to entitle the transferes to attend and vote at the meeting.

APPENDIX "A" TO NOTICE OF EXTRA ORDINARY GENERAL MEETING

**DRAFT RESOLUTIONS OF THE
EXTRA ORDINARY GENERAL MEETING OF THE SHAREHOLDERS OF
SAPPHIRE FIBRES LIMITED**

WHEREAS it is proposed that Sapphire Fibres Limited ("Sapphire") be, in effect, divided into two companies by separating its entire shareholding in Sapphire Finishing Mills Limited, Sapphire Dairies (Pvt.) Ltd, Diamond Fabrics Limited and Amer Cotton Mills (Pvt.) Limited from the rest of the undertaking that is to be retained and transferring the shares to a wholly owned subsidiary of Sapphire pursuant to a Scheme of Arrangement under Sections 284 to 287 of the Companies Ordinance, 1984 and by the issuance of shares of SFL Limited to the shareholders of Sapphire in the ratio of 1:1, i.e. each Sapphire shareholder will receive exactly as many shares in SFL Limited as he currently holds in Sapphire.

IT IS THEREFORE :

RESOLVED that the scheme of the arrangement among Sapphire Fibres Limited and SFL Limited under Sections 284 to 287 of the Companies Ordinance, 1984 inter alia for the transfer to SFL Limited of Sapphire's entire shareholding in Sapphire Finishing Mills Limited, Sapphire Dairies (Pvt.) Ltd, Diamond Fabrics Limited and Amer Cotton Mills (Pvt.) Limited and the issuance of shares in SFL Limited to the shareholders of Sapphire in the ratio of 1:1 has been considered by this meeting and is hereby approved, adopted and agreed.

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

1. Judicial Miscellaneous Petition No. JM 40 of 2010 has been filed in the High Court of Sindh at Karachi under Sections 284 to 287 of the Companies Ordinance, 1984 for sanction of (and for other orders) in respect of Scheme of Arrangement (the "Scheme") between Sapphire Fibres Limited ("Sapphire") and its members, and SFL Limited ("SFL") and its members. In that proceeding the Hon'ble Court has directed the convening of separate meeting of the members of Sapphire and SFL for seeking their agreement to the Scheme.
2. The object of the Scheme is to, in effect, divide Sapphire into two companies by separating its entire shareholding (the "Investments") in Sapphire Finishing Mills Limited, Sapphire Dairies (Pvt.) Ltd, Diamond Fabrics Limited and Amer Cotton Mills (Pvt.) Limited from the rest of the undertaking that is to be retained and transferring the shares to a wholly owned subsidiary of Sapphire Fibres Limited pursuant to a Scheme of Arrangement under Sections 284 to 287 of the Companies Ordinance, 1984 and by the issuance of shares of SFL Limited to the shareholders of Sapphire in the ratio of 1:1, i.e. each Sapphire shareholder will receive exactly as many shares in SFL Limited as he currently holds in Sapphire.
3. As noted above as consideration for the transfer to and vesting in SFL of the Investments, SFL shall issue 19,687,500 fully paid-up ordinary shares to the existing shareholders of Sapphire in the ratio of 1:1. The transfer of the Investments shall be recorded in the books of Sapphire, and the Reserves of Sapphire will be reduced by the same amount (i.e. the book value of the Investments). Similarly, in the books of SFL, the Investments will be recorded at the same value at which these were appearing in the books of Sapphire just before the transfer, and the difference in the value assigned to the Investments and the face value of shares issued by SFL to the shareholders of Sapphire, shall be taken to a reserve account.
4. That it may be noted that the Board of Directors of Sapphire has considered various options which would improve its business so as to be able to increase the returns paid to its shareholders. The Board of Directors of Sapphire has concluded that there are no synergies between the Investments and the remaining textile business of the company. It would therefore be advisable for the textile business and the Investments to be bifurcated into separate companies – thereby allowing each company's management to focus on what are actually completely separate businesses. The Board therefore concluded that the most efficient way of proceeding forward would be to transfer the Investments into a separate company and it therefore incorporated SFL. The Board decided to transfer the Investments and not the textile business because it was aware that currently the Investments have not been pledged to any financial institution and nor does any third party have any interest, right or claim thereto. The Board was of the view that the afore-said transfer would allow the Investments to be managed in a more efficient manner as the management of SFL would be able to focus exclusively on the Investments. This increased efficiency would lead to greater returns for shareholders and make it easier to raise capital in the future.
5. In light of the aforesaid, the Scheme has been prepared. The respective Board of Directors of Sapphire and SFL have approved the Scheme and resolved to commence with the process to effect the Scheme and to take all such steps as are necessary in this regard and for the submission of the Scheme to the Honourable High Court pursuant to Sections 284 and 287 of the Ordinance. A copy of the Scheme is attached herewith and the same may also be inspected by the members of Sapphire during business hours at the registered office of the Company.
6. Under Section 284(2) of the Ordinance, a majority in number representing three-fourths of the members of the companies present in the meeting should agree to the Scheme in order for the same to be sanctioned by the Honourable High Court. Hence, pursuant to the Order dated the 14th day of October, 2010 of the High Court of Sindh at Karachi passed in Judicial Miscellaneous Petition No. JM 40 of 2010 Extraordinary General Meeting of the shareholders of Sapphire will be held at Trading Hall, Cotton Exchange Building, I.I.Chundrigar Road, Karachi, on November 11, 2010 at 3:30 pm to consider and if thought fit, approve, adopt and agree to the Scheme.
7. No Director of Sapphire and SFL has any interest, whether directly or indirectly except to the extent of shareholding held by them in Sapphire and SFL and their employment in Sapphire. The Directors are also interested to the extent of remuneration and benefits as per the policy of Sapphire.

