

Directors' Report to the Shareholders

The Directors of the Company are pleased to submit the report and the audited financial statement for the year ended December 31, 2014.

Compliance with Health, Safety and Environment HSE standards remained a priority and the Company closed the year without any serious incident in this respect.

The political instability, fragile law and order situation and energy shortage continued to challenge the overall economy and in particular the manufacturing sector in the year 2014.

Market and Business Overview

Overall sales volumes for the year 2014 at 48,226 tons were higher by 11% compared to 2013. Domestic volumes were higher by 8.5%, illegal imports remained a challenge affecting domestic volumes.

Year 2014 proved to be a very challenging year with oversupply situation in both (Biaxially Oriented Poly Propylene) BOPP films and (Cast Poly Propylene) CPP films segments and cheaper illegal imports kept the margins and volumes under severe pressure.

The current oversupply situation is expected to continue for next few years, however with the increase in domestic demand, year on year, the Company would start reaping the benefit of expansion.

Pioneering Industry Status granted to the PET film manufacturers is eating up the volumes of one of our products due to unjust advantages granted to PET Manufacturers in terms of duties and taxes. The Competition Commission of Pakistan has disposed of the initial complaint against the Pioneering status granted to the PET films manufacturers. The Company is working on the strategy to counter the undue benefit passed on to the PET films manufacturers through reinitiating the process of investigation.

Your company is continuously engaged with the law enforcement and relevant agencies to curb the menace of illegal imports which is also affecting the Government revenue collections through taxes and duties evasion.

Export market remains very competitive on account of multiple benefits enjoyed by regional and international manufacturers vis a vis domestic producers in terms of supply chain efficiencies, energy cost, interest and taxation rates etc. Despite these challenges the Company would continue to build export markets based on marginal profitability to improve its capacity utilization.

In the past regional players had been dumping their products in the domestic market at uneconomical prices. This was subsequently checked with the imposition of Anti-Dumping Duties by National Tariff Investigation-NTC after a detailed investigation. Recently on technical grounds the decision of the NTC has been reversed thus opening up the domestic market to the regional players for dumping. Your Company is pursuing the matter before the NTC and with the appointment of its Chairman we expect progress in this matter.

Financial Highlights

Net Sales Income for the year was higher by 14% on the back of higher volumes and partial increase in prices to recover the escalation in input cost.

Despite 14% higher NSI, Gross Profit for the year was higher by 4% compared to corresponding period last year. The primary reasons for a lesser increase in Gross Profit vis a vis NSI, were the escalation in RM cost during the year which started tapering down from Nov 2014 and the general inflationary pressures.

Administrative and Selling expenses were higher by 29.7%. This includes provision of Rs 75 million on account of doubtful debt. Excluding this provision the increase is driven by higher transportation cost on account of higher sales volumes and inflationary effect.

With the sharp decline in Crude Oil prices towards the end of year the RM material prices also started to decline. This resulted in the write down of our stocks value at year end on account of Net Realizable Value calculations amounting to Rs 235 million.

Finance cost for the year was higher by Rs 308 million compared to same period last year on account of long-term borrowings for BOPP Line 4 and CPP Line 2 which in 2013 were part of project capitalization cost. Consequently the Company incurred Pre Tax Loss of Rs 331 million. With the recognition of tax benefit on BMR under section 65(b) of the Income Tax Ordinance for expansions, the Loss after Tax was Rs 200 million, significantly lower than last year.

Company generated an Operating Cash of Rs 493 million compared to Rs 1,094 million in 2013 the cash flow situation deteriorate mainly on account of higher working capital requirements. Consequently debt also increased during the year compared to 2013.

The Company while reconciling various account balances during the year identified certain errors in the previously reported financial statements. It transpired that certain entries made during previous years has resulted in the overstatement of income for the years 2012 and 2013 details of which have been given in Note 4 to the annexed financial statements .

The Company has undertaken a detailed exercise to ensure that aforesaid errors have not resulted in any release of Company assets and the effect of these errors was limited to restatement of assets and liabilities and the income of the Company. Furthermore it has also been ensured that there is no distribution of dividend during the subject periods out of capital of the Company.

The Company is taking steps to strengthen its internal control processes to avoid the possibility of recurrence of such events in future including administrative actions required to be taken in this regard.

The Company had commissioned two major projects in the year 2013 and 2014 with a value of more than Rs 6.7 billion. These projects were largely financed through borrowing from financial institutions and internally generated cash without an equity participation from the shareholders. The Company is currently evaluating various options to address the breach of few financial covenants at year end agreed with the financial institutions.

