



HI-TECH LUBRICANTS LIMITED

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Ref. No. HTLL/Corporate/07-2016/006
July 15, 2016

The General Manager
Pakistan Stock Exchange Limited
Stock Exchange Building
Stock Exchange Road
Karachi.

Subject: QUARTERLY PROGRESS REPORT NUMBER 2 UNDER SPECIAL CONDITIONS OF IPO ON IMPLEMENTATION OF PROJECT FOR THE QUARTER ENDED JUNE 30, 2016

Dear Sir,

With reference to SECP letter No. SMD/SA-88/12/2015 dated November 30, 2015 regarding Approval to Issue, Circulate and Publish Prospectus for issue of 29.00 Million Ordinary Shares by Hi-Tech Lubricants Limited and under compliance of Special Condition No 5 mentioned in the aforesaid approval, enclosed please find quarterly progress report number 02 under special condition number 5 on implementation of project for the quarter ended June 30, 2016.

Please acknowledge receipt of the above and oblige.

Yours Sincerely,

For and on behalf of Hi-Tech Lubricants Limited



Muhammad Imran
Company Secretary

Enclosures: As above

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Hi-Tech Lubricants Limited

Quarterly Progress Report No. 2
on
Implementation of the Projects

For the Quarter ended June 30, 2016

Hi-Tech Lubricants Limited

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COMPLIANCE AUTHORITIES

This report is prepared in Compliance of following:

1. Securities and Exchange Commission of Pakistan

Condition Number 5 for Initial Public Offering of 29 Million Ordinary Shares by Hi-Tech Lubricants Limited (HTLL) under section 88(1) read with section 87(2) of the Securities Act, 2015 through Letter Number SMD/SA-88/12/2015 dated November 30, 2015.

2. Pakistan Stock Exchange Limited

Condition Number 19 for Clearance of Prospectus of Hi-Tech Lubricants Limited through letter bearing Ref. No. KSE/GEN-6602 dated August 13, 2015 [Formerly Karachi Stock Exchange Limited]

CONDITIONS IMPOSED BY COMPLIANCE AUTHORITIES

The condition imposed by compliance authorities are as follows:

1. Securities and Exchange Commission of Pakistan

The Company shall submit progress report on implementation of its projects on quarterly basis till their completion, to the securities exchange and the Commission;

2. Pakistan Stock Exchange Limited

The Company shall submit quarterly progress report of the expansion plan related to Blending Plant/Filling Lines and Retail Outlets to the Exchange and the Commission until implementation and its completion as detailed in the prospectus for its dissemination to all concerned.

EXTRACT OF PROSPECTUS

EXTRACT OF ROSPECTUS REGARDING AFOREMENTIONED CONDITIONS

Following was mentioned in the prospectus about the utilization of proceed of Initial Public Offering:

The proceeds of the IPO will be utilized for the following:

5.5 EXPANSION PLAN

HTLL envisages a total estimated investment requirement of PKR 1,250 million, break-down of which was is follows:

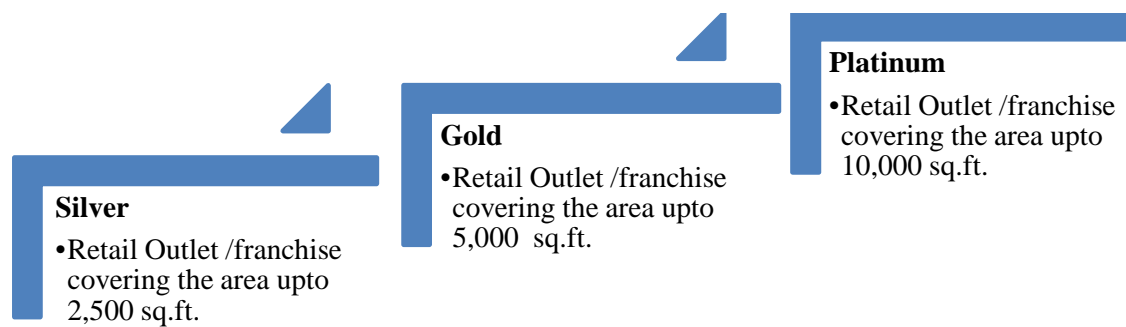
| Proceeds Utilization | PKR Million |
|--|--------------|
| <u>Investment in Company</u> | |
| Land | 470 |
| Building | 128 |
| Plant, Machinery & Equipment | 139 |
| Pre-operating costs | 33 |
| Working Capital | 280 |
| Sub-total (funds required by HTLL) | 1,050 |
| <u>Investment in 100% owned subsidiary</u> | |
| Additional Filling Lines for Blending Plant, Hi-Tech Blending (Pvt.) Limited | 200 |
| Total Requirement | 1,250 |
| IPO Proceeds | 1,073 |
| Internally generated resources, if required | 177 |