Karachi.
Dated : October 15, 2010

Company Secretary
Sapphire Fibres Limited

STATEMENT UNDER SECTION 286 OF THE COMPANIES ORDINANCE, 1984 (THE "ORDINANCE")

Dear Sir / Madam,

Judicial Miscellaneous Petition No. JM 40 of 2010 has been filed in the High Court of Sindh at Karachi under Sections 284 to 287 of the Companies Ordinance, 1984 for sanction of and for other orders in respect of a Scheme of Arrangement (the "Scheme") between Sapphire Fibres Limited ("Sapphire Fibres") and its members, and SFL Limited ("SFL") and its members. In that proceeding, the honourable High Court has directed the convening of separate meeting of the members of Sapphire Fibres for seeking their agreement to the Scheme. A copy of the Scheme is provided with this Statement.

The accompanying notice convenes the meeting of shareholders of Sapphire Fibres and SFL as directed by the honourable High Court. It is intended to pass the following proposed resolutions at the respective Extraordinary General Meetings:

SAPPHIRE FIBRES

WHEREAS it is proposed that Sapphire Fibres Limited ("Sapphire") be, in effect, divided into two companies by separating its entire shareholding in Sapphire Finishing Mills Limited, Sapphire Dairies (Pvt.) Ltd, Diamond Fabrics Limited and Amer Cotton Mills (Pvt.) Limited from the rest of the undertaking that is to be retained and transferring the shares to a wholly owned subsidiary of Sapphire Fibres Limited pursuant to a Scheme of Arrangement under Sections 284 to 287 of the Companies Ordinance, 1984 and by the issuance of shares of SFL Limited to the shareholders of Sapphire in the ratio of 1:1, i.e. each Sapphire shareholder will receive exactly as many shares in SFL Limited as he currently holds in Sapphire.

IT IS THEREFORE :

RESOLVED that the scheme of the arrangement among Sapphire Fibres Limited and SFL Limited under Sections 284 to 287 of the Companies Ordinance, 1984 inter alia for the transfer to SFL Limited of Sapphire's entire shareholding in Sapphire Finishing Mills Limited, Sapphire Dairies (Pvt.) Ltd, Diamond Fabrics Limited and Amer Cotton Mills (Pvt.) Limited and the issuance of shares in SFL Limited to the shareholders of Sapphire in the ratio of 1:1 has been considered by this meeting and is hereby approved, adopted and agreed.

SFL LIMITED

WHEREAS it is proposed that Sapphire Fibres Limited ("Sapphire") be, in effect, divided into two companies by separating its entire shareholding in Sapphire Finishing Mills Limited, Sapphire Dairies (Pvt.) Ltd, Diamond Fabrics Limited and Amer Cotton Mills (Pvt.) Limited from the rest of the undertaking that is to be retained and transferring the shares to a wholly owned subsidiary of Sapphire pursuant to a Scheme of Arrangement under Sections 284 to 287 of the Companies Ordinance, 1984 and by the issuance of shares of SFL Limited to the shareholders of Sapphire in the ratio of 1:1, i.e. each Sapphire shareholder will receive exactly as many shares in SFL Limited as he currently holds in Sapphire.

IT IS THEREFORE :

RESOLVED that the Scheme of the Arrangement among Sapphire Fibres Limited and SFL Limited under Sections 284 to 287 of the Companies Ordinance, 1984 inter alia for the transfer to SFL Limited of Sapphire's entire shareholding in Sapphire Finishing Mills Limited, Sapphire Dairies (Pvt.) Ltd, Diamond Fabrics Limited and Amer Cotton Mills (Pvt.) Limited and the issuance of shares in SFL Limited to the shareholders of Sapphire in the ratio of 1:1 has been considered by this meeting and is hereby approved, adopted and agreed.

The sanctioning of the Scheme and the making of other appropriate orders in connection therewith will be considered by the honourable High Court after the Scheme is agreed to, by the requisite majority at the meeting being convened for this purpose under the order of the court, by the members of Sapphire Fibres and SFL.

