

# Directors' Report to the Shareholders

Dear Shareholders,

The Company is pleased to present its performance review as part of the Forty Eighth Annual Report along with the Audited Financial Statements of the Company for the year ended June 30, 2014.

## DOMESTIC ECONOMY

Pakistan's GDP grew by 4.1% against the target of 4.4% and compared to 3.7% last year. The industrial sector registered a growth of 5.8% against 4.3% last year.

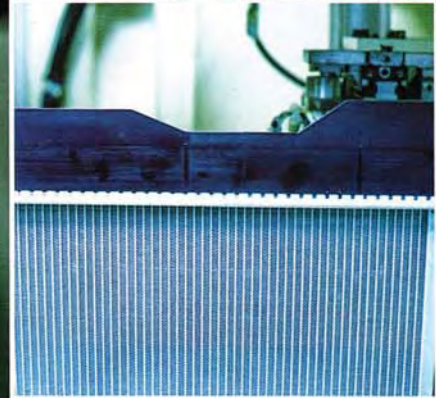
## COMPANY OPERATIONS

The sales revenue for the year registered a decline to Rs. 11.7 billion from Rs. 12.8 billion last year. The profit before tax reduced from Rs. 2.2 billion to Rs. 1.8 billion in 2013-14. The impact of a model change year for the vehicle of our largest customer and the increased use of plastic bags in the country coupled with decline in exports for jute products, resulting from a glut in India due the relaxation in its Mandatory Packaging Act, were the main factors that adversely contributed to the decline in revenue & profitability.





# ENGINEERING





# SEGMENT

*With the introduction of new car models and a considerable decline in the import of used cars, the Company expects the local auto industry to achieve the much needed growth in volumes in the next year, thereby having a positive impact on the operating results of the Engineering Segment.*

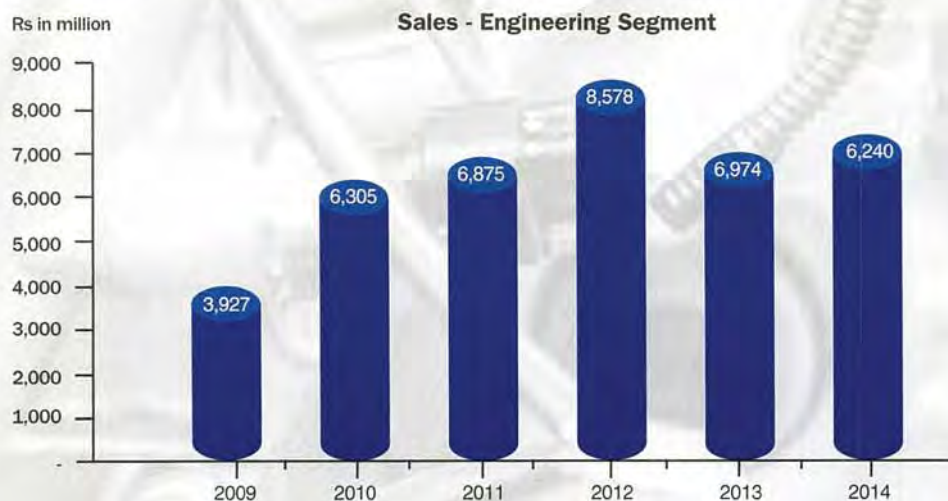
The turnover of the Engineering Segment at Rs. 6.2 billion registered a decline of 11.4% compared with Rs. 7.0 billion in the previous year.

The Auto Sector is a reflection of the sentiment about the economy of the country and showed a very marginal increase of 1.2% during the year, hovering around 137,000 units as against 135,000 units in the previous year. In addition to the adverse macroeconomic factors, persistent political instability and the poor law and order situation in the country, the results were also adversely impacted by an impending model change at our largest automotive customer, regularization of smuggled vehicles and an increase in car prices resulting from new tax slabs based on engine capacities. However, these negative impacts were partially mitigated by a substantial decline in the import of used cars, despite a continued liberal used car import policy. This negligible growth in the auto industry, coupled with cost pressures resulting from persistent inflation, adversely impacted the profitability of the Engineering Segment.

## Future Outlook

With the introduction of new car models and a considerable decline in the import of used cars, the Company expects the local auto industry to achieve the much needed growth in volumes in the next year, thereby having a positive impact on the operating results of the Engineering Segment. The macroeconomic challenges are expected to continue, however in order to mitigate the impact of these challenges, the Engineering Segment shall put in every effort to further enhance its customer base and increase the product portfolio through a very focused approach whilst continuously remaining committed to achieving operational efficiencies.

The economy continues to remain sluggish with weak macroeconomic fundamentals, including a very low per capita income, high inflation, an underdeveloped infrastructure, a worsening law & order situation and political instability. This coupled with uncertain and shortsighted Government policies is creating big challenges for the auto and its allied industries in achieving its full potential. Your Company, being a major automotive parts supplier to the auto industry in Pakistan, shall continue to pursue the Government to formulate a stable and long term policy and to finalize the much delayed Auto Industry Plan that would create favourable conditions to encourage growth and investment in the domestic industry.





