
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

1. THE COMPANY AND ITS OPERATIONS

SFL Limited (the Company) was incorporated as public limited company on April 26, 2010. The registered office of the Company is located at 316 - Cotton Exchange Building, I.I Chundrigar Road, Karachi. The main business of the Company is to invest in the shares of Associated Companies and other business as per the Memorandum of Association of the Company.

2. BASIS OF PREPARATION**2.1 Statement of compliance**

These financial statements have been prepared in accordance with the requirements of the Companies Ordinance, 1984 (the Ordinance), directives issued by the Securities and Exchange Commission of Pakistan (SECP) and approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board as are notified by the provisions of and directives issued under the Ordinance. Wherever, the requirements of the Ordinance or directives issued by the SECP differ from the requirements of these standards, the requirements of the Ordinance or the requirements of the said directives have been followed.

2.2 Functional and presentation currency

These financial statements are presented in Pakistan Rupees, which is also the Company's functional currency. All financial information presented in Pakistan Rupees has been rounded to the nearest Rupee except stated otherwise.

2.3 Standards, amendments to approved accounting standards and interpretations that are effective in the current year

There are certain new standards, amendments to approved accounting standards and interpretations that are mandatory for accounting periods beginning on or after July 1, 2011, but are considered not to be relevant or did not have any significant impact on the Company's financial statements and are, therefore, not detailed in these financial statements.

2.4 Standards, amendments to approved accounting standards and interpretations that are published and considered relevant but not yet effective

Following new standards and amendments to existing standards have been published that are mandatory for accounting periods beginning on the dates mentioned below.

- (a) IFRS 9, 'Financial Instruments' (effective for the periods beginning on or after January 1, 2015). This is the first standard issued as part of a wider project to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets at (a) amortized cost and (b) fair value. The basis of classification depends on entity's business model and the contractual cash flow characteristics of the financial asset. The Company is yet to assess the full impact of IFRS 9, however, initial indications are that it may not significantly affect the Company's financial assets.
- (b) IAS 1 (Amendments), 'Presentation of Financial Statements' (effective for the periods beginning on or after July 1, 2012). The main change resulting from these amendments is a requirement for the entities to group items presented in 'other comprehensive income' on the basis of whether they can be potentially reclassified to profit and loss subsequently (reclassification adjustments). Since, the Company currently does not have any items of other comprehensive income, the amendments are not expected to have a significant impact on the Company's financial statements.

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2.5 Standards, amendments to approved accounting standards and interpretations that are not yet effective and are not considered relevant

There are other new accounting standards, amendments to approved accounting standards and interpretations that are mandatory for future years. However these are not expected to affect materially the financial statements of the Company for accounting periods on the dates prescribed therein.

3. BASIS OF MEASUREMENT

3.1 These financial statements have been prepared under the historical cost convention.

3.2 The preparation of financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. Estimates and judgments are continually evaluated and are based on historical experience, including expectations of future events that are believed to be reasonable under the circumstances. The areas where assumptions and estimates are significant to the Company's financial statements or where judgment was exercised in application of accounting policies are as follows:

(a) investments; and

(b) taxation.

4. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set-out below. These policies have been consistently applied to all the years presented.

4.1 Investments

Investments of the Company are classified into the following categories:

(a) Investments in Subsidiary and Associated Companies

Investments in Subsidiary and Associates are carried at cost less impairment, if any. Impairment losses are recognised as an expense. At each reporting date, the Company reviews the carrying amounts of investments and its recoverability to determine whether there is an indication that such investments have suffered an impairment loss. If any such indication exists, the carrying amount of the investments is adjusted to the extent of impairment loss which is recognised as an expense in profit and loss account.

(b) Held-to-maturity

Investments with fixed maturity, where the management has both the intent and the ability to hold the investments to maturity, are classified as held-to-maturity.

Subsequent to initial recognition at cost, these investments are measured at amortised cost less any accumulated impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition by using the effective interest rate method.

4.2 Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise of cash in hand and bank balances

4.3 Equity instruments

These are recorded at their face value.

4.4 Accrued and other liabilities

These are carried at cost which is the fair value of the consideration to be paid in future for services.

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4.5 Taxation - current

Provision for current taxation is based on taxable income for the year at the current rates of taxation after taking into account tax credits and tax rebates available, if any.

4.6 Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

4.7 Financial assets and liabilities

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument and derecognised when the Company loses control of contractual rights that comprise the financial assets and in the case of financial liabilities when the obligation specified in the contract is discharged, cancelled or expired. Any gain or loss on derecognition of financial assets and financial liabilities are included in the profit and loss for the year. All financial assets and financial liabilities are initially measured at cost, which is the fair value of the consideration given and received respectively. These financial assets and liabilities are subsequently measured at fair value, amortised cost or cost, as the case may be.