In case you are unable to attend the meeting convened by the accompanying Notice you are requested to complete the proxy form attached to the Notice and send the complete form as soon as possible to the following address:

- (i) For members of Sapphire Fibres, to the registered office of Sapphire Fibres, situated at 316, Cotton Exchange Building, I. I. Chundrigar Road, Karachi, or at the office of the Registrars of Sapphire Fibres Limited, M/s THK Associates (Private) Limited situated at Ground Floor, State Life Building No. 3, Dr. Ziauddin Ahmed Road, Karachi.
- (ii) For members of SFL, to the registered office of SFL, situated at 316, Cotton Exchange Building, I. I. Chundrigar Road, Karachi.

Proxies for the meeting will not be treated as valid if received less than 48 hours before the time of the meeting.

1. OBJECTIVE OF THE SCHEME

The object of the Scheme is the division of Sapphire Fibres into, in effect, two companies by transferring its entire shareholding in Sapphire Finishing Mills Limited, Sapphire Dairies (Pvt.) Ltd, Diamond Fabrics Limited and Amer Cotton Mills (Pvt.) Limited (the "Investments") to SFL against the issue of the shares by SFL to the shareholders of Sapphire Fibres in the ratio of 1:1, i.e. each existing shareholder of Sapphire Fibres will get exactly as many shares in the SFL as he is currently holding in Sapphire Fibres.

Sapphire Fibres and SFL have made various prayers in the Petition filed in the High Court and which have been annexed to this Statement as Annexure "A"

2. APPROVALS:

The Scheme has been approved by the respective Board of Directors of both Sapphire Fibres and SFL. The consideration for the transfer of the Investments shall be the issue of 19,687,500 fully paid-up ordinary shares of par value of Rs. 10 each to the shareholders of Sapphire Fibres at a ratio of 1:1.

3. SANCTION BY COURT:

The Scheme is subject to the sanction of the Honourable High Court of Sindh in its present form or with any modifications thereof or addition thereto and is also subject to any conditions, which the Court may impose.

4. CREDITORS' INTEREST:

The interest of the creditors will be protected as the Investments are only a small portion of the total undertaking of Sapphire Fibres and the priority of charges will not be altered as a consequence of the transfer of the Investments. It may be noted that Sapphire Fibres has already obtained the consent / no objection from its secured creditors representing in value 97% of its total creditors, as of June 30, 2010. A copy of the certificate certifying the forgoing from A. F. Ferguson & Co., Chartered Accountants, is attached to the Petition.

5. ISSUANCE AND ALLOTMENT OF SHARES

In consideration for the transfer of the Investments, SFL shall, without any further act or deed, issue and allot a further 19,687,500 fully paid up ordinary shares of Rs.10/- each to all the shareholders of Sapphire Fibres in the ratio of 1:1. The allotment of the ordinary shares of SFL shall be made by SFL effective as of the Appointed Date (as defined in the Scheme).

The new shares issued pursuant to the Scheme shall rank pari passu with the existing shares in all respect and will be entitled to all dividends, bonus, right issue declared after the allotment of shares as above.

6. LIABILITIES, OBLIGATION AND LEGAL PROCEEDINGS

The transfer to and vesting in SFL of the Investments in accordance with the Scheme will include all the liabilities, encumbrances and obligations relating to the Investments howsoever arising, and after the Scheme is sanctioned, SFL will discharge all such outstanding liabilities and will perform all such outstanding obligations in due course as if they were originally the liabilities and obligations of SFL instead of Sapphire Fibres.

It has been prayed in the Petition submitted in Court that an order be passed directing that SFL, without any further act, deed, matter or thing, be deemed to have created, all such liens, charges, mortgages, pledges, hypothecation, assignments by way of security, security interests, claims and other encumbrances of whatever nature (if any) over the Investments of Sapphire Fibres which are transferred to SFL from Sapphire Fibres.

All the legal proceedings (if any) in relation to the Investments instituted by or against Sapphire Fibres and pending on or after the sanctioning of the Scheme will be treated as legal proceedings by or against SFL and Sapphire Fibres shall have no further liability in this regard.

7. ADVANTAGES OF THE SCHEME OF ARRANGEMENT

The Board of Directors of Sapphire Fibres had considered various options which would improve its business so as to be able to increase the returns paid to its shareholders. The Board concluded that there were no synergies between the Investments and the remaining Textile Business of the Company. It would therefore be advisable for the Investments and the remaining Textile Business to be bifurcated into separate companies – thereby allowing each company's management to focus on what are actually completely separate businesses. The Board therefore decided that the most efficient way of proceeding forward would be to transfer the Investments into a separate company and it therefore incorporated SFL. The Board decided to transfer the Investments and not the Textile Business because it was aware that currently the Investments have not been pledged to any financial institution and nor does any third party have any interest, right or claim thereto. The Board was of the view that the afore-said transfer would allow the Investments to be managed in a more efficient manner as the management of SFL would be able to focus exclusively on the Investments. This increased efficiency would lead to greater returns for shareholders and make it easier to raise capital in the future.

