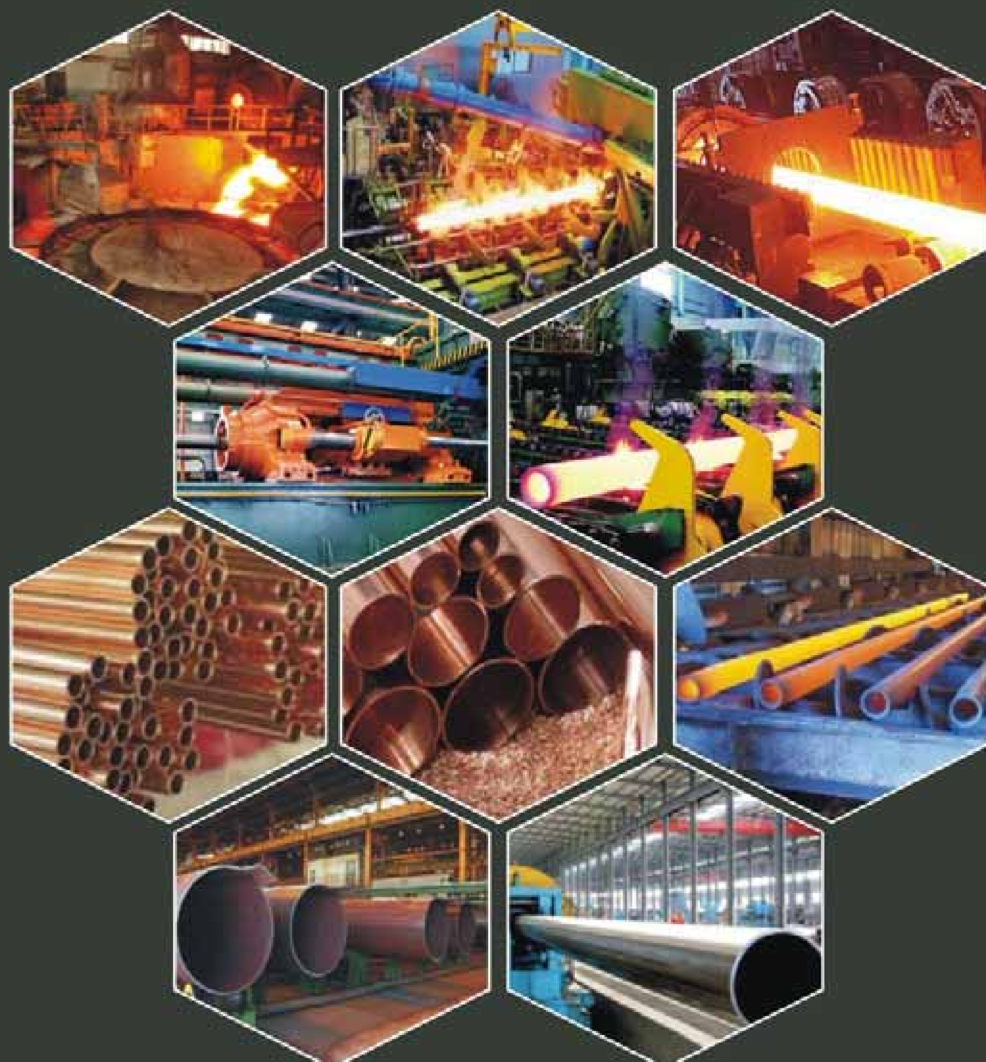
# Annual Report 2016



**Huffaz**

**Seamless Pipe Industries Limited**

*Committed to Excellence*

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# CORPORATE DIRECTORY

**Chairman:**

Mr. Yousuf Mohamed Y. Najibi

**Chief Executive:**

Hafiz Abdul Majid

**Executive Director:**

Hafiz Abdul Haseeb

**Board of Directors:**

Mr. Yousuf Mohamed Y.Najibi (UAE)
Mr. Nabil Abdul Rahman Ahmad Arif (UAE)
Mr. Abdul Aziz Eshaq A.Rahman (UAE)
Mr. Muhammad Hafiz (UK)
Mr. Arshad Ahmed (UK)
Hafiz Abdul Waheed
Hafiz Abdul Sami
Hafiz Abdul Aleem
Hafiz Abdul Majid
Hafiz Abdul Haseeb

**CFO & Company Secretary:**

Mr. Usama Ahmed, FCMA

**Head of Internal Audit:**

Mr. Muhammad Musab, ACA

**Audit Committee:**

| | |
|---|---|
| Mr. Muhammad Hafiz (UK) | Chairman / Member |
| Mr. Arshad Ahmed (UK) | Member |
| Hafiz Abdul Sami | Member |

**Human Resource & Remuneration Committee:**

| | |
|---|---|
| Mr. Muhammad Hafiz | Chairman / Member |
| Mr. Arshad Ahmed | Member |
| Hafiz Abdul Aleem | Member |
| Hafiz Abdul Majid | Member |
| Hafiz Abdul Haseeb | Member |

**Auditors:**

M/s. H.A.M.D & Co., Chartered Accountants

**Legal Advisor:**

M/s. Ahmed & Qazi, Advocate & Legal Consultants,
403, 404, 417 Clifton Centre,
Clifton, Karachi.

**Registrar:**

THK Associates (Pvt) Limited,
Ground Floor, State Life Building No .3,
Dr. Zia Uddin Ahmed Road, Karachi-75530.
P.O. Box No. 8533, UAN: 111-000-322
Email: secretariat@thk.com.pk, Web: www.thk.com.pk

**Bankers:**

| | |
|---|---|
| Allied Bank Ltd. | Habib Metropolitan Bank |
| Askari Bank Ltd. | Saudi Pak |
| Bank Alflah Ltd. | Sindh Bank Limited |
| Barclays Bank Ltd. | Standard Chartered |
| Habib Bank Ltd. | Dubai Islamic Bank Limited |
| MCB Bank Ltd. | Bank of Punjab Limited |
| Meezan Bank Ltd. | KASB Bank Limited |
| National Bank of Pakistan | UBL Bank Limited |
| Soneri Bank Ltd. | |

**Registered Office:**

207-210, Second Floor, Mashriq Centre,
Block 14, Gulshan-e-Iqbal, Karachi.
Tel: (92-21) 34146241-3

**Factory:**

90 KM Super High Way, Nooriabad Industrial Estate,
District Jamshoro, Sindh.

**Website:**

www.huffaz.com.pk


# Mission & Vision

## Mission

**To emerge as a leader among the responsible corporate citizens, benefiting all its stakeholders through innovation in its products and services.**


## Vision

To maintain its position as leader in providing seamless pipes and tubes and engineering goods and services in local market.

To explore export market and get benefit of competitive advantage of its internationally recognized products.

To introduce and adopt best practices within the company to achieve its objectives.

To maintain high standard and quality of its products while bringing cost effectiveness.

To provide adequate return to its investors.

To maintain congenial relationship with all of its stakeholders particularly employees, customers and suppliers.

To establish and maintain safe, healthy and environment-friendly systems.


# Financial Summary

| | 2016<br>Rs in ' 000 | 2015<br>Rs in ' 000 |
|---|---|---|
| Gross Sales | **1,176,105** | 2,311,035 |
| Net Sales | **1,002,394** | 1,973,972 |
| Profit / (Loss) befor tax | **4,387** | (58,502) |
| Taxation | **15,633** | 45,811 |
| Profit / (Loss) after tax | **20,020** | (12,691) |
| Shareholders' Equity | **1,478,374** | 1,343,322 |
| Total Assets | **7,349,334** | 7,270,167 |
| Capital Expenditures | **9,153** | 23,346 |
| Profit / (Loss) per share | **0.36** | (0.23) |
| Number of Employees (Numbers) | **245** | 245 |
| **Production volume (M. Tones)** | | |
| Seamless Tubular Products | **8,652** | 12,196 |
| Machinery and its components | **—** | — |
| Coating of Seamless Tubular Products | **4,512** | 5,329 |

# COMPANY'S PROFILE


Huffaz Seamless Pipe Industries (HSPI) manufacture seamless steel carbon and low alloy steel pipes/tubes from high quality, aluminum-killed vacuum degassed billets/round bars. This project is jointly sponsored by a reputed Middle Eastern group and local sponsor directors on equity basis. Innovation in products, processes and systems, have helped HSPI in establishing a leading name in the manufacturing of seamless Steel Pipes/Tubes.

All the activities of the Company are based on rich experience, technical knowledge, competence, trust and quality. The foremost objective of HSPI is to supply products according to quality and lead-time desired by customers.

We have total quality focused approach which is reflected in our certifications i.e. API Q1, API 5L, API 5CT, ISO 9001:2008, OHSAS 18001:2007, ISO 14001:2004 & PED.

Beside fulfilling the entire demand of domestic market including major oil and gas organizations, we are exporting our products to USA, Australia, the Middle East, Iran and Bangladesh.

**Product Range**

Boiler Tubes

Heat Exchanger Tubes

High/Low Temperature Services Pipes/Tubes
Mechanical Tubes

Line Pipes

Structural Pipes/Tubes

Casing & Tubing

3 layer Polyethylene/Polypropylene & Fusion Bonded Epoxy Coating

**Size Range**

| | |
|---|---|
| Outer Diameter | 6 mm - 273 mm |
| Wall Thickness | 0.75 mm - 25 mm |
| Length | 1 - 19 Meter |

**Production Capacity per annum in M.Tons**

| | |
|---|---|
| - Seamless Tubular Products | 100,000 |
| - Machinery & Machinery components | 3,500 |
| - Coating of Seamless Tubular Products | 50,000 |


# Company's Profile

**Production Standard:**

ATM 53, ATSM A106, ASTM A210, ASTM, ASTM, A213 ASTM, ASTM A333, ASTM A334, ASTM A213, ASTM, ASTM A333, ASTM A334, ASTM 3335, ASTM, A519API 5L, API 5Lm API 5CT DIN 2391, DIN 2440, DIN 2441, DIN 2448, DIN 17175 A/2448 LIS, G346m, JIS G3444 BS1387, BS 3059/1, BS, 3059/2, BS 1775, BS6323, NFA49-112, NFA49, NFA 49-211 UNI 8863.

Any other standard as per requirement of the customers.

**Delivery Conditions:**

Plain end (squares cut or bevelled), Threaded and Coupled.

**Test Performed:**

Destructive Test: Tensile, Flatening, Flaring, Bending N.D.T: Hydrostatic Test, Eddy Current Test, Chemical Analysis.

Other as required by the standard or customer.

**Mill Test Certificate:**

Pipes/tubes are delivered with certificates as per required standard.

**Marking:**

On Pipes surface (Die Stamp or Paint Stencil)

On bundles (Metal Label or Plastic Labels)

**Surface Protection:**

Outside protective coating (Paint, Oil Varnish) Hot Dip Galvanizing

Other coating as per requirements of the customer.

**Packaging:**

In bundles, special packing upon request.

**Quality Assurance:**

At **HSPI** we believe in strict Quality Control at every stage from sourcing of our raw material to our finished products. Our commitment to Quality, Health, Safety and Environment is reflected in our compliance with International Quality Standards.

**HSPI** aims to provide customers, the products which give full satisfaction.

# Company's Profile

## Huffaz Engineering Works

**Huffaz Engineering Works (HEW)** has long been a key component in diverse expansion activities of HSPI. Due to its versatile manufacturing capabilities the works has managed to emerge as one of the key engineering product and service suppliers in the country. Equipped with facilities such as:

| | |
|---|---|
| Machine Shop | Fabrication |
| Forging | Hard Chrome |
| Foundry | (Ferrous Treatment & Non-Ferrous) |

We have managed to infiltrate key areas of engineering products market.

Following the foot steps of pioneer companies, HEW has maintained its resolve the deliver products and services at the right cost, time and quality. We believe the continuous and relentless efforts to ensure complete satisfaction of all our customers and other stakeholders.

**Product & Services:**

Pipe Flanges and Fittings for Pipe Lines, Boilers & Heat Exchanges.

Chain Spocket, Gear and Worm Wheels.

Hi-tech Precision Mechanical Components.

Dies & Moulds.

Tube Bending & Intricate Fabrication.

Machinery Components for Various Application

Product Design & Development

**HEW** is equipped with most modern testing facilities including Spectrometers, Tensile Testing Machine various kinds of Hardness testers, Metallographic equipment and Non-Destructive Testing.

We test and certify carbon, alloy stainless steel rolled cast forged products for various industries across the country while providing invaluable service to our internal customer.


# ENVIRONMENT, HEALTH & SAFETY

**Huffaz Seamless Pipe Industries Ltd. (HSPI)** is committed to the preservation of the environment, safety and health of its personnel, customers, suppliers, the communities and all stakeholders with which it interacts.

In our process, products and services we adopt designs and technologies that are the most appropriate and eco-efficient available at a reasonable cost in order to preserve health and minimize the risk of accidents and environmental impacts.

We continuously review our operations to maximize the efficiency in the use of energy and material resources, the recycling of products-both at our own facilities and those of third parties and the minimization of waste, emissions and effluents.

**Environment:**

**Huffaz Seamless Pipe Industries Ltd's (HSPI)** environmental policy is based upon the principle of sustainable development.

Following the introduction of our Health, Safety and Environment (HSE) Policy we have been working on the implementation of an integrated Health, Safety and Environment management system. The management system is a set of processes and practices that help HSPI in constantly improving its environmental performance. This management system follows the guidelines of international standards such as ISO 14000, applying eco-efficiency and integral safety concepts throughout the system, from product design and industrial investment up to operations and logistics.


HSPI adheres to worldwide sustainability principles and guidelines developed for the seamless pipe industry such as:

**Investment in New Process and Products:** Innovation is crucial for longer term industrial projects, therefore HSPI has established a plan to revamp all its mills and improve its processes and products.

**Material Efficiency and Energy Intensity:** HSPI continually reviews its operations to minimize the efficiency of energy resources, the re-se of bi-products and the appropriate treatment and disposal of waste, emissions and effluents.

**Waste Recycling:** Waste can be recycled, but more importantly its properties can be saved and re-used.

**Employee Training:** HSPI continuously offers training to all employees. Education is a fundamental tool for achieving improvements in sustainability in the long term.

**Health and Safety:**

Huffaz Seamless Pipe Industries Ltd's (HSPI) believes all accidents can and must be prevented. We focus on education to stimulates better attitudes and behaviours; and on the use of state-of-the-art technology to create a safe working environment. Our processes are continuously analyzed to find the best practices to reduce risks in our operations.

As part of our Health, Safety and Environment (HSE) Policy we have been working on the implementation of an integrated Health, Safety andEnvironment management system. The management system includes a set of processes and procedures that help HSPI to constantly improve its Safety and Health programs, and is an essential element for securing the motivation and well being of its employees.

# RESEARCH & DEVELOPMENT

## Research & Development

Research & Development is an essential part of our activities as we provide our customers with products and services that not only meet the challenges of usage under extreme pressure and temperatures and highly corrosive environments, but also serve high performance mechanical and structural applications.

Our Research & Development team develops in-house scientific advances in the field of metallurgy, alloy design, corrosion resistant materials, computational mechanics, fracture mechanics, surface and coating chemistry, as well as technology for automotive components and mechanical pipe applications and full-scale testing of premium connection, line pipe and OCTG.

## Code of Conduct

Huffaz Seamless Pipe Industries Limited (HSPI) has a Code of Conduct incorporating guidelines and standards on integrity and transparency applicable to all its employees and its directors.

This Code of Conduct establishes the ethical principles that form the basis for relations between the company, its employee and third parties and provides means and instruments to give transparency to issues and problems that may have a bearing on the management of the Company.

Complete Employee Code of Conduct is placed on the Company's official web-site as per the requirements of Code of Corporate Governance, 2012.


# INTERNATIONAL CERTIFICATIONS







API Q1, API 5L, API 5CT, ISO 9001:2008, OHSAS 18001: 2007, ISO 14001:2004 & PED certifications are proof of HSP's superior quality standards and commitment to quality. Due to our superior quality standards and customer satisfaction the company was awarded the "Industrial Affairs Award 95" and "Pakistan Economic Excellency Award 1996-97"


# Business Ethics & Practices

**Huffaz Seamless Industries Limited (HSPI)** as a manufacturer of high quality seamless tubular products and special precision shafting, recognize the importance of codifying the ethical principles, which guide the Directors, Executives, Managers and other employees of the Company. HSPI Code of Ethics states the values to which we are committed and embodies the ethical responsibilities of the plant operations in this changing environment. HSPI team's humility, honesty, transparency and flexibility coupled with their attention to details and obsession with quality and growth will assure Company's ascendancy to the enviable rank of the large and most trusted seamless tubular products manufacturer in the region.


The principles of this code are expressed in broad statements to guide the ethical decision-making.

Our policy reflects by the following:

**Honesty and Integrity**

HSPI's policy is to conduct business with honesty and integrity and be ethical in all its designs, showing respect for the interest of those with whom it has relationship.

**Law and Regulation**

HSPI complies with all laws and regulations. All directors and employees are expected to familiarize themselves with laws and regulations governing their individual areas of responsibility and not to transgress them. If in doubt employees and directors expected to seek advice. The Company believes in fair competition and supports appropriate competition laws.

**Politics**

HSPI does not support any political party nor contributes to the funds of groups whose activities promote party interests.

**Quality Services**

HSPI is committed to provide services, which consistently offer value in terms of price and quality and satisfy customer needs and expectations.

**Social and Community Commitments**

HSPI is committed to run its business in an environment that is sound and sustainable. As a good corporate organization, the Company recognizes its social responsibilities and will endeavor to contribute to community activities, for betterment of society as a whole.

**Reliable and Transparent Financial Records**

HSPI believes in and fully adheres to the principles of reliability and credibility in its financial reporting and in transparency of business transactions.

**Human Resource Development**

HSPI is an equal opportunity employer. Its employee recruitment and promotional policies are unbiased and based upon merit and excellence oriented. It recruits people who share HSPI's vision and values and develop them to reach their highest potential through continuous training, skills development and empowerment. It believes in providing its employees healthy conditions and in maintaining good channels of communications. The Company expects its employees to abide by the code of ethics, whereby Company information and assets are not used for any personal advantage or gain. Any conflict of interests should be avoided and if where it exists, it should be disclosed and guidance sought.


# Business Ethics & Practices

Our Commitment is reflected by the following:

**As Shareholders and Directors:**

- Commit the necessary and appropriate resources.
- Foster a conducive environment through responsive policy.
- Maintain organization effectiveness for the achievement of the Company goals.
- Encourage and support compliance with legal and industry requirement.
- Support collective decision at board meetings and general body meetings.

**As Executives and Managers:**

- Ensure the profitability of operation while upholding social responsibilities; provide the direction and leadership for the organization.
- Ensure total customer satisfaction through excellent product and service.
- Protect the interest and assets of the Company
- Promote a culture of excellence, conservation and continual improvement.
- Cultivate work ethics and harmony among colleagues and associates
- Encourage initiative and self-realization in employees through meaningful empowerment.
- Ensure and equitable way of working and reward system.
- Institute commitment to environmental, health and safety performance.

**As Employees and Staff:**

- Devote productive time and effort.
- Observe Company policy and regulations.
- Promote and protect the interest of the Company.
- Exercise prudence in using Company resources.
- Observe cost-effective practice in daily activities
- Strive for excellence and quality as a way of life.

# Notice of Annual General Meeting

Notice is hereby given to the Members that the 33rd Annual General Meeting of Company will be held on Monday September 26, 2016 at 02:00 p.m. at Junagargh Community Centre Opposite. Mashriq Centre, Block-17, Gulshan-e-Iqbal, Karachi-75300 to transact the following business:-

1. To receive, consider and adopt the Audited Accounts of the Company for the year ended June 30, 2016 and the Reports of the Directors' and Auditors' thereon.

2. To appoint External Auditors for the year ending 30th June 2017 and fix their remuneration. The present auditors M/s H.A.M.D & Co., Chartered Accountants, retire and being eligible for re-appointment and have consented to act as auditor for the year ending 30th June 2017.

3. To consider any other business with the permission of the Chair.

By order of the Board

Karachi
September 05, 2016

**(Usama Ahmed)**
***Company Secretary***

**NOTE:**

1. The share transfer books of the company will remain closed from 19th September, 2016 to 26th September 2016 (both days inclusive).

2. A member entitled to attend and vote at the meeting is entitled to appoint another member as his/her proxy to attend and vote instead of him/her. No person shall act as a proxy who is not a member of the Company. Proxies in order to be effective must be received at the registered office of the Company not less than 48 hours before the meeting and must be signed and witnessed.