Key Financial Highlights are as follows:

	2014	2013 Restated
Sales Volume - (M. Tons)	48,226	43,468
Net Sales Value - (Rs in Million)	13,597	11,950
Gross Profit - (Rs in Million)	1,222	1,175
Net Profit / (loss)- (Rs in Million)	(200)	25
EPS - (Rs per share)	(6.65)	0.85

Dividend

Nil

Future Outlook

The reduction in feedstock prices commencing from end 2014 and the immediate market expectations for reduction in product pricing, particularly in the absence of antidumping duty, would keep prices and margins under pressure in the first quarter of 2015. However it is expected to gradually improve with the stability in Crude Oil and raw material prices.

Company has launched operational excellence program to improve on production efficiencies and reduce the cost of production through optimizing the machine and energy utilizations. This along the rationalization of other cost centers including financial cost are expected to contribute towards improving margins in the year 2015 and beyond with better results.

Focus on working capital improvement to increase in 2015.

We shall remain engaged with the related ministries and commissions to achieve a level playing field vis-à-vis PET films, Dumping of Products in local market and Illegal mode of imports.

The resilience with which your Company has operated in the most challenging business conditions would not have been possible without the support of all our stakeholders, we are hopeful that going forward the Company would be in a better position to capitalize on the expected upturn in downstream demand.

Projects

CPP Line 2 project and commissioned during in Q1 2014 within the budgeted cost of Rs 1.3 billion.

Production Facilities

All four film manufacturing lines and the auxiliary equipment installed in Karachi are running as per plan. The management is fully aware of the technical requirements of production facilities and a proactive maintenance plan is in place to continue the operations efficiently without disruptions.

Production activities at Hattar remained suspended throughout a larger part the year due to supply overhang in the market and energy supply issues. However, with the improvement in

energy supply, Hattar plant has become operational for specialized products from January 2015.

Cash Flow Strategy

During the period under review, Rs. 493 million (2013: Rs. 1,094 million) was generated from operating activities of the Company, which was utilized mainly towards the payment of finance cost and repayment of long term loans.

Management Information Systems

We continue to enhance the efficiencies by increasing the SAP footprint in the Company. During the year with the assistance of local SAP consultant(s), various projects for optimization were initiated including the areas of Material Management, Production Planning and Financial Reporting. This is in line with the Company's ambition to enhance operational efficiency and reporting accuracy.

Change of Director

During the year, Mr. Shahid Hussain, Managing Director of the Company resigned and Syed Aslam Mehdi was appointed in his place. Mr. Khalid Yacob retired from the office and in his place Mr. Khurram Raza Bakhtayari was appointed.

The Board of Directors wish to record its appreciation for the valuable services rendered by Mr. Shahid Hussain and Mr. Khalid Yacob and extends its warm welcome to Syed Aslam Mehdi and Mr. Khurram Raza Bakhtayari.

Human Resource

Tri- Pack Films Limited holds great pride in its human capital. We believe that our success over the years rests alone on our relentless people. We are committed to building a culture that is most conducive to our employees, one they can rally around. We continue to develop our people to ensure that they have the right skills and experience to deliver an outstanding experience to our customers.

The Company takes pride in its employee engagement platform and believes that a diverse team is critical for the success of an organization. This is the reason our human resource policies are framed to foster a culture of openness, creativity, trust, integrity and accountability.

Human Resource and Remuneration (HR&R) Committee

Mr. Asif Qadir - Chairman
Syed Aslam Mehdi
Mr. Khurram Raza Bakhtayari

The HR&R Committee was formed on October 2, 2012 and its terms of reference have been approved by the Board and are in line with the guidelines provided in the Code of Corporate Governance.

Quality Management

During the year your Company complied with the requirement of all applicable quality standards.

To further improve productivity through machine efficiency and reduce process wastages, your Company has also started the implementation of Total Productive Maintenance (TPM) across the plants.

Contribution to the National Exchequer

Your Company's contribution to the exchequer in the form of Sales Tax, Custom Duties and Income Taxes etc. is approximately Rs 3,362 million in 2014.

Related Parties

We maintain a complete and updated list of related parties. All transactions with related parties are carried out on an unbiased, arm's length basis. A complete list of all related party transactions is compiled and submitted to the Audit Committee every quarter. After review by the Audit Committee the transactions are placed before the Board for their consideration and approval.