At a floor price of PKR 37 per share, HTLL expects to raise PKR 1,073 million from the IPO. Balance money, if any, will be financed by HTLL's internal sources. Excess funds, in case of a higher strike price, will be first utilized to cover the investment requirement of PKR 1,250 million and then meeting Company's current and future working capital requirements.

Investment in Company: Retail Outlets - Service Delivery Categorization/Plan

Under this expansion HTLL plans to offer state of the art retail outlets across Pakistan with multitude of unique services and technical support for our customers. This business expansion plan is the part of HTLL's forward integration strategy.

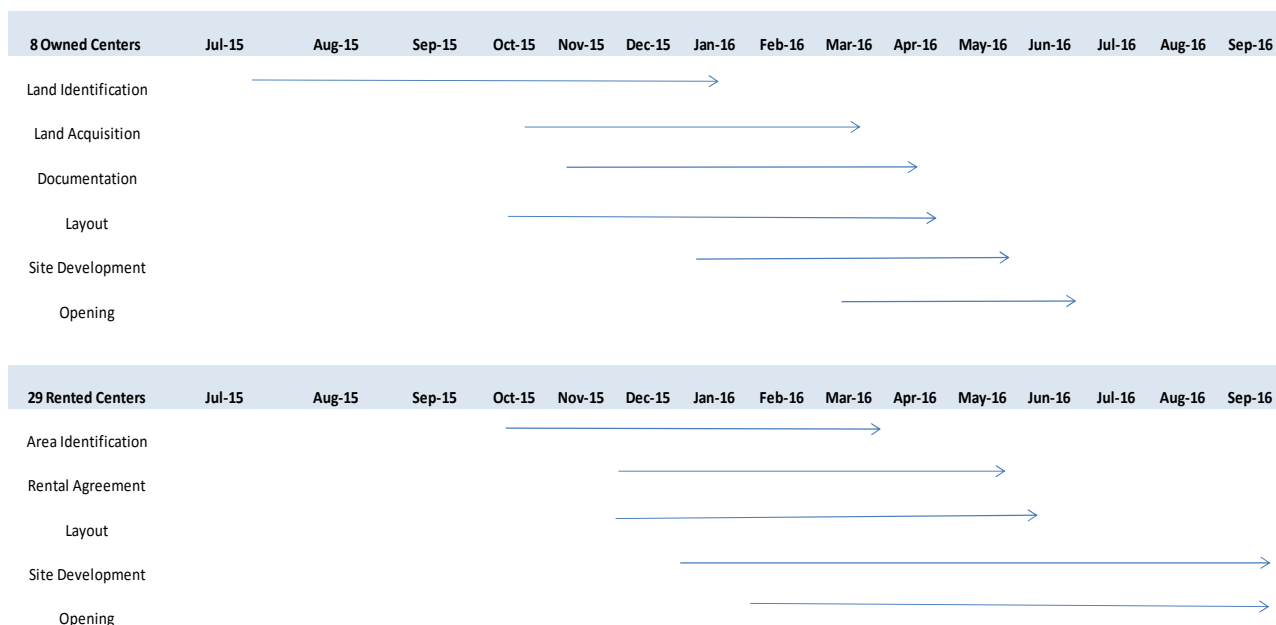
The Retail outlets plan will be executed initially based on 3-Tier Business Model



Tentative Timelines / Roll-Out Strategy

Area surveys are being conducted by HTLL. Proceeds from IPO will be invested in Hi-Tec Service centers that include launch of 8 owned outlets in Lahore (3), Gujranwala (1), Faisalabad (1), Islamabad (1) and Karachi (2) during 2015-16. Over a period of 5 years, HTLL plans to open 75 retail outlets (including 67 rented) across 16 major cities of Pakistan.

