

# Directors' Report

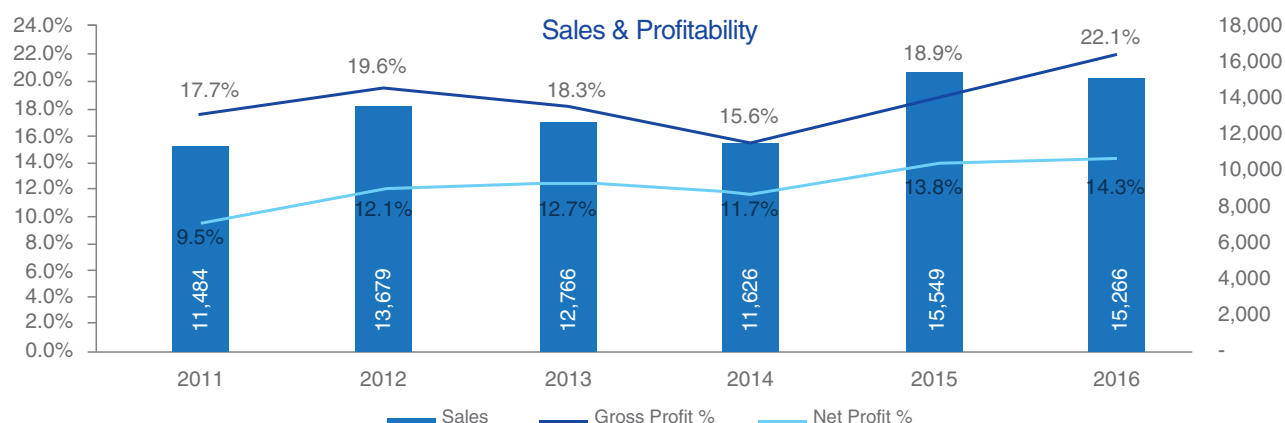
On behalf of the Board of Directors, I am pleased to present the Fiftieth Annual Report along with the Audited Financial Statements of the Company for the year ended June 30, 2016.

## Overview of Financial Results

During the year, the sale revenue for the Company registered a marginal decline of 2.5%, from Rs. 15.6 billion to Rs. 15.2 billion. Despite increasing cost of doing business, profit before tax improved by 1.2% to Rs.2.9 billion. This impressive performance was largely attributed to the Engineering Segment of the Company which benefitted from the growth of the auto sector in the Country.

## Financial Performance

	Rupees in Million	
	2015-16	2014-15
Net Revenue	15,266	15,549
Profit Before Taxes	2,979	2,945
Taxation	800	796
Profit After Taxes	2,179	2,149
Earnings Per Share - Rupees	26.89	26.52



## Liquidity & Cash Flow Management

The Company follows a prudent liquidity management system. Placement of surplus funds was done in liquid investments such as Term Deposit Receipt, Certificate of Investments, Government Treasury Bills and Mutual Funds.

There is also an effective cash flow management system whereby working capital and long term investment requirements are fulfilled through internal generation of cash from businesses. Cash flow projections are prepared regularly to monitor the cash inflow and outflow requirements.

## Subsidiaries & Associates

### Thal Boshoku Pakistan (Private) Limited

The year 2015-16 has been a good year for Thal Boshoku

Pakistan (Private) Limited. The Company surpassed its targets primarily due to increased customer demand. Through good financial management, effective cost control and efficient inventory management, the Company paid off its short-term borrowings, and ended the year in a cash surplus position.

During the year, the Company was awarded three certifications for Quality Management System (ISO 9001), Environment Management System (ISO 14001) and Occupational Health & Safety Assessment (OHSAS 18001) from the international certification body URS.



The Company continued to work towards providing its employees a safe and healthy working environment and also contributing towards reducing the carbon footprint by 18 tons of CO2 emission.

Future outlook of the Company looks encouraging as the auto industry expects to grow, especially with the incentives offered to new entrants in the newly launched Auto Policy. While consolidating operations, the Company is also taking steps towards increasing its product offering by adding new localization projects.

#### **Makro-Habib Pakistan Limited**

The Honorable Supreme Court of Pakistan dismissed Makro-Habib Pakistan Limited's (MHPL) Review Petition for the Saddar Store and as a consequence, the Saddar store of MHPL was closed down on September 11, 2015. Accordingly, the Operation Agreement with METRO Habib Cash & Carry Pakistan (Private) Limited (MHCCP) and MHPL was terminated. As per the Operations Agreement, MHPL paid Rs. 792 million to MHCCP on account of the closure of the Saddar Store.