# Thermal





*The key thrust for the Thermal Business during the year was on developing new products for our customers and further expanding the aftermarket segment. Resultantly, the Business has been able to successfully develop and localize parts of AirCon and Radiator for the full model change at its largest automotive customer.*

The Thermal Systems Business was adversely impacted due to the challenges faced by the Engineering Segment mentioned above, and registered a decline in sales volumes by 8% and turnover by 10% compared with the previous year. The Business, however, continued its focus on efficiency improvement and cost management in order to partially mitigate the impact of this volume reduction.

The key thrust for the Business during the year was on developing new products for our customers and further expanding the aftermarket segment. Resultantly, the Business has been able to successfully develop and localize parts of AirCon and Radiator for the full model change at its largest automotive customer.



AC Compressor

# Systems Business

Additionally, the Business has been able to expand its product portfolio by developing a new AirCon system and a Radiator for two other customers in the automotive segment, which shall augment the business in the next year. In the aftermarket segment, the Business continued to grow and has been able to achieve a very healthy 20% growth over the last year, although the aftermarket is currently only 10% of the total business. The focus was on introducing new competitively priced high quality products and entering into new segments. The Denso Bus AirCon was launched in Pakistan and achieved good success. The aftermarket Business continues to offer a substantial growth opportunity in the coming years and the Business is focused on identifying new opportunities through a customer and product portfolio expansion.



Condenser



Heater Blower



# Electric





*There have been consistent efforts by the company on business development as a result of which a new motor cycle customer is expected to be added to the portfolio in the near future. Our focus on improving quality and creating cost efficiencies through resourcing and process improvements continue.*

The turnover of the Electric Systems Business for the year showed a decline of 11% which was mainly attributable to a lower JPY: PKR parity resulting in registering a lower revenue and reduced sale due to model change. However, the sales volume registered a growth of 5% versus same period last year due to addition of a product for a new customer.



Pak Suzuki team inaugurating production line

# Systems Business

A continuous inflationary impact has increased the manufacturing costs and kept margins under pressure. There have been consistent efforts by the company on business development as a result of which a new motor cycle customer is expected to be added to the portfolio in the near future. Our focus on improving quality and creating cost efficiencies through resourcing and process improvements continue.

Continuous efforts on product quality & delivery have been acknowledged by our customers through various Awards during the year.



Engine Harness



Room Harness





# Engine





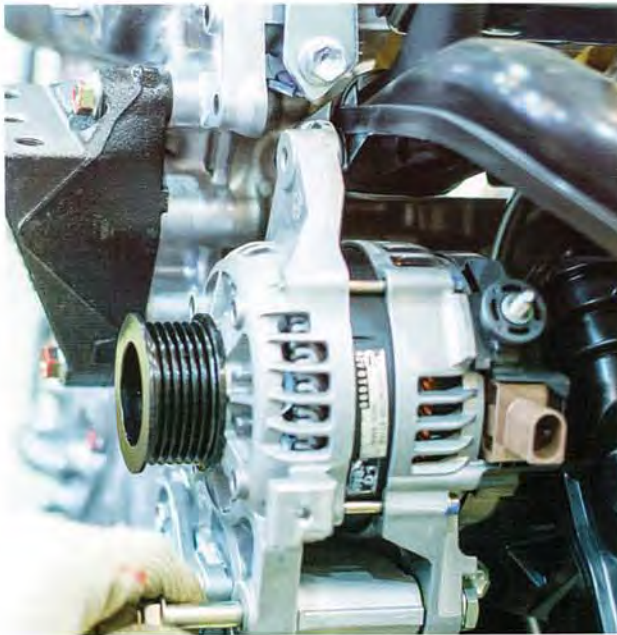
*The Engine Components Business, established under a Technical Assistance Agreement with Denso Corporation, Japan has added a new capability in the Company, through the startup of a new assembly line for the production of two high-tech products, the Starter and the Alternator.*



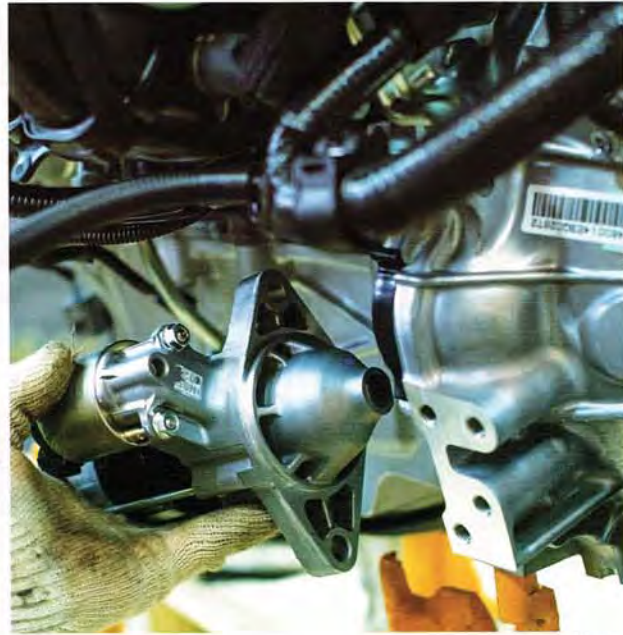
Starter and Alternator Line off Ceremony

# Components Business

The Engine Components Business successfully completed its trial production phase and has commenced mass production in July 2014. The Engineering Segment of your Company now has become the first manufacturer of Engine Starter and Alternator for passenger cars in Pakistan.