8. DIRECTORS AND MANAGEMENT

8.1 SAPPHIRE FIBRES

The following are the present directors of Sapphire Fibres :

- (1) Mr. Mohammad Abdullah
- (2) Mr. Shahid Abdullah
- (3) Mr. Nadeem Abdullah
- (4) Mr. Amer Abdullah
- (5) Mr. Yousuf Abdullah
- (6) Mr. Mohammad Yamin
- (7) Mr. Naveed-ul-Islam

8.2 SFL

The following are the present directors of SFL :

- (1) Mr. Mohammad Abdullah
- (2) Mr. Shahid Abdullah
- (3) Mr. Nadeem Abdullah
- (4) Mr. Amer Abdullah
- (5) Mr. Yousuf Abdullah
- (6) Mr. Mohammad Yamin
- (7) Mr. Naveed-ul-Islam

9. INTEREST OF DIRECTORS

No Director of Sapphire Fibres or SFL has any interest, whether directly or indirectly except to the extent of shareholding held by them in Sapphire Fibres and SFL (required in the case of SFL for holding a directorial position and which shares are held as nominees of Sapphire Fibres) and their employment in Sapphire Fibres. The Directors are also interested to the extent of remuneration, and benefits as per the policy of Sapphire Fibres. The effect of the Scheme on the interest of these Directors does not differ from its effect on the like interest of other members. The following is the holding of directors of Sapphire Fibres and SFL:

Sapphire Fibres

<i>Names of Directors</i>	<i>Shares in Sapphire Fibres</i>	<i>Shares in SFL</i>
Mohammad Abdullah	88,031	1
Shahid Abdullah	398,734	1
Nadeem Abdullah	523,586	1
Amer Abdullah	625,945	1
Yousuf Abdullah	1,001,456	1
Mohammad Yamin	703	1
Naveed-ul-Islam	2,250	1

SFL

<i>Names of Directors</i>	<i>Shares in SFL</i>	<i>Shares in Sapphire Fibres</i>
Mohammad Abdullah	1	88,031
Shahid Abdullah	1	398,734
Nadeem Abdullah	1	523,586
Amer Abdullah	1	625,945
Yousuf Abdullah	1	1,001,456
Mohammad Yamin	1	703
Naveed-ul-Islam	1	2,250

10. DIRECTORS AFTER THE SCHEME IS SANCTIONED

The Directors of Sapphire Fibres shall continue as Directors of Sapphire Fibres after the sanctioning of the Scheme, however, some of the Directors of SFL may be changed following the sanctioning of the Scheme.

11. DOCUMENTS FOR INSPECTION

The relevant documents of Sapphire Fibres and SFL, i.e., copies of the Memorandum and Articles of Association, Financial Statements for Sapphire Fibres for the period ended 30.6.2010, the Scheme of Arrangement, and the Statement of Information in terms of Section 286 of the Ordinance may be inspected at the registered office of the Companies during the usual business hours on any working day till the conclusion of the meeting in which the resolution for approving the Scheme will be adopted.

Annexure "A"

Some of the prayers made in the Petition filed in the High Court

- (i) an order under Section 284(2) of the Companies Ordinance, sanctioning the Scheme as set forth in Annexure "A" to the Petition, so as to make the Scheme binding on Sapphire Fibres and SFL and their respective members and creditors;
- (ii) an order under Section 287(1)(a) of the Companies Ordinance transferring to and vesting in SFL, the Investments as more particularly described in the Scheme, which transfer and vesting shall take effect on and from the Appointed Date (as defined in the Scheme);
- (iii) an order under Section 287(1)(b) of the Companies Ordinance directing SFL to allot 19,687,500 ordinary shares of par value of Rs.10/- each to the shareholders of Sapphire Fibres in the ratio of 1:1, and taking to reserves account the difference in the value assaigned to the investments and the face value of ordinary shares in terms set forth in the Scheme;
- (iv) an order under Section 287(l)(c) of the Companies Ordinance directing that all legal proceedings in relation to the Investments instituted by or against Sapphire Fibres which may be pending on or after the Appointed Date (as defined in the Scheme) shall be continued by or against SFL and Sapphire Fibres shall have no further liability in this regard;
- (v) an order under Section 287(2) of the Companies Ordinance directing that SFL, without any further act, deed, matter or thing, to have created, all such liens, charges, mortgages, pledges, hypothecation, assignment by way of security, security interests claims and other encumbrances of whatever nature (if any) over the Investments which are currently existing.