As a later development, on December 9, 2015, the Honorable Supreme Court of Pakistan has accepted the Army Welfare Trust's (AWT) request for restoration of its Review Petition. In its hearing on February 2, 2016, the Honorable Chief Justice commented that while reviewing AWT's review petition, both MHPL and Ministry of Defense will also get a chance to argue their points on merit as they are respondent in AWT's petition. No further hearing has been heard thereafter.

#### **Habib METRO Pakistan (Private) Limited**

The main business of Habib METRO Pakistan (Private) Limited (HMPL) is to own and manage retail store properties and accordingly, over 90% of the revenue is generated from rental income. Thal Limited has 60% shareholding in the subsidiary. The company is exploring various business opportunities to complement the cash & carry retail rental business and to enhance value from its store locations.

In 2015-16, HMPL paid interim dividends to Thal Limited amounting to a total of Rs. 323 million.

#### **Noble Computer Services (Private) Limited**

The Company discontinued to provide Share / TFC Registrar Services, due to revised SECP regulations. However, the Company continues to provide services related to internal audit, IT, advisory, HR and other management related functions to associate Companies. The Company is a wholly owned subsidiary of Thal Limited.

#### **Pakistan Industrial Aids (Private) Limited**

The trading activity of the subsidiary company, Pakistan Industrial Aids (Private) Limited continues to supply auto parts, such as compressors, condensers, cooling units and gas to the automobile assemblers and auto parts manufacturers. The Company had entered into an agreement with Anest Iwata, Middle East FZE Dubai, for the

distribution of electro static spray guns and allied painting equipment in Pakistan. It is a wholly owned subsidiary of Thal Limited.

#### **A-One Enterprises (Private) Limited**

A-One Enterprises (Private) Limited is a fully owned subsidiary of Thal Limited. During the year, the Company's land situated at Multan Road, Lahore was partially acquired by the Lahore Development Authority (LDA) for the Metro Orange Line Project. The Company has filed a writ petition before Lahore High Court for getting relief from LDA to either acquire remaining land or provide access to it.

#### **Investment in Sindh Engro Coal Mining Company (SECMC)**

SECMC is a joint venture between the Government of Sindh, Thal Limited, Engro Powergen Limited, Hub Power Company Limited, Habib Bank Limited, CMEC Thar Mining Investments Limited and SPI Mengdong. It is engaged in developing Pakistan's first open pit mining project at Thar Coal Block II. By the grace of Allah, SECMC achieved its Financial close on April 4, 2016.



For the first phase of the project, the Board of Directors of Thal Limited has approved a total investment of Pak Rupee equivalent of US\$ 36.1 million, which includes equity investment of US\$ 24.3 million, US\$ 5 million for cost over-run and US\$ 6.8 million for debt servicing reserve. As of this balance sheet date, the Company has invested Rs. 862.499 million, equivalent to US\$ 8.36 million, in acquiring circa 58 million ordinary shares.

#### **Thal Power (Private) Limited**

The Company has entered into a Joint Venture Agreement with Novatex Limited, for collaboration to develop a 330 MW mine mouth coal-fired power generation plant located at Thar, Sindh. This power plant will be based on lignite coal extracted from the mine operated by Sind Engro Coal Mining Company (SECMC).

The Company through its wholly owned subsidiary, Thal Power (Private) Limited has incorporated a JV project company, i.e., ThalNova Power Thar (Private) Limited ("ThalNova"), to initiate the preliminary development works of the aforementioned project and obtain the necessary regulatory and operational approvals and permissions required.



ThalNova has at present obtained a Letter of Intent ("LOI") from the Private Power Infrastructure Board ("PPIB") and is currently engaged in preliminary project development activities. The total project cost is estimated at approximately US\$ 500 million. Preliminary development expenses & commitments, expected to cost around Pak Rupee equivalent of US\$ 5 million are being carried out by ThalNova, and are being funded equitably by the JVA partners. Whilst the project has sound fundamentals being based on indigenous resources and enjoys good support and encouragement from the government, it also presents significant challenges in achieving financial close and execution. Discussions are underway with other potential equity partners to join in the ThalNova project.

#### Contribution to National Exchequer

During the year, the Company contributed a sum of Rs. 4.22 billion (2014-15: Rs. 4.18billion) towards the National Exchequer by way of taxation (including super tax), custom duties, levies, excise duty and WWF.

#### Reconstitution of the Board of Directors and its Committees

During the year, Mr. Salman Burney was appointed on the Board of Directors in place of Mr. Mazhar Valjee who resigned from the Board. The Board appreciated the contributions made by Mr. Mazhar Valjee during his tenure on the Board for the past 22 years.