3. A member who has deposited his/her shares into Central Depository Company of Pakistan Limited, must bring his/her participant ID number and account/sub-account number along-with Computerised National Identity Card (CNIC) or original passport at the time of attending the meeting.

4. In case of corporate entity, the Board of Directors' resolution/power of attorney with specimen signature of the nominee shall be produced at the time of meeting.

5. Members are requested not to bring children along-with them, as children will not be allowed in the meeting.

# Directors' Report to the Members

***Dear shareholders,***

***Assalam-o-Alaikum***

The Board of Directors of Huffaz Seamless Pipe Industries Limited take pleasure in presenting the 33rd Annual Report of the Company together with the annual audited financial statements and Auditors' Report thereon for the year ended 30th June 2016.

## Overview of Economy

The fourth budget presented by the current Government with total outlay of PKR 4.89 trillion. The stabilization of economy with inflation declining to 2.8% during July April 2016 compared to 4.81% of the corresponding prior year period, completion of IMF program, building up of foreign exchange reserve, and policy rate being at the lowest level of past 4 decades at 5.75% as on May 2016. The decline in International oil prices helped in stabilization of PKR to USD exchange rate and building of foreign reserves by savings on import bills of oil. Real GDP Growth of 4.7% was achieved during the fiscal year 2016 falls short of budget of 5.5%, whereas the new target for fiscal year 2017 is set at 5.7%. The decline was agriculture-led which experienced a negative growth rate of 0.19% as compared to 2.53% last year. Another major factor contributing to decline in fiscal deficit is the slow pace of development spending as only 61% of Rs. 700 billion allocated to PSDP were actually spent to contain the deficit. One of the most serious problems faced by the country is continuing declining trend in investment to GDP ratio, which has reduced from 19.3% of GDP in FY06 to just 15.2% of GDP during FY16.

The major steel products can be imported from China under Pak-China FTA at concessionary duties which is causing the obstacles to steel industry growth in the country. The domestic industry is facing cheap imports from China which is causing unfair trade practices. No relief is provided to domestic industry, such as custom duty is imposed on steel products that results in increased production cost.

The steel industry is the second biggest industry in the world after oil and gas. The steel use is projected to increase to be 1.5 times by 2050. The 65 countries accounted for 98% of world crude steel production touched 1.6 billion metric tons (MT) in 2015. The Chinese steel industry accounted for 803.8 million MT, which is around 50% of global crude steel output. The end use for steel pipes lies primarily in the oil & gas, which is adversely effected due to decline in prices of oil in international market.

## Operating Performance

The operating performance of the Company is shown below:

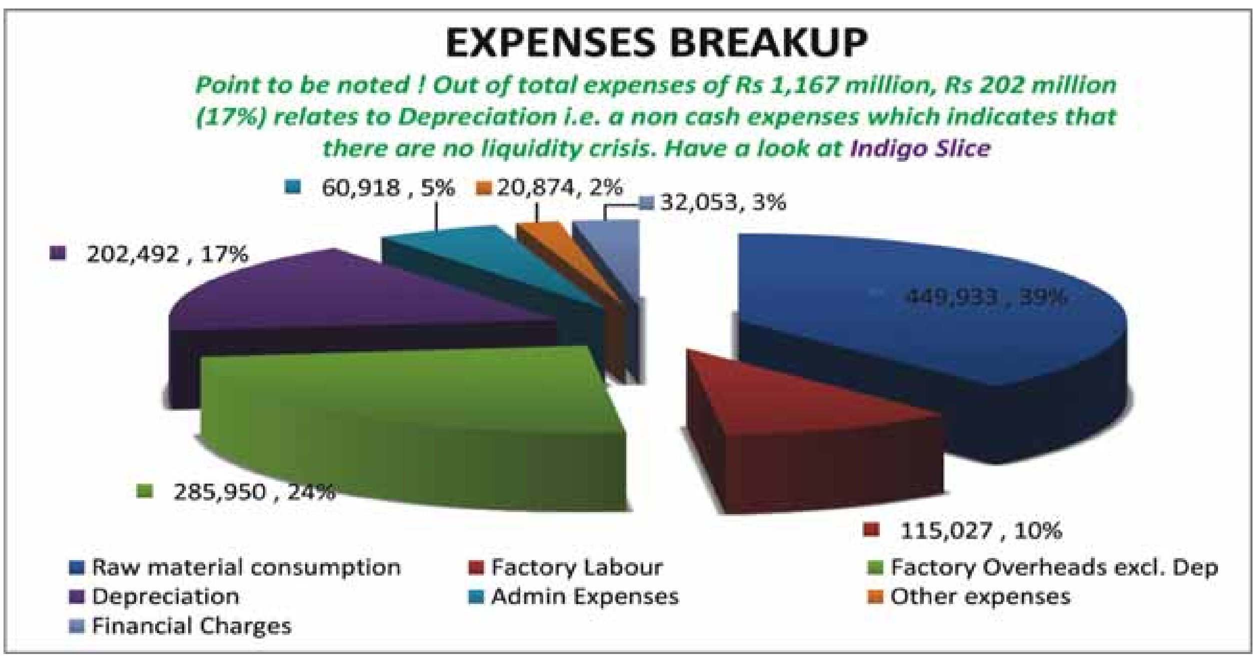
| | June 30 2016 | June 30 2015 | Difference In Rupees | Difference In percentage |
|---|---|---|---|---|
| | ........ Rs in 000 | ........ | | |
| Net sales | **1,002,394** | 1,973,972 | (971,578) | -49% |
| Cost of sales | **(928,932)** | (1,795,452) | 866,520 | -48% |
| Gross Profit | **73,462** | 178,520 | | |
| Distribution cost | **(6,161)** | (72,244) | 66,083 | -91% |
| Administrative expenses | **(62,970)** | (70,241) | 7,271 | -10% |
| | **(69,131)** | (142,485) | | |
| | **4,331** | 36,035 | | |
| Other operating expenses | **(14,713)** | (69,204) | 54,491 | -79% |
| Other income | **46,822** | 11,784 | 35,038 | 297% |
| | **36,440** | (21,385) | | |
| Finance cost | **(32,053)** | (37,117) | 5,064 | -14% |
| Profit/(loss) before taxation | **4,387** | (58,502) | | |
| Taxation | **15,633** | 45,811 | (30,178) | - 6 6 % |
| Profit/(loss) after taxation | **20,020** | (12,691) | | |

The Company's net sales of Rs 1.002 billion is 49% lower than the last year's sales of Rs. 1.973 billion. This is due to the imposition of custom duty and regulatory duty during the last year that results in the increased cost of production and the end use for steel pipes lies primarily in the oil & gas, which is adversely effected due to decline in prices of oil in international market.

The notional loss appearing on the face of the Profit & Loss account is merely due to incremental depreciation charged during the year. Had there been no revaluation the results would have been the following:

| | With Revaluation | Without Revaluation | Difference |
|---|---|---|---|
| | ........ Rs in 000 ........ | | |
| Net sales | **1,002,394** | 1,002,394 | — |
| Cost of sales | **(928,932)** | (774,217) | (154,715) |
| Gross Profit | **73,462** | 228,177 | |
| Distribution cost | **(6,161)** | (6,161) | — |
| Administrative expenses | **(62,970)** | (62,970) | — |
| | **(69,131)** | (69,131) | |
| | **4,331** | 159,046 | |
| Other operating expenses | **(14,713)** | (14,713) | — |
| Other income | **46,822** | 46,822 | — |
| | **36,440** | 191,155 | |
| Finance cost | **(32,053)** | (32,053) | — |
| Profit / (loss) before taxation | **4,387** | 159,102 | |
| Taxation | **15,633** | (33,876) | 49,509 |
| Profit / (loss) after taxation | **20,020** | 125,226 | (105,206) |

Let's analyse the results with another view as given below:



## Production

The production of seamless tubular products during the year was 8,652 Metric Tons as compared to 12,196 Metric Tons in the last year. On the other hand our Revenue segment Coating Plant which produced 4,512 Metric Tons as compared to 5,329 Metric Tons last year. In future, its production is expected to be increased by leaps and bounds which will serve as an independent Cash Generating Segment for the company.

## Earnings per share

Due to our continuous efforts we have managed to improve our earning per share considerably i.e. from loss of Rs 0.23 per share in last year to profit of Rs. 0.36 in current year. The EBITDA (Earnings before Interest, Tax, Depreciation and Amortization) of Rs. 235.691 million disclosed on the face of the Profit and Loss Accounts is quite helpful for the users of the Financial Statement to appreciate that the results are not adverse.

## Remuneration to the directors

Executive Directors were paid remuneration as approved by the board of the directors and the details of remuneration are available in note 32 to the accounts.

## Capital investment

During the year the Company incurred Rs. 9.153 million (2015: Rs 23.346 million) as Capital Expenditures. This includes purchases of auxiliary equipments and construction of different parts of Factory building. The company is also carrying out renovation of head office building.

## Technology Advancements

The management appreciates the impact of information technology resources on the business management. The Company is in the process of implementing an ERP Solution to bring its systems and processes up to the standard of the international level of integration and efficiency. For this purpose a contract has been given to Sidat Hyder Morshed Associates who are well known for the implementation of ERP and have a portfolio of over 400 corporate clients. Three modules (i.e. General Ledger, Payroll, and Fixed Asset) have already been installed and operative while Supply Chain Module is under implementation phase.

## Statement of Internal Controls

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievements of the Company's policies, aims and objectives to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. Management assumes the responsibility of establishing and maintaining adequate Internal Controls and Procedures while the Board of Directors is ultimately responsible for the internal control system. In this connection the Company has documented procedures and manuals, which incorporates the internal controls applicable while conducting any transactions. These procedures are revised and updated as and when required.

The BOD has setup an effective internal audit function and the persons engaged therein are the suitably qualified and experienced for the purpose and are well-conversant with the company's policies and procedures.

The system of internal control is designed to manage the risk of failure to achieve the company's policies, aims and objectives. It can, therefore, only provide reasonable and no absolute assurance against material misstatements or loss. The system of internal controls being followed by the Company is considered adequate and sound in design and is being effectively implemented and monitored.

## Risk Management Framework

All Company activities involve combination of risks. The most important risk categories that the Company is exposed to are liquidity risk, market risk and operational risk. Well established risk governance for the effective management of risk at all levels have been developed. It is the responsibility of all Company officers to identify, assess, mitigate and manage risk within the scope of their assigned responsibilities.

## Safety, Health, Environment and Quality

The Company management is committed to safety, health and quality and sustaining its position as an environmentally friendly Company. It takes great care of the community in which it operates. Environmental improvement and conservation of natural resources are part of the Company's policies and operations. In this regard the Company continues to hold certifications of ISO 9001:2000, API Q1, API 5L, API 5CT, ISO 9001:2008, OHSAS 18001:2007, ISO 14001:2004 & PED Germany from the international certification agencies, which is a proof of its commitment to safety, health, environment and quality.

## Human resource

Our people remain our most valued asset. The Management encourages teamwork and realization of maximum potential to promote performance focussed culture. Focus of our Human Resource strategy is therefore, to develop and align intellectual capital to achieve our business goals. Our hiring system stresses diversity, skills and innovative approach. We encourage continuous improvement at all levels and facilitate opportunities for growth to employees without discrimination.

Further, an employee code of conduct has been finalized and disseminated throughout the organisation and has also been placed on the Company's official web-site as per the requirement of Code of Corporate Governance 2012.

## Corporate Social Responsibility

The Company management strongly believes that every business entity needs to contribute to the well-being of its surrounding communities for a better and prospering nation. In this connection we try to induct employees from surrounding rural and underdeveloped communities. Further, we have constructed staff residence, a hospital and a school within our factory premises. We have also established a permanent mosque and a plant for the pure drinking water over there to facilitate not only our staff but the poor people of Nooriabad.

## Auditors

The present external auditors M/s. H.A.M.D & Co., Chartered Accountants, have retired and offered themselves for reappointment. The same is also recommended by the Audit Committee.

## Corporate and Financial Reporting Framework

Management of the Company is committed to good corporate governance and complying with the requirements of the best practices of the Code of Corporate Governance as required by Securities and Exchange Commission of Pakistan (SECP). The Board acknowledges its responsibility in respect of the Corporate and Financial Reporting framework and thus states that:

- 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.
- Proper books of accounts have been maintained by the Company.
- Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgement.
- International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there from has been adequately disclosed.
- The system of internal control is sound in design and has been effectively implemented and monitored.
- There are no significant doubts upon the Company's ability to continue as a going concern.
- There has been no material departure from the best practices of corporate governance, as detailed in Listing Regulations.
- Due to threat from Chinese steel industry as discussed above, the directors are focused towards business growth and have accordingly decided not to issue cash dividend. Further, Directors of the company also observed that issuance of bonus shares will dilute the value of shares in the market.
- The summary of key operating and financial data of the Company for the last ten years is annexed to this report.
- The value of non funded staff gratuity at close of the year was Rs. 91.480 million.

During the year under review five meetings of the Board of Directors were held. Attendance by each director was as follows:

| Board / Sub Committee | Board Meeting | Audit Committee | Human Resources & Remuneration Committee |
|---|---|---|---|
| | Total number of meetings held during the year | | |
| | 6 | 5 | 1 |
| Mr. Yousuf Mohamed Y. Najibi (UAE) | — | — | — |
| Mr. Nabil Abdul Rahman Ahmad Arif (UAE) | — | — | — |
| Mr. Abdul Aziz Eshaq A.Rahman (UAE) | — | — | — |
| Mr. Muhammad Hafiz (UK) | 5 | 5 | 1 |
| Mr. Arshad Ahmed (UK) | 5 | 5 | — |
| Hafiz Abdul Waheed | 4 | — | — |
| Hafiz Abdul Sami | 6 | 5 | — |
| Hafiz Abdul Aleem | 4 | — | — |
| Hafiz Abdul Majid | 6 | — | 1 |
| Hafiz Abdul Haseeb | 5 | — | 1 |

Leave of absence was granted to Directors who could not attend some of the board meetings.

## Pattern of Shareholding

A statement of the pattern of shareholding of certain classes of shareholders as at 30 June 2016, whose disclosure is required under the reporting framework, is included in the report.

The Directors, CEO, CFO, Company Secretary and their spouses or minor children did not carry out any trade in the shares of the Company during the year, except as disclosed in the pattern of shareholding.

## Future Outlook and Challenges

We have an optimistic outlook for the financial year ending June 2017 because:

1. Government's intention to increase gas supply whether through TAPI gas pipe line from Central Asia to Pakistan and India or through Thar coal will certainly increase the demand of our seamless pipes.
2. Government is importing LNG which will have positive impact on the demand of our seamless pipes.

However, being an import oriented industry; we may face challenges of deteriorating security situation in the country and rapidly rising rate of dollar while China threat has already been explained above.

The Company's management is making all efforts to improve the capacity utilization of its existing operations. We are also laying emphasis on our internal operational efficiencies by rationalization of the processes for improved quality, making all efforts to acquire the material at competitive price and reduce the cost of doing business.

## Training program attended by the directors

The Board has been provided with detailed in-house briefings and information package to acquaint them with the Code of Corporate Governance, applicable laws, their duties and responsibilities to enable them to effectively manage the affairs of the Company, for and on behalf of the shareholders. All the Directors, other than seven Directors have completed Directors' Training Program required by the Code as the other seven directors possess experience of more than 15 years on the board of a listed company and education of more than 14 years, they are exempted from the directors' training program as per clause xi of the Code.

## Definition of Executive

As per the requirement of Clause xvi (l) of the Code of Corporate Governance 2012, from the subsequent year the BOD has set a threshold of Rs 1.2 million (i.e. Gross salary not less than one lac per month) for the definition of Executive. Now, for our company Executive means CEO, CFO, Company Secretary and other employees of the company whose gross salary exceed Rs 1,200,000 per annum.

## Stakeholders

Customer satisfaction is vital for us to meet our long term objectives. We would like to express our thanks to our customers for their support and look forward to seeking their continuous patronage.

Our thanks also go to the financial institutions and shareholders for their continued support which is a key to success of the Company.

Our employees have contributed significantly to delivering a good result and continue to remain committed. Our long term growth has been possible as a result of their continuous commitment which has ensured a base for the Company. On behalf of the Directors we are pleased to record our appreciation.

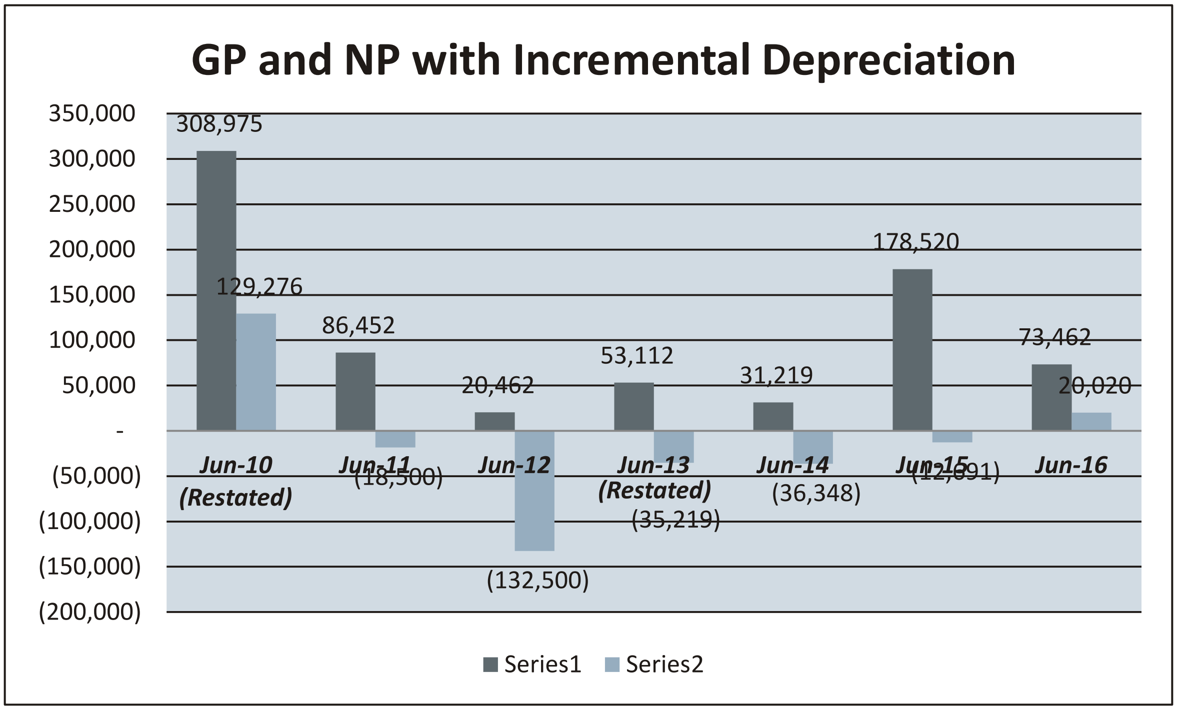
**Hafiz Abdul Majid**
Chief Executive

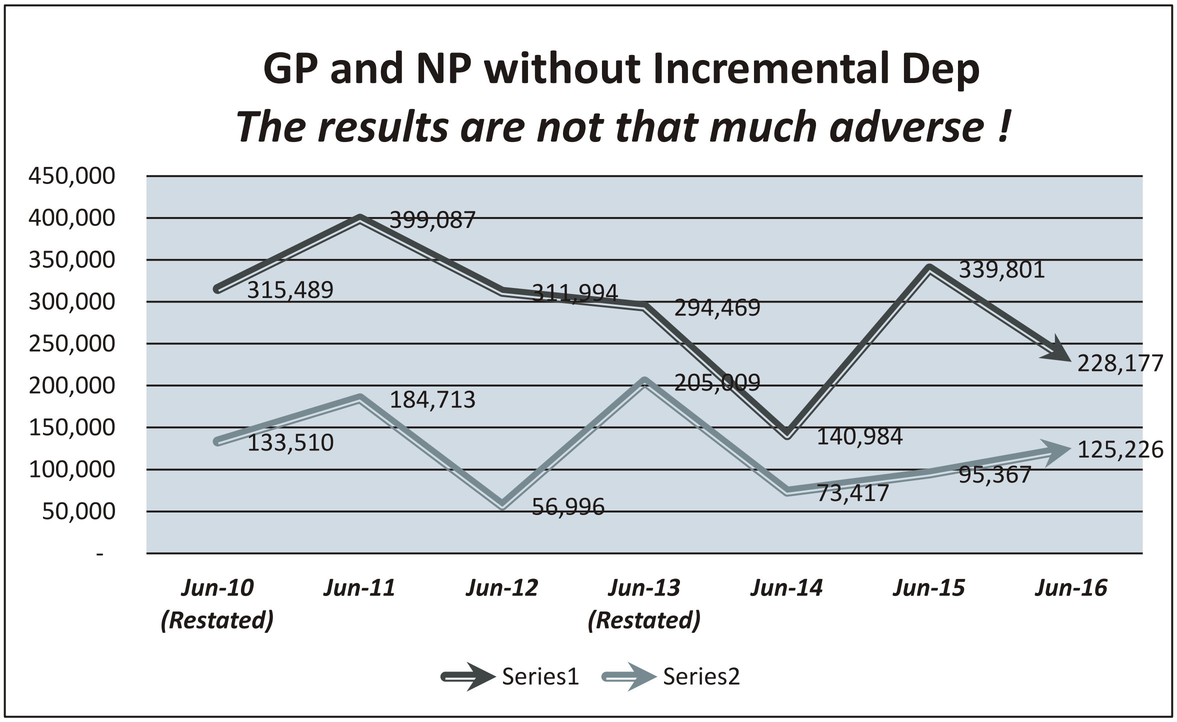
Karachi: September 05, 2016.