SCHEME OF ARRANGEMENT

UNDER SECTIONS 284 TO 288 OF
THE COMPANIES ORDINANCE, 1984

BETWEEN
SAPPHIRE FIBRES LIMITED

AND

ITS MEMBERS

AND

SFL LIMITED

AND

ITS MEMBERS

FOR

THE TRANSFER OF SAPPHIRE FIBRES LIMITED'S INVESTMENTS IN
SAPPHIRE FINISHING MILLS LIMITED, DIAMOND FABRICS LIMITED,
SAPPHIRE DAIRIES (PVT) LIMITED AND
AMER COTTON MILLS (PVT) LIMITED TO SFL LIMITED.

ARTICLE 1

DEFINITIONS

In this Scheme of Arrangement, unless the subject or context otherwise requires, the following expressions shall bear the meanings specified against them below:

1. **“Assets”** means all properties (whether movable or immovable); rights, titles and assets (whether tangible or intangible), privileges, powers, licenses, permissions, claims, and interests, including but not limited to:
 - i. all rights, title and interest in or to immovable properties, including buildings, offices and structures;
 - ii. all plant, machinery, equipment, furniture and fixtures, computer hardware and software, software applications and licenses, motor vehicles, office equipment, appliances, and accessories, spare parts and tools;
 - iii. all stock-in-trade, inventory, stocks of fuels, raw materials, ingredients, packaging, office and laboratory supplies, engineering spares, consumable stores, work-in-progress and finished goods;
 - iv. all legal and/or beneficial interests including, without limitation statutory, contractual and/or regulatory rights, titles, permissions, concessions, privileges, sanctions, approvals, licenses, and registrations;
 - v. all benefits and rights under contracts including rights under or relating to contracts of employment, personal services or consultancy;
 - vi. all data, information, records, instruments, documents of title, market statistics, marketing surveys, and report, marketing research, advertising or other promotional material and information, accounting (including management account records) financial data whether in hard copy or ii computer held form (including, for avoidance of doubt, such media as microfilm and microfiche);
 - vii. all claims, choses-in-action, receivables, book trade and other debts or sums (including suppliers' credit notes) due, owing, accrued or payable (whether or not invoiced and whether or not immediately due or payable), advances, deposits, prepayments and other receivables, investments, cash in hand or at bank, bank balances, rights under loan documents and other agreements for financial facilities, letters of credit, guarantees, bonds and warranties;

- viii. all connections, equipments, installations and facilities pertaining to telecommunications, water, gas, electricity, sewerage or other utilities;
 - ix. all claims, petitions, suits, applications or appeals filed before or pending with any court, authority, tribunal or regulatory body, whether in its original jurisdiction or appellate jurisdiction;
 - x. all intellectual property rights, whether registered or not, including trade marks, copyrights, patents, designs, trade secrets, technical data, processes and know-how, industrial and technical information, confidential information, drawings, formulations, technical reports, operating and testing procedures, instruction manuals, raw material or production specifications, results of research and development work, whether in hard copy or in computer held form (including, for the avoidance of doubt, such media as microfilm and microfiche);
 - xi. goodwill; revaluation surplus; share premium account; capital and revenue reserves,
 - xii. Tax, credits, Tax or other refunds; Tax or tariff protections, remissions or exemptions;
2. **“Amer Cotton Mills (Pvt) Ltd”** means Amer Cotton Mills (Pvt) Limited, a company limited by shares incorporated under the Companies Ordinance, 1984 on 19th December, 1985 and having its registered office at 173-174, Cotton Exchange Building, I. I. Chundrigar Road, Karachi. The capital of Amer Cotton Mills (Pvt) Limited is Rs. 50,000,000/- divided into 5,000,000 Ordinary shares of Rs. 10/- each out of which 4,000,000 shares are issued and fully paid up and the rest are un-issued.
3. **“Court”** means the High Court of Sindh or any other court of competent jurisdiction for the time being having jurisdiction under Sections 284 to 288 of the Ordinance in connection with this Scheme;
4. **“Diamond Fabrics Ltd”** means Diamond Fabrics Limited, a company limited by shares incorporated under the Companies Ordinance, 1984 on 10th February, 1988 and having its registered office at 173, Cotton Exchange Building, I. I. Chundrigar Road, Karachi. The capital of Diamond Fabrics Limited is Rs. 170,000,000/- divided into 17,000,000 Ordinary shares of Rs. 10/- each out of which 14,889,000 shares are issued and fully paid up and the rest are un-issued.
5. **“Encumbrances”** means any and all liens, charges, pledges, hypothecation, assignments security, security, interests, claims encumbrances of whatever nature;
6. **“Investments”** means the 25,809,000 shares in Sapphire Finishing Mills Ltd currently owned by Sapphire Fibres Limited, the 7,000,000 shares in Sapphire Dairies (Pvt) Limited currently owned by Sapphire Fibres Limited, the 4,569,000 shares in Diamond Fabrics Ltd currently owned by Sapphire Fibres Limited, and the 336,000 shares in Amer Cotton Mills (Pvt) Ltd currently owned by Sapphire Fibres Limited;
7. **“Liabilities”** means all liabilities, duties and obligations of every kind, actual and contingent whether arising or payable under any agreement, statute, law or otherwise and whether pertaining to any Asset or otherwise, and all Encumbrances;
8. **“Ordinance”** means the Companies Ordinance, 1984 (XLVII of 1984);
9. **“Scheme”** means this Scheme of Arrangement in its present form with any modification thereof or addition thereto approved by the Court;
10. **“Sapphire Fibres Ltd”** means Sapphire Fibres Limited, a company limited by shares incorporated under the Companies Act, 1913 on 5th June, 1979 and having its registered office at 316, Cotton Exchange Building, I. I. Chundrigar Road, Karachi. The capital of Sapphire Fibres Limited is Rs. 350,000,000/- divided into 35,000,000 Ordinary shares of Rs. 10/- each out of which 19,687,500 shares are issued and fully paid up and the rest are un-issued.
11. **“Sapphire Dairies (Pvt) Limited”** means Sapphire Dairies (Pvt) Limited, a company limited by shares incorporated under the Companies Ordinance, 1984 on 31st January, 2008 and having its registered office