4.8 Off setting of financial instruments

Financial assets and liabilities are off-set and the net amount reported in the balance sheet when there is a legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

4.9 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Revenue is measured at the fair value of consideration received or receivable on the following basis:

- dividend income from investments is recognised when the Company's right to receive dividend is established; and
- return on investments is recognised on 'accrual basis'.

4.10 Earnings per share

The Company present basic earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit after tax attributable to ordinary shareholders of the Company by the weighted average numbers of ordinary shares outstanding during the period.

5. LONG TERM INVESTMENTS

	Note	2012 Rupees	2011 Rupees
Subsidiary Company - at cost	5.1	100,000	-
Associated Companies - at cost	5.2	366,155,000	366,155,000
		366,255,000	366,155,000

5.1 Subsidiary Company - unquoted

SFL Corporation (Private) Limited
1,000 (2011: Nil) ordinary shares of
Rs.100 each - **cost**
Equity held: 100% (2011: Nil)

100,000	-
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

5.2 Associated Companies - unquoted	Note	2012 Rupees	2011 Rupees
Sapphire Finishing Mills Limited 25,809,000 (2011: 25,809,000) ordinary shares of Rs.10 each - cost	5.3	258,090,000	258,090,000
Equity held: 28.05% (2011: 28.05%) Break-up value per share Rs.16.95 (2011: Rs.15.10)			
Sapphire Dairies Limited 7,000,000 (2011: 7,000,000) ordinary shares of Rs.10 each - cost	5.3	70,000,000	70,000,000
Equity held: 22.33% (2011: 22.33%) Break-up value per share Rs.8.42 (2011: Rs.9.44)			
Diamond Fabrics Limited 4,569,000 (2011: 4,569,000) ordinary shares of Rs.10 each - cost	5.3	33,368,238	33,368,238
Equity held: 30.69% (2011: 30.69%) Break-up value per share Rs.169.04 (2011: Rs.138.76)			
Diamond Limited 4,569,000 (2011: 4,569,000) ordinary shares of Rs.10 each - cost	5.3	3,646,762	3,646,762
Equity held: 30.67% (2011: 30.67%) Break-up value per share Rs.13.63 (2011: Rs.3.99)			
Amer Cotton Mills (Private) Limited 336,000 (2011: 336,000) ordinary shares of Rs.10 each - cost	5.3	549,305	549,305
Equity held: 8.40% (2011: 8.40%) Break-up value per share Rs.275.09 (2011: Rs.254.61)			
Amer Tex (Private) Limited 336,000 (2011: 336,000) ordinary shares of Rs.10 each - cost	5.3	500,695	500,695
Equity held: 8.38% (2011: 8.38%) Break-up value per share Rs.120.97 (2011: Rs.5.14)			
		366,155,000	366,155,000

5.3 These represent investments acquired by the Company against issue of 19,687,500 shares of the Company to the shareholders of Sapphire Fibres Limited (SFL) in pursuant to an approved scheme of arrangement of de-merger between SFL & its shareholders and the Company & its shareholders.

Shares issued under the scheme were recorded against issue of share capital (note 8) and the difference between the amount recognised for investments transferred and par value of shares issued had been taken to de-merger reserve account.

5.4 The abovementioned break-up values are based on latest available audited financial statements.

6. SHORT TERM INVESTMENT

- Held to maturity	Note	2012 Rupees	2011 Rupees
Treasury bills	6.1	6,590,032	-

6.1 This represents investment in treasury bills of Rs.6,498,072. These carry mark-up at the rate of 11.87% per annum and are maturing on November 15, 2012. Accrued mark-up aggregating Rs.91,960 is included in the carrying value.