Roll Out for Service Centers to be opened during the year 2015 –16:



Following the possession of land either through acquisition or rent, the following indicative timelines are required to bring a service center online:

| Milestone | Time Horizon |
|------------------------|--------------|
| Layout / Designing | 3 - 4 Weeks |
| Civil Construction | 9 - 12 Weeks |
| Machinery Installation | 3 Weeks |
| Furniture and Fixtures | 2 Weeks |
| Pre-Launch Marketing | 1-2 Weeks |

Investment in Hi-Tech Blending (Pvt.) Limited (“HTBL”) – 100% owned Subsidiary of HTLL

Most recently HTLL has ventured into Blending Facility that has been located outside Sundar Industrial Estate, at Bhaikot Raiwand Road, Lahore. HTLL has incorporated a 100% wholly owned subsidiary named Hi-Tech Blending (Pvt.) Limited with a total investment of PKR 776 million as of June 30, 2015. The upcoming Plant is an integrated unit Producing International Standard Specifications Lubricants in HDPE bottles, filling, capping & labeling of finished products on an automated high accuracy filling line. As per the agreement between HTLL and SK Lubricant, HTLL is allowed to invest in a blending plant.

The following table shows component wise project cost of blending plant:

| Cost Component | Expected Cost (Rs. '000') |
|------------------------------------|---------------------------|
| Land | 180,186 |
| Additional development on land | 40,358 |
| Buildings & Admin Block | 392,682 |
| Plant, machinery and equipment | 709,024 |
| Tanks | 116,359 |
| Instrumentation | 20,000 |
| Vehicles | 31,088 |
| Furniture and fixture | 1,291 |
| Office and other equipment | 17,306 |
| Computers and Software | 13,759 |
| Pre-operating & Contingencies | 80,947 |
| Total capital cost | 1,603,000 |
| Working Capital | 110,000 |
| Original Project Cost | 1,713,000 |
| Expansion through Additional Lines | 200,000 |
| Total Project Cost | 1,913,000 |

Details of source of funding of the project cost and status of the project:

| Source of funding | Rs. '000' | % of Total |
|------------------------------------|------------------|-------------------|
| Equity | 1,000,000 | 52% |
| IPO proceeds | 200,000 | 10% |
| Total Equity | 1,200,000 | 62% |
| Director loan | 88,000 | 5% |
| Bank loan & lease | 625,000 | 33% |
| Total Debt | 713,000 | 38% |
| Total | 1,913,000 | 100% |
| Status as of 30th June 2015 | Rs. '000' | % of Total |
| Capital expenditure incurred | 1,216,865 | |
| Through Equity | 776,410 | 64% |
| Through Debt | 440,455 | 36% |

This investment & business expansion plan offers multitude of opportunities to strengthen the local business line in Pakistan. HTLL's prime focus is to offer customized product range with diversified business line in the automotive & retail sector with unique selling propositions. No doubt the long sighted vision is the initial step, however; HTLL is determined to capitalize this plan with business knowledge and customized facility by carefully addressing the risk factors. The salient objectives include the following:

- Cost effectiveness / Competitiveness
- Effective Supply Chain Management
- Investing for the Sustainability and Support of Local Business Growth especially in Motorcycle (MCO) & Heavy duty Diesel oils (HDDO)
- Introducing the Indigenous Product Line with International Blending & Packaging Standards with Capturing the Local & Government Mainstream Institutions
- OEM supplies
- Exports to Afghanistan & CIS Countries
- Enhanced Product Portfolio (Industrial & process Oils)
- Diversification in Plastic products & trading

Further Investment in the Addition of New Filling Lines

HTLL now plans to invest further in the HTBL to introduce Jerry Can and Drum filling lines. Details of the investment requirement is as follows:

| Component | Vendor | Origin | Currency | FOB US\$ | Freight, Duty & Taxes 21% | Total | Pak Rs | in Millions |
|-------------------------|------------------------|-------------|----------|----------|---------------------------|---------|------------|-------------|
| Drum Filling | Packon | South Korea | US\$ | 68,800 | 14,448 | 83,248 | 8,741,040 | 8.7 |
| Drum Manufacturing | Full Shine engineering | Taiwan | US\$ | 433,600 | 91,056 | 524,656 | 55,088,880 | 55.0 |
| Jerry Can Filling | Packon | South Korea | US\$ | 132,500 | 27,825 | 160,325 | 16,834,125 | 16.8 |
| Jerry Can Manufacturing | ACE Corporation | South Korea | US\$ | 320,000 | 67,200 | 387,200 | 40,656,000 | 40.7 |
| Transformer Oil | Meier-Group | Germany | EURO | 198,650 | 41,717 | 240,367 | 27,882,514 | 27.9 |
| Master Batch | Torninova | Italy | EURO | 199,950 | 41,990 | 241,940 | 28,064,982 | 28.1 |
| Local Components | | | | | | | | 23 |
| Total | | | | | | | | 200 |