SAPPHIRE TEXTILE MILLS LIMITED

at 7-A/K, Main Boulevard, Gulberg-II, Lahore. The authorised capital of Sapphire Dairies (Pvt) Limited is Rs. 400,000,000/- divided into 40,000,000 Ordinary shares of Rs. 10/- each out of which 31,346,250 shares are issued and fully paid up and the rest are un-issued.

12. **“Sapphire Fibres Limited”** means Sapphire Fibres Limited, a company limited by shares incorporated under the Companies Act, 1913 on 5th June, 1979 and having its registered office at 316, Cotton Exchange Building, I. I. Chundrigar Road, Karachi. The capital of Sapphire Fibres Ltd is Rs. 350,000,000 divided into 35,000,000 Ordinary shares of Rs. 10/- each out of which 19,687,500 shares are issued and fully paid up and the rest are un-issued.
13. **“Sapphire Finishing Mills Limited”** means Sapphire Finishing Mills Limited, a company limited by shares incorporated under the Companies Ordinance, 1984 on 25th July 2000 and having its registered office at 212, Cotton Exchange Building, I. I. Chundrigar Road, Karachi. The authorised capital of Sapphire Finishing Mills Limited is Rs. 1,000,000,000/- divided into 100,000,000 Ordinary shares of Rs. 10/- each out of which 92,000,000 shares are issued and fully paid up and the rest are un-issued.
14. **“SFL Limited”** means SFL Limited, a company limited by shares incorporated under the Companies Ordinance, 1984 on 26th April 2010 and having its registered office at 316, Cotton Exchange Building, I. I. Chundrigar Road, Karachi. The authorised capital of SFL Limited is Rs. 100,000/- divided into 10,000 Ordinary shares of Rs. 10/- each. All shares are issued and fully paid up.
15. **“Tax”** means all present and future taxes, including income tax, sales tax, stamp duties, octroi, customs or excise duty, registration charges, levies, deductions, imposts, and any other charges and withholdings whatsoever, together with any interest, mark-up or penalties payable in connection with any failure to pay or delay in paying any of the above.
16. **“Textile Business”** means all Assets and Liabilities of Sapphire Fibres Limited immediately preceding the Appointed Date but excluding the Investments.

The headings are inserted for convenience and shall not affect the construction of this Scheme.

ARTICLE 2

OBJECT OF THE SCHEME

1. The principal object of this Scheme is to provide for the de-merger of Sapphire Fibres Limited, by transferring the Investments to SFL Limited and leaving Sapphire Fibres Limited with the Textile Business.
2. Sapphire Fibres Limited has already incorporated SFL Limited which is a fully owned subsidiary of Sapphire Fibres Limited. SFL Limited has never traded and has no Assets or Liabilities other than those resulting from its incorporation and issued share capital.

ARTICLE 3

COMMENCEMENT OF THE SCHEME

1. This Scheme shall become effective on the day that a certified copy of the order of the Court sanctioning this Scheme is filed with the Registrar of Companies, Securities and Exchange Commission of Pakistan, Karachi (hereinafter referred to as the “Appointed Date”).