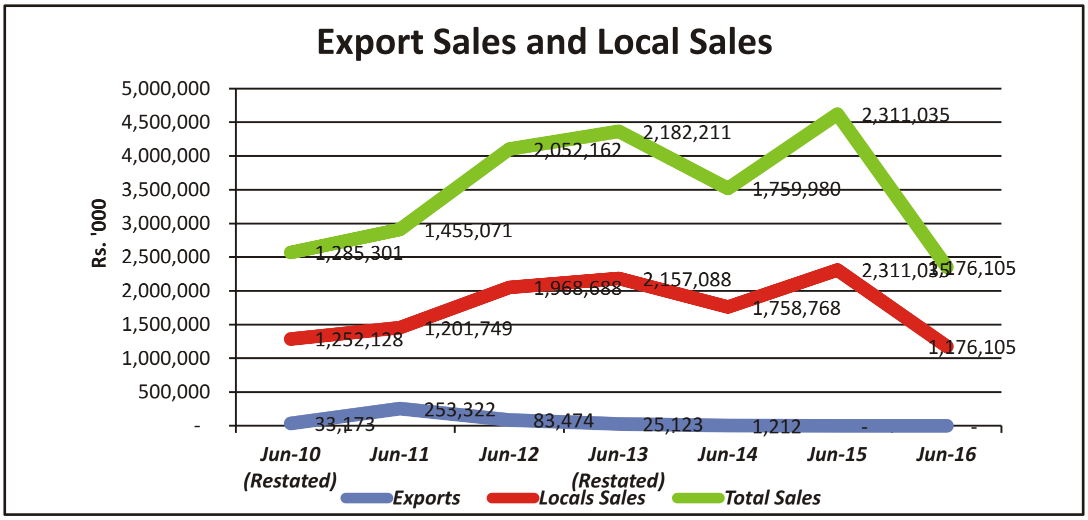
# Decade at a Glance

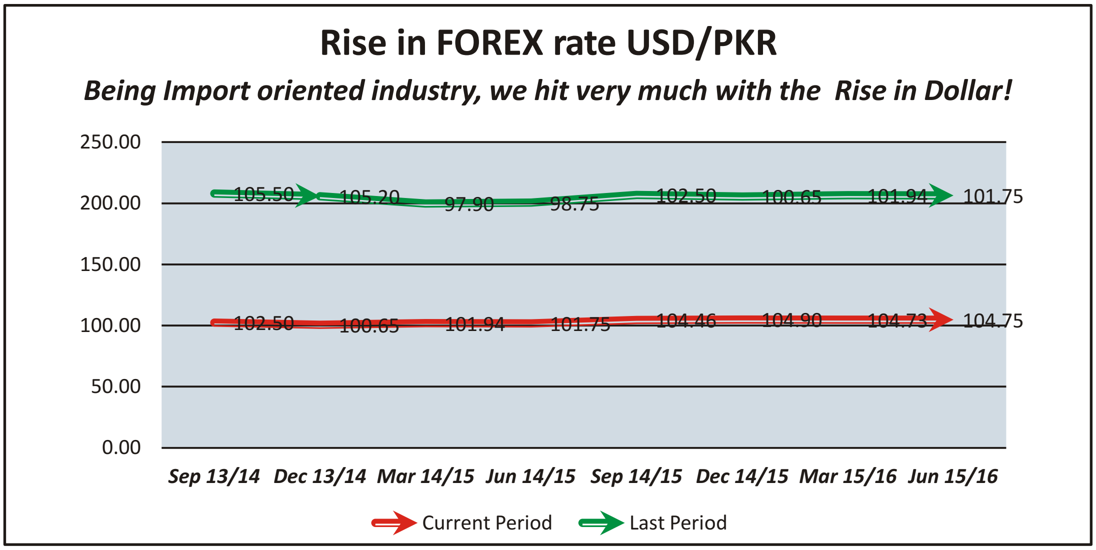
| Product: Seamless Steel Pipes and Tubes<br>Location of H/O: Karachi<br>Location of Plant Nooriabad<br>CEO: Hafiz Abdul Majid | | Year Ended | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | June 30 2016 | June 30 2015 | June 30 2014 | June 30, 2013 Restated | June 30, 2012 | June 30, 2011 | June 30, 2010 Restated | June 30, 2009 Restated | June 30, 2008 | June 30, 2007 |
| | | Rs. '000' | | | | | | | | | |
| Balance sheet data | Cash | **104,273** | 5,787 | 88,962 | 215,216 | 29,190 | 31,601 | 31,797 | 12,231 | 61,660 | 18,860 |
| | Receivables | **88,656** | 421,027 | 102,396 | 179,542 | 127,693 | 191,980 | 96,457 | 128,827 | 100,585 | 63,710 |
| | Stores & spares | **81,376** | 97,521 | 73,966 | 83,546 | 69,809 | 47,686 | 55,481 | 51,500 | 39,789 | 38,116 |
| | Inventory | **1,258,474** | 901,281 | 901,521 | 489,369 | 1,152,216 | 746,597 | 832,643 | 779,263 | 172,381 | 344,924 |
| | Other current assets | **173,386** | 73,981 | 111,773 | 163,789 | 99,473 | 176,758 | 118,015 | 88,476 | 136,203 | 78,401 |
| | Non-current assets | **5,643,169** | 5,770,570 | 5,970,919 | 6,158,807 | 6,532,584 | 4,998,612 | 5,074,621 | 1,743,351 | 1,262,898 | 1,233,027 |
| | Total assets | **7,349,334** | **7,270,167** | **7,249,537** | **7,290,269** | **8,010,965** | **6,193,234** | **6,209,014** | **2,803,648** | **1,773,516** | **1,777,038** |
| | Account payables | **1,095,193** | 1,090,016 | 938,391 | 845,729 | 1,193,299 | 971,110 | 790,747 | 751,134 | 389,479 | 487,387 |
| | Other current liabilities | **861** | 1,551 | 68,675 | 88,512 | 261,090 | 119,187 | 118,336 | 47,868 | 52,124 | 22,848 |
| | Long term liability | **1,351,867** | 1,428,619 | 1,670,859 | 1,744,904 | 1,907,649 | 1,413,146 | 1,508,415 | 334,309 | 135,101 | 144,493 |
| | Surplus on revaluation of land and building | **3,343,817** | 3,391,585 | 3,328,901 | 3,438,666 | 3,680,023 | 2,700,086 | 2,903,298 | 915,629 | 685,194 | 689,322 |
| | Sponsors loan | **79,222** | 15,074 | — | — | — | — | — | — | 60,260 | 72,144 |
| | Paid-up capital | **554,844** | 554,844 | 554,844 | 554,844 | 554,844 | 554,844 | 554,844 | 341,442 | 218,873 | 182,394 |
| | Share Premium | **109,437** | 109,437 | 109,437 | 109,437 | 109,437 | 109,437 | 109,437 | 109,437 | — | — |
| | Retained earning/ (loss) | **774,093** | 639,041 | 538,430 | 468,177 | 264,623 | 285,424 | 183,937 | 263,829 | 192,485 | 138,450 |
| | Reserves | **40,000** | 40,000 | 40,000 | 40,000 | 40,000 | 40,000 | 40,000 | 40,000 | 40,000 | 40,000 |
| | Total equity & liabilities | **7,349,334** | **7,270,167** | **7,249,537** | **7,290,269** | **8,010,965** | **6,193,234** | **6,209,014** | **2,803,648** | **1,773,516** | **1,777,038** |
| Income statement data | Net Sale | **1,002,394** | 1,973,972 | 1,518,120 | 2,182,211 | 2,052,162 | 1,455,071 | 1,285,301 | 1,323,255 | 1,024,185 | 855,660 |
| | Cost of goods sold | **928,932** | 1,759,452 | 1,486,901 | 2,129,099 | 2,031,700 | 1,368,619 | 976,326 | 1,026,796 | 811,567 | 701,040 |
| | Gross profit | **73,462** | 178,520 | 31,219 | 53,112 | 20,462 | 86,452 | 308,975 | 296,459 | 212,618 | 154,620 |
| | Administration, selling and Other expenses | **37,022** | 199,905 | 51,793 | 96,186 | 145,740 | 50,113 | 46,107 | 57,040 | 47,556 | 31,054 |
| | Operating Profit or Loss (EBIT) | **36,440** | (21,385) | (20,574) | (43,074) | (125,278) | 36,339 | 262,868 | 239,419 | 165,062 | 123,566 |
| | Financial charges | **32,053** | 37,117 | 34,330 | 58,431 | 76,490 | 74,805 | 38,830 | 17,489 | 10,868 | 15,292 |
| | EBT | **4,387** | (58,502) | (54,904) | (101,505) | (201,768) | (38,466) | 224,038 | 221,930 | 154,194 | 108,274 |
| | Taxation | **15,633** | 45,811 | (18,556) | (66,286) | (69,268) | (19,966) | 81,877 | 78,804 | 57,345 | 16,656 |
| | Net profit (PAT) | **20,020** | (12,691) | (36,348) | (35,219) | (132,500) | (18,500) | 129,276 | 143,126 | 96,850 | 87,484 |
| | Depreciation and Amortization | **202,492** | 211,126 | 220,088 | 460,766 | 386,882 | 395,416 | 77,262 | 58,379 | 53,062 | 37,688 |
| Liquidity | Cash flow from operation | **44,134** | (9,063) | (58,946) | 537,076 | 62,828 | 436,031 | 238,921 | 41,651 | 219,293 | 262,964 |
| | Net working capital | **610,111** | 408,030 | 271,552 | 197,221 | 23,992 | 104,325 | 225,310 | 261,295 | 69,015 | 33,776 |
| | Current ratio | **1.56** | 1.37 | 1.27 | 1.21 | 1.02 | 1.10 | 1.25 | 1.33 | 1.16 | 1.07 |
| | Quick ratio | **0.33** | 0.46 | 0.30 | 0.60 | 0.18 | 0.37 | 0.27 | 0.29 | 0.68 | 0.32 |
| | Payable/receivable | **4.18** | 2.21 | 4.70 | 2.72 | 6.40 | 2.96 | 4.24 | 3.68 | 1.86 | 3.59 |
| | Cash flow/ total debt | **1.75%** | -0.36% | -2.20% | 20.05% | 1.87% | 17.42% | 9.88% | 3.68% | 34.43% | 36.18% |
| Activity | Inventory age (days) | **494** | 187 | 221 | 84 | 207 | 199 | 311 | 277 | 78 | 180 |
| | Collection period (days) | **32** | 78 | 25 | 30 | 23 | 48 | 27 | 36 | 36 | 27 |
| | Operating assets turnover | **0.18** | 0.34 | 0.25 | 0.35 | 0.31 | 0.29 | 0.25 | 0.76 | 0.81 | 0.69 |
| Profitability | Gross profit margin | **7%** | 9% | 2% | 2% | 1% | 6% | 24% | 22% | 21% | 18% |
| | Net profit margin | **2%** | -1% | -2% | -2% | -6% | -1% | 10% | 11% | 9% | 10% |
| | Return on capital | **0.7%** | -0.5% | -1.3% | -1.2% | -4.7% | -0.8% | 5% | 14% | 16% | 16% |
| | Return on operating assets | **0.4%** | -0.2% | -0.6% | -0.6% | -2.0% | -0.4% | 3% | 8% | 8% | 7% |
| | Return on equity | **1%** | -1% | -3% | -3% | -14% | -2% | 15% | 19% | 21% | 24% |
| Per share data | Revenue per share | **18** | 36 | 27 | 39 | 37 | 26 | 23 | 39 | 47 | 47 |
| | Earning per share (Rs) | **0.36** | (0.23) | (0.66) | (0.63) | (2.39) | (0.33) | 2.33 | 4.19 | 4.42 | 4.80 |
| | Face value of share | **10** | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 | 10 |
| | Break-up value per share | **27** | 24 | 22 | 21 | 17 | 18 | 16 | 22 | 21 | 20 |
| | Earning per break-up value of share | **0.14** | (0.09) | (0.29) | (0.30) | (1.37) | (0.19) | 1.46 | 1.90 | 2.15 | 2.42 |
| | Earning per share % of face value | **4%** | -2% | -7% | -6% | -24% | -3% | 23% | 42% | 44% | 48% |
| | Earning per share % of break-up value | **1%** | -1% | -3% | -3% | -14% | -2% | 15% | 19% | 21% | 24% |
| Share trend | High stock price-at end | **17.50** | 18.24 | 20.70 | 22.29 | 23.49 | 12.20 | 40.80 | 51.30 | 70.00 | 90.00 |
| | Low stock price-at end | **17.50** | 18.22 | 20.70 | 22.20 | 23.00 | 11.81 | 14.20 | 25.75 | 67.63 | 88.00 |
| | Average stock price-at end | **17.50** | 18.23 | 20.70 | 22 | 23 | 12 | 27.50 | 38.53 | 68.82 | 89.00 |
| | Growth since last year (Rs) | **(1)** | (2) | (2) | (1) | 11 | (15) | (11.03) | (30.29) | (20.19) | 36.80 |
| | Growth since last Year % | **- 4%** | -12% | -7% | -4% | 93% | -56% | -29% | -44% | -23% | 70% |
| | Price earning ratio- at average price | **48.50** | (79.70) | (31.60) | (35.12) | (9.69) | (36.00) | 11.80 | 9.19 | 15.55 | 18.56 |
| Plant capacity (M.Tons) | Seamless Tubular | | | | | | | | | | |
| | Installed Capacity | **100,000** | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 | 100,000 |
| | Utilized Capacity | **8,652** | 12,196 | 10,925 | 13,826 | 13,958 | 13,456 | 11,288 | 13,446 | 13,100 | 14,529 |
| | Coating of pipes and tubes | | | | | | | | | | |
| | Installed Capacity | **50,000** | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 | — | — |
| | Utilized Capacity | **4,512** | 5,329 | 1,204 | 5,197 | 1,617 | — | — | — | — | — |
| | Machinery and components | | | | | | | | | | |
| | Installed Capacity | **3,500** | 3,500 | 3,500 | 3,500 | 3,500 | 3,500 | 3,500 | 3,500 | 3,500 | 3,500 |
| | Utilized Capacity | **—** | — | 757 | 455 | 764 | 463 | 513 | 453 | 480 | 436 |

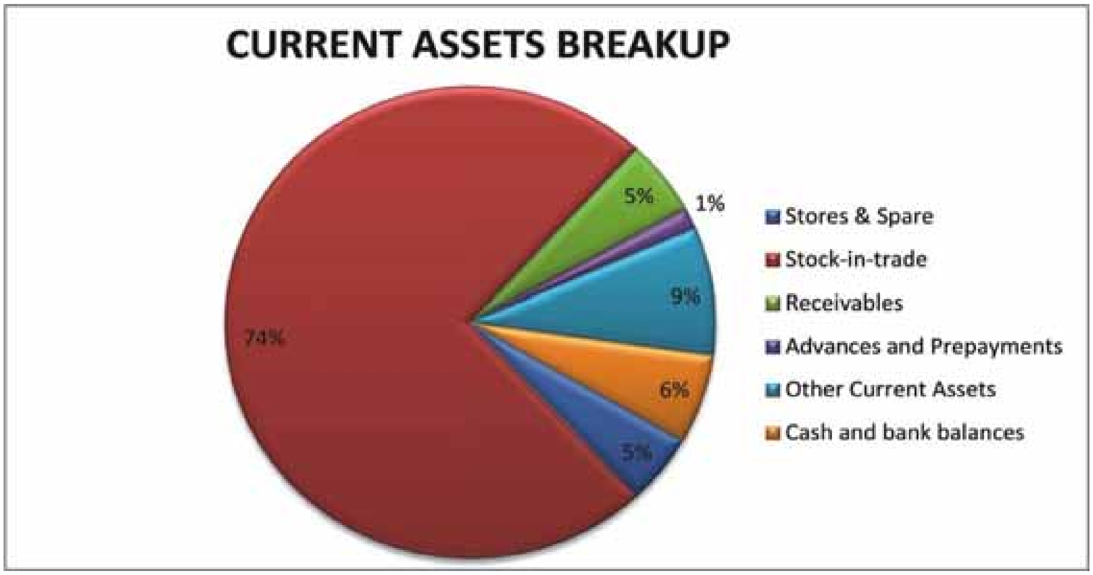
## Diagrammatical Performance Review

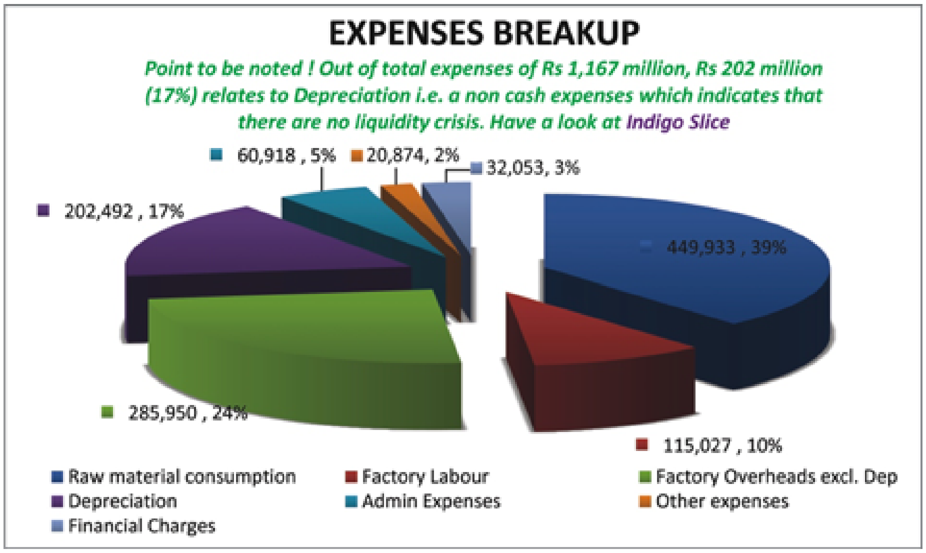


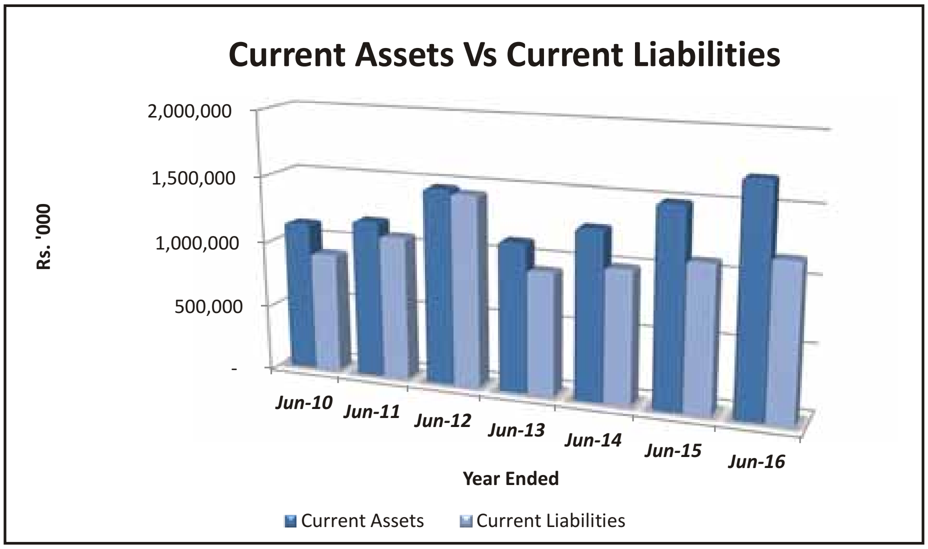



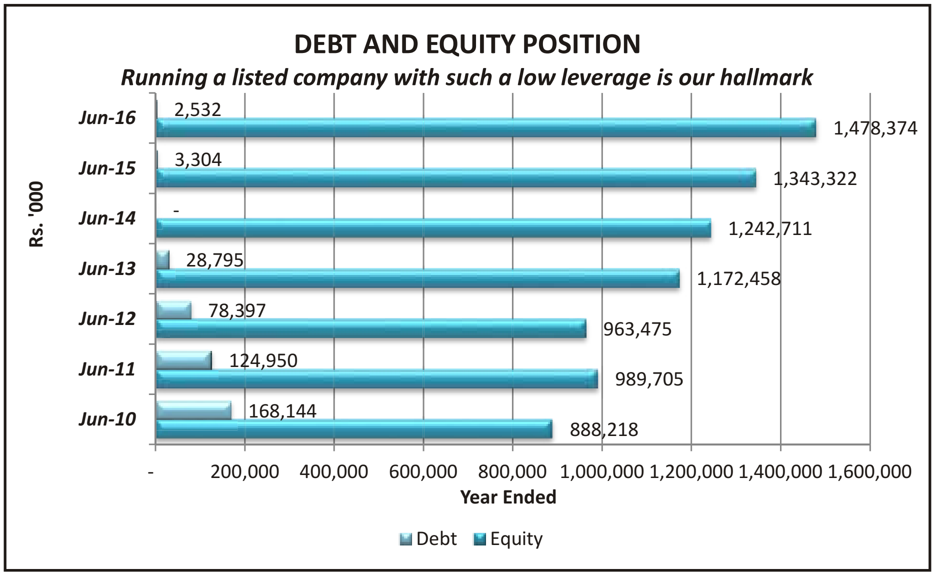

Export Sales and Local Sales
Rs. '000
5,000,000
4,500,000
4,000,000
3,500,000
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
-
1,285,301
1,455,071
2,052,162
2,182,211
1,759,980
2,311,035
1,176,105
1,252,128
1,201,749
1,968,688
2,157,088
1,758,768
2,311,035
1,176,105
33,173
253,322
83,474
25,123
1,212
-
-
Jun-10 (Restated)
Jun-11
Jun-12
Jun-13 (Restated)
Jun-14
Jun-15
Jun-16
Exports
Locals Sales
Total Sales