Implementation schedule for the additional filling lines:

| Milestone | Schedule |
|--|------------------------|
| Identification of supplier & quotation | July 2014 - March 2015 |
| Final negotiation | October 2015 |
| LC opening | November 2015 |
| Pre-shipment | March 2016 |
| Shipment | April 2016 |
| Installation | June 2016 |
| Test run | July 2016 |
| Commercial run | August 2016 |

Benefits of installing additional filling line

- Bulk Product Selling
- Packaging and sales of Industrial Products and Process Oils
- Selling of Drums and Jerry Cans to other user, e.g. Chemicals , Paints etc

Tapping huge potential of bulk sales in Export in Afghanistan

PROGRESS UPDATE

PROGRESS UPDATE

1. After the issuance of NOC from Pakistan Stock Exchange Limited on **March 09, 2016** the funds were placed in specific purpose accounts newly opened in banks having satisfactory ratings.
2. Out of the total funds received Rs 1,812,562,500 the company to date has invested Rs. 1,450,000,000 in term deposits ranging from 1 to 6 months.

The chronological detail of activities undertaken is as follows:

Expansion through retail outlets

The design phase of plot of land purchased in last quarter located in Lahore, district Punjab has been completed. Regulatory and other authorities' permission are in progress. The service center would take another 4 to 6 months to become fully operational after approvals.

The company is still looking expeditiously suitable plot of lands in in Karachi, Islamabad and Rawalpindi as certain contracts negotiated for purchase of land at the time of preparation of prospectus are not available this time.

The company further completed 3 long term lease agreements in Lahore, District Punjab for establishing service centers. The details of the locations are as follows:

- a) Location no. 1 at Main Walton Road near Defense Housing Authority (DHA), Lahore measuring 1 Kanal
- b) Location no. 2 at Johar Town, Lahore measuring 1 Kanal
- c) Location no. 3 at Allam Iqbal Road, Mustafabad, Lahore measuring 1 Kanal

The documentation and regulatory authorities' permission are underway and design phase is expected to complete by the mid of this quarter. After designing, it would take another 4-6 months to become fully operational.

Further, 4 to 5 locations have been identified in different metropolitan cities and these are under negotiation with landlords for lease agreements which are expected to be finalized in the current quarter.

Investment in Hi-Tech Blending (Pvt.) Limited – Wholly owned subsidiary company for additional filing lines

The plant test run has been completed to the satisfaction of OGRA and is expected to start commercial production in the quarter ending September 30, 2016 subject to final approval by OGRA which is pending due to non-availability of chairman.

The Company is under negotiation with vendors for supply of additional equipment for blending plant as the fresh negotiations are underway.

Working capital

The company has utilized PKR 110,000,000 for payment of short term borrowing facilities availed from banks against import of inventory and its clearance from customs.

Further developments

OGRA has directed to the company to add object clauses in its Memorandum of Association relating to OMC business. To cater the said requirement, Company need to alter the provisions of Memorandum of Association with respect to the objects of the company to enable it to carry on business, not being a business specified in its existing object. The shareholders in the recent extra ordinary meeting held on June 16, 2016 approved to incorporate following clause in company's memorandum of association for establishing an oil marketing company:

New Clauses in Memorandum of Association

37. To engage in and carry on the business of Oil Marketing Company (OMC) and for this purpose to comply with all rules, regulations and conditions including but not limited to capital and investment requirements and timing thereof as may be issued from time to time by the relevant authorities / regulators / Oil & Gas Regulatory Authority (OGRA).

38. In connection with the business of Oil Marketing Company (OMC), the Company undertakes that investment of Rupees 500 million shall be made on infrastructure development within the time period of three years as required by Oil and Gas Regulatory Authority (OGRA)."

FURTHER sub clauses of Object Clause III of the Memorandum of Association of the company be and are hereby renumbered as sub clauses 1 to 40 of Object Clause III of the Memorandum of Association of the company."

The sector offers robust growth and lucrative margins for medium sized entity having low operational cost. This enables the company to increase its product

penetration to the market and will enhance the capability of further breakthrough in to the retail segment and increase its market share.

Sd.

Chief Executive Officer

Sd.

Company Secretary