Alternator



Starter



# Building Material and





# Allied Products Segment

*The competition in the local market has become very challenging while the Businesses continue to explore new export markets. This segment of the Company envisions continuous growth through product development, cost reduction and systematic supply chain optimization.*

Sale revenue of the Building Material & Allied Products Segment for the year under review was Rs 5.4 billion as against Rs 5.8 billion during the last year.

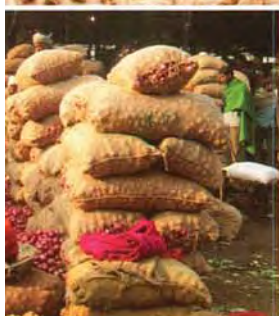
## Future Outlook

The competition in the local market has become very challenging while the Businesses continue to explore new export markets. This segment of the Company envisions continuous growth through product development, cost reduction and systematic supply chain optimization. The Business is exposed to economic uncertainty, law & order conditions and market competition that will continue to throw up challenges and obstacles. However, the segment does have the opportunity to grow in export markets and to diversify its customer base, which will allow for future profitability and sustainability.





# Jute





*The increase in raw jute cost was the single largest factor adversely impacting the profitability of the business. The continuously increasing labor wage cost is another major factor that is driving up costs on an annual basis since the jute industry is heavily labor intensive.*

The year 2013-14 was the most challenging year for the jute industry both in the domestic as well as the international market. The production & sales volumes were less than the previous year, due to low market demand coupled with lower volume purchased by Public Procurement Agencies (for wheat crop). The export of jute products remained under pressure due to political and economic issues prevailing in the importing countries.

Besides, the cost of major inputs like raw jute, power, wage and consumables increased significantly during the year. The increase in raw jute cost was the single largest factor adversely impacting the profitability of the business. The continuously increasing labor wage cost is another major factor that is driving up costs on an annual basis since the jute industry is heavily labor intensive.



# Business

The dilution of the Mandatory Packaging Act in India, which had previously offered protection to the jute industry in that country against the use of plastic bags, resulted in a glut of products in India and these were dumped in the export markets. This had a severe impact on the exports which are already handicapped due to Pakistan not being a jute growing country.

**The Jute Business achieved another landmark by acquiring the OHSAS 18001:2007 certification which would further enhance the image as a responsible and conscientious manufacturer and supplier of jute products.**





# Papersack



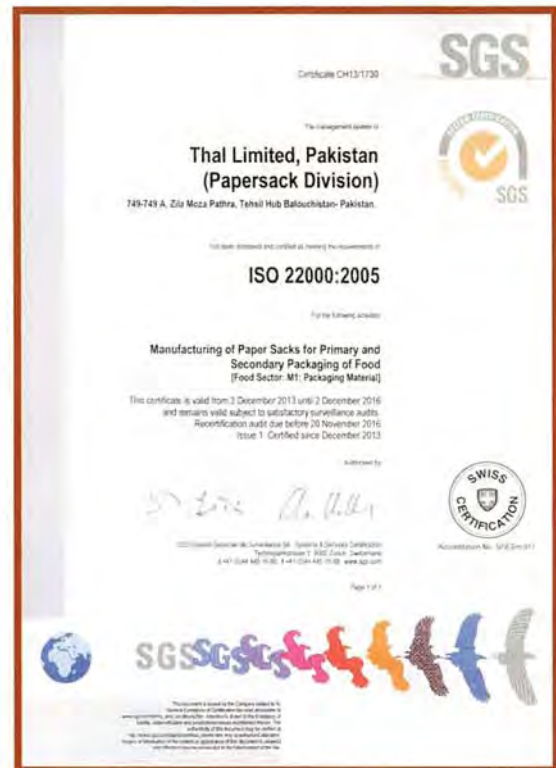


ISO 22000:2005 Food Grade Management System Certification was acquired, which is a primary requirement of the global fast food franchises, and resultantly, the business is now the preferred supplier of SOS (Self Opening Sachet) bags to most of the global players operating in Pakistan.

Market indicators remained positive for the Papersack Business, with the cement sector reporting improved capacity utilization of 76.8% and cement dispatches growing overall by 2.5% YoY. The unit remained one of the main suppliers of packaging materials to the cement sector, while competition amongst the sack players (both paper & woven polypropylene) kept selling prices under pressure. The business is positive for further growth in the demand for cement sacks, and is fully geared to take advantage of the opportunities.

