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## To the members of Thal Limited (the Company)

### Report on the Audit of the Unconsolidated Financial Statements

#### Opinion

We have audited the annexed unconsolidated financial statements of Thal Limited (the Company), which comprise the unconsolidated statement of financial position as at 30 June 2020, and the unconsolidated statement of profit or loss, the unconsolidated statement of comprehensive income, the unconsolidated statement of changes in equity, the unconsolidated statement of cash flows for the year then ended, and notes to the unconsolidated financial statements, including a summary of significant accounting policies and other explanatory information, 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 the audit.

In our opinion and to the best of our information and according to the explanations given to us, unconsolidated the statement of financial position, unconsolidated statement of profit or loss, the unconsolidated statement of comprehensive income, the unconsolidated statement of changes in equity and the unconsolidated statement of cash flows together with the notes forming part thereof conform with the accounting and reporting standards as applicable in Pakistan and give the information required by the Companies Act, 2017 (XIX of 2017), in the manner so required and respectively give a true and fair view of the state of the Company's affairs as at 30 June 2020 and of the profit and other comprehensive income, the changes in equity and its cash flows for the year then ended.

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) as applicable in Pakistan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* as adopted by the Institute of Chartered Accountants of Pakistan (the Code) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the unconsolidated financial statements of the current period. These matters were addressed in the context of our audit of the unconsolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Following are the Key audit matter(s):

Key audit matters	How the matter was addressed in our audit
<p><b>1. COVID-19</b></p> <p>The COVID-19 pandemic caused significant and unprecedented curtailment in economic and social activities during the period from March to May 2020 in line with the directives of the Government. This situation posed a range of business and financial challenges to the businesses globally and across various sectors of the economy in Pakistan.</p> <p>The Company's operations were disrupted due to the circumstances arising from COVID-19 including the suspension of production, sales and operations in its engineering and laminates divisions.</p> <p>In view of the unique nature of these events and its possible impacts on the business operations and financial reporting we considered this area as a key audit matter to identify specific risks in relation to the financial statements and devise our audit strategy accordingly.</p> <p>Please also refer to note 1.4.1 to the financial statements.</p>	<ul style="list-style-type: none"> <li>We discussed with the senior management about the impacts of COVID-19 related events on the business operations, financial condition, liquidity and operating performance of the Company.</li> <li>We identified key financial statement items which may require additional audit considerations due to the COVID-19 related conditions that prevailed during the latter part of the year. In this regard, we considered the recoverability of asset values in the engineering segment which was impacted by the lockdowns imposed by the Government including the fixed assets, inventories and trade receivables of this division.</li> <li>With regards to the fixed asset values we considered the revenue stream and profitability of the engineering segment and correlated the same with the book values of the relevant fixed assets.</li> <li>We checked the sale of the inventories subsequent to the year end to evaluate the realizability of inventory values held at the June 30, 2020. We also matched the inventory quantities held at the year end with the latest production orders received from Original Equipment Manufacturers (OEMs). We assessed the adequacy of allowances for net realizable value made in respect of the inventory held for sale in the after-market.</li> <li>In respect of trade receivables, we checked the computations for expected credit losses as determined by the management in accordance with the requirements of IFRS-9 'Financial Instruments'. We evaluated the assumptions used by the management for such estimates including their reasonableness and the supporting economic and historical data used in this regard.</li> </ul>

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Key audit matters	How the matter was addressed in our audit
<p><b>2. Capital expenditure on new project</b></p> <p>As referred to in note 7 to the accompanying unconsolidated financial statements, the Company has incurred significant amount of capital expenditure during the year for increasing the capacity of its cement bags line in the Papersack division.</p> <p>Capital expenditures incurred during the year represents a significant transaction and therefore, we have identified the same as a key audit matter.</p>	<p>Our procedures, amongst others, included the following:</p> <ul style="list-style-type: none"> <li>Obtaining an understanding of the Company's process with respect to capital expenditure including project budgeting, execution of contracts and accumulation of cost.</li> <li>We reviewed the relevant contracts and documents supporting various components of the capitalised cost.</li> <li>We considered whether the items of cost capitalised, meet the recognition criteria of an assets in accordance with the applicable financial reporting standards.</li> <li>We evaluated the basis used by the management for depreciation charged in relation to the assets, by considering factors such as the current useful life estimates and timing of capitalisation.</li> <li>We assessed the adequacy of the disclosures as per the guidelines set out in the applicable financial reporting requirements.</li> </ul>
<p><b>3. Revenues</b></p> <p>The Company earns revenue from multiple business lines which operate as distinct business units with significant volume of revenue transactions. The recognition of revenue relating to each business line depend on the nature of contractual arrangements with the customers.</p> <p>Revenue is recorded in accordance with the requirements of IFRS 15 which provides a comprehensive model of revenue recognition and requires the Company to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying the model to contracts with customers.</p> <p>We identified revenue recognition as a key audit matter due to significant volume of transactions, a sharp decline in certain revenue streams due to COVID-19 related events and the amount of audit efforts in relation to this area.</p> <p>Please refer notes 5.24 and 31 to the unconsolidated financial statements.</p>	<p>We performed a range of audit procedures in relation to revenue including the following:</p> <ul style="list-style-type: none"> <li>We reviewed the terms and conditions of distinct sale transactions and assessed the appropriateness of the revenue recognition policies and practices followed by the Company.</li> <li>We tested controls over revenue recognition and reporting process within each business unit including key IT dependent manual controls and IT general controls for the relevant IT systems used for revenue transaction processing by the Company.</li> <li>We performed analytical review procedures and other test of details over various revenue streams including the cut-off procedures to check that revenue has been recognized in the appropriate accounting period.</li> <li>We assessed the adequacy of the disclosures as per the guidelines set out in the applicable financial reporting requirements</li> </ul>

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### Information Other than the Financial Statements and Auditors' Report Thereon

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of Management and Board of Directors for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the accounting and reporting standards as applicable in Pakistan and the requirements of Companies Act, 2017 (XIX of 2017) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Board of directors are responsible for overseeing the Company's financial reporting process.

### Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs as applicable in Pakistan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs as applicable in Pakistan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the board of directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the board of directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the board of directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Report on Other Legal and Regulatory Requirements

Based on our audit, we further report that in our opinion:

- a) proper books of account have been kept by the Company as required by the Companies Act, 2017 (XIX of 2017);
- b) the statement of financial position, the statement of profit or loss, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows together with the notes thereon have been drawn up in conformity with the Companies Act, 2017 (XIX of 2017) and are in agreement with the books of account and returns;
- c) investments made, expenditure incurred and guarantees extended during the year were for the purpose of the Company's business; and
- d) zakat deductible at source under the Zakat and Ushr Ordinance, 1980 (XVIII of 1980), was deducted by the Company and deposited in the Central Zakat Fund established under section 7 of that Ordinance.

The engagement partner on the audit resulting in this independent auditors' report is Arsian Khalid.



**Chartered Accountants**

**Place:** Karachi

**Date:** 23 September 2020