

**NOTICE OF
EXTRA ORDINARY
GENERAL MEETING**

SAPPHIRE TEXTILE MILLS 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 39 of 2010 an Extraordinary General Meeting of the shareholders of Sapphire Textile Mills Limited ("Sapphire") will be held at Trading Hall, Cotton Exchange Building, I.I.Chundrigar Road, Karachi, on November 11, 2010 at 3:00 pm to consider and if thought fit, approve, adopt and agree to the Scheme of Arrangement for the transfer to Sapphire Holding Limited of Sapphire's entire shareholding in Sapphire Fibres Limited, Diamond Fabrics Limited and Sapphire Finishing Mills 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 ("160(1)(b) Statement") and the Statement under Section 286 of the Companies Ordinance, 1984 explaining effect of the Scheme ("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. 212, 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 Textile Mills 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 Textile Mills 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 Hameed Majeed Associates (Private) Limited, 5th Floor, Karachi Chambers, Hasrat Mohani Road, Karachi by the close of business (5:00 pm) on November 03, 2010 will be treated as being in time to entitle the transferees 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 TEXTILE MILLS LIMITED**

WHEREAS it is proposed that Sapphire Textile Mills Limited ("Sapphire") be, in effect, divided into two companies by separating its entire shareholding in Sapphire Fibres Limited, Diamond Fabrics Limited and Sapphire Finishing Mills 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 Sapphire Holding Limited to the shareholders of Sapphire in the ratio of 1:1, i.e. each Sapphire shareholder will receive exactly as many shares in Sapphire Holding Limited as he currently holds in Sapphire.

IT IS THEREFORE :

RESOLVED that the scheme of the arrangement among Sapphire Textile Mills Limited and Sapphire Holding Limited under Sections 284 to 287 of the Companies Ordinance, 1984 inter alia for the transfer to Sapphire Holding Limited of Sapphire's entire shareholding in Sapphire Fibres Limited, Diamond Fabrics Limited and Sapphire Finishing Mills Limited and the issuance of shares in Sapphire Holding 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 39 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 Textile Mills Limited ("Sapphire") and its members, and Sapphire Holding Limited ("Sapphire Holding") and its members. In that proceeding the Hon'ble Court has directed the convening of separate meeting of the members of Sapphire and Sapphire Holding 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 Fibres Limited, Diamond Fabrics Limited and Sapphire Finishing Mills 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 Sapphire Holding to the shareholders of Sapphire in the ratio of 1:1, i.e. each Sapphire shareholder will receive exactly as many shares in Sapphire Holding as he currently holds in Sapphire.
3. As noted above as consideration for the transfer to and vesting in Sapphire Holding of the Investments, Sapphire Holding shall issue 20,083,140 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 Sapphire Holding, 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 Sapphire Holding 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 Sapphire Holding. 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 aforesaid transfer would allow the Investments to be managed in a more efficient manner as the management of Sapphire Holding 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 Sapphire Holding 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 39 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 3:00 pm to consider and if thought fit, approve, adopt and agree to the Scheme.
7. No Director of Sapphire and Sapphire Holding has any interest, whether directly or indirectly except to the extent of shareholding held by them in Sapphire and Sapphire Holding 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 Textile Mills Limited

**STATEMENT UNDER SECTION 286 OF
THE COMPANIES ORDINANCE, 1984 (THE “ORDINANCE”)**

Dear Sir / Madam,

Judicial Miscellaneous Petition No. JM 39 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 Textile Mills Limited (“Sapphire Textile”) and its members, and Sapphire Holding Limited (“Sapphire Holding”) and its members. In that proceeding, the honourable High Court has directed the convening of separate meeting of the members of Sapphire Textile 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 Textile and Sapphire Holding as directed by the honourable High Court. It is intended to pass the following proposed resolutions at the respective Extraordinary General Meetings:

Sapphire Textile

WHEREAS it is proposed that Sapphire Textile Mills Limited (“Sapphire”) be, in effect, divided into two companies by separating its entire shareholding in Sapphire Fibres Limited, Diamond Fabrics Limited and Sapphire Finishing Mills 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 Sapphire Holding to the shareholders of Sapphire in the ratio of 1:1, i.e. each Sapphire shareholder will receive exactly as many shares in Sapphire Holding as he currently holds in Sapphire..