The focus remained on diversifying the product & customer base and on adding premium local & global brands to its customer portfolio, while the drive to nourish and expand the export markets remained on track.

# Business



To ensure consistent and quality supplies in the coming year, the business will be adding additional machinery that would allow ease of customization of papersacks for the industrial customers.

ISO 22000:2005 Food Grade Management System Certification was acquired, which is a primary requirement of the global fast food franchises, and resultantly, the business is now the preferred supplier of SOS (Self Opening Sachet) bags to most of the global players operating in Pakistan. Going forward, the focus remains towards the global markets for SOS bags, which will provide the impetus for future expansion and growth.





# Laminates





*"FORMITE" remained the premium brand for High Pressure Laminates (Formica) and for laminated boards - living up to its vision of enhancing customer's lifestyles by offering the largest color and design palate in Pakistan.*

The corporate segments of switchgear and transformer manufacturers have recognized the international standards guaranteed by our products and patronize our brand.

By and large, the market remains unorganized and undocumented, while the Business has to bear the cost impacts of being fully documented and tax compliant, which results in challenging conditions for further market penetration. The Government's attention has been drawn towards the issue of improving the documentation of the industry and to provide a level playing field for all players, while also benefiting from additional revenues.



# Business

The concentration on developing export markets has continued unabated and this has borne positive results, showing a growth of 23.7% YoY. The expansion to new markets and increase in product line offers the growth opportunities and diversification that will ensure the long term sustainability of the operations.

The business plans to improve the aesthetics of its products by induction of new surface textures, while continuously adding new complementary products to further enhance the customer's experience.





# Awards & Recognition



- Winners of the Indus Motor Vendor QCC Competition
- Suppliability award from Honda Atlas Cars Pakistan Limited
- Best Quality award from Pak Suzuki Motor Company
- Best Quality award from Hinopak Motors
- Delivery award from Indus Motor Company
- ISO 22000 Certification
- OHSAS 18001 Certification





# Financial Performance

The summarized results for the year under review are as follows:

(Rupees '000')

	2014	2013
Sales Revenue	11,625,789	12,766,238
Gross Profit	1,810,010	2,341,484
Profit before Tax	1,775,855	2,226,771
Provision for Tax	414,476	602,476
Profit after Tax	1,361,379	1,624,295
Basic & Diluted Earnings per Share	16.80	20.05

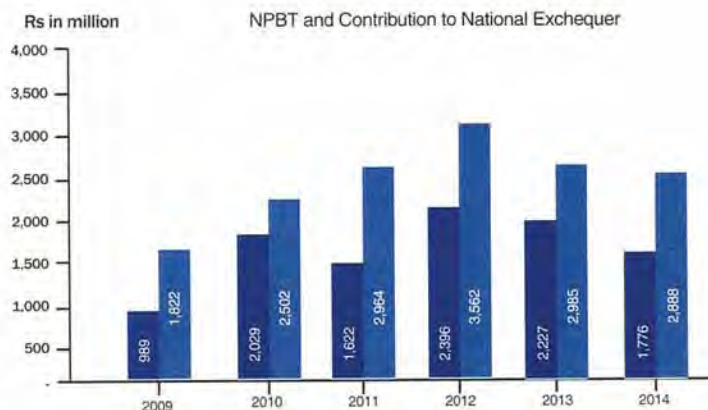


## CASH FLOW & LIQUIDITY MANAGEMENT

The company has an effective cash flow management system whereby working capital requirements are fulfilled through generation of cash from inside the business. Cash flow projections are prepared regularly to monitor the cash inflow and outflow requirements.

## CONTRIBUTION TO NATIONAL EXCHEQUER

During the year, the Company contributed Rs. 2.8 billion to the National Exchequer by way of taxation, custom duties, levies, excise duty and WWF.







# Major Business Risks

## ENTERPRISE RISK MANAGEMENT

The company faces various types of risks both internal and external to the operations. While the risks expose the company to threats that may adversely affect the businesses yet they also offer the realization of opportunities. Therefore, there is a need to strike a balance between the two.

Risk management is a primary responsibility of the management of the company. It is overseen and assisted by the Board of Directors, Internal Audit Function and Policies & Procedures that are in place to counter these risks.

The company faces the following types of risks:

- Strategic Risks
- Operational Risks/Commercial Risks
- Financial Risks
- Internal Control Risk

### Strategic Risks

These risks emerge from operating in a particular industry and these are beyond the control of the entity. However, the company mitigates these risks by operating in diversified businesses namely Jute, Thermal, Electric, Engine Components, Laminates and Papersack, each of which have their own opportunities and risks.

Moreover, the company has also made investment in subsidiaries and associates operating in different business segments to spread its risk.

### Operational Risk/Commercial Risks

These risks arise from events that are internal and external to the company and are directly related to the businesses and the industry in which the company operates.