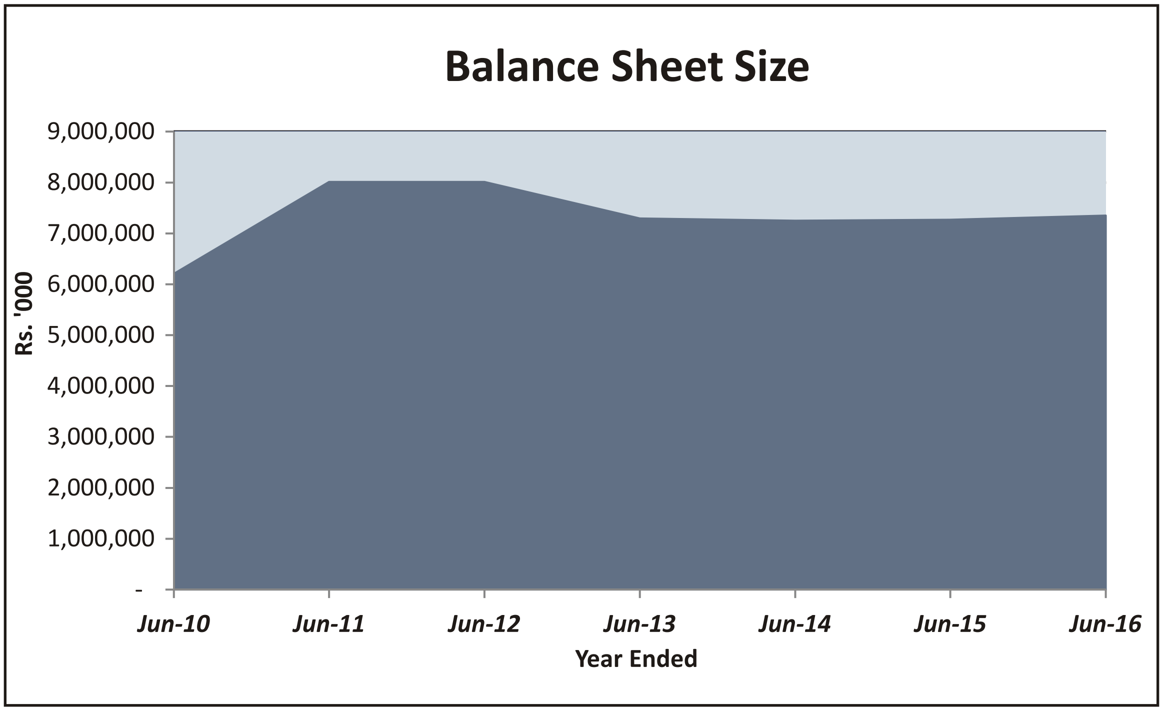

Rise in FOREX rate USD/PKR
Being Import oriented industry, we hit very much with the Rise in Dollar!
250.00
200.00
150.00
100.00
50.00
0.00
105.50
105.20
97.90
98.75
102.50
100.65
101.94
101.75
102.50
100.65
101.94
101.75
104.46
104.90
104.73
104.75
Sep 13/14
Dec 13/14
Mar 14/15
Jun 14/15
Sep 14/15
Dec 14/15
Mar 15/16
Jun 15/16
Current Period
Last Period

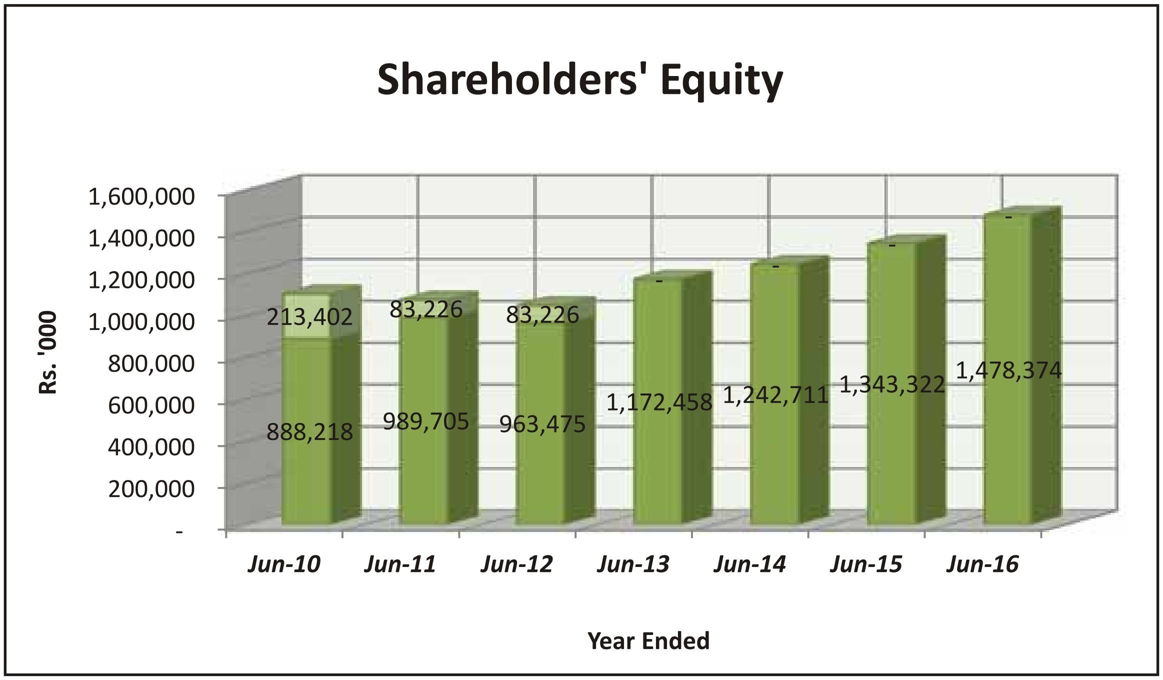

CURRENT ASSETS BREAKUP
5%
1%
9%
6%
5%
74%
Stores & Spare
Stock-in-trade
Receivables
Advances and Prepayments
Other Current Assets
Cash and bank balances


EXPENSES BREAKUP
Point to be noted ! Out of total expenses of Rs 1,167 million, Rs 202 million (17%) relates to Depreciation i.e. a non cash expenses which indicates that there are no liquidity crisis. Have a look at Indigo Slice
60,918 , 5%
20,874, 2%
32,053, 3%
202,492 , 17%
449,933 , 39%
285,950 , 24%
115,027 , 10%
Raw material consumption
Factory Labour
Factory Overheads excl. Dep
Depreciation
Admin Expenses
Other expenses
Financial Charges


Current Assets Vs Current Liabilities
Rs. '000
2,000,000
1,500,000
1,000,000
500,000
-
Jun-10
Jun-11
Jun-12
Jun-13
Jun-14
Jun-15
Jun-16
Year Ended
Current Assets
Current Liabilities


DEBT AND EQUITY POSITION
Running a listed company with such a low leverage is our hallmark
Rs. '000
Jun-16
2,532
1,478,374
Jun-15
3,304
1,343,322
Jun-14
-
1,242,711
Jun-13
28,795
1,172,458
Jun-12
78,397
963,475
Jun-11
124,950
989,705
Jun-10
168,144
888,218
-
200,000
400,000
600,000
800,000
1,000,000
1,200,000
1,400,000
1,600,000
Year Ended
Debt
Equity


Balance Sheet Size
9,000,000
8,000,000
7,000,000
6,000,000
5,000,000
4,000,000
3,000,000
2,000,000
1,000,000
-
Rs. '000
Jun-10
Jun-11
Jun-12
Jun-13
Jun-14
Jun-15
Jun-16
Year Ended


Shareholders' Equity
1,600,000
1,400,000
1,200,000
1,000,000
800,000
600,000
400,000
200,000
-
Rs. '000
213,402
83,226
83,226
888,218
989,705
963,475
1,172,458
1,242,711
1,343,322
1,478,374
Jun-10
Jun-11
Jun-12
Jun-13
Jun-14
Jun-15
Jun-16
Year Ended

# Statement of Compliance

## With the Code of Corporate Governance

This statement is being presented to comply with the Code of Corporate Governance (the "Code") contained in the listing regulations of Pakistan Stock Exchanges for the purpose of establishing a framework of good governance, whereby a listed company is managed in compliance with the best practices of corporate governance.

Huffaz Seamless Pipe Industries Limited (the Company) has applied the principles contained in the Code in the following manner:

1. The Company encourages representation of independent non-executive directors and directors representing minority interests on its Board of Directors (the Board). At present, the Board constitutes of:

| Category | Names |
|---|---|
| Executive Directors | Hafiz Abdul Majid (CEO)<br>Hafiz Abdul Haseeb |
| Non-Executive Directors | Mr. Yousuf Mohamed Y. Najibi<br>Mr. Nabil Abdul Rahman Ahmad Arif<br>Mr. Abdul Aziz Eshaq A. Rehman<br>Mr. Muhammad Hafiz<br>Mr. Arshad Ahmed<br>Hafiz Abdul Waheed<br>Hafiz Abdul Sami<br>Hafiz Abdul Aleem |

Syed Arsalan Sadiq, Independent director has tendered his resignation on March 01, 2016 (with immediate effect) and now management of the company is searching a suitable person as per CCG-2012 to fill the casual vacancy.

2. The directors have confirmed that none of them is serving as a director on more than seven listed companies, including the Company.

3. All the resident directors of the Company are registered as taxpayers and none of them has defaulted in payment of any loan to a banking company, a DFI or an NBFI or, being a member of a stock exchange, has been declared as a defaulter by that stock exchange.

4. No casual vacancy occurred in the Board during the year except independent Director who tendered his resignation on March 01, 2016.

5. The Company has prepared a "Code of Conduct" which has been placed on the Company's website. The Company has ensured that appropriate steps have been taken to disseminate it throughout the Company along with its supporting policies and procedures.

6. Management has developed a vision / mission statement, overall corporate strategy and significant policies of the Company which have been approved by the Board. A complete record of particulars of significant policies along with the dates on which they were approved or amended has been properly maintained.

7. All the powers of the Board have been duly exercised and decisions on material transactions, including appointment and determination of remuneration and terms and conditions of employment of the CEO, other executive and non-executive directors, have been taken by the Board.

8. The meetings of the Board were presided over by the Chairman and, in his absence, by a director elected by the Board for this purpose and the Board met at least once in every quarter. Written notices of the Board meetings, along with agenda and working papers,were circulated at least seven days before the meetings. The minutes of the meetings wereappropriately recorded and circulated.

9. The training of the directors is an ongoing process and the directors, on a regular basis, are provided with and are presented and updated on relevant laws, Code and guidelines on best practices of corporate governance. As at June 30, 2016 four directors have completed the director's training program as required by the Code. Remaining Seven Directors claimed the exemption as per CCG-2012.

10. No new appointment of Chief Financial Officer (CFO), Company Secretary or Head of Internal Audit has been made during the year.

11. The directors' report for this year has been prepared in compliance with the requirements of the Code and fully describes the salient matters required to be disclosed.

12. The financial statements of the Company were duly endorsed by CEO and CFO before approval of the Board.

13. The Directors, CEO and executives do not hold any interest in the shares of the Company other than that disclosed in the pattern of shareholding.

14. The Company has complied with all the corporate and financial reporting requirements of the Code.

15. The Board has formed an Audit Committee. It comprises of four members all of them are non- executive directors.

16. The meetings of the audit committee were held at least once every quarter prior to approval of interim and final results of the Company and as required by the Code. The terms of reference (TORs) of the committee have been formed and advised to the committee for compliance.

17. The Board has formed a Human Resource and Remuneration Committee. It comprises of five members, of whom two are executive directors and three are non-executive directors including the chairman of the committee.

18. Head of Internal Auditor is a Chartered Accountant who are considered suitably qualified and experienced for internal audit function and are conversant with the policies and procedures of the Company.

19. The statutory auditors of the Company have confirmed that they have been given a satisfactory rating under the quality control review program of The Institute of Chartered Accountants of Pakistan (ICAP), that they or any of the partners of the firm, their spouses and minor children do not hold shares of the Company and that the firm and all its partners are in compliance with International Federation of Accountants (IFAC) guidelines on code of ethics as adopted by ICAP.

20. The statutory auditors or persons associated with them have not been appointed toprovide other services except in accordance with the listing regulations and the auditorshave confirmed that they have observed IFAC guidelines in this regard.

21. The 'closed period', prior to the announcement of interim / final results, and business decisions, which may materially affect the market price of Company's securities, was determined and intimated to directors, employees and stock exchange(s).

22. Material / price sensitive information has been disseminated among all market participants at once through stock exchange(s).

23. A mechanism has been developed for an annual evaluation of the Board's own performance approved by the Board.

24. We confirm that all material principles enshrined in the Code have been complied as per requirement of the Code except to fill the casual vacancy of Independent Director.

**HAFIZ ABDUL MAJID**
Chief Executive Officer

Karachi:
Dated: September 05, 2016

# Review Report to the Members on the Statement of Compliance With the Code of Corporate Governance

We have reviewed the enclosed Statement of Compliance with the best practices contained in the Code of Corporate Governance (the Code) prepared by the Board of Directors of Huffaz Seamless Pipe Industries Limited (the Company) for the year ended June 30, 2016 to comply with the requirements of listing regulations of Karachi and Lahore Stock Exchanges (now Pakistan Stock Exchange). The responsibility for compliance with the Code is that of the Board of Directors (the Board) of the Company. Our responsibility is to review, to the extent where such compliance can be objectively verified, whether the Statement of Compliance reflects the status of the Company's compliance with the provisions of the Code and report if it does not and to highlight any non-compliance with the requirements of the Code. A review is limited primarily to inquiries of the Company's personnel and review of various documents prepared by the Company to comply with the Code. As part of our audit of the financial statements we are required to obtain an understanding of the accounting and internal control systems sufficient to plan the audit and develop an effective audit approach. We are not required to consider whether the Board of Directors' statement on internal control covers all risks and controls or to form an opinion on the effectiveness of such internal controls, the Company's corporate governance procedures and risks. The Code requires the Company to place before the Audit Committee, and upon recommendation of the Audit Committee, place before the Board of Directors for their review and approval its related party transactions distinguishing between transactions carried out on terms equivalent to those that prevail in arm's length transactions and transactions which are not executed at arm's length price and recording proper justification for using such alternate pricing mechanism. We are only required and have ensured compliance of this requirement to the extent of approval of the related party transactions by the Board of Directors upon recommendation of the Audit Committee. We have not carried out any procedures to determine whether the related party transactions were undertaken at arm's length price or not. Based on our review, nothing has come to our attention which causes us to believe that the Statement of Compliance does not appropriately reflect the Company's compliance, in all material respects, with the best practices contained in the Code as applicable to the Company for the year ended June 30, 2016. Further, we highlight below instance of non-compliance with the requirement of the Code as reflected in paragraph reference where this is stated in the Statement of Compliance:

| | | |
|---|---|---|
| I. | Paragraph 1 | Effective March 01, 2016, the Company does not have an Independent Director. The Management of the Company is making efforts to make an appointment of Independent Director. |

Chartered Accountants

H.A.M.D. & Co

Engagement Partner
Idrees Dawson - FCA

Date: September 05, 2015
Place: Karachi

H.A.M.D & Co.
Chartered Accountants

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# Auditors' Report to the Members

We have audited the annexed balance sheet of **HUFFAZ SEAMLESS PIPE INDUSTRIES LIMITED** as at **JUNE 30, 2016** and the related profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof, (hereinafter referred to as financial statements), for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Company's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the approved accounting standards and the requirements of the Companies Ordinance, 1984. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:-

(a) in our opinion, proper books of accounts have been kept by the Company as required by the Companies Ordinance, 1984;

(b) in our opinion:

   i. the balance sheet and profit and loss account together with the notes thereon have been drawn up in conformity with the Companies Ordinance, 1984, and are in agreement with the books of accounts, and are further in accordance with the accounting policies consistently applied;

   ii. the expenditure incurred during the year was for the purpose of the company's business; and

   iii. the business conducted, investments made and the expenditures incurred during the year were in accordance with the objects of the Company.

(c) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, statement of comprehensive income, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with approved accounting standards as applicable in Pakistan, and, give the information required by the Companies Ordinance, 1984, in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at June 30, 2016 and of the profit, total comprehensive income, its cash flows and changes in equity for the year then ended; and

(d) in our opinion no Zakat was deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980).

**Chartered Accountants**

H.A.M.D. & Co

Engagement Partner
Idrees Dawson - FCA

Date: September 05, 2015
Place: Karachi

**Head Office Karachi:**
302 Land Mark Plaza, Mohammed Bin Qasim Road, Off I.I. Chundrigarh Road, Karachi.
Tel: 021-32630651, 0321-2560808

**Islamabad Office:**
Suite # 202, 2nd Floor, Royal Center, Fazal-e-Haq Road, Near Old Stock Exchange Building, Islamabad.