ARTICLE 4

TRANSFER OF ASSETS AND LIABILITIES

1. As and from the Appointed Date the Investments, shall be transferred to and vest in (or be deemed to have been transferred to and vested in) SFL Limited;

SAPPHIRE TEXTILE MILLS LIMITED

2. In so far as the Investments (or any part thereof) are subject to any Encumbrance immediately prior to the Appointed Date, the Investments (or such part thereof) shall be deemed to have been transferred to SFL Limited on the Appointed Date subject to such Encumbrances.
3. By virtue of approval of this Scheme by the Court; on the Appointed Date, without any further act, deed, matter or thing, all such Encumbrances on the Investments which are transferred to SFL Limited from Sapphire Fibres Limited, shall be deemed to have been created by SFL Limited on the Appointed Date;
4. Upon the transfer of the Investments, to SFL Limited, the charges (if any) recorded in the register of charges of Sapphire Fibres Limited in respect of the Investments (or any part thereof) shall be released and discharged simultaneously with the registration of the same charges by SFL Limited under Section 122 of the Ordinance in respect of the Investments (or such part thereof) and in the same amount and for the benefit of the same charge-holders.
5. All Liabilities of Sapphire Fibres Limited on or before the Appointed Date, which form part of the Investments shall as from the Appointed Date, be deemed to be and assumed by SFL Limited as its own Liabilities.
6. As from the Appointed Date, simultaneously with the assumption by SFL Limited of such Liabilities as mentioned in Article 4(5) above, Sapphire Fibres Limited shall stand released from all obligations in respect of such Liabilities.

ARTICLE 5

SUBSTITUTION OF THE NAME OF THE ORIGINAL COMPANY WITH THAT OF THE NEW COMPANY

1. As and from the Appointed Date in all contracts, deeds, Share Certificates, Register of Members, bonds, documents, correspondence, records, agreements, and instruments of any nature whatsoever (including (but not limited to) the Register of Members maintained by Sapphire Finishing Mills Ltd, Sapphire Dairies (Pvt) Ltd, Diamond Fabrics Ltd and Amer Cotton Mills (Pvt) Ltd) pertaining to the Investments transferred to SFL Limited; all references to Sapphire Fibres Limited shall be deemed to be a reference to SFL Limited. And, all such contracts, deeds, Share Certificates, Register of Members, bonds, documents, correspondence, records, agreements, and instruments shall be given effect accordingly.

ARTICLE 6

EMPLOYEES

1. All Sapphire Fibres Limited employees whose names are mentioned in Annexure 'A' hereto shall as from the Appointed Date become the employees of SFL Limited on the same terms and conditions on which they were employed by Sapphire Fibres Limited immediately prior to the Appointed Date, without being required to be paid any terminal or other benefits (other than accrued salaries and wages) by Sapphire Fibres Limited.
2. The terms and conditions of service applicable to the afore-said employees, after such transfer to SFL Limited shall not in any way be less favourable to them than those applicable to them immediately prior to the transfer. The services of all the afore-said employees prior to the Appointment Date shall be taken into account for the purposes of all benefits to which such employees may be eligible, including for the purpose of payment of any retrenchment compensation, gratuity and other terminal benefits.

ARTICLE 7

LEGAL PROCEEDINGS

All legal actions and legal proceedings of any nature whatsoever of Sapphire Fibres Limited pending immediately prior to the Appointed Date, shall not abate, be discontinued or be in anyway prejudicially affected by reason of the transfer of Investments or of anything contained in this Scheme. Any legal action and/or legal proceedings in relation to the Investments shall, as from the Appointed Date, be continued,

SAPPHIRE TEXTILE MILLS LIMITED

prosecuted or enforced by or against SFL Limited in the same manner and to the same extent as it would or might have been continued, prosecuted and enforced by or against Sapphire Fibres Limited.

ARTICLE 8

LICENSES / PERMITS / APPROVALS

1. All licenses, permits, quotas, rights, permissions, concessions, privileges, sanctions, approvals, licenses, registrations and entitlements held by Sapphire Fibres Limited in relation to the Investments, and/or which are subsisting or having effect immediately prior to the Appointed Date, shall, with effect from the Appointed Date, stand vested in and transferred to SFL Limited without any further act or deed, and shall be appropriately mutated by the relevant authorities in favour of such.
2. SFL Limited shall file a copy of this Scheme and the order of the Court sanctioning the Scheme with, the relevant authorities who shall give effect thereto.

ARTICLE 9

TAX

1. With effect from the Appointed Date, all Tax liabilities with regards to the Investments under any law for the time being in force shall be the Tax liabilities of the SFL Limited; and, Sapphire Fibres Limited shall cease to have any Tax liabilities in relation to the Investments from the Appointed Date.
2. With effect from the Appointed Date, all rights of Sapphire Fibres Limited to refunds, credits, advance payments or any other benefits in respect of any Tax in relation to the Investments shall stand transferred to SFL Limited. Where any such Tax refund or benefit is received by Sapphire Fibres Limited after the Appointed Date, Sapphire Fibres Limited shall forthwith upon receipt thereof, pay the same to the SFL Limited.

