

PAK AGRO PACKAGING LTD
DIRECTORS REPORT
NINE MONTHS ENDED 31 MARCH 2022

The Directors of your company are pleased to present the financial statements for the nine months ended 31 March 2022.

Significant Events of the Period

1. The Company changed its status from private limited company to public limited company in last month of previous financial year.
2. The Company was listed at the stock exchange in November 2021, the first company to be listed on the GEM Board of PSX.
3. The Company formally offered 8 million of its shares for public subscription. Due to the hard work of our Consultants, M/s AKD Securities Ltd., cooperation of our bankers and the staff members, our issue was handsomely over-subscribed and the strike price came to Rs 24.75, 10% higher than the base price of Rs 22.00.
4. The company had expected the public subscription to be take place in early part of our financial year which would have enabled us to import machinery and build new production hall for our expansion program in good time to increase our sales significantly for the current year.
5. Current status on expansion program is:
 - a. Construction of the new production hall has been completed.
 - b. Letters of credit have been opened for the import of the plant to manufacture fish nets. However, due to the Covid situation in Shangai, China, we are experiencing delays in delivery of the plant. We have now been informed that the plant will arrive, be installed and commissioned in June 2022.
 - c. We have concluded negotiations for purchase of another plant to manufacture fencing nets. This will be imported from Taiwan. It is hoped that a letter of credit will be established in May 2022, with expected date of plant delivery before the end of 2022.
6. Total funds raised through IPO were Rs 198 million. The utilization so far of these funds is as follows:
 - a. IPO Related Costs, Rs 10.7 million.
 - b. Payments for construction of new production hall Rs.10.2 million
 - c. Purchase of machinery Rs.18.5 million
 - d. Advance remittance for machinery Rs.5.5 million
 - e. Purchase of Shahzore Rs.3.1 million
 - f. Other Investments Rs 12.4 million
 - g. Funds placed in Term Deposit Receipts, Rs 60 million
 - h. Retirement of running finance facilities, Rs 70 million. These are however still available to the Company and will be availed when levels of production rise after the commissioning of two new plants.

- i. Invested in higher stocks and held in cash form, Rs 7.6 million

Financial Performance

- a. Sales revenue at PKR 326.7 million was 8.2% higher than comparable period last year. This increase is well below our expectation but it has been caused by delay in IPO, and non-delivery of new plants.
- b. Gross profit margin at PKR 52.2 million was only 3% higher than the comparable period last year. Gross Profit margin dropped to 15.98% of sales as opposed to 16.76% of sales in the comparable period last year. The factors that contributed to this drop in GP margin include higher import prices of raw material, impact of increase in dollar value, and partial depreciation charges on the new production hall. It is hoped that once the new plants arrive and company's output increases, the total production overheads will be distributed over larger quantities of sales, thereby significantly improving our GP margin.
- c. Net profit at PKR 29.7 million was slightly lower than the nine months of the previous financial year, due to the factors outlined above, However, EPS on a diluted, annualized basis were Rs 1.76 per Rs 10 share, slightly better than the previous year's performance.
- d. Current ratio improved to 11.5 on 31 March 22, compared to 1.22 a year ago. This is principally due to unutilized IPO funds still held in the form of cash and short term deposits. It will understandably drop to about 2 after the arrival and commissioning of two new plants.

Way Forward

1. Due to the delays in listing, caused primarily by late finalization of GEM Listing rules by PSX, and the delay in arrival of new plants, we were not able to get any additional revenue from proposed expansion plan. However, we are still optimistic that we will be able to record sales of over PKR 450 million for the year and also meet the EPS target despite the delays enumerated above.
2. The Company hopes to achieve sufficient profit level to pay cash dividends after June 2022, within less than eight months after the initial public issue. 5

Gratitude

The Board wishes to record its gratitude to all the workers, shareholders, consultants, suppliers and employees of the company who extended full cooperation in ensuring a successful nine months period for the company. In particular we are thankful to The Bank of Khyber and The Bank of Punjab for their continued support.

Dr Safdar A Butt
Chairman

Khalid Butt
Chief Executive