IT IS THEREFORE :

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

Sapphire Holding

WHEREAS it is proposed that Sapphire Textile Mills Limited (“Sapphire”) be, in effect, divided into two companies by separating its entire shareholding in Sapphire Fibres Limited, Diamond Fabrics Limited and Sapphire Finishing Mills 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 Sapphire Holding to the shareholders of Sapphire in the ratio of 1:1, i.e. each Sapphire shareholder will receive exactly as many shares in Sapphire Holding as he currently holds in Sapphire.

IT IS THEREFORE :

RESOLVED that the Scheme of the Arrangement among Sapphire Textile Mills Limited and Sapphire Holding Limited under Sections 284 to 287 of the Companies Ordinance, 1984 inter alia for the transfer to Sapphire Holding Limited of Sapphire’s entire shareholding in Sapphire Fibres Limited, Diamond Fabrics Limited and Sapphire Finishing Mills Limited and the issuance of shares in Sapphire Holding 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 Textile and Sapphire Holding.

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 Textile, to the registered office of Sapphire Textile, situated at 212, Cotton Exchange Building, I. I. Chundrigar Road, Karachi, or at the office of the Registrars of Sapphire Textile, M/s Hameed Majeed Associates (Private) Limited situated at 5th Floor, Karachi Chambers, Hasrat Mohani Road, Karachi.
- (ii) For members of Sapphire Holding, to the registered office of Sapphire Holding, situated at 212, 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 Textile into, in effect, two companies by transferring its entire shareholding in Sapphire Fibres Limited, Diamond Fabrics Limited, Sapphire Finishing Mills Limited (the "Investments") to Sapphire Holding against the issue of the shares by Sapphire Holding to the shareholders of Sapphire Textile in the ratio of 1:1, i.e. each existing shareholder of Sapphire Textile will get exactly as many shares in Sapphire Holding as he is currently holding in Sapphire Textile.

Sapphire Textile and Sapphire Holding 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 Textile and Sapphire Holding. The consideration for the transfer of the Investments shall be the issue of 20,083,140 fully paid-up ordinary shares of par value of Rs. 10 each to the shareholders of Sapphire Textile 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 Textile and the priority of charges will not be altered as a consequence of the transfer of the Investments. It may be noted that Sapphire Textile 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, Sapphire Holding shall, without any further act or deed, issue and allot a further 20,083,140 fully paid up ordinary shares of Rs.10/- each to all the shareholders of Sapphire Textile in the ratio of 1:1. The allotment of the ordinary shares of Sapphire Holding shall be made by Sapphire Holding 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 Sapphire Holding 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, Sapphire Holding 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 Sapphire Holding instead of Sapphire Textile.

It has been prayed in the Petition submitted in Court that an order be passed directing that Sapphire Holding, 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 Textile which are transferred to Sapphire Holding from Sapphire Textile.

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

7. ADVANTAGES OF THE SCHEME OF ARRANGEMENT

The Board of Directors of Sapphire Textile 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 Sapphire Holding. 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 Sapphire Holding 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 Textile

The following are the present directors of Sapphire Textile :

- (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. Mohammad Younus

8.2 Sapphire Holding

The following are the present directors of Sapphire Holding :

- (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. Mohammad Younus

9. INTEREST OF DIRECTORS

No Director of Sapphire Textile or Sapphire Holding has any interest, whether directly or indirectly except to the extent of shareholding held by them in Sapphire Textile and Sapphire Holding (required in the case of Sapphire Holding for holding a directorial position and which shares are held as nominees of Sapphire Textile) and their employment in Sapphire Textile. The Directors are also interested to the extent of remuneration, and benefits as per the policy of Sapphire Textile. 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 Textile and Sapphire Holding:

Sapphire Textile

Names of Directors	Shares in Sapphire Textile	Shares in Sapphire Holding
Mohammad Abdullah	600,000	1
Shahid Abdullah	393,057	1
Nadeem Abdullah	1,888,689	1
Amer Abdullah	2,077,128	1
Yousuf Abdullah	2,108,542	1
Mohammad Yamin	1,350	1
Mohammad Younus	20,738	1

Sapphire Holding

Names of Directors	Shares in Sapphire Holding	Shares in Sapphire Textile
Mohammad Abdullah	1	600,000
Shahid Abdullah	1	393,057
Nadeem Abdullah	1	1,888,689
Amer Abdullah	1	2,077,128
Yousuf Abdullah	1	2,108,542
Mohammad Yamin	1	1,350
Mohammad Younus	1	20,738