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7. CASH AND BANK BALANCES			2012	2011
			Rupees	Rupees
Cash in hand			685,350	-
Cash at bank in a current account			1,269,908	10,966
			1,955,258	10,966
8. SHARE CAPITAL				
	2012	2011		
	--- Number of shares ---	Authorised capital		
	20,200,000	19,700,000 Ordinary shares of Rs.10 each	202,000,000	197,000,000
		Issued, subscribed and paid-up capital		
	10,000	10,000 Ordinary shares of Rs.10 each, fully paid in cash	100,000	100,000
	19,687,500	19,687,500 Ordinary shares of Rs.10 each, issued in pursuant to the scheme of arrangements for de-merger	196,875,000	196,875,000
	393,950	- Ordinary shares of Rs.10 each, issued as fully paid bonus shares	3,939,500	-
	20,091,450	19,697,500	200,914,500	196,975,000
8.1 Movement in share capital during the year				
	19,697,500	10,000 Balance at beginning of the year	196,975,000	100,000
	393,950	- Issued ordinary shares of Rs.10 each as fully paid bonus shares	3,939,500	-
	-	19,687,500 Issued ordinary shares of Rs.10 in pursuant to the scheme of arrangements for de-merger	-	196,875,000
	20,091,450	19,697,500 Balance at end of the year	200,914,500	196,975,000
8.2 Ordinary shares held by the related parties at the reporting date are as follows:			2012	2011
			-- Number of shares --	
Sapphire Fibres Limited			10,199	10,000
Sapphire Textile Mills Limited			147	145
Neelum Textile Mills (Private) Limited			1,237,134	1,212,877
Nadeem Enterprises (Private) Limited			-	853,939
Sapphire Agencies (Private) Limited			-	2,220,617
Galaxy Agencies (Private) Limited			-	994,375
Crystal Enterprises (Private) Limited			5,510	5,410
Sapphire Power Generation Limited			464,534	455,426
Salman Ismail (SMC-Pvt.) Limited			21,514	21,093
Reliance Cotton Spinning Mills Limited			401,570	393,697
Sapphire Holding Limited			3,001,087	2,942,243
Diamond Limited			921,469	903,402
Amer Tex (Private) Limited			1,522,129	1,492,285

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9. ACCRUED AND OTHER LIABILITIES	2012	2011
	Rupees	Rupees
Accrued liabilities	48,531	25,000
Audit fee	60,000	60,000
Advance from directors - unsecured	-	1,606,600
	108,531	1,691,600
10. CONTINGENCIES AND COMMITMENTS		
There was no known contingency and capital commitment outstanding as at June 30, 2012 and June 30, 2011.		
11. DIVIDEND INCOME	2012	2011
	Rupees	Rupees
Dividend received from following Associated Companies		
- Sapphire Finishing Mills Limited	6,452,250	-
- Diamond Fabrics Limited	5,711,250	-
	12,163,500	-
12. EARNINGS / (LOSS) PER SHARE		
Profit / (loss) for the year after taxation	10,217,393	(1,730,554)
	--- Number of shares ---	
	Restated	
Weighted average number of ordinary shares in issue during the year	20,091,450	20,091,450
	----- Rupees -----	
Basic earnings per share	0.51	(0.09)

12.1 There is no dilutive effect on the basic earnings per share of the Company. Number of shares in issue and earnings per share for the year ended June 30, 2011 have been restated taking into effect of bonus shares at the rate of 2% issued during the current financial year.

13. FINANCIAL INSTRUMENTS

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

- Credit risk; - Liquidity risk; and - Market risk.

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

13.1 Credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counterparties fail completely to perform as contracted. Credit risk of the Company mainly arises from bank balance amounting Rs.1,269,908 (2011: Rs.10,966).

Concentration of credit risk arises when a number of counter parties are engaged in similar business activities or have similar economic features that would cause their abilities to meet contractual obligation to be similarly effected by the changes in economic, political or other conditions. The Company believes that it is not exposed to major concentration of credit risk.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012

13.2 Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. 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 of the Company are short term in nature and are restricted to the extent of available liquidity. As at reporting date, accrued and other liabilities are the only financial liability of the Company that are due within next twelve months.

13.3 Market risk

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

(a) Currency risk

Foreign currency risk mainly arises where receivables and payables exist due to transactions with foreign undertakings. The Company is not exposed to foreign exchange risk as it does not have any foreign currency receivables or payables.

(b) Interest rate risk

Interest rate risk is the risk that fair value or future cash flows of a financial instruments will fluctuate because of changes in market interest rates.

As the Company has no significant interest bearing assets and liabilities except for investment in treasury bills, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

(c) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). The Company is not exposed to any such risk.

14. TRANSACTIONS WITH RELATED PARTIES

Related parties comprise of the Subsidiary Company, Associated Companies and directors of the Company. The Company in the normal course of business carried- out transactions with various related parties. Amounts due from and to related parties are shown under receivables and payables. Significant transactions with related parties are as follows:

Relationship with the Company	Nature of transactions	2012 Rupees	2011 Rupees
(i) Subsidiary	Investments made	100,000	-
(ii) Associates	Investments acquired in pursuant to de-merger scheme	-	366,155,000
	Dividend received	12,163,500	-
	Bonus shares issued	230,099	-
(ii) Others	Advance received from directors	925,000	1,606,600
	Repayment of advance from directors	2,531,600	-
	Bonus shares issued	104,143	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2012
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15. CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are to safeguard the entity's ability to continue as a going concern, so that it can continue to provide adequate returns for shareholders and benefits for the other stakeholders. The capital structure of the Company is equity based with no financing through long term or short term borrowings.

16. DATE OF AUTHORISATION OF FINANCIAL STATEMENTS

These financial statements were authorised for issue on September 14, 2012 by the board of directors of the Company.

Chief Executive

Director