The business wise major risks faced by the company and ways to mitigate them are as follows:

#### Engineering Segment

The engineering segment faces risk of low demand on account of a liberal policy of the import of used cars, duty relief on import of Hybrid cars and non-implementation of new Auto Industry Plan (AIP).

The company has mitigated the risk by exploring new avenues of sales. The finalization of Technical Assistance Agreement with Denso Engine Electrical Business and Signing of a Joint Venture Agreement with Toyota Boshoku Japan are several steps in the direction of risk mitigation.

#### Jute Business

The Jute business depends on the imports of raw jute from Bangladesh. The changes in pattern of internal consumption of Bangladesh and import policies of GoP affect the smooth continuation of the business. The business also faces stiff competition from the polypropylene bag manufacturers.

The dilution of the Mandatory Packaging Act in India which had previously offered protection to the jute industry in that country against the use of plastic bags resulted in a glut of products in India and these were dumped in the export markets. This had a severe impact on the exports of our products which are already handicapped due to Pakistan not being a jute growing country.



The raw material is mainly sourced from Bangladesh but India and Myanmar raw jute markets are constantly monitored and purchases made where viable.

The increasing emphasis on the use of environmentally safe and healthy products has made jute products favored internationally. The company is focusing on exports and also carries out campaigns in this regard to make people aware of the hazards of using polythene bags for food applications.

#### **Papersack Business**

The papersack business faces strong competition from polypropylene sack manufacturers. In-house manufacturing of papersack by cement units has also resulted in lower demand.

An increase in budget allocation for development projects is a good sign that would enable the papersack industry to grow along with cement industry.

The business has also made investment in Self Opening Satchels (SOS) to mitigate risks. These products are aimed at the packaging needs of the fast food industry, grocery stores, etc.

#### **Laminates Business**

The major risk faced by the Laminates Business is from the undocumented sector of the local market. The company is strongly in favor of a documented economy and steps are being taken in collaboration with the GoP to bring this segment into the ambit of tax.

#### **Financial Risks**

The company faces financial risks such as fluctuation in the exchange rates, rise in KIBOR, adverse stock market conditions affecting the profitability of and valuation of investments and default by customers in payments. The company has in place sound financial management systems to mitigate the above risks.

#### **Exchange Rate Fluctuation**

The Company uses various natural hedging measures to counter currency fluctuations. In the Engineering Segment the customers compensate for any fluctuation in forex.

#### **Movement in KIBOR**

The fluctuation in interest rates is managed by a close watch on macro-economic indicators. A good information network of bankers and financial market analysts enables the company to configure and implement mitigating strategies.

#### **Default by customers**

The exposure to credit risk is managed thorough credit review of the customers by taking into account the factors such as customer's solvency, past experience and other market dynamics. Credit limits have been assigned to customers and the collection department frequently follows up for the payments. The Company practices a prudent Bad Debt Provisioning Policy.

#### **Internal Control Risk**

Internal Control Risk arises due to lack of internal control procedures and sound control environment. The Company's compliance to internal controls is monitored by an Internal Audit Department which ensures that the company and its employees are compliant with policies and procedures. The internal audit department directly reports to the Audit Committee on the effectiveness of governance, risk management and control processes. The Company has a Whistleblowing Policy in place.



# Human Resources

## Our Most Valuable Assets

The Company aims to provide a happy and healthy workplace for its employees by ensuring a clean, safe, fair, diverse and respectful working environment so that all employees add value to the organization.

## Development & Engagement

The Company believes in raising the bar continuously through entrepreneurship, optimum resource utilization, respect, and justice.

People at Thal pursue these values in many ways: by helping clients, developing themselves to have the best knowledge, creativity and innovation and open communication. We are committed to provide employment to our youth, train and develop our people to give their best. We aspire to give exposure to our leaders to realize their full potential.

During the year, various employees were sent on training programs and various in-house training courses were held as well making a total training man hours count to approx. 17,000. Due to the addition of new product lines several of our employees with required background were sent on related foreign trainings. During slow production periods employees were engaged in trainings, Talent Hunt and in games which were linked with Company's values.

Apart from training and development, employees were actively involved in activities including 5S Championship,

Best Kaizen, and Skill Competition where a number of awards were presented.

## Employee Engagement Survey (EES)

In 2013, the company conducted an Employee Engagement Survey, a practice that is conducted periodically, to determine how satisfied the workforce is with the firm and its policies. The survey enabled the Company to determine the impact of its policies, infrastructure, communication, career growth opportunities, training & development. The resultant gaps were critically analyzed and are embedded into the HR objectives.

## Remuneration Survey

The Company regularly participates in an independent industry Remuneration Survey to stay aligned with the current market compensation and benefit trends.