10. DIRECTORS AFTER THE SCHEME IS SANCTIONED

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

11. DOCUMENTS FOR INSPECTION

The relevant documents of Sapphire Textile and Sapphire Holding, i.e., copies of the Memorandum and Articles of Association, Financial Statements for Sapphire Textile 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 Textile and Sapphire Holding and their respective members and creditors;
- (ii) an order under Section 287(1)(a) of the Companies Ordinance transferring to and vesting in Sapphire Holding, 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 Sapphire Holding to allot 20,083,140 ordinary shares of par value of Rs.10/- each to the shareholders of Sapphire Textile in the ratio of 1:1, and taking to reserves account the difference in the value assigned to the investment and the face value of ordinary shares in terms set forth in the Scheme;
- (iv) an order under Section 287(1)(c) of the Companies Ordinance directing that all legal proceedings in relation to the Investments instituted by or against Sapphire Textile which may be pending on or after the Appointed Date (as defined in the Scheme) shall be continued by or against Sapphire Holding and Sapphire Textile shall have no further liability in this regard;
- (v) an order under Section 287(2) of the Companies Ordinance directing that Sapphire Holding, 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 TEXTILE MILLS LIMITED
AND
ITS MEMBERS
AND
SAPPHIRE HOLDING LIMITED
AND
ITS MEMBERS
FOR
THE TRANSFER OF SAPPHIRE TEXTILE MILLS LIMITED'S INVESTMENTS IN
SAPPHIRE FIBRES LIMITED, DIAMOND FABRICS LIMITED
AND SAPPHIRE FINISHING MILLS LIMITED TO SAPPHIRE HOLDING 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 in 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 2,942,243 shares in Sapphire Fibres Ltd currently owned by Sapphire Textile Mills Limited, the 5,699,000 shares in Diamond Fabrics Ltd currently owned by Sapphire Textile Mills Limited and the 29,468,500 shares in Sapphire Finishing Mills Ltd currently owned by Sapphire Textile Mills 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;

SAPPHIRE TEXTILE MILLS LIMITED

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 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.
12. **“Sapphire Textile Mills Limited”** means Sapphire Textiles Mills Limited, a company limited by shares incorporated under the Companies Act VII of 1913 on 11th March 1969 and having its registered office at 212, Cotton Exchange Building, I. I. Chundrigar Road, Karachi. The capital of Sapphire Textile Mills Ltd is Rs. 350,000,000/- divided into 35,000,000 Ordinary shares of Rs. 10/- each out of which 20,083,140 shares are issued and fully paid up and the rest are un-issued.
13. **“Sapphire Holding Limited”** means Sapphire Holding Limited, a company limited by shares incorporated under the Companies Ordinance, 1984 on 21st April, 2010 and having its registered office at 212, Cotton Exchange Building, I. I. Chundrigar Road, Karachi. The authorised capital of Sapphire Holding Limited is Rs. 100,000/- divided into 10,000 Ordinary shares of Rs. 10/- each. All shares are issued and fully paid up.
14. **“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.
15. **“Textile Business”** means all Assets and Liabilities of Sapphire Textile Mills 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 Textile Mills Limited, by transferring the Investments to Sapphire Holding Limited and leaving Sapphire Textile Mills Limited with the Textile Business.
2. Sapphire Textile Mills Limited has already incorporated Sapphire Holding Limited which is a fully owned subsidiary of Sapphire Textile Mills Limited. Sapphire Holding 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) Sapphire Holding 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 Sapphire Holding 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 Sapphire Holding Limited from Sapphire Textile Mills Limited, shall be deemed to have been created by Sapphire Holding Limited on the Appointed Date;
4. Upon the transfer of the Investments, to Sapphire Holding Limited, the charges (if any) recorded in the register of charges of Sapphire Textile Mills Limited in respect of the Investments (or any part thereof) shall be released and discharged simultaneously with the registration of the same charges by Sapphire Holding 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 Textile Mills 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 Sapphire Holding Limited as its own Liabilities.
6. As from the Appointed Date, simultaneously with the assumption by Sapphire Holding Limited of such Liabilities as mentioned in Article 4(5) above, Sapphire Textile Mills 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 Fibres Ltd, Diamond Fabrics Ltd and Sapphire Finishing Mills Ltd) pertaining to the Investments transferred to Sapphire Holding Limited; all references to Sapphire Textile Mills Limited shall be deemed to be a reference to

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Sapphire Holding 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 Textile Mills Limited employees whose names are mentioned in Annexure 'A' hereto shall as from the Appointed Date become the employees of Sapphire Holding Limited on the same terms and conditions on which they were employed by Sapphire Textile Mills 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 Textile Mills Limited.
2. The terms and conditions of service applicable to the afore-said employees, after such transfer to Sapphire Holding 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 Textile Mills 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, prosecuted or enforced by or against Sapphire Holding 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 Textile Mills Limited.