**Lahore Office:**
Office No.1, 2nd Floor, Diamond Tower, Opposite Capri Cinema, Liberty Market, Lahore.

# Balance Sheet

As at June 30, 2016

| | Note | 2016 | 2015 |
|---|---|---|---|
| **ASSETS** | | ............. (Rupees in '000) | ............. |
| **Non-current assets** | | | |
| Property, plant and equipment | 4 | **5,634,691** | 5,761,758 |
| Intangible assets | 5 | **1,542** | 1,876 |
| Long-term deposits | 6 | **6,936** | 6,936 |
| | | **5,643,169** | 5,770,570 |
| **Current assets** | | | |
| Stores and spares | 7 | **81,376** | 97,521 |
| Stock-in-trade | 8 | **1,258,474** | 901,281 |
| Trade debts | 9 | **88,656** | 421,027 |
| Loans and advances | 10 | **24,120** | 13,798 |
| Trade and other deposits | 11 | **6,457** | 3,546 |
| Other receivables | 12 | **142,113** | 54,430 |
| Advance tax - net of provision | 13 | **696** | 2,207 |
| Cash and bank balances | 14 | **104,273** | 5,787 |
| | | **1,706,165** | 1,499,597 |
| **TOTAL ASSETS** | | **7,349,334** | **7,270,167** |
| **EQUITY AND LIABILITIES** | | | |
| **Share capital and reserves** | | | |
| Share capital | 15 | **554,844** | 554,844 |
| Share premium | | **109,437** | 109,437 |
| General reserve | | **40,000** | 40,000 |
| Unappropriated profit | | **774,093** | 639,041 |
| **TOTAL EQUITY** | | **1,478,374** | 1,343,322 |
| Surplus on revaluation of property, plant and equipment - net of tax | 16 | **3,343,817** | 3,391,585 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Long-term financing | 17 | **2,532** | 3,304 |
| Deferred liabilities | 18 | **1,349,335** | 1,425,315 |
| | | **1,351,867** | 1,428,619 |
| **Current liabilities** | | | |
| Trade and other payables | 19 | **1,095,193** | 1,090,016 |
| Short-term sponsors' advances | 20 | **79,222** | 15,074 |
| Current portion of non-current liabilities | 21 | **861** | 729 |
| Accrued mark-up | | **—** | 822 |
| | | **1,175,276** | 1,106,641 |
| **TOTAL LIABILITIES** | | **2,527,143** | 2,535,260 |
| **TOTAL EQUITY AND LIABILITIES** | | **7,349,334** | **7,270,167** |
| **CONTINGENCIES AND COMMITMENTS** | 22 | | |

The annexed notes from 1 to 38 form an integral part of these financial statements.

**Hafiz Abdul Majid**
Chief Executive

**Hafiz Abdul Sami**
Director

# Profit and Loss Account
For the year ended June 30, 2016

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | ............ (Rupees in '000) ............ | |
| Net sales | 23 | **1,002,394** | 1,973,972 |
| Cost of sales | 24 | **(928,932)** | (1,795,452) |
| Gross profit | | **73,462** | 178,520 |
| Distribution cost | 25 | **(6,161)** | (72,244) |
| Administrative expenses | 26 | **(62,970)** | (70,241) |
| | | **(69,131)** | (142,485) |
| | | **4,331** | 36,035 |
| Other operating expenses | 27 | **(14,713)** | (69,204) |
| Other income | 28 | **46,822** | 11,784 |
| | | **36,440** | (21,385) |
| Finance cost | 29 | **(32,053)** | (37,117) |
| Profit / (Loss) before taxation | | **4,387** | (58,502) |
| Taxation | 30 | **15,633** | 45,811 |
| Profit / (Loss) for the year | | **20,020** | **(12,691)** |
| | | .................. (Rupees) .................... | |
| Earnings / (loss) per share - basic and diluted | 31 | **0.36** | **(0.23)** |
| | | ..............(Rupees in '000)............... | |
| Earnings before interest, tax, depreciation and amortisation (EBITDA) | | **235,691** | **185,901** |

The annexed notes from 1 to 38 form an integral part of these financial statements.

**Hafiz Abdul Majid**
Chief Executive

**Hafiz Abdul Sami**
Director

# Statement of Comprehensive Income
For the year ended June 30, 2016

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | ............ (Rupees in '000) ............ | |
| Profit / (Loss) for the year | | **20,020** | (12,691) |
| **Other comprehensive income** | | | |
| *Items that will be reclassified subsequently to profit and loss account* | | — | — |
| *Items that will not be reclassified subsequently to profit and loss account* | | | |
| – Remeasurement of defined benefit obligation | 19.1.5 | **14,037** | 7,492 |
| – Impact of tax | 18.2 | **(4,211)** | (2,248) |
| | | **9,826** | 5,244 |
| **Total comprehensive income for the year** | | **29,846** | **(7,447)** |

The annexed notes from 1 to 38 form an integral part of these financial statements.

**Hafiz Abdul Majid**
Chief Executive

**Hafiz Abdul Sami**
Director

# Cash Flow Statement

For the year ended June 30, 2016

| | 2016 | 2015 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | ............ (Rupees in '000) | ............ |
| Profit / (Loss) before taxation | **4,387** | (58,502) |
| Adjustments for: | | |
| Depreciation | **202,492** | 210,792 |
| Amortisation | **334** | 334 |
| Finance cost | **32,053** | 37,117 |
| Property, plant and equipment written-off | **—** | 13,862 |
| Guarantee margin written-off | **—** | 10,744 |
| Workers' Welfare Fund | **3,818** | 2,151 |
| Provision for compensated absences | **—** | 5,835 |
| Provision for staff gratuity | **16,427** | 19,866 |
| | **255,124** | 300,701 |
| Operating cash flows before working capital changes | **259,511** | 242,199 |
| **Changes in working capital** | | |
| **(Increase) / decrease in current assets** | | |
| Stores and spares | **16,145** | (23,555) |
| Stock-in-trade | **(357,193)** | 240 |
| Trade debts | **332,371** | (318,631) |
| Loans and advances, trade and other deposits and other receivables | **(100,916)** | 4,833 |
| | **(109,593)** | (337,113) |
| **Increase in current liabilities** | | |
| Trade and other payables | **(29,966)** | 119,308 |
| Cash generated from operations | **119,952** | 24,394 |
| Finance cost paid | **(9,694)** | (8,192) |
| Compensated absences paid | **(234)** | (479) |
| Staff gratuity paid | **(8,401)** | (8,115) |
| Workers' Welfare Fund | **—** | (2,095) |
| Income tax paid | **(57,489)** | (13,283) |
| Long-term deposits (paid) / refunded | **—** | (1,293) |
| | **(75,818)** | (33,457) |
| Net cash used in operating activities | **44,134** | (9,063) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Additions to property, plant and equipment | **(9,153)** | (23,346) |
| Net cash used in investing activities | **(9,153)** | (23,346) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Payment made for assets subject to finance lease | **—** | (30,638) |
| Long-term financing paid | **(640)** | (471) |
| Long-term financing received | **—** | 4,504 |
| Short-term sponsors' advances (paid) / received | **64,148** | (22,594) |
| Dividend paid | **(3)** | (1,567) |
| Net cash used in financing activities | **63,505** | (50,766) |
| Net decrease in cash and cash equivalents | **98,486** | (83,175) |
| Cash and cash equivalents at the beginning of the year | **5,787** | 88,962 |
| **Cash and cash equivalents at the end of the year** | **104,273** | **5,787** |

The annexed notes from 1 to 38 form an integral part of these financial statements.

**Hafiz Abdul Majid**
Chief Executive

**Hafiz Abdul Sami**
Director

# Statement of Changes in Equity

For the year ended June 30, 2016

| Particulars | Issued, Subscribed and paid up capital | Share Premium | General Reserve | Unappropriated Profit | Total |
|---|---|---|---|---|---|
| | Rs. '000' | | | | |
| **Balance as at July 1, 2014** | 554,844 | 109,437 | 40,000 | 538,430 | 1,242,711 |
| **Total comprehensive income for the year** | | | | | |
| Loss for the year | — | — | — | (12,691) | (12,691) |
| Other comprehensive income | — | — | — | 5,244 | 5,244 |
| Total comprehensive income for the year | — | — | — | (7,447) | (7,447) |
| Transfer from surplus on revaluation of property, plant and equipment on account of incremental depreciation charged thereon - net of tax | — | — | — | 108,058 | 108,058 |
| **Balance as at June 30, 2015** | **554,844** | **109,437** | **40,000** | **639,041** | **1,343,322** |
| **Total comprehensive income for the year** | | | | | |
| Loss for the year | — | — | — | 20,020 | 20,020 |
| Other comprehensive income | — | — | — | 9,826 | 9,826 |
| Total comprehensive income for the year | — | — | — | 29,846 | 29,846 |
| Transfer from surplus on revaluation of property, plant and equipment on account of incremental depreciation charged thereon - net of tax | — | — | — | 105,206 | 105,206 |
| **Balance as at June 30, 2016** | **554,844** | **109,437** | **40,000** | **774,093** | **1,478,374** |

The annexed notes from 1 to 38 form an integral part of these financial statements.

**Hafiz Abdul Majid**
Chief Executive

**Hafiz Abdul Sami**
Director

# Notes to the Financial Statements

For the year ended June 30, 2016

## 1. STATUS AND NATURE OF BUSINESS

Huffaz Seamless Pipe Industries Limited ("the Company") was incorporated in Pakistan on October 9, 1983 as a public company limited by shares. The shares of the Company are quoted on the Karachi and Lahore Stock Exchanges (now integrated / merged into Pakistan Stock Exchnage). The principal objective and business of the Company is manufacturing and selling of seamless steel pipes and tubes (tubular products). The Company also has a coating facility capable of applying three layer high density polyethylene coating, polypropylene coating and tape coating on steel pipes. The registered office of the Company is situated at 207-210, Mashriq Center, Block 14, Gulshan-e-Iqbal, Karachi and the factory of the Company is located at Nooriabad, District Jamshoro, Sindh.

## 2. BASIS OF PREPARATION

### 2.1 Statement of compliance

These financial statements have been prepared in accordance with approved accounting standards as applicable in Pakistan. Approved accounting standards comprise of such International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) as are notified under the Companies Ordinance, 1984, provisions of and directives issued under the Companies Ordinance, 1984. In case requirements differ, the provisions or directives issued under the Companies Ordinance, 1984 shall prevail.

### 2.2 Basis of measurement

These financial statements have been prepared under the historical cost convention except that:

— the obligations under employees' defined benefit plan are measured at present value; and

— the leasehold land, factory building, plant and machinery and coating sheds are stated at revalued amount.

### 2.3 Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates. The financial statements are presented in Pakistan Rupees, which is the Company's functional and presentation currency. All financial information presented in Pakistan Rupees has been rounded off to nearest Rupees in thousand.

### 2.4 Amendments to accounting standards and new IFRS interpretation that are effective for the year ended June 30, 2016

**2.4.1** The following standards, amendments and interpretations are effective for the year ended June 30, 2016. These standards, interpretations and the amendments are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than certain additional disclosures.

- IFRS 10 – Consolidated Financial Statements
- IFRS 11 – Joint Arrangements
- IFRS 12 – Disclosure of Interests in Other Entities
- IFRS 13 – Fair Value Measurement
- IAS 27 (Revised 2011) – Separate Financial Statements
- IAS 28 (Revised 2011) – Investments in Associates and Joint Ventures

**2.5 New accounting standards and amendments to accounting standards that are not yet effective**

The following new accounting standards and amendments to accounting standards are only effective for accounting periods, beginning on or after the date mentioned against each of them. These standards and amendments are either not relevant to the Company's operations or are not expected to have significant impact on the Company's financial statements other than certain additional disclosures.

| Standards / Amendments | Effective date (accounting periods beginning on or after) |
|---|---|
| – Amendments to IFRS 2 'Share-based Payment' - Clarification on the classification and measurement of share-based payment transactions | January 1, 2018 |
| – Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures' | Deferred indefinitely |
| – Sale or contribution of assets between an investor and its associate or joint venture | January 1, 2016 |
| – Amendments to IFRS 10 'Consolidated Financial Statements', IFRS 12 'Disclosure of Interests in Other Entities' and IAS 28 'Investments in Associates and Joint Ventures' - Investment Entities: Applying the consolidation exception | January 1, 2016 |
| – Amendments to IFRS 11 'Joint Arrangements' - Accounting for acquisitions of interests in joint operations | January 1, 2016 |
| – Amendments to IAS 1 'Presentation of Financial Statements' - Disclosure initiative | January 1, 2016 |
| – Amendments to IAS 7 'Statement of Cash Flows' - Amendments as a result of the disclosure initiative | January 1, 2017 |
| – Amendments to IAS 12 'Income Taxes' - Recognition of deferred tax assets for unrealised losses | January 1, 2017 |
| – Amendments to IAS 16 'Prperty Plant and Equipment' and IAS 38 'Intangible Assets' - Clarification of acceptable methods of depreciation and amortization | January 1, 2016 |
| – Amendments to IAS 16 'Prperty Plant and Equipment' and IAS 41 'Agriculture' - Measurement of bearer plants | January 1, 2016 |
| – Amendments to IAS 27 'Separate Financial Statements' - Equity method in separate financial statements | January 1, 2016 |

Other than the aforesaid standards and amendments, the International Accounting Standards Board (IASB) has also issued the following standards which have not been adopted by the Securities and Exchange Commission of Pakistan:

- IFRS 1 – First Time Adoption of International Financial Reporting Standards
- IFRS 9 – Financial Instruments
- IFRS 14 – Regulatory Deferral Accounts
- IFRS 15 – Revenue from Contracts with Customers
- IFRS 16 – Leases

**2.6 Use of estimates and judgements**

The preparation of financial statements in conformity with approved accounting standards, as applicable in Pakistan, requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates underlying the assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The areas where various assumptions and estimates are significant to the Company's financial statements or where judgment was exercised in application of accounting policies are as follows:

**2.6.1 Property, plant and equipment**

The Company's management reviews the rates of depreciation / estimated useful lives used in the calculation of depreciation charge for its property, plant and equipment and the value of the assets for possible impairment at each financial year end. Further, the Company estimates revalued amounts and useful lives of leasehold land, factory building, plant and machinery and coating sheds based on the periodic valuations carried out by independent professional valuers. Any change in estimate in future might affect the carrying amounts of the respective items of property, plant and equipment with a corresponding effect on the depreciation charge, impairment, surplus on revaluation and annual transfer of incremental depreciation from surplus on revaluation of property, plant and equipment account to unappropriated profit together with any tax effect.

**2.6.2 Stock-in-trade and stores and spares**

The Company at each balance sheet date reviews the net realizable value of stock-in-trade and stores and spares to assess any diminution in their respective carrying values. Any change in estimates in future years might affect the carrying amounts of stock-in-trade and stores and spares with a corresponding effect on the profit and loss account of those future years.

**2.6.3 Trade debts and other receivables**

The Company reviews its doubtful trade debts and other receivables at each balance sheet date to assess the adequacy of provision there against. In particular, judgment is required in the estimation of the amount and timing of future cash flows when determining the level of provision required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provision.

**2.6.4 Employee benefits**

The liabilities relating to defined benefit plan - staff gratuity are determined through actuarial valuation using the Projected Unit Credit Method. The method involves making assumptions about discount rates, future salary increases and mortality rates. Due to the long-term nature of these benefits, such estimates are subject to uncertainties. Significant assumptions used to carry out the actuarial valuation have been disclosed in note 19 to these financial statements.

The liability related to compensated absences is determined by the management based on future entitlement of absences of employees.

#### 2.6.5 Taxation

In making estimate for income tax payable by the Company, the Company takes into account the applicable tax laws. Deferred tax asset is recognised for all unused tax losses and available credits to the extent that it is probable that sufficient taxable temporary differences and taxable profits will be available against which such losses and credits can be utilised. Significant judgment is exercised to determine the amount of deferred tax asset to be recognised.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are the same, as those applied in the preparation of financial statements of the Company for the year ended June 30, 2015 and are enumerated as follows:

### 3.1 Property, plant and equipment

#### 3.1.1 Owned assets

The cost of an item of property, plant and equipment is recognised as an asset if it is probable that future economic benefits associated with the item will flow to the entity and the cost of such item can be measured reliably. Recognition of the cost in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by the management. Cost includes expenditure that is directly attributable to the acquisition of an asset including borrowing costs, if any. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Property, plant and equipment (except leasehold land, factory building, plant and machinery and coating sheds) are stated at cost less accumulated depreciation and impairment losses, if any. Factory building, plant and machinery and coating sheds are stated at revalued amount less accumulated depreciation and impairment losses, if any, whereas leasehold land is stated at revalued amount less impairment loss, if any. The value assigned to leasehold land is not amortised as the respective leases are expected to be renewed for further periods on payment of relevant rentals.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and its cost can be reliably measured. Cost incurred to replace a component of an item of property, plant and equipment is capitalised and the asset so replaced is derecognised. Normal repairs and maintenance are charged to the profit and loss account during the period in which they are incurred.

Depreciation is charged on reducing balance method at rates specified in note 4.1. Depreciation on addition is charged from the month the asset is available for use while no depreciation is charged in the month of disposal.

Depreciation methods, useful lives and residual values of each part of property, plant and equipment that is significant in relation to the total cost of the asset are reviewed, and adjusted if appropriate, at each balance sheet date.

Surplus on revaluation of leasehold land, factory building, plant and machinery and coating sheds is credited to the surplus on revaluation account. Revaluation is carried out with sufficient regularity to ensure that the carrying amount of assets does not differ materially from the estimated fair value. To the extent of the incremental depreciation charged on the revalued assets, the related surplus on revaluation of property, plant and equipment (net of deferred taxation) is transferred directly to retained earnings / unappropriated profit.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit and loss account in the year the asset is derecognised. When revalued assets are sold, any related amount included in the revaluation surplus is transferred to retained earnings.

**3.1.2 Leased assets**

Leases which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item are classified as finance leases and are capitalized at the inception of the lease at lower of fair value of leased assets and the present value of minimum lease payments. Other leases are classified as operating leases.

Assets subject to finance lease are stated at revalued amounts less accumulated depreciation and impairment losses, if any. The related obligations of the lease are accounted for as liabilities. Financial charges are allocated to accounting periods in a manner so as to provide a constant periodic rate of charge on the outstanding liability. Assets acquired under finance lease are depreciated over the useful life of the assets commencing from the year in which the leased assets are put into operation. Depreciation and other policies are same as for the owned assets described in note 3.1.1.

**3.1.3 Capital work-in-progress**

These are stated at cost less impairment, if any, and consist of expenditure incurred and advances made in respect of assets in the course of their acquisition, construction and installation. The assets are transferred to relevant category of property, plant and equipment when they are available for intended use.

**3.2 Intangible assets**

Intangible assets are measured on initial recognition at cost. Costs that are directly associated with identifiable software products / licenses controlled by the Company and that have probable economic benefit beyond one year are recognised as intangible assets. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any.

Cost associated with maintaining computer software products are recognised as an expense when incurred.

Intangible assets with finite lives are amortised on a straight line basis over their estimated useful lives as specified in note 5. In respect of additions and disposals of intangible assets during the year, amortisation is charged from the month of acquisition to the month preceding the disposal.

Gain or loss arising from derecognition of an intangible asset is measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit and loss account when the asset is derecognised.

**3.3 Stores and spares**

Stores and spares are stated at lower of weighted average cost and net realisable value, less provision for impairment, if any. Items in transit are valued at cost comprising invoice value plus other charges incurred thereon.

Provision for obsolete and slow moving stores, spares and loose tools is determined based on management's estimate regarding their future usability.

Net realisable value signifies the estimated selling price in the ordinary course of business less the estimated costs necessary to be incurred to make the sale.

**3.4 Stock-in-trade**

These are valued at lower of cost and net realisable value. Cost is determined under the weighted average basis. Cost of work-in-process and finished goods consists of direct materials, labour and applicable production overheads. Net realisable value signifies the estimated selling price in the ordinary course of the business less estimated cost of completion and selling expenses.

Items in transit are valued at cost comprising invoice value plus other charges paid thereon up to the balance sheet date.

Scrap is valued at estimated realisable value.

**3.5 Trade debts and other receivables**

Trade debts and other receivables are recognised initially at fair value and subsequently measured at amortised cost less provision for impairment, if any. A provision for impairment is established when there is an objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Trade debts and other receivables considered irrecoverable are written off.

**3.6 Staff retirement benefits**

Defined benefit plan

The Company operates an unfunded gratuity scheme covering all its permanent employees who have completed the minimum qualifying period of service as defined under the scheme. The Company's obligation under the scheme is determined through actuarial valuation carried out at each year end under the Projected Unit Credit Method. Remeasurements which comprise actuarial gains and losses are recognized immediately in other comprehensive income.

The Company determines the interest expense on the defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then defined benefit liability, taking into account any changes in the defined benefit liability during the period as a result of benefit payments. Interest expense and current service cost are recognized in profit and loss account. The most recent valuation of the scheme was carried out as at June 30, 2016. Details of the scheme are given in note 19.1 of these financial statements.

**3.7 Compensated absences**

The liability for accumulated compensated absences of employees is recognised in the period in which employees render services that increases their entitlement to future compensated absences.

**3.8 Trade and other payables**

Trade and other payables are recognised initially at fair value plus directly attributable cost, if any, and subsequently measured at amortised cost.