## Management Trainee Program

In our continuous efforts to expand our talent pool we look for graduates that seek a rewarding corporate experience. Our Management Trainee (MT) Program is an intensive 12-months immersion in every aspect of our business and is formulated to match the expectations and skills set of the aspiring graduates with our business needs. The Thal MT program aims to develop competitive leaders with the skills and experience to perform well in various positions.



Papersack team celebrating ISO 22000 Certification



## Vision & Mission Exercise

Our employees play an important role in achieving the Company's vision of a sustainable future. Each Business revisits its Mission statement every 3-5 years with the aim of realigning it with the changing environment, resulting in re-defining its Strategic Objectives through wide spread participation of employees. Subsequently a comprehensive 5 year Plan was prepared, which was then broken down into a Mid- Term Plan and annual objectives for each Business and function.

## Employee Benefits

The Company through the efforts of its Administration team was successful in deriving the following benefits from Sind Workers Welfare Board.

### Employee Education and Medical Benefits:

- 17 education scholarships for team members worth Rs. 453,000
- School uniforms for the children of 95 team members worth Rs. 4,000 each
- School curriculum for the children of 95 team members worth Rs. 3,000 each
- Computer Courses for the children of 10 team members worth Rs. 4,500 each
- Medical reimbursement of Rs. 330,000 for two surgeries at National Institute of Cardiovascular
- Total reimbursement of Rs 5.9 Million from SWWB/-SESSI for the above and for routine medical treatment and other benefits throughout the year.

### Medical Camp for Team Members:

- General Medicines
- E. N. T.
- Oral & Dental
- Eye



## Annual Sports Activities FY 2013-14

Sports activities were conducted throughout the year with games like Cricket, Football, Volley ball, Kabadi, Tug of War and Badminton being the most popular.



## Industrial Relations

The Company has good industrial relations with the labor and is maintaining industrial harmony and peace in all its business units.







# Health, Safety & Environment (HSE)

Visible, Caring and Felt HSE Leadership

The Company's HSE Steering Committee sets the direction for an effective health and safety management through projects which are becoming an integral part of Thal's culture, values and performance standards.

The HSE Steering Committee takes the lead in ensuring the communication of health and safety objectives and projects throughout the organization. Businesswise Steering Committees then develop procedures to implement health and safety guidelines within specific work environments.

Road safety is very critical during operations. Safe Journey Management and improving Safe Driving Behavior is being managed at Thal through Driver Training and Road Safety Shows.

Although contractor's staff are not the employees of Thal, the HSE Steering Committee still requires the Businesses to adhere to all safety standards for these workers while they work on Company premises. It is further the responsibility of the Business Heads to ensure that all external contractors are made aware of the Company's HSE requirements, safety standards and procedures, and any known hazards around the property to avoid HSE incidents.

Process Safety through Poka Yoke (Error Proofing) to improve HSE Performance is a vital part of operations. Plant Engineering Teams are ensuring effective Preventive Maintenance of Safety Critical Elements of Processes through regular Process Safety Reviews.



To ensure that team members can recognize the hazards, an HSE Risk Assessment of all businesses is carried out to evaluate and reduce the risk levels. Behavior Based Safety Initiatives are being deployed to improve HSE Performance.

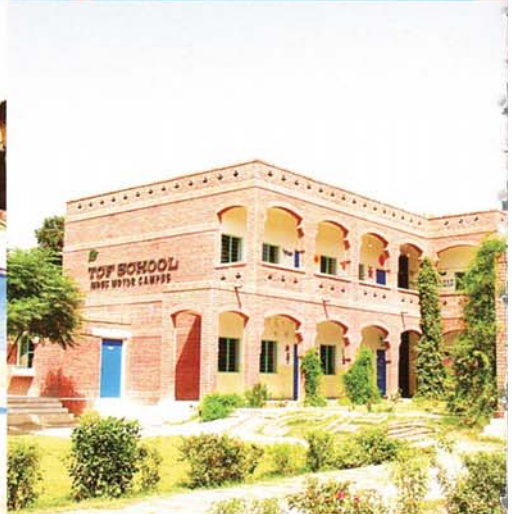
Waste reduction is being managed by Businesses through 5S (Seiri, Seiton, Seiso, Seiketsu and Shitsuke) and the 3R (Reduce, Reuse and Recycle) concepts.

At Thal, we believe in preserving LAW – Land, Air and Water for long-term sustainability. Adhering to the UNGC Global Compact implementation plan is another hall mark of our commitment.

TBP Plant Area











# Corporate Social Responsibility (CSR)

It is an objective of the Company to strive for the uplift of the communities in which the Businesses operate. To realize this goal the Company allocates each year approximately 1% of its pre-tax profit towards CSR activities. It is the Company's philosophy to contribute to projects, long and short term, which are aimed at improving the life of the people.

## **Education**

### **TCF School**

The TCF Primary School Campus located in Baseera Muzaffargarh has been functional for the last 10 years. It operates in two shifts and has an enrolment of 278 students with 48% female attendance. The School is confident of producing "the leaders of tomorrow" through providing good education and promoting its students to participate in extracurricular activities. Thal contributed a sum of Rs 3.3 million to this TCF school towards the cause of "Education".