ARTICLE 8

LICENSES / PERMITS / APPROVALS

1. All licenses, permits, quotas, rights, permissions, concessions, privileges, sanctions, approvals, licenses, registrations and entitlements held by Sapphire Textile Mills 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 Sapphire Holding Limited without any further act or deed, and shall be appropriately mutated by the relevant authorities in favour of such.
2. Sapphire Holding 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 Sapphire Holding Limited; and, Sapphire Textile Mills Limited shall cease to have any Tax liabilities in relation to the Investments from the Appointed Date.

SAPPHIRE TEXTILE MILLS LIMITED

2. With effect from the Appointed Date, all rights of Sapphire Textile Mills Limited to refunds, credits, advance payments or any other benefits in respect of any Tax in relation to the Investments shall stand transferred to Sapphire Holding Limited. Where any such Tax refund or benefit is received by Sapphire Textile Mills Limited after the Appointed Date, Sapphire Textile Mills Limited shall forthwith upon receipt thereof, pay the same to the Sapphire Holding Limited.

ARTICLE 10

CONSIDERATION FOR THE ARRANGEMENT / ISSUE OF SHARES

1. In consideration for the transfer of the Investments by Sapphire Textile Mills Limited to Sapphire Holding Limited, Sapphire Holding Limited shall as of the Appointed Date issue 20,083,140 fully paid up Sapphire Holding Limited Shares of Rs 10 to each existing Sapphire Textile Mills Limited shareholder. The shares shall be issued to each existing Sapphire Textile Mills Limited shareholder in the ratio of 1:1, i.e. each existing Sapphire Textile Mills Limited shareholder will get exactly as many shares in Sapphire Holding Limited as he is currently holding in Sapphire Textile Mills Limited.
2. In the books of Sapphire Textile Mills Limited, the transfer of the Investments by Sapphire Textile Mills Limited to Sapphire Holding Limited shall be recorded as appearing in Sapphire Textile Mills Limited books on the Appointed Date, and the reserves of Sapphire Textile Mills Limited will be reduced by the same amount.
3. In the books of Sapphire Holding Limited, the Investments will be recorded at the same value at which these were appearing in the books of Sapphire Textile Mills Limited just before the transfer, and the difference in the value assigned to the Investments and the face value of shares issued by Sapphire Holding Limited to the shareholders of Sapphire Textile Mills Limited pursuant to Article 10(1) above, shall be taken to a reserve account.

ARTICLE 11

VALUATION

1. A proforma balance sheet of Sapphire Holding 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 Textile Mills Limited and Sapphire Holding 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

For the avoidance of any doubt it is hereby clarified that the Assets and Liabilities of Sapphire Textile Mills Limited forming part of the Textile Business shall even as from and after the Appointed Date, remain the Assets and Liabilities of Sapphire Textile Mills 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 Textile Mills Limited and/or Sapphire Holding Limited, to consent to any modification to the Scheme, such consent may be given on behalf of Sapphire Textile Mills Limited and Sapphire Holding Limited by their respective Board of Directors.

ANNEXURE "A"

LIST OF EMPLOYEES TRANSFERRED TO SAPPHIRE HOLDING LIMITED

1. Mr. Mohammad Tariq Qureshi S/o Fazal Haque Qureshi

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

The Company Secretary,
Sapphire Textile Mills Limited,
212, Cotton Exchange Building,
I. I. Chundrigar Road, Karachi.

I/We of _____ being a shareholder of Sapphire Textile Mills 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 39 of 2010 and to be held at the Trading Hall, Cotton Exchange Building, I. I. Chundrigar Road, Karachi, on November 11, 2010 at 3:00 pm (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 Textile Mills Limited and Sapphire Holding 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. 212, Cotton Exchange Building, I. I. Chundrigar Road, Karachi or at the office of the Registrars of the Company, M/s Hameed Majeed 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.