**3.9 Markup bearing borrowings**

Loans and borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs, if any. Subsequently, these are measured at amortised cost using the effective interest rate method.

**3.10 Revenue recognition**

Revenue from sale of goods is measured at fair value of the consideration received or receivable. The Company records revenue from sale of goods on dispatch of goods to its customers.

**3.11 Taxation**

**Current**

Provision for current taxation is based on taxable income at the current rates of taxation after taking into account the available tax credits and tax rebates, if any, or on turnover at the specified rate or Alternate Corporate Tax as defined in section 113C of Income Tax Ordinance, 2001, whichever is higher. The charge for the current tax also includes adjustments where necessary, relating to prior years which arise from assessment framed / finalized (if any) during the year.

**Deferred**

Deferred tax is recognised using the balance sheet liability method in respect of all temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and their tax base. This is recognised on the basis of the expected manner of the realisation or settlement of the carrying amount of assets and liabilities using the tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that is no longer probable that the related tax benefit will be realised. The Company also recognises deferred tax liability on surplus on revaluation of property, plant and equipment in accordance with the requirements of International Accounting Standard 12 'Income Taxes'.

**3.12 Borrowing costs**

Borrowing costs are recognised as an expense in the period in which these are incurred using the effective interest rate method except those which are directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale) are capitalised as part of the cost of that asset.

**3.13 Provisions**

A provision is recognised in the balance sheet when the Company has a legal or constructive obligation as a result of past event, it is probable that an outflow of resource embodying economic benefits will be required to settle the obligation and reliable estimate can be made of the amount of obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect current best estimate.

**3.14 Cash and cash equivalents**

For the purpose of cash flow statement, cash and cash equivalents comprise cash and bank balances. Short-term running finances that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of cash flow statement.

**3.15 Foreign currency translations**

Transactions in foreign currencies are initially accounted for in Pakistan Rupees at the foreign exchange rates prevailing on the dates of transactions. Monetary assets and liabilities in foreign currencies are translated into Pakistan Rupees at the rates of exchange prevailing on the balance sheet date. Exchange differences are included in the profit and loss account.

**3.16 Financial instruments**

All financial assets and liabilities are recognized at the time when the Company becomes a party to the contractual provision of instruments. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Any gain or loss on derecognition of the financial assets or liabilities is taken to profit and loss account.

**3.17 Offsetting of financial assets and liabilities**

Financial assets and financial liabilities are offset and the net amount is reported in the financial statements only when there is legally enforceable right to set-off the recognised amounts and the Company intends either to settle on a net basis or to realize the assets and to settle the liabilities simultaneously.

**3.18 Impairment**

**Financial assets**

A financial asset is assessed at each balance sheet date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

**Non-financial assets**

The carrying amounts of non-financial assets, other than inventories and deferred tax asset, are reviewed at each balance sheet date to ascertain whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss is recognised, as an expense in the profit and loss account, for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. Value in use is ascertained through discounting of the estimated future cash flows using a discount rate that reflects current market assessments of the time value of money and the risk specific to the assets. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**3.19 Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting structure. Management monitors the operating results of its products (i.e. production of seamless pipes and coating) separately for the purpose of making decisions regarding resource allocation and performance assessment.

**3.20 Dividend and appropriation to reserves**

Dividend and appropriation to reserves are recognised in the financial statements in the period in which these are approved.

**3.21 Earnings per share**

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | ............ (Rupees in '000) ............ | |
| **4. PROPERTY, PLANT AND EQUIPMENT** | | | |
| Operating fixed assets | 4.1 | **5,586,911** | 5,722,651 |
| Capital work-in-progress | 4.5 | **47,780** | 39,107 |
| | | **5,634,691** | **5,761,758** |

## 4.1 Operating fixed assets

**2016**

| Particulars | Cost/Revaluation: As at July 1, 2015 | Additions | Deletions / Write-off | Surplus / (deficit) during the period | Closing | Depreciation: As at July 1, 2015 | Charge for the Period | Disposal / Write-off | Closing | Book Value as at June 30 2016 | RATE % |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | ........ (Rupees in '000) ........ | | | | | | | | | | |
| **Owned Assets** | | | | | | | | | | | |
| Land - lease hold | 819,375 | — | — | 38,665 | 858,040 | — | — | — | — | 858,040 | — |
| Building - factory | 1,954,578 | 300 | — | 23,755 | 1,978,632 | (195,781) | (44,322) | — | (240,103) | 1,738,529 | 2.5 |
| Coating Sheds | 93,999 | — | — | (5,050) | 88,949 | (9,462) | (2,113) | — | (11,575) | 77,373 | 2.5 |
| Building - head office | 3,233 | — | — | — | 3,233 | (2,874) | (36) | — | (2,910) | 323 | 10 |
| Plant and machinery | 3,753,918 | 70 | — | 8,902 | 3,762,891 | (724,959) | (151,784) | — | (876,743) | 2,886,148 | 5 |
| Furniture and fixtures | 3,239 | — | — | — | 3,239 | (1,848) | (139) | — | (1,987) | 1,252 | 10 |
| Office equipment | 5,361 | 1 | — | — | 5,362 | (3,106) | (225) | — | (3,331) | 2,031 | 10 |
| Electric and gas appliances | 23,614 | 48 | — | — | 23,662 | (9,506) | (1,414) | — | (10,920) | 12,741 | 10 |
| Air conditioners | 1,711 | — | — | — | 1,711 | (1,021) | (69) | — | (1,090) | 621 | 10 |
| Drawings and survey equipment | 363 | — | — | — | 363 | (349) | (1) | — | (350) | 12 | 10 |
| Motor vehicles | 41,118 | 38 | — | — | 41,156 | (31,628) | (1,905) | — | (33,533) | 7,623 | 20 |
| Computer and allied equipment | 9,071 | 22 | — | — | 9,093 | (6,978) | (423) | — | (7,401) | 1,693 | 20 |
| Security weapons | 1,178 | — | — | — | 1,178 | (595) | (58) | — | (653) | 525 | 10 |
| | **6,710,758** | **480** | **—** | **66,272** | **6,777,510** | **(988,107)** | **(202,492)** | **—** | **(1,190,599)** | **5,586,911** | |

**2015**

| Particulars | Cost/Revaluation: As at July 01, 2014 | Addition/ transfer | Disposal / write-off | As at June 30, 2015 | Depreciation: As at July 01, 2014 | Charge for the Year | Disposal / write-off | As at June 30, 2015 | Book Value as at June 30 2015 | RATE % |
|---|---|---|---|---|---|---|---|---|---|---|
| | ........ (Rupees in '000) ........ | | | | | | | | | |
| **Owned Assets** | | | | | | | | | | |
| Land - leasehold | 819,375 | — | — | 819,375 | — | — | — | — | 819,375 | — |
| Building - factory | 1,954,552 | 26 | — | 1,954,578 | 150,684 | 45,097 | — | 195,781 | 1,758,797 | 2.5 |
| Coating sheds | — | — | — | 93,999 | — | 361 | — | 9,462 | 84,537 | 2.5 |
| | | 93,999 | | | | | 9,101 | | | |
| Office premises | 3,233 | — | — | 3,233 | 2,834 | 40 | — | 2,874 | 359 | 10 |
| Plant and machinery | 3,752,773 | 1,145 | — | 3,753,918 | 565,550 | 159,409 | — | 724,959 | 3,028,959 | 5 |
| Furniture and fixtures | 3,239 | — | — | 3,239 | 1,693 | 155 | — | 1,848 | 1,391 | 10 |
| Office equipment | 5,361 | — | — | 5,361 | 2,856 | 250 | — | 3,106 | 2,255 | 10 |
| Electric and gas appliances | 19,377 | 4,237 | — | 23,614 | 8,236 | 1,270 | — | 9,506 | 14,108 | 10 |
| Air conditioners | 1,711 | — | — | 1,711 | 944 | 77 | — | 1,021 | 690 | 10 |
| Drawings and survey equipment | 363 | — | — | 363 | 347 | 2 | — | 349 | 14 | 10 |
| Motor vehicles | 36,113 | 5,005 | — | 41,118 | 29,881 | 1,747 | — | 31,628 | 9,490 | 20 |
| Computer and allied equipment | 8,943 | 128 | — | 9,071 | 6,465 | 513 | — | 6,978 | 2,093 | 20 |
| Security weapons | 1,178 | — | — | 1,178 | 530 | 65 | — | 595 | 583 | 10 |
| **Leased assets** | | | | | | | | | | |
| Coating sheds | 93,999 | — | — | — | 7,295 | 1,806 | — | — | — | 2.5 |
| | | (93,999) | | | | | (9,101) | | | |
| | 6,700,217 | 10,541 | — | 6,710,758 | 777,315 | 210,792 | - | 988,107 | 5,722,651 | |

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | ............ (Rupees in '000) ............. | |
| **4.2 Allocation of depreciation** | | | |
| Cost of sales | 24.1 | **200,440** | 208,893 |
| Administrative expenses | 26 | **2,052** | 1,899 |
| | | **202,492** | **210,792** |

**4.3 Revaluation of property, plant and equipment**

The Company carries its leasehold land, factory building, plant and machinery and coating sheds at revalued amounts under IAS 16 'Property, Plant and Equipment'. The latest valuation was carried out on September 30, 2015 by M/s. K.G. Traders (Private) Limited, an independent professional valuer, on the basis of present market values which resulted in a surplus on revaluation amounting to Rs. 66.272.

Levels of fair value are defined as follows:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Details of fair value hierarchy and information relating to fair value of Company's leasehold land, building, electric installations and plant and machinery is as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | .................................. Rupees in '000 .................................. | | | |
| **As at June 30, 2016** | | | | |
| Land - leasehold | — | **858,040** | — | **858,040** |
| Building - factory | — | **1,738,529** | — | **1,738,529** |
| Plant and machinery | — | **2,886,148** | — | **2,886,148** |
| Coating sheds - owned | — | **77,373** | — | **77,373** |
| | — | **5,560,090** | — | **5,560,090** |
| **As at June 30, 2015** | | | | |
| Land - leasehold | — | 819,375 | — | 819,375 |
| Building - factory | — | 1,758,797 | — | 1,758,797 |
| Plant and machinery | — | 3,028,959 | — | 3,028,959 |
| Coating sheds - owned | — | 84,537 | — | 84,537 |
| | — | 5,691,668 | — | 5,691,668 |

**4.4** Had there been no revaluation, the written down value of revalued assets in the balance sheet would have been as follows:

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | ............ (Rupees in '000) ............. | |
| Land - leasehold | | **14,997** | **14,997** |
| Building - factory | | **473,530** | **485,275** |
| Plant and machinery | | **560,906** | **590,357** |
| Coating sheds | | **72,121** | **74,061** |

| | | Building - Head Office and Factory | Plant and Machinery | Total |
|---|---|---|---|---|
| **4.5** | **Capital work-in-progress** | ...................... | (Rupees in '000) | ...................... |
| | **Year ended June 30, 2016** | | | |
| | Balance as at July 1, 2015 | **31,845** | **7,262** | **39,107** |
| | Additions during the year | **7,720** | **953** | **8,673** |
| | Balance as at June 30, 2016 | **39,565** | **8,215** | **47,780** |
| | **Year ended June 30, 2015** | | | |
| | Balance as at July 1, 2014 | 21,071 | 19,093 | 40,164 |
| | Additions during the year | 10,774 | 2,031 | 12,805 |
| | Written-off during the year | — | (13,862) | (13,862) |
| | Balance as at June 30, 2015 | 31,845 | 7,262 | 39,107 |

| | | Note | 2016 | 2015 |
|---|---|---|---|---|
| | | | ............ (Rupees in '000) | ............ |
| **5.** | **INTANGIBLE ASSETS** | | | |
| | **Computer software** | | | |
| | Cost | 5.1 | **1,336** | 1,336 |
| | Accumulated amortisation | 5.2 | **(794)** | (460) |
| | | | **542** | 876 |
| | Capital work-in-progress | 5.3 | **1,000** | 1,000 |
| | Book value | | **1,542** | **1,876** |
| **5.1** | **Cost** | | | |
| | Balance as at July 1, | | **1,336** | **1,336** |
| | Additions during the year | | — | — |
| | Balance as at June 30, | | **1,336** | **1,336** |
| **5.2** | **Accumulated amortisation** | | | |
| | Balance as at July 1, | | **460** | 126 |
| | Amortisation for the year | 26 | **334** | 334 |
| | Balance as at June 30, | | **794** | **460** |
| | Useful life | | **4 years** | **4 years** |

**5.3** This represents advance given to a vendor for purchase of supply chain management software.

| | | Note | 2016 | 2015 |
|---|---|---|---|---|
| **6.** | **LONG-TERM DEPOSITS** | | | |
| | Long-term deposits | 6.1 | **6,936** | 7,579 |
| | Less: current maturity | 11 | — | (643) |
| | | | **6,936** | **6,936** |

**6.1** This includes amount of Rs. 5.43 million (2015: Rs. 5.43 million) representing deposit given to Sui Southern Gas Company Limited for gas connection.

| | | 2016 | 2015 |
|---|---|---|---|
| **7.** | **STORES AND SPARES** | | |
| | Stores – in hand | **79,566** | 82,818 |
| | – in transit | — | 12,823 |
| | Spare parts and loose tools | **1,810** | 1,880 |
| | | **81,376** | **97,521** |
| **8.** | **STOCK-IN-TRADE** | | |
| | Raw material | **459,979** | 225,204 |
| | Work-in-process | **122,975** | 259,734 |
| | Finished goods | **490,307** | 313,129 |
| | Rejection / scrap material | **185,213** | 103,214 |
| | | **1,258,474** | **901,281** |

| | | Note | 2016 | 2015 |
|---|---|---|---|---|
| | | | ............ (Rupees in '000) ............ | |
| **9.** | **TRADE DEBTS - unsecured** | | | |
| | Considered good | 9.1 | **88,656** | **421,027** |

**9.1** Trade debts are non-interest bearing and are generally on 30 - 60 days credit period.

**9.2** Related Parties from whom debts are due are as under:

| | 2016 | 2015 |
|---|---|---|
| Hafiz Abdul Waheed and Brothers (Pvt) Limited | — | 9,760 |
| Huffaz Corporation (Pvt) Limited | **411** | — |
| | **411** | **9,760** |

**9.3** The aging of trade debt balances at the balance sheet date was as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Gross | Impairment | Gross | Impairment |
| | ................................ (Rupees in '000) ...................................... | | | |
| Less than 90 days old | **67,734** | — | 395,452 | — |
| 91 to 180 days old | **9,755** | — | 21,901 | — |
| 181 to 365 days old | **7,114** | — | 300 | — |
| More than one year old | **4,053** | — | 3,374 | — |
| | **88,656** | — | 421,027 | — |

Based on the past experience, consideration of financial position, past track records and recoveries, the Company believes that trade debts do not require any impairment.

| | | Note | 2016 | 2015 |
|---|---|---|---|---|
| | | | ............ (Rupees in '000) ............ | |
| **10.** | **LOANS AND ADVANCES - considered good** | | | |
| | Advances to suppliers - unsecured | | **12,718** | 3,449 |
| | Advances to employees for expenses | | **5,911** | 6,820 |
| | Loans and advances to employees | 10.1 | **5,491** | 3,529 |
| | | | **24,120** | **13,798** |

**10.1** This includes interest free medical loan provided to employees.

| | | Note | 2016 | 2015 |
|---|---|---|---|---|
| **11.** | **TRADE AND OTHER DEPOSITS** | | | |
| | Trade deposits - considered good | | **6,457** | 2,903 |
| | Current maturity of long-term deposits | 6 | — | 643 |
| | | | **6,457** | **3,546** |
| **12.** | **OTHER RECEIVABLES** | | | |
| | Letter of credit | | **126,023** | 38,457 |
| | Margin against guarantee | 12.1 | **16,090** | 15,973 |
| | | | **142,113** | **54,430** |

**12.1** It includes margin amounting to Rs. 5.726 million (2015: 2.371) against guarantees which were expired as at June 30, 2016. However, these have not been released till June 30, 2016.

| | | Note | 2016 | 2015 |
|---|---|---|---|---|
| **13.** | **ADVANCE TAX - NET OF PROVISION** | | | |
| | Balance as at July 1, | | **2,207** | 24,422 |
| | Add: payments made during the year | | **57,489** | 13,283 |
| | | | **59,696** | 37,705 |
| | Less: provision for taxation | 30 | **(59,000)** | (35,498) |
| | | | **696** | **2,207** |

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | ............ (Rupees in '000) | ............ |
| **14. CASH AND BANK BALANCES** | | | |
| Cash in hand | | **28** | 29 |
| With banks in local currency current accounts | | **104,235** | 5,731 |
| With banks in foreign currency current accounts | | **10** | 27 |
| | | **104,245** | 5,758 |
| | | **104,273** | 5,787 |

## 15. SHARE CAPITAL

| 2016 | 2015 | | 2016 | 2015 |
|---|---|---|---|---|
| (Number of shares) | | | ........... (Rupees in '000) | ............ |
| **Authorised** | | | | |
| **70,000,000** | 70,000,000 | Ordinary Shares of Rs. 10 each | **700,000** | 700,000 |
| **Issued, subscribed and paid up** | | | | |
| **12,200,278** | 12,200,278 | Ordinary Shares of Rs. 10 each fully paid in cash | **122,003** | 122,003 |
| **38,906,565** | 38,906,565 | Ordinary Shares of Rs. 10 each issued as bonus shares | **389,066** | 389,066 |
| **4,377,460** | 4,377,460 | Issued right shares fully paid in cash | **43,775** | 43,775 |
| **55,484,303** | 55,484,303 | | **554,844** | 554,844 |

**15.1** The above includes shares having face value of Rs. 101.213 million (2015: Rs. 101.213 million) held by the foreign sponsors of the Company.

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | ............ (Rupees in '000) | ............ |
| **16. SURPLUS ON REVALUATION OF PROPERTY, PLANT AND EQUIPMENT - NET OF TAX** | | | |
| **As at July 1,** | | | |
| Leasehold land | | **804,378** | 804,378 |
| Factory building, plant and machinery and coating sheds | | **3,722,600** | 3,883,881 |
| Revaluation arising during the year | | **66,272** | — |
| | | **4,593,250** | 4,688,259 |
| **Less: transferred to unappropriated profit:** | | | |
| – Surplus on revaluation of property, plant and equipment realised during the year on account of incremental depreciation charged thereon - net of tax | | **(105,206)** | (108,058) |
| – Related deferred tax | | **(49,509)** | (53,223) |
| | | **(154,715)** | (161,281) |
| | | **4,438,535** | 4,526,978 |
| **Less: related deferred tax liability on:** | | | |
| – Revaluation as at July 1, | | **(1,135,393)** | (1,359,358) |
| – (Deficit) / Surplus arising during the year | | **(8,834)** | — |
| – Incremental depreciation charged during the year on related assets transferred to profit and loss account | | **49,509** | 53,223 |
| | | **—** | 170,742 |
| – Effect of change in tax rates | | **(1,094,718)** | (1,135,393) |
| | | **3,343,817** | **3,391,585** |

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | ............ (Rupees in '000) ............ | |
| **17. LONG-TERM FINANCING** | | | |
| **Secured** | | | |
| Musharaka facility | | **3,393** | 4,033 |
| Current portion shown under current liabilities | 21 | **(861)** | (729) |
| | | **2,532** | **3,304** |

**17.1** This represents long-term financing (under diminishing musharaka arrangement) of Rs. 4.5 million obtained to finance the purchase of a vehicle. Principal amount is repayable in twenty quarterly instalments starting from September 2014. Mark-up is payable quarterly at 1 year KIBOR plus 6.4% to be determined annually. The financing is secured against charge over the assets.

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | ............ (Rupees in '000) ............ | |
| **18. DEFERRED LIABILITIES** | | | |
| Staff gratuity | 18.1.2 | **91,480** | 97,514 |
| Less: benefits due but not yet paid | 20 | **(10,169)** | (1,811) |
| | | **81,311** | 95,703 |
| Deferred taxation - net | 18.2 | **1,268,024** | 1,329,612 |
| | | **1,349,335** | **1,425,315** |

**18.1 Staff gratuity - defined benefit plan**

**18.1.1** General description of the defined benefit plan and accounting policy for remeasurements of the defined benefit obligations is disclosed in note 3.6 to these financial statements.