### **Habib University Foundation**

The Habib University Foundation is building a unique liberal arts & sciences university, offering interdisciplinary education in science, engineering, arts, humanities and social sciences. The University has formal partnerships with Carnegie Mellon University and Texas A&M University at Qatar. It is well on track to commence operations in the fall of 2014. The Company has contributed a sum of Rs 4.25 million to the Habib University Foundation.

### **Student Sponsorship**

The Company has sponsored the fees of some students of the Kaghan Memorial Trust, which runs a school for children affected by the 2008 earthquake in Kaghan.





### Health

The Indus Hospital is a unique institution, run by a group of dedicated and selfless doctors, providing free medical treatment. Rs 2.025 million was contributed to the Indus Hospital in Korangi which is located close to the Engineering Business operations. In addition the Company also supports the Sir Syed Hospital.

### Community

To create awareness among people of surrounding communities about the menace of DENGUE, a Health Show and Walk was conducted on D.G Khan Road in Muzaffargarh. This Health Show and Dengue Awareness Walk were arranged in coordination with a doctors' team from Social Security Hospital, Muzaffargarh.

### Energy Conservation

The Jute Business further replaced 109 old and inefficient motors with energy efficient ones under the US Aid Energy Conservation Project and registered a saving of 10% in these motors. This was in addition to the 97 motors replaced last year under the same program. The Jute Business also replaced 232 tube lights with efficient LED light.



# Information Technology



The company is focused on improving its ERP utilization. The IT department has aligned its objectives to meet this strategic need of the organization.

During the year a new subsidiary Thal Boshoku Pakistan started its operation to manufacture car seat components and air cleaner. Along with this, two more product lines, the Starter and the Alternator were added to the Engineering Segment. The IT department took the challenge to enable both teams to monitor the project progress by implementing the SAP Project System. Both new businesses chose SAP ERP to manage their business operations and the IT team configured the required modules for their use.

The IT team in order to strengthen its control over the deployed network and servers and to minimize downtime, implemented the Nagios Network Monitoring Solution. This open source solution has the capability to monitor the entire IT infrastructure, spot problems before they occur, know immediately when problems arise, detect security breaches and reduce network downtime.

Going forward the IT team will focus on the expanding needs of the business operations through upgrading the hardware and implementing additional software modules to optimize operational integration.





# SUBSIDIARIES

## Thal Boshoku Pakistan (Private) Limited

Thal Boshoku Pakistan (Private) Limited was established in September 2013 as a joint venture between Thal Limited, Toyota Boshoku Corporation, Japan and Toyota Tsusho Corporation, Japan for the purpose of manufacturing seat components and air cleaner for cars.

Thal Boshoku enjoys full technical support of Toyota Boshoku Japan. Toyota Boshoku is a multinational company having production facilities in more than 25 countries and is engaged in the manufacture of automotive interiors systems, automotive filters and powertrain components beside textile goods, and is a supplier to all renowned automakers of the world.

Soon after establishing the company physical work on the project was started and equipment installation was completed in March 2014. Thal Boshoku's state of the art facilities include fully automatic robotic welding for seat side frame recliner assembly and electronic load testing for the automobile seat track assembly. Structured on the world renowned Toyota Production System, Thal Boshoku produces high quality products meeting the customer's required safety and quality standards.

Thal Boshoku, under the supervision and guidance of its TAA partner, Toyota Boshoku, has satisfactorily started commercial production and supplies to its customer from July 2014 and is meeting their expectations.



### **Makro-Habib Pakistan Limited (MHPL)**

Consequent to the Agreement between Thal Limited and METRO Cash & Carry International Holding B.V. and subsequent approval of Scheme of Arrangement by Sindh High Court which became effective on June 26, 2012, the cash & carry business of Makro Habib Pakistan Limited (other than as being carried on at the Saddar Store) has been vested in METRO Habib Cash & Carry Pakistan (Private) Limited in which the Company's holding is 25%.

Immoveable properties of Makro Habib Pakistan Limited (other than Multan Road Land and Saddar Store) and METRO Cash & Carry Pakistan (Private) Limited have been vested in Habib METRO Pakistan (Private) Limited in which the Company has a holding of 60%.

Makro Habib Pakistan Limited has entered into an Arrangement with Metro Habib Cash & Carry Pakistan (Private) Limited (MHCCP) to operate its AWT Saddar store. MHCCP has agreed to operate the Store safely and efficiently and in accordance with the standards of a reasonable and prudent Operator and to perform the services under the Agreement. The Company's holding is 100%.

The AWT Store of Makro Habib Pakistan Limited is subject to a legal case pending adjudication in the Supreme Court of Pakistan. If the legal case is decided in favour of Makro Habib Pakistan Limited its property would vest in Habib METRO Pakistan (Private) Limited and the cash and carry business would vest in METRO Habib Cash & Carry Pakistan (Private) Limited.