ARTICLE 10

CONSIDERATION FOR THE ARRANGEMENT / ISSUE OF SHARES

1. In consideration for the transfer of the Investments by Sapphire Fibres Limited to SFL Limited, SFL Limited shall as of the Appointed Date issue 19,687,500 fully paid up SFL Limited Shares of Rs 10 to each existing Sapphire Fibres Limited shareholder. The shares shall be issued to each existing Sapphire Fibres Limited shareholder in the ratio of 1:1, i.e. each existing Sapphire Fibres Limited shareholder will get exactly as many shares in SFL Limited as he is currently holding in Sapphire Fibres Limited.
2. In the books of Sapphire Fibres Limited, the transfer of the Investments by Sapphire Fibres Limited to SFL Limited shall be recorded as appearing in Sapphire Fibres Limited books on the Appointed Date, and the reserves of Sapphire Fibres Limited will be reduced by the same amount.
3. In the books of SFL Limited, the Investments will be recorded at the same value at which these were appearing in the books of Sapphire Fibres Limited just before the transfer, and the difference in the value assigned to the Investments and the face value of shares issued by SFL Limited to the shareholders of Sapphire Fibres Limited pursuant to Article 10(1) above, shall be taken to a reserve account.

ARTICLE 11

VALUATION

1. A proforma balance sheet of SFL Limited, as on the Appointed Date, shall be prepared by A. F. Ferguson & Co., Chartered Accountants in accordance with the principles of Article 10 and the accounting principles generally accepted in Pakistan.

ARTICLE 12

SCHEME'S EFFECT

1. As and from the Appointed Date, the provisions of this Scheme shall be effective and binding by operation of law.
2. The transfer of Assets and Liabilities in terms of this Scheme shall not:
 - (i.) Constitute any assignment, transfer, devolution, conveyance, alienation, parting with possession, or other disposition under any applicable law including Tax law (other than as contemplated under Section 287 of the Ordinance;
 - (ii.) Give rise to any forfeiture; and/or
 - (iii.) Give rise to any right of first refusal or pre-emptive right to any person.
3. As of the Appointed Date, the terms of this Scheme shall be binding on Sapphire Fibres Limited and SFL Limited, and also on all the shareholders and creditors of each of the above, and on any other person who has or may have any right or liability in relation to either and/or all of them.

ARTICLE 14

RETAINED UNDERTAKING

1. For the avoidance of any doubt it is hereby clarified that the Assets and Liabilities of Sapphire Fibres Limited forming part of the Textile Business shall even as from and after the Appointed Date, remain the Assets and Liabilities of Sapphire Fibres Limited.

ARTICLE 15

MISCELLANEOUS

1. This Scheme is subject to the sanction of the Court and may be sanctioned in its present form or with any modification thereof or addition thereto as the Court may approve and this Scheme with such modification or addition, if any, is also subject to any conditions which the Court may impose.
2. If the Court requires Sapphire Fibres Limited and/or SFL Limited, to consent to any modification to the Scheme, such consent may be given on behalf of Sapphire Fibres Limited and SFL Limited by their respective Board of Directors.

ANNEXURE "A"

LIST OF EMPLOYEES TRANSFERRED TO SFL LIMITED

- i. Mr. Rizwan Ahmed Siddiqui S/o Israr Ahmed Siddiqui (Late)

APPENDIX "B" TO NOTICE OF EXTRA ORDINARY GENERAL MEETING
FORM OF PROXY

The Company Secretary,
Sapphire Fibres Limited,
316, Cotton Exchange Building,
I. I. Chundrigar Road, Karachi

I/We of _____ being a shareholder of Sapphire Fibres Limited, holding ordinary shares, HEREBY APPOINT _____ of _____ or failing him/her of or failing him/her _____, as my/our proxy in my/our absence to act for me/us and vote for me/us on my/our behalf at the Extra Ordinary General Meeting of shareholders of the said Company convened pursuant to the Order dated 14th day of October, 2010 of the High Court of Sindh at Karachi in Judicial Miscellaneous Petition No. JM 40 of 2010 and to be held at the Trading Hall, Cotton Exchange Building, I.I.Chundrigar Road, Karachi, on November 11, 2010 at 3:30 p.m (or at any adjournment thereof,) for the purpose of considering and if thought fit, approving, adopting and agreeing to the Scheme of Arrangement among Sapphire Fibres Limited and SFL Limited and referred to in the Notice convening the said meeting.

As witness my/our hand / seal this _____ day of _____, 2010.

Shareholder Folio No.

CDC Participant 1.D. No.

& Sub Account No.

Signature on Revenue Stamp

The Signature should agree with the specimen registered with the Company

Important:

1. The proxy form, duly completed and signed, must be received at the Registered Office of the Company, i.e. 316, Cotton Exchange Building, I. I. Chundrigar Road, Karachi or at the office of the Registrars of the Company, M/s THK Associates (Private) Limited, not less than 48 hours before the time of holding the meeting.
2. A proxy need not be a member of the Company.
3. If a member appoints more than one proxy and more than one instruments of proxy are deposited by a member with the Company, all such instruments of proxy shall be rendered invalid.
4. CDC shareholders and their proxies are each requested to attach an attested photocopy of their National Identity Card or Passport with this proxy form before submission to the Company.