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | ............ (Rupees in '000) ............ | |
| **18.1.2 Liability recognised in the balance sheet** | | | |
| Present value of defined benefit obligation | 18.1.3 | **81,311** | 95,703 |
| Benefits due but not yet paid | | **10,169** | 1,811 |
| | | **91,480** | **97,514** |
| **18.1.3 Movement in defined benefit obligation during the year** | | | |
| Balance at the beginning of the year | | **95,703** | 91,444 |
| Expense recognised in profit and loss account | 18.1.4 | **16,427** | 19,866 |
| Total remeasurements recognised in other comprehensive income | 18.1.5 | **(14,037)** | (7,492) |
| Benefits paid | | **(8,401)** | (8,115) |
| Benefits due but not yet paid | | **(8,381)** | — |
| | | **81,311** | **95,703** |
| **18.1.4 Expense recognised in profit and loss account** | | | |
| Current service cost | | **7,914** | 8,287 |
| Interest cost | | **8,513** | 11,579 |
| | | **16,427** | **19,866** |

| | 2016 | 2015 |
|---|---|---|
| | ........... (Rupees in '000) ........... | |
| **18.1.5 Total remeasurements recognised in other comprehensive income** | | |
| Remeasurement on defined benefit obligation arising on | | |
| – financial assumptions | — | — |
| – demographic assumptions | — | — |
| – experience adjustments | **(14,037)** | (7,492) |
| | **(14,037)** | **(7,492)** |

**18.1.6** Actuarial valuation of staff gratuity scheme has been carried out as at June 30, 2016 using Projected Unit Credit method and the following significant assumptions have been used:

| | 2016 | 2015 |
|---|---|---|
| Discount rate | **7.25%** | 9.75% |
| Salary increase rate | **6.25%** | 8.75% |
| Mortality table used | **SLIC 2001-2005 With one year set back** | SLIC 2001-2005 With one year set back |
| Retirement age | **65 years** | 65 years |
| **18.1.7** Number of employees covered by the scheme | **163** | 227 |

**18.1.8 Sensitivity analysis**

The following sensitivity analysis have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant:

| | Change in assumption | Increase / (decrease) in defined benefit obligation due to | |
|---|---|---|---|
| | | Increase in assumption | Decrease in assumption |
| | | ........ (Rupees in '000) ......... | |
| Discount rate | 1% | (5,667) | 6,468 |
| Salary growth rate | 1% | 6,468 | (5,768) |

**18.1.9** The gratuity scheme exposes the Company to the following risks:

Longevity risks: The risk arises when the actual lifetime of retirees is longer than expectation. This risk is measured at the plan level over the entire retiree population.

Salary increase risk: The most common type of retirement benefit is one where the benefit is linked with final salary. The risk arises when the actual increases are higher than expectation and it impacts the liability accordingly.

Withdrawal risk: The risk of actual withdrawals varying with the actuarial assumptions can impose a risk to the benefit obligation. The movement of the liability can go either way.

**18.1.10** The weighted average duration of defined benefit obligation as at June 30, 2016 is 7 years (2015: 8 years).

**18.1.11** The expected gratuity expense for the next one year from July 1, 2016 amounts to Rs. 11.271 million. This is the amount by which the defined benefit liability is expected to increase.

| | | Note | 2016 | 2015 |
|---|---|---|---|---|
| | | | ............ (Rupees in '000) | ............. |
| **18.2** | **Deferred taxation - net** | | | |
| | Balance as at July 1, | | **1,329,612** | 1,579,415 |
| | Reversal to profit and loss account | 30 | **(65,799)** | (81,309) |
| | Charged to other comprehensive income | | **4,211** | 2,248 |
| | Adjustment to the related deferred tax liability on revaluation surplus | 16 | **—** | (170,742) |
| | Balance as at June 30, | | **1,268,024** | **1,329,612** |
| | This comprises of the following: | | | |
| | Accelerated tax depreciation and amortisation | | **244,754** | 249,188 |
| | Surplus on revaluation of property, plant and equipment | | **1,078,648** | 1,135,393 |
| | | | **1,323,402** | 1,384,581 |
| | **Deductible temporary differences arising in respect of:** | | | |
| | Defined benefit plan obligation | | **(27,444)** | (29,254) |
| | Provision for compensated absences | | **(4,140)** | (4,492) |
| | Others | | **(23,794)** | (21,223) |
| | | | **(55,378)** | (54,969) |
| | | | **1,268,024** | **1,329,612** |
| **19.** | **TRADE AND OTHER PAYABLES** | | | |
| | Trade creditors | | **21,602** | 14,167 |
| | Accrued liabilities | | **36,103** | 39,309 |
| | Sales tax payable | | **149,735** | 146,203 |
| | Tax deducted at source | | **21,526** | 18,394 |
| | Workers' Profit Participation Fund | 19.1 | **272,708** | 249,527 |
| | Workers' Welfare Fund | | **5,969** | 2,151 |
| | Unclaimed dividend | | **15,915** | 15,918 |
| | Bills payable | | **420,427** | 376,576 |
| | Advance from customers | 19.2 | **126,828** | 182,905 |
| | Provision for compensated absences | | **13,801** | 14,035 |
| | Gratuity due but not yet paid | 18.1.2 | **10,169** | 1,811 |
| | Murabaha finance | 19.3 | **—** | 28,610 |
| | Others | | **410** | 410 |
| | | | **1,095,193** | **1,090,016** |
| **19.1** | **Workers' Profit Participation Fund** | | | |
| | Balance as at July 1, | | **249,527** | 221,055 |
| | Allocation for the year | | **—** | — |
| | Interest on funds utilized in the Company's business for the year | 29 | **23,181** | 28,472 |
| | Balance as at June 30, | | **272,708** | **249,527** |
| **19.2** | Related parties from whom advances received against sales are as under: | | | |
| | Hafiz Abdul Waheed and Brothers (Pvt) Limited | | **5,618** | — |
| | Huffaz Corporation (Pvt) Limited | | **—** | 502 |
| | | | **5,618** | **502** |

**19.3** This represents finance against overdue letter of credit for purchase of raw material. This carries markup at the rate of KIBOR + 2.5% and is secured against charge over assets of the Company.

**20. SHORT-TERM SPONSORS' ADVANCES - unsecured**

This represents unsecured and interest free advance from sponsors repayable on demand.

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | ............ (Rupees in '000) ............ | |
| **21. CURRENT PORTION OF NON-CURRENT LIABILITIES** | | | |
| Current portion of long-term financing | 17 | **861** | 729 |
| | | **861** | **729** |

**22. CONTINGENCIES AND COMMITMENTS**

**22.1 Contingencies**

**22.1.1** Guarantees as at June 30, 2016 amounting to Rs. 55.777 million (2015: Rs. 67.869 million) have been furnished in favour of various customers.

**22.1.2** Under the Gas Infrastructure Development Cess Act, 2011, Government of Pakistan levied Gas Infrastructure Development (GID) Cess on gas bills at the rate of Rs. 13 per MMBTU on all industrial consumers. In the month of June 2012, the Federal Government revised GID Cess rate from Rs. 13 per MMBTU to Rs. 100 per MMBTU.

Various companies filed suits before the Honourable High Court of Sindh, challenging the applicability of Gas Infrastructure Cess Act, 2011. The Sindh High Court has restrained the Federation and gas companies from recovering GID Cess over and above Rs. 13 per MMBTU. On August 22, 2014, the Supreme Court of Pakistan has given a judgment declaring that the levy of GID cess as a tax was not validly levied in accordance with the Constitution.

In September 2014, the Federal Government promulgated Gas Infrastructure Cess (GIDC) Ordinance No. VI of 2014. In May 2015, the said Ordinance was approved in the parliament and became an Act. Under the Act, GID Cess at the rate of Rs. 100 per MMBTU on all industrial consumers has been levied.

Subsequent to the approval of the Act, the Company received gas bills at the rate of Rs. 100 per MMBTU, as the Company is considered an industrial consumers.

**22.2 Commitments**

**22.2.1** Commitments under letters of credit as at June 30, 2016 amounted to Rs. 295.74 million (2015: Rs. 290.611 million).

**23.2.2** Commitments for purchase of intangibles amounted to Rs. 3 million (2015: 3 million).

**23.2.3** The facility for opening letters of credit and guarantees as at June 30, 2016 amounted to Rs. 951 million (2015: Rs. 1,050 million) of which the amount remaining unutilised as at that date was Rs. 47.68 million (2015: Rs. 345.46 million).

| | 2016 | 2015 |
|---|---|---|
| | ............ (Rupees in '000) ............ | |
| **23. NET SALES** | | |
| Sales - local | **1,176,105** | 2,311,035 |
| - export | — | — |
| | **1,176,105** | 2,311,035 |
| Less: sales tax | **(173,711)** | (337,063) |
| | **1,002,394** | **1,973,972** |

| | | Note | 2016 | 2015 |
|---|---|---|---|---|
| | | | ............ (Rupees in '000) | ............. |
| **24.** | **COST OF SALES** | | | |
| | Opening stock of finished goods | | **313,129** | 314,746 |
| | Cost of goods manufactured | 24.1 | **1,106,110** | 1,793,835 |
| | | | **1,419,239** | 2,108,581 |
| | Closing stock of finished goods | 8 | **(490,307)** | (313,129) |
| | | | **928,932** | **1,795,452** |
| **24.1** | **Cost of goods manufactured** | | | |
| | Raw material consumed | 24.1.1 | **449,933** | 1,057,153 |
| | Stores and spares consumed | | **64,064** | 101,989 |
| | Coating material consumed | | **68,705** | 182,572 |
| | Gas consumed | | **77,068** | 84,144 |
| | Processing expense (outside factory) | | — | 324 |
| | Power, fuel and water | | **55,422** | 75,391 |
| | Salaries, wages and other benefits | 24.1.2 | **115,027** | 142,227 |
| | Rent, rates and taxes | | **303** | 1,825 |
| | Insurance | | **1,242** | 1,107 |
| | Repairs and maintenance | | **5,258** | 4,885 |
| | Carriage and cartage | | **1,274** | 1,372 |
| | Depreciation | 4.2 | **200,440** | 208,893 |
| | Others | | **12,614** | 25,523 |
| | | | **1,051,350** | 1,887,405 |
| | **Rejection / scrap material** | | | |
| | Opening | | **103,214** | 71,091 |
| | Closing | 8 | **(185,213)** | (103,214) |
| | | | **(81,999)** | (32,123) |
| | **Work-in-process** | | | |
| | Opening | | **259,734** | 198,287 |
| | Closing | 8 | **(122,975)** | (259,734) |
| | | | **136,759** | (61,447) |
| | | | **1,106,110** | **1,793,835** |
| **24.1.1** | **Raw material consumed** | | | |
| | Opening stock | | **225,204** | 317,397 |
| | Purchases | | **684,708** | 964,960 |
| | | | **909,912** | 1,282,357 |
| | Closing stock | 8 | **(459,979)** | (225,204) |
| | | | **449,933** | **1,057,153** |

**24.1.2** Salaries, wages and other benefits include Rs. 10.389 million (2015: Rs. 12.563 million) in respect of staff retirement benefits.

| | | Note | 2016 | 2015 |
|---|---|---|---|---|
| | | | ............ (Rupees in '000) | ............. |
| **25.** | **DISTRIBUTION COST** | | | |
| | Salaries, wages and other benefits | 25.1 | **4,296** | 4,220 |
| | Sales promotion and other expenses | | **10** | 44 |
| | Travelling and conveyance | | **111** | 565 |
| | Late delivery charges | | **912** | 61,659 |
| | Others | | **832** | 5,756 |
| | | | **6,161** | **72,244** |

**25.1** Salaries, wages and other benefits include Rs. 0.751 million (2015: Rs. 0.907 million) in respect of staff retirement benefits.

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | ............ (Rupees in '000) | ............. |
| **26. ADMINISTRATIVE EXPENSES** | | | |
| Salaries, wages and other benefits | 26.1 | **29,798** | 32,767 |
| Travelling and conveyance | | **9,296** | 13,244 |
| Legal and professional charges | | **5,431** | 8,092 |
| Fees and subscription | | **3,240** | 3,155 |
| Telephone, telex and postage | | **1,109** | 1,140 |
| Vehicle running and maintenance | | **2,506** | 2,359 |
| Auditors' remuneration | 26.2 | **1,044** | 1,044 |
| Printing and stationery | | **752** | 874 |
| Depreciation | 4.2 | **2,052** | 1,899 |
| Amortisation | 5.2 | **334** | 334 |
| Utilities | | **1,009** | 1,040 |
| Rent, rates and taxes | | **374** | 557 |
| Repairs and maintenance | | **4,477** | 381 |
| Advertisement | | **149** | 122 |
| Entertainment | | **17** | 42 |
| Others | | **1,382** | 3,191 |
| | | **62,970** | **70,241** |

**26.1** Salaries and other benefits includes Rs. 5.288 million (2015: Rs. 6.396 million) in respect of staff retirement benefits.

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | ............ (Rupees in '000) | ............. |
| **26.2 Auditors' remuneration** | | | |
| Annual audit fee | | **660** | 660 |
| Half yearly review | | **240** | 240 |
| Other services including certifications | | **75** | 75 |
| Out of pocket expenses | | **69** | 69 |
| | | **1,044** | **1,044** |
| **27. OTHER OPERATING EXPENSES** | | | |
| Workers' Welfare Fund | | **3,818** | 2,151 |
| Exchange loss | | **10,895** | 40,361 |
| Guarantee margin written-off | 12.1 | — | 10,744 |
| Property, plant and equipment written-off | 4.5 | — | 13,862 |
| Others | | — | 2,086 |
| | | **14,713** | **69,204** |
| **28. OTHER INCOME** | | | |
| Scrap sales | | — | 4,860 |
| Others | | **46,822** | 6,924 |
| | | **46,822** | **11,784** |
| **29. FINANCE COST** | | | |
| Lease financial charges | | — | 1,077 |
| Profit paid on musharaka | | **558** | 12 |
| Interest on Workers' Profit Participation Fund | 20.1 | **23,181** | 28,472 |
| Mark-up on murabaha finance | | **4,739** | 3,716 |
| Bank charges | | **3,575** | 3,840 |
| | | **32,053** | **37,117** |

## 30. TAXATION

| | Note | 2016 | 2015 |
|---|---|---|---|
| | | ............ (Rupees in '000) ............. | |
| Current | | | |
| – for the year | | 59,000 | 35,484 |
| – for prior years | | — | 14 |
| | 13 | 59,000 | 35,498 |
| Deferred | 19.2 | (74,633) | (81,309) |
| | | (15,633) | (45,811) |

**30.1** The returns of income have been filed up to and including tax year 2015 (corresponding to financial year ended June 30, 2015), which has been treated as deemed assessed under section 120 of the Income Tax Ordinance, 2001.

**30.2** Finance Act, 2015 has introduced tax rates of 32%, 31% and 30% for the tax years 2016, 2017 and 2018 (and onwards), respectively. Accordingly, deferred tax liability has been recorded on the basis of tax rates that are expected to apply to the taxable profit of the periods in which the temporary differences are expected to reverse.

| | 2016 | 2015 |
|---|---|---|
| | ............ (Rupees in '000) ............. | |
| **30.2 Relationship between tax expenses and accounting profit** | | |
| Loss before taxation | 4,387 | (58,502) |
| Tax at the applicable rate of 32% (2014: 33%) | 1,404 | (19,306) |
| Effect of change in tax rate | (560) | (27,520) |
| Effect of prior year charges | — | 14 |
| Tax effect of temporary / permanent difference | (16,477) | (688) |
| Others | — | 1,689 |
| | (15,633) | (45,811) |
| **31. EARNINGS PER SHARE - basic and diluted** | | |
| Profit / (Loss) for the year | 20,020 | (12,691) |
| | .............. Number in '000 ............. | |
| Weighted average number of ordinary shares | 55,484 | 55,484 |
| | ...................... Rupees .................... | |
| Earnings / (Loss) per share - basic and diluted | 0.36 | (0.23) |

## 32. REMUNERATION OF CHIEF EXECUTIVE, DIRECTOR AND EXECUTIVES

| | Chief Executive | | Directors | | Executives | |
|---|---|---|---|---|---|---|
| **Particulars** | **2016** | **2015** | **2016** | **2015** | **2016** | **2015** |
| | ..........................................Rupees in '000.......................................... | | | | | |
| Managerial remuneration | 6,274 | 6,274 | 1,935 | 1,935 | 10,955 | 11,971 |
| House rent | 2,823 | 2,823 | 871 | 871 | 4,930 | 5,381 |
| Utilities | — | — | 194 | 194 | 1,095 | 1,196 |
| Gratuity | 758 | 758 | 250 | 250 | 1,415 | 1,660 |
| | 9,855 | 9,855 | 3,250 | 3,250 | 18,395 | 20,208 |
| **Number of persons** | 1 | 1 | 1 | 1 | 13 | 16 |

**32.1** In addition to above, Chief Executive, Director, Executives and certain other employees are provided with free use of Company maintained vehicles in accordance with the Company's policy.

**32.2** No amount was paid to directors for attending the Board of Directors' meeting.

## 33. CAPACITY AND PRODUCTION

| Particulars | 2016 Capacity | 2016 Production | 2015 Capacity | 2015 Production |
|---|---|---|---|---|
| | ........................................Metric Ton | | | |
| Seamless Tubular Products | **100,000** | **8,652** | 100,000 | 12,196 |
| Machinery & Machinery Components | **3,500** | **—** | 3,500 | 757 |
| Coating of Seamless Tubular Products | **50,000** | **4,512** | 50,000 | 5,329 |

The above represents name plate capacities. The production capacity of the plant varies as this depends on the relative proportions of the various types of seamless pipes and tubes produced.

## 34. NUMBER OF EMPLOYEES

The total number of employees as at year end were 245 (2015: 245) and average number of employees were 235 (2015: 240).

## 35. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Related parties comprise of associated companies, directors of the Company, companies in which directors also hold directorship, related group companies, key management personnel and staff retirement benefit funds. Transactions with related parties are carried out as per agreed terms.

Transactions with related parties are as follows:

| Name | Nature of relationship | Nature of transaction | 2016 | 2015 |
|---|---|---|---|---|
| | | | ............ (Rupees in '000) ............ | |
| Hafiz Abdul Waheed and Brothers | Associated entity | Sale of goods | **164,110** | 170,700 |
| | | Receipts in respect of sale of goods | **179,488** | 166,925 |
| Huffaz Corporation | Associated company | Sale of goods | **41,015** | 19,231 |
| | | Receipts in respect of sale of goods | **40,101** | 21,455 |
| Directors | Related party | Sponsors' advances received | **70,000** | — |
| | | Sponsors' advances paid | **5,852** | 22,594 |
| Key management personnel | Related party | Remuneration | **18,097** | 17,324 |

Balances receivable / (payable) as at June 30, 2016 with related parties are as follows:

| Name | Nature of relationship | Nature of balance | 2016 | 2015 |
|---|---|---|---|---|
| Hafiz Abdul Waheed and Brothers | Associated entity | Trade debts | **—** | 9,760 |
| | | Trade and other payables | **(5,618)** | — |
| Huffaz Corporation | Associated company | Trade debts | **411** | — |
| | | Trade and other payables | **—** | (501) |
| Directors | Related party | Short-term sponsor's advances | **(79,222)** | (15,074) |

## 36. OPERATING SEGMENTS

**36.1** The company's reportable segments under IFRS 8 are as follows:

- Seamless segment
- Coating segment

Performance is measured based on respective segment results. Information regarding the Company's reportable segment is presented below:

### 36.2 Segment revenue and results

| | Seamless Segment | Coating Segment | Total |
|---|---|---|---|
| **For the year ended June 30, 2016** | | Rs '000 | |
| **Sales** | **896,143** | **106,251** | **1,002,394** |
| **Cost of sales** | **(833,930)** | **(95,002)** | **(928,932)** |
| **Gross profit** | **62,213** | **11,249** | **73,462** |
| For the year ended June 30, 2015 | | | |
| Sales | 1,655,138 | 318,834 | 1,973,972 |
| Cost of sales | (1,583,336) | (212,116) | (1,795,452) |
| Gross profit / (loss) | 71,802 | 106,718 | 178,520 |

Reconciliation of segment results with profit after tax is as follows:

| | 2016 | 2015 |
|---|---|---|
| | (Rupees in '000) | |
| Total results for reportable segments | **73,462** | 178,520 |
| Distribution and administrative expenses | **(69,131)** | (142,485) |
| Other operating charges | **(14,713)** | (69,204) |
| Other income | **46,822** | 11,784 |
| Finance cost | **(32,053)** | (37,117) |
| Taxation | **15,633** | 45,811 |
| Profit / (Loss) for the year | **20,020** | **(12,691)** |

### 36.3 Segment assets and liabilities

| | Seamless Segment | Coating Segment | Total |
|---|---|---|---|
| | | Rs '000 | |
| **As at June 30, 2016** | | | |
| Segment assets | **5,990,633** | **1,240,788** | **7,231,421** |
| Segment liabilities | **1,177,808** | **—** | **1,177,808** |
| As at June 30, 2015 | | | |
| Segment assets | 5,901,428 | 1,345,298 | 7,246,726 |
| Segment liabilities | 1,109,945 | — | 1,109,945 |

Reconciliation of segment assets and segment liabilities with total assets and liabilities in the balance sheet is as follows:

| | 2016 | 2015 |
|---|---|---|
| | (Rupees in '000) | |
| Total for reportable segment assets | **7,231,421** | 7,246,726 |
| Unallocated assets | **117,913** | 23,441 |
| Total assets as per balance sheet | **7,349,334** | **7,270,167** |
| Total for reportable segment liabilities | **1,177,808** | 1,109,945 |
| Unallocated liabilities | **1,349,335** | 1,413,082 |
| Total liabilities as per balance sheet | **2,527,143** | **2,535,260** |

**36.4** Segment revenue reported above is revenue generated from external customers. There were no inter-segment sales during the year (2015: nil)

**36.5** Segment assets reported above comprises of property, plant and equipment, long-term deposits and stock-in-trade.