The Board of Directors in their meeting for the fourth quarter held on August 19, 2014 approved a final cash dividend of Rs. 49.7 million subject to approval of shareholders.

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

The main business of HMPL is to own and manage properties and accordingly over 90% of its revenue is generated from rental income. The Company's holding is 60%.

HMPL paid interim dividends for the year 2013-14 amounting to Rs. 276 million over three quarters. The Board of Directors in their meeting for the fourth quarter held on August 19, 2014 approved a final cash dividend of Rs. 49.4 million subject to approval of shareholders.

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

The Company continues to provide Share / Fund / TFC Registrar Services, Share Accounting Services and Share / TFC Floatation Services. The company also continues to provide Internal Audit Services, I. T. Related Services, Advisory Services, HR Services and Management Related Services to our group companies.

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

The Company is focused on providing quality equipment, spares & after sales services to automotive companies. Sales of refinish painting equipment & spares through a Japanese based manufacturers has commenced from this year. We are committed to expand our business with new customers. The Company paid dividend for the 4th consecutive year to the Holding Company.





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

The Board of Directors of Thal limited has approved an investment of Rs 360 million in SECMC and also agreed to make a further investment of upto a total of Rs 3 Billion subject to conditions interalia that SECMC achieves financial closing of its Thar Coal Mining Project by December 31, 2015 and subject to regulatory approvals.

#### **Auditors**

The current auditors Messrs. Ernst & Young Ford Rhodes Sidat Hyder, Chartered Accountants, retire and being eligible offered themselves for re-appointment as auditors for the year 2014-15. The reappointment has also been recommended by the Audit Committee.

#### **Pattern of Shareholding**

The pattern of shareholding as at June 30, 2014 is attached to this report.

#### **Board of Directors & Committees**

The Board Audit Committee was reconstituted and its members are as follows:

Mr. Asif Qadir	- Chairman	Mr. Sohail P. Ahmed	- Member
Mr. Mohamedali R. Habib	- Member	Mr. Mazhar Valjee	- Member

#### **Directors training program**

Mr. Mohamedali R. Habib and Mr. Sohail P. Ahmed stand qualified in the Directors Training Program, in accordance with the requirements of the Code of Corporate Governance 2012.

Mr. Rafiq M. Habib, Mr. Ali S. Habib, Mr. Mazhar Valjee and Mr. Asif Qadir are exempted from the Directors Training Program as each has over 15 years of experience in serving on the Boards.



**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 Computer 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. 530 million and Rs. 43 million respectively as at June 30, 2014.
11. The key operating & finance data for the last 6 years are annexed to the report.
12. Transactions were carried out by a Director, Mr. Sohail P. Ahmed and CEO, Mr. Asif Rizvi in the shares of the Company. No other Director, CEO, CFO and Company Secretary, their spouses and minor children carried out any transaction in the share of the Company.
13. (I) The Board convened 7 times during the year and attendance of the respective Directors was as under :

S#	Names of Directors	Meeting Attended
1	Mr. Rafiq M. Habib (Chairman)	6/7
2	Mr. Sohail P. Ahmed	7/7
3	Mr. Asif Rizvi	7/7
4	Mr. Ali S. Habib	7/7
5	Mr. Mohamedali R. Habib	4/7
6	Mr. Mazhar Valjee	5/7
7	Mr. Asif Qadir	7/7

(II) During the year the Audit Committee met 4 times and attendance of the Directors was as follows:

S#	Names of Directors	Meeting Attended
1	Mr. Asif Qadir (Chairman)	4/4
2	Mr. Mohamedali R. Habib	3/4
3	Mr. Ali S. Habib	2/4
4	Mr. Sohail P. Ahmed	3/4

(III) The Human Resource and Remuneration Committee convened twice during the year and attendance of the respective Directors was as under:

S#	Names of Directors	Meeting Attended
1	Mr. Mazhar Valjee (Chairman)	2/2
2	Mr. Ali S. Habib	1/2
3	Mr. Asif Rizvi	2/2



# Dividend and Appropriations

## DIVIDEND AND APPROPRIATIONS

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

- Final cash Dividend of Rs 2.50 per share i.e. 50% in addition to interim dividends of Rs 5.00 per share i.e. 100%.
- Recommends appropriating a sum of Rs 754 million from un-appropriated profits to General Reserve.



## ACKNOWLEDGEMENT:

On behalf of the Board of Directors I would like to thank our Customers, Dealers, Business Partners, Employees and Bankers for their unwavering support and confidence in us.

In particular, I would like to thank our JVA partners Toyota Boshoku Corporation and Toyota Tsusho Corporation of Japan and our TAA partners Denso Corporation and Furukawa Electric Company of Japan for their strong support and assistance. We thank and bow our heads in humility to the Almighty for all of His blessings and pray for His guidance, peace and mercy.

**Asif Rizvi**  
Chief Executive Officer

Karachi.  
Dated: August 26, 2014.