#### Board of Directors Meetings

The Board convened 7 times during the year and attendance of the respective Directors was as under:

Names of Directors	No of Meetings Attended
Mr. Rafiq M. Habib - Chairman	4
Mr. Sohail P. Ahmed	7
Mr. Asif Rizvi	7
Mr. Ali S. Habib	7
Mr. Mohamedali R. Habib	4
Mr. Asif Qadir	5
Mr. Mazhar Valjee (resigned on February 25, 2016)	4
Mr. Salman Burney (appointed on February 25, 2016)	2

#### Board Audit Committee

The Board Audit Committee (BAC) was reconstituted with Mr. Asif Qadir as the Chairman and Mr. Sohail P. Ahmed, Mr. Mohamedali R. Habib and Mr. Salman Burney as members. Mr. Mazhar Valjee resigned from the Board Audit Committee and his contributions to the Audit Committee were appreciated.

During the year the Audit Committee met 5 times and attendance of the Directors was as follows:

Names of Directors	No of Meetings Attended
Mr. Asif Qadir - Chairman	5
Mr. Mohamedali R. Habib	3
Mr. Sohail P. Ahmed	5
Mr. Salman Burney (appointed on February 25, 2016)	2
Mr. Mazhar Valjee (resigned on February 25, 2016)	2

#### Board Human Resource & Remuneration Committee

The Board HR Committee has also been reconstituted with Mr. Salman Burney as the Chairman and Mr. Ali S. Habib and Mr. Asif Rizvi as members. Mr. Mazhar Valjee resigned from the Board HR Committee and his contributions to the HR Committee were appreciated.

During the year the HR Committee met 3 times and attendance of the Directors was as follows:

Names of Directors	No of Meetings Attended
Mr. Salman Burney (appointed Chairman on April 27, 2016)	1
Mr. Ali S. Habib	2
Mr. Asif Rizvi	3
Mr. Mazhar Valjee (resigned on February 25, 2016)	2

#### Directors Training Program

Mr. Rafiq M. Habib, Mr. Ali S. Habib, Mr. Asif Qadir and Mr. Salman Burney are exempted from the Directors Training Program as each has over 15 years of experience in serving on the Boards of Public Limited Companies. Mr. Sohail P. Ahmed, Mr. Mohamedali R. Habib and Mr. Asif Rizvi have successfully completed the director's certification from PICG.

## Compliance with the Code of Corporate Governance Statement on Corporate and Financial Reporting Framework

1. The financial statements prepared by the Management of the Company present fairly its state of affairs, the results of its operations, cash flows and changes in equity.
2. Proper books of account have been maintained.
3. Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates based on reasonable and prudent judgment.
4. International Accounting Standards, as applicable in Pakistan have been followed in preparation of financial statements.
5. The Board has outsourced the internal audit function to M/s. Noble Computers Services (Pvt.) Ltd., who are considered suitably qualified and experienced for the purpose and are conversant with the policies and procedures of the Company.
6. The system of internal control is sound in design and has been effectively implemented and monitored.
7. All members of the Audit Committee are independent/non-executive Directors.
8. There are no significant doubts upon the Company's ability to continue as a going concern.
9. There has been no material departure from the best practices of corporate governance, as detailed in the listing regulations.
10. The value of investment of provident fund and retirement benefit fund stands at Rs. 527 million and Rs. 57 million respectively as at June 30, 2016.
11. The key operating & finance data for the last 6 years are annexed to the report.

## Auditors

The current auditors EY Ford Rhodes, Chartered Accountants, retire and being eligible offered themselves for re-appointment for the year 2016-17. The reappointment has also been recommended by the Board Audit Committee.

## Pattern of Shareholding

The pattern of shareholding as at June 30, 2016 is attached to this report.

## Dividend and Appropriations

The Directors propose the following appropriations out of the profit for the current year:

- Final cash Dividend of Rs. 6.25 per share, i.e., 125% in addition to the interim dividend of Rs 3.75 per share, i.e., 75%, thus amounting to a total dividend of Rs.10 per share i.e., 200%.
- Recommends appropriating a sum of Rs 1,368.5 million from un-appropriated profits to the General Reserve.

## Acknowledgement

On behalf of the Board of Directors and the management, I wish to express sincere gratitude to our shareholders, customers, dealers and business partners for their continuing patronage and trust. I would also like to thank all regulatory authorities for their guidance and support. Last but not least, the Board of Directors extends its sincere appreciation to all its staff members for their significant contribution to the growth of our company under challenging business conditions.



Karachi.  
Dated: August 30, 2016.

Asif Rizvi  
Chief Executive & Director