**36.6** 100% (2015: 100%) of gross sales of the Company relates to customers in Pakistan.

**36.7** All non-current assets of the Company as at June 30, 2016 are located in Pakistan.

**36.8** Revenue from a major customer of seamless segment represents an aggregate amount of Rs. 164 million (2015: Rs. 686 million) of total seamless segment revenue of Rs. 896.143 million (2015: 1,655.138 million). Further, revenue from a major customer of coating segment represents an aggregate amount of Rs. 105 million (2015: Rs. 265 million) out of total coating segment revenue of Rs. 106.251 million (2015: Rs. 318.834 million).

## 37. FINANCIAL INSTRUMENTS

**Financial risk management**

The Board of Directors of the Company has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company has exposure to the following risks from its use of financial instruments:

– Credit risk
– Liquidity risk
– Market risk

### 37.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss, without taking into account the fair value of any collateral. Concentration of credit risk arises when a number of financial instruments or contracts are entered into with the same party, or when counter parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economics, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Company's performance to developments affecting a particular industry.

The carrying amount of financial assets represents the maximum credit exposure. To reduce the exposure to credit risk the Company has developed a policy of obtaining advance payments from its customers and except for customers relating to the Government and certain small and medium sized enterprises, the management strictly adheres to this policy. For any balances receivable from such small and medium sized enterprises, the management continuously monitors the credit exposure towards them and makes provisions against those balances considered doubtful of recovery. Cash is held only with banks with high quality credit worthiness. As at June 30, 2016, none of the financial assets are past due or impaired.

The maximum exposure to credit risk at the reporting date is as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Balance sheet | Maximum exposure | Balance sheet | Maximum exposure |
| | ................................ (Rupees in '000) | | | ................................ |
| Trade debts | **88,656** | **88,656** | 421,027 | 421,027 |
| Loans and advances, trade and other deposits and other receivables | **160,997** | **160,997** | 68,441 | 68,441 |
| Bank balances | **104,273** | **104,245** | 5,787 | 5,758 |
| | **353,926** | **353,898** | 495,255 | 495,226 |

The maximum exposure to credit risk for trade debts at the balance sheet date by type of customer is as follows:

| | 2016 | 2015 |
|---|---|---|
| | ............ (Rupees in '000) | ............. |
| Dealers and distributors | **36,467** | 53,680 |
| End-user customers | **52,189** | 367,347 |
| | **88,656** | **421,027** |

As at the year end the Company's most significant customers included a distributor from whom Rs. 16.063 million was due (2015: Rs. 31.579 million) and an end-user from whom Rs. 30.210 million was due (2015: Rs. 341.737 million).

The Company deposits its funds with banks carrying good credit standings assessed by reputable credit agencies. These banks are credit rated as follows:

| | Short term | Long term |
|---|---|---|
| Local banks | C to A1+ | B to AAA |

### 37.2 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due. Liquidity risk arises because of the possibility that the Company could be required to pay its liabilities earlier than expected or experience difficulty in raising funds to meet commitments associated with financial liabilities as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The following are the contractual maturities of financial liabilities, including interest payments:

| | 2016 | | | | |
|---|---|---|---|---|---|
| | Carrying Amount | Contractual cash flows | Six months or less | Six to twelve months | Two to five years |
| | ...................... | ...................... | (Rupees in '000) | ...................... | ...................... |
| **Financial liabilities at amortized cost** | | | | | |
| Long-term financing | **3,393** | **3,393** | **677** | **677** | **2,039** |
| Short-term sponsors' advances | **79,222** | **79,222** | — | **79,222** | — |
| Trade and other payables | **508,258** | **508,258** | **508,258** | — | — |
| Accrued mark-up | — | — | — | — | — |
| | **590,873** | **590,873** | **508,935** | **79,899** | **2,039** |

| | 2015 | | | | |
|---|---|---|---|---|---|
| | Carrying Amount | Contractual cash flows | Six months or less | Six to twelve months | Two to five years |
| | ...................... | ...................... | (Rupees in '000) | ...................... | ...................... |
| **Financial liabilities at amortized cost** | | | | | |
| Long-term financing | 4,033 | 4,710 | 677 | 677 | 3,356 |
| Short-term sponsors' advances | 15,074 | 15,074 | — | 15,074 | — |
| Trade and other payables | 489,025 | 489,025 | 489,025 | — | — |
| Accrued mark-up | 822 | 822 | 822 | — | — |
| | 508,954 | 509,631 | 490,524 | 15,751 | 3,356 |

The contractual cash flows relating to the above financial liabilities have been determined on the basis of mark-up rates effective at balance sheet date (and includes both principal and interest payable thereon). The rates of mark-up have been disclosed in note 17 to these financial statements.

### 37.3 Market risk

Market risk is the risk that the value of the financial instrument may fluctuate as a result of changes in market interest rates or the market price due to a change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market. Market risk comprises of currency risk, interest rate risk and other price risk. The Company is exposed to currency risk and interest rate risk only.

### 37.3.1 Currency risk

Currency risk is the risk that the value of a financial asset or liability will fluctuate due to a change in foreign exchange rates. It arises mainly where receivables and payables exist due to transactions entered into in foreign currencies.

The Company is exposed to currency risk on purchase and borrowings that are denominated in a foreign currency (primarily U.S. Dollar). The Company's exposure to foreign currency risk is as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Rupees in '000 | US Dollars in '000 | Rupees in '000 | US Dollars in '000 |
| Foreign currency bank accounts | **10** | **0.096** | 27 | 0.265 |
| Import bills payable | **(420,427)** | **(4,016)** | (376,576) | (3,700) |
| Net exposure | **(420,417)** | **(4,016)** | (376,549) | (3,700) |

Following are the significant exchange rates applied during the year:

| | Average rates | | Balance sheet date rate | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| | ........... (Rupees in '000) ........... | | ........... (Rupees in '000) ........... | |
| US Dollars | **104.68** | 101.45 | **104.69** | 101.79 |

**Sensitivity analysis**

A five percent change in Rupee against US Dollar at June 30, 2016 would have increased / (decreased) equity and (decreased)/ increased post tax profit / loss by Rs. 14.294 million (2015: Rs. 12.614 million). This analysis assumes that all other variables, in particular interest rates, remains constant. The analysis is performed on the same basis for 2015.

### 37.3.2 Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Majority of the interest rate exposure arises from short and long term borrowings from banks. At the balance sheet date the interest rate profile of the Company's interest-bearing financial instrument was as follows:

| | Carrying amount | |
|---|---|---|
| | **2016** | 2015 |
| **Variable rate instruments** | (Rupees in '000) | |
| Financial liabilities | **3,393** | **32,643** |

All borrowings bear variable interest rate and are indexed to KIBOR. Borrowing is generally determined on the basis of business needs.

**Cash flow sensitivity analysis for variable rate instruments**

A change of 100 basis points in interest rates at the reporting date would have increased / (decreased) the equity and (decreased) / increased loss as of June 30, 2016 by Rs. 0.023 million (2015: Rs. 0.219 million). This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2015.

**37.4 Fair value of financial assets and liabilities**

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction. Consequently differences can arise between carrying values and the fair value estimates.

The carrying amounts of all financial assets and liabilities reflected in the financial statements approximate their fair values.

**37.5 Capital risk management**

The objective of the Company when managing capital is to safeguard its ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and to maintain a strong capital base to support the sustained development of its businesses.

The Company manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend to the shareholders or issue bonus / new shares.

The Company is not subject to externally imposed capital requirements.

**38. GENERAL**

**38.1 Date of authorisation for issue**

These financial statements were authorized for issue on September 5, 2016 by the Board of Directors of the Company.

**Hafiz Abdul Majid**
Chief Executive

**Hafiz Abdul Sami**
Director

# Pattern of Shareholding

As on June 30, 2016

| No. of Shareholders | Having Shares From | To | Shares Held | Percentage |
|---|---|---|---|---|
| 365 | 1 | 100 | 8278 | 0.0149 |
| 388 | 101 | 500 | 123479 | 0.2225 |
| 218 | 501 | 1000 | 172463 | 0.3108 |
| 311 | 1001 | 5000 | 808195 | 1.4566 |
| 79 | 5001 | 10000 | 593539 | 1.0697 |
| 33 | 10001 | 15000 | 407401 | 0.7343 |
| 35 | 15001 | 20000 | 630382 | 1.1361 |
| 10 | 20001 | 25000 | 229244 | 0.4132 |
| 17 | 25001 | 30000 | 470920 | 0.8487 |
| 6 | 30001 | 35000 | 193318 | 0.3484 |
| 13 | 35001 | 40000 | 494073 | 0.8905 |
| 5 | 40001 | 45000 | 205839 | 0.3710 |
| 7 | 45001 | 50000 | 332442 | 0.5992 |
| 5 | 50001 | 55000 | 262123 | 0.4724 |
| 1 | 55001 | 60000 | 57543 | 0.1037 |
| 1 | 65001 | 70000 | 69052 | 0.1245 |
| 3 | 70001 | 75000 | 224250 | 0.4042 |
| 4 | 75001 | 80000 | 311307 | 0.5611 |
| 1 | 80001 | 85000 | 81250 | 0.1464 |
| 2 | 85001 | 90000 | 173748 | 0.3131 |
| 1 | 90001 | 95000 | 90703 | 0.1635 |
| 2 | 100001 | 105000 | 206139 | 0.3715 |
| 2 | 105001 | 110000 | 215731 | 0.3888 |
| 2 | 110001 | 115000 | 227386 | 0.4098 |
| 1 | 115001 | 120000 | 119993 | 0.2163 |
| 1 | 120001 | 125000 | 124556 | 0.2245 |
| 2 | 140001 | 145000 | 287940 | 0.5190 |
| 1 | 145001 | 150000 | 148722 | 0.2680 |
| 1 | 155001 | 160000 | 159171 | 0.2869 |
| 2 | 165001 | 170000 | 334047 | 0.6021 |
| 1 | 170001 | 175000 | 172643 | 0.3112 |
| 1 | 180001 | 185000 | 183076 | 0.3300 |
| 2 | 185001 | 190000 | 378982 | 0.6830 |
| 2 | 190001 | 195000 | 385274 | 0.6944 |
| 3 | 200001 | 205000 | 604239 | 1.0890 |
| 1 | 225001 | 230000 | 227388 | 0.4098 |
| 1 | 230001 | 235000 | 234675 | 0.4230 |
| 1 | 240001 | 245000 | 243301 | 0.4385 |
| 1 | 260001 | 265000 | 261492 | 0.4713 |
| 1 | 265001 | 270000 | 266709 | 0.4807 |
| 3 | 270001 | 275000 | 812910 | 1.4651 |
| 2 | 285001 | 290000 | 575480 | 1.0372 |
| 1 | 310001 | 315000 | 311256 | 0.5610 |
| 5 | 345001 | 350000 | 1726446 | 3.1116 |
| 1 | 375001 | 380000 | 379190 | 0.6834 |
| 1 | 385001 | 390000 | 389426 | 0.7019 |
| 1 | 390001 | 395000 | 391745 | 0.7060 |
| 3 | 400001 | 405000 | 1208520 | 2.1781 |
| 1 | 420001 | 425000 | 423800 | 0.7638 |
| 2 | 435001 | 440000 | 877716 | 1.5819 |
| 1 | 485001 | 490000 | 487500 | 0.8786 |
| 1 | 565001 | 570000 | 568258 | 1.0242 |
| 1 | 570001 | 575000 | 574040 | 1.0346 |
| 1 | 605001 | 610000 | 606371 | 1.0929 |
| 1 | 625001 | 630000 | 627212 | 1.1304 |
| 1 | 745001 | 750000 | 747350 | 1.3470 |
| 1 | 785001 | 790000 | 788782 | 1.4216 |
| 1 | 830001 | 835000 | 833761 | 1.5027 |
| 1 | 860001 | 865000 | 862258 | 1.5541 |
| 1 | 930001 | 935000 | 931322 | 1.6785 |
| 1 | 1060001 | 1065000 | 1060359 | 1.9111 |
| 1 | 1065001 | 1070000 | 1067213 | 1.9234 |
| 1 | 1085001 | 1090000 | 1088021 | 1.9610 |
| 1 | 1330001 | 1335000 | 1331896 | 2.4005 |
| 1 | 1380001 | 1385000 | 1381175 | 2.4893 |
| 1 | 1775001 | 1780000 | 1775453 | 3.1999 |
| 1 | 1820001 | 1825000 | 1822612 | 3.2849 |
| 1 | 2215001 | 2220000 | 2216551 | 3.9949 |
| 1 | 2820001 | 2825000 | 2821602 | 5.0854 |
| 1 | 3020001 | 3025000 | 3021317 | 5.4454 |
| 1 | 3525001 | 3530000 | 3525755 | 6.3545 |
| 1 | 4635001 | 4640000 | 4636615 | 8.3566 |
| 1 | 4890001 | 4895000 | 4891378 | 8.8158 |
| **1576** | | **Company Total** | **55484303** | **100.000** |

# Categories of Shareholders

As at June 30, 2016

{as per the requirements of Clause xvi(j) of Code of Corporate Governance-2012}

| | | No of Shares | Percentageof Shareholding |
|---|---|---|---|
| 1 | **Associated companies, undertakings and related parties (name wise detail)** | — | — |
| 2 | **Mutual funds (name wise detail)** | | |
| | 2.1 M/s First Crescent Modaraba | 375 | 0.00% |
| | 2.2 Golden Arrow Selected Stocks Fund Limited | 391,745 | 0.71% |
| | 2.3 CDC - Trustee AKD Opportunity Fund | 234,675 | 0.42% |
| | 2.4 National Bank of Pakistan-Trustee Department UNIT Fund | 1,331,896 | 2.40% |
| | | **1,958,691** | **3.53%** |
| 3 | **Directors their spouses and minor children (name wise detail)** | | |
| | 3.1 Hafiz Abdul Majid | 4,636,615 | 8.36% |
| | Mrs. Fareeda Majid W/o Hafiz Abdul Majid | 1,822,612 | 3.28% |
| | 3.2 Hafiz Abdul Haseeb | 2,224,768 | 4.01% |
| | 3.3 Hafiz Abdul Waheed | 5,822,700 | 10.49% |
| | Mrs. Najma Waheed W/o Hafiz Abdul Waheed | 3,427,973 | 6.18% |
| | 3.4 Yusuf Mohammed Yusuf Najibi | 3,525,755 | 6.35% |
| | 3.5 Mr. Arshad Ahmad | 2,262,953 | 4.08% |
| | Mrs. Bilquees Ahmed W/o Arshad Ahmed | 879,485 | 1.59% |
| | 3.6 Mr. Mohammad Hafiz | 574,040 | 1.03% |
| | 3.7 Mr. A. Aziz Ehsaq A. Rehman | 3,021,317 | 5.45% |
| | 3.8 Mr. Nabeel Abdul Rehman Arif | 345,287 | 0.62% |
| | 3.9 Hafiz Abdul Sami | 938,468 | 1.69% |
| | 3.10 Hafiz Abdul Aleem | 896,072 | 1.62% |
| | | **30,378,045** | **54.75%** |
| 4 | **Executives** | — | — |
| 5 | **Public sector companies and corporations** | | |
| | 5.2 National Investment Trust Limited | 128,927 | 0.23% |
| | | **128,927** | **0.23%** |
| 6 | **Banks, Development Financial Institutions, Non-Banking Finance Companies, Insurance Companies, Takaful, Modarabas and Pension Funds** | | |
| | 6.1 IDBP (ICP Unit) | 5,952 | 0.01% |
| | 6.2 National Bank of Pakistan | 764 | 0.00% |
| | | **6,716** | **0.01%** |
| 7 | **Shareholders holding five percent or more voting rights (Name wise detail)** | — | — |
| 8 | **Others** | **23,011,924** | **41.47%** |
| | **TOTAL** | **55,484,303** | **100%** |

## Huffaz Seamless Pipe Industries Ltd.

| |
|---|
| Folio No. |
| CDC ID No. |
| Sub A/C No. |
| Shares held |
| CNIC No. |
| Passport No. (in case of Foreigner) |

# Proxy Form

**33rd Annual General Meeting**

I/We.......................................................................of ...........................................................................................

(full address) being a member / members of Huffaz Seamless Pipe Industries Ltd., hereby appoint

(Name) ..................................................................................................................................................................

of ...................................................................................................................................(full address) who is

also a member of this Company as my / our Proxy to attend and vote for me / us and on my / our behalf at 33rd Annual General Meeting of Company will be held on Monday September 26, 2016 at 02:00 p.m. at Junagargh Community Centre Opposite. Mashriq Centre, Block-17, Gulshan-e-Iqbal, Karachi-75300 and any adjournment thereof.

Signature of Proxy .....................................

Please affix Revenue Stamp of Rs. 5/-

Proxy's:

Folio Number .........................................................................

CDC Participant ID No. .........................................................

Sub-Account Number ............................................................

CNIC Number .......................................................................

Passport Number ..................................................................
(in case of foreigner)

Signature............................................
of Shareholder

(Signature appended above should agree with the specimen signatures registered with the Company)

1) Witness:
Signature ....................................................
Name: .......................................................
CNIC No. ..................................................
Passport No. ................................................
(in case of foreigner)
Address .....................................................

2) Witness:
Signature .........................................................
Name: .............................................................
CNIC No. ........................................................
Passport No. ......................................................
(in case of foreigner)
Address ............................................................

**NOTE:**

(1) A member entitled to attend and vote at the Meeting is entitled to appoint another member as his/herproxy to attend and vote instead of him/her at the meeting.

2) The instrument appointing a proxy should be signed by the member(s) or, in case of corporate entity to attend attorney duly authorized in writing. If the member is a corporation, its common seal must be affixed on the instrument.

3) CDC Shareholders are requested to bring with them their Computerised National Identity Cards along-with the participants' ID number and their accounts numbers at the time of attending the Annual General Meeting in order to facilitate identification of the respective shareholders.

4) The instrument appointing a proxy, togther with Power of Attorney, in case of corporate entity, if any, under which it is signed or notarially certified copy thereof, must be deposited at the Company's registered officer not later than 48 hours before the time of holding the meeting.

5) In case of Proxy of Attorney from a member, same should also meet and comply with all the conditions relating to proxy, including the deposit of the original Power of Attorney with the Company.

6) In the absence of CNIC, the receipt of CNIC application with NADRA alongwith old/expired NIC/CNIC, will also be acceptable wherever the CNIC is required.

AFFIX
CORRECT
POSTAGE

The Company Secretary,
Huffaz Seamless Pipe Industries Limited
207-210, Second Floor, Mashriq Centre,
Block-14, Gulshan-e-Iqbal, Karachi-75300.
www.huffaz.com.pk

# Huffaz
**Seamless Pipe Industries Limited**

*Committed to Excellence*

**Registered Office:**
207-210, Second Floor,
Mashriq Centre,
Block 14, Gulshan-e-Iqbal, Karachi.

**Factory:**
90 KM Super High Way,
Nooriabad Industrial Estate,
District Jamshoro, Sindh.

Website: www.huffaz.com.pk

Printed by: Bela Graphics