Code of Corporate Governance

The Board of Directors have taken all the necessary steps to comply with the requirements of the Code of Corporate Governance included in the listing regulations of Stock Exchanges in Pakistan and are pleased to declare the following as required by the Code:

- i) The financial statements, prepared by the management of the Company, present fairly its state of affairs, the result of its operations, cash flows and changes in equity.
- ii) Proper books of account of the Company have been maintained.
- iii) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates except for the changes as stated in Notes to the Financial Statements. The accounting policies are based on reasonable and prudent judgment.
- iv) International Financial Reporting Standards, as applicable in Pakistan, have been followed in preparation of financial statements.
- v) The system of internal control is sound in design and has been effectively implemented and monitored. The system is continuously monitored by Internal Audit and through other such monitoring procedures. The process of monitoring internal controls will continue as an ongoing process with an objective to further strengthen the controls.

- vi) Details of significant changes in the Company's operations during the current year as compared to last year and significant plans and decisions for the future prospectus of profits are stated in the Chief Executive's Review as endorsed by the Board of Directors.
- vii) Key operating and financial data of last ten years is annexed.
- viii) Information about the taxes and levies is given in the notes to the financial statements.
- ix) There are no doubts upon the Company's ability to continue as a going concern.
- x) There has been no material departure from the best practices of corporate governance, as detailed in listing regulations.
- xi) The value of investments of provident and gratuity funds, as at June 30, 2014 based on their un-audited accounts is as follows:

	Rs '000
Provident	92,719
Gratuity	53,110

The value of investment includes accrued interest.

- xii) A separate statement of compliance signed by the Chief Executive Officer is included in this Annual Report.

MEETINGS OF BOARD OF DIRECTORS

During the year 2014, eight (8) meetings of the Board of Directors were held. The attendance of each Director is as follows:-

S. No.	Name of directors	No. of meetings attended
1	Syed Babar Ali (Chairman)	4
2	Syed Aslam Mehdi (Chief Executive) (appointed w.e.f. September 16, 2014)	1
3	Mr. Shahid Hussain (Resigned w.e.f. September 16, 2014)	7
4	Mr. Asif Qadir	8
5	Syed Hyder Ali	5
6	Mr. Khalid Yacob (Resigned on October 21, 2014)	7

7	Mr. Khurram Raza Bakhtayari (appointed on October 21, 2014)	Nil
8	Mr. Kimihide Ando	6
9	Mr. Yasumasa Kondo	1
10	Mr. Masahiko Takahashi (Alternate to Mr. Yasumasa Kondo)	6

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

Audit Committee

An Audit Committee of the Board has been in existence since the enforcement of the Code of Corporate Governance. At present, the Audit Committee comprises of three Non-Executive Directors and chaired by Independent Non-Executive Director.

During the year 2014, four (4) meetings of the Audit Committee were held. The attendance of each Member is given hereunder:-

Name of member	No. of meetings attended
Mr. Asif Qadir (Chairman)	4
Mr. Khalid Yacob (Resigned on October 21, 2014)	4
Mr. Khurram Raza Bakhtayari (appointed w.e.f. October 21, 2014)	Nil
Mr. Kimihide Ando	3
Mr. Yasumasa Kondo	Nil
Mr. Masahiko Takahashi (Alternate to Mr. Yasumasa Kondo)	2

Leave of absence was granted to the Members who could not attend the Meetings of the Audit Committee.

The Audit Committee has its terms of reference which have been approved by the Board of Directors and are in line with the guidelines provided in the Code of Corporate Governance.

Chief Executive officer, Chief Financial Officer, Head of Internal Audit and external auditors attend Audit Committee meetings by way of invitation. However, they are not the formal members of the Audit Committee. The Company Secretary is the Secretary of the Audit Committee.

Pattern of Shareholding

A statement of the pattern of shareholding of certain class of shareholders as at December 31, 2014, whose disclosure is required under the reporting framework, is included in the shareholders' information.

External Auditors

The present auditors M/s A. F. Ferguson & Co. Chartered Accountants are retiring and being eligible offer themselves for reappointment. The Board of directors on the recommendation of the Audit Committee proposes the appointment of M/s A. F. Ferguson & Co., Chartered Accountants as the auditors until the next annual general meeting at a fee to be mutually agreed.

Acknowledgement

We are thankful to our valued stakeholder including customers, banks, suppliers, contractors, and shareholders, for their excellent support and confidence. We also thank our employees for their focused dedication and hard work throughout this period of volatility and transition.