Thal Limited

DIRECTORS' REPORT TO THE SHAREHOLDERS

Dear Shareholders,

The Directors of your Company are pleased to place before you the performance for the half year ended December 31, 2014 along with the unaudited interim condensed financial information.

The sale revenue in H1 2015 was Rs. 6.68 B as compared to Rs. 5.17 B in the corresponding period last year. The profit after tax amounted to Rs. 809 M during the H1 – 2015 under review as against Rs. 598 M during the same period last year.

The basic and diluted Earnings Per Share (EPS) for period under review was Rs. 9.99 as compared to Rs. 7.38 in the similar period.

The Board has approved an interim cash dividend of Rs 3.75 per share i.e 75% for the half year ended December 2014.

Engineering Segment

The turnover of the Engineering segment for the first half year was Rs. 4.18 billion as compared to Rs. 2.91 billion in the corresponding period last year, a growth of 43.6 %. This increase is attributed to improved sales and new product launches to the Original Equipment Manufacturers (OEM).

The growth in sales to OEMs is primarily due a new model launched by our main customer, a product which has been well received in the market. The aftermarket segment also continued to demonstrate a significant improvement, particularly in the bus and truck sector which has grown by 3 times over last year although this segment is still less than 10% of our total business. Additionally this segment continued to enhance focus on customer service, product enrichment & market penetration strategies.

During the period under review the Business started production of automobile Starters and Alternators for a major customer under a Technical Assistance Agreement with Denso Corporation, Japan. With this start-up the Engineering segment has now been able to successfully achieve localisation of two high-tech components.

The local auto industry has been encountering several challenges, particularly the continuing import of used cars, which has impacted the engineering segment adversely. However, the Business has not only been able to maintain its market share but has also managed to tackle cost pressures through improved operational efficiency which has enabled it to mitigate challenges arising from market conditions. The Auto Industry Plan (AIP) continues to be under discussion at the Government level. In its current draft form the AIP will be very damaging for the auto vendor industry and it is our request to the Government to keep the long term interests of all stakeholders in view while finalizing this policy. The prime aim of the new policy should be assessed at promoting the local auto parts industry. The focus on improving Quality, HSE and Creating Cost Efficiencies through continuous resourcing and process improvement continues.

The sale revenue for H2 are expected to remain favorable due to new car model and start of Taxi Scheme deliveries.

Building Material & Allied Product Segment

The Sales revenue of the Building Material & Allied Product Segment during the period under review was Rs 2.49 Billion compared to Rs 2.25 Billion in the corresponding period last year, up by 10.6%.

Jute Operations:

Jute industry is going through a challenging period due to stiff competition both in local as well as in export markets caused by increasing costs and dumping by both India and Bangladesh and the dilution of Mandatory Jute Packaging Act in India. The cost of doing business has increased significantly due rise in wage and increased power load shedding and all such costs could not be passed on in entirety.

The demand of grain sacks appears to be on lower side from the Government Procurement Agencies as compared to last year due to excessive carryover stocks of wheat with them this year.

The management is taking appropriate measures to reduce the costs and also optimizing the sales mix for local & international markets to remain competitive.

Papersack Operations:

The papersack business has been performing as per expectations, with its main driver, the cement industry witnessing an overall 9.1% YoY growth in local dispatches, which has translated into improved volumes for the business.

The diversification into other packaging products and export markets is on track, with new indigenous customers being added to our portfolio and existing export customers placing regular repeat orders. As recognition of our efforts, the 1st export order of SOS (Self Opening Sachet) type bags was also executed and the management is looking to build on this success for future growth in export markets.

The demand for papersacks is expected to remain stable for the coming period, especially with falling oil prices. The benefit of cheaper oil to competing products like woven polypropylene sacks will be substantial and may lead to intensive price competition in the near future.

Laminates Operations:

The negative sentiments in the market have impacted the Laminates business considerably. From the recent flooding to the shifting political environment to the concern for safety of citizens to the slowdown in business activities, all have collectively created impediments for the business.

In addition, FORMITE continues to face intense competition from the undocumented segment. In spite of these challenges, the Business has managed to hold its ground and working with premium and quality conscious customers, who continue to patronize our products due to its range, quality and diversity.

Export markets have not garnered the momentum that was anticipated; however, regular export volumes are flowing in and are a positive sign for the business, with improvements in volumes expected in the latter part of the year.

The coming period is expected to be better than the preceding, owing mainly to orders in the pipeline and expected improvement in local market conditions. The management has ensured stringent cost controls and implemented production efficiency initiatives, which is keeping operating costs under control and providing impetus to face the challenges ahead.

Investment In Sindh Engro Coal Mining Company Limited:

During the year, the Company entered into a Shareholders Agreement with Engro Powergen Limited and Hub Power Company Limited for joint investment in Sindh Engro Coal Mining Company Limited (SECMC). The Company has made an investment of Rs. 360 million and also agreed to make an investment up to a total of Rs. 3 billion subject to certain conditions and regulatory approvals.

Subsidiaries

Thal Boshoku Pakistan (Private) Limited:

Thal Boshoku Pakistan (Pvt) Limited has successfully managed to ramp up its production of seat components and air cleaner to meet the customer demands in term of quality and quantity under the supervision and guidance of its joint venture partner Toyota Boshoku Corporation, Japan.

Makro-Habib Pakistan Limited:

Makro-Habib Pakistan Limited continued its Cash and Carry business on the Saddar store. The operation of this store is handled by METRO Habib Cash and Carry Pakistan under the terms of the Operation Agreement. The store is subject to a legal case pending adjudication in the Supreme Court of Pakistan.

Habib METRO Pakistan (Private) Limited:

Habib METRO Pakistan (Private) Limited own and manage properties. The company`s holding is 60%. We are pleased to report that HMPL has declared 2nd interim dividend for the quarter ended December 31, 2014 and our Company share of Rs 63.66 million will be incorporated in the next quarter financials.

Acknowledgement:

In the end we would like to thank the Almighty for all His blessings in these challenging times and to convey our appreciation to all our Customers, Dealers, Bankers and Joint Venture and Technical Partners for their continued support and confidence in the Company. We also want to recognize the efforts of all our team members who have worked diligently to achieve the results.

On behalf of the Board

(ASIF RIZVI)
Chief Executive

Karachi: February 20, 2015.