

Pakistan Papersack Corporation Limited

DIRECTORS' REPORT TO THE SHAREHOLDERS FOR THE YEAR ENDED JUNE 30, 2005.

The Directors of your Company are pleased to welcome you to the thirty second Annual General Meeting of your Company and place before you the Company's Annual Report along with the Audited Financial Statements of the Company for the year ended June 30, 2005.

Profit before Taxation	76,910
Provision for Taxation	<u>(17,481)</u>
Profit after Taxation	59,429
Un-appropriated Profit from prior year (restated)	<u>65,978</u>
	125,407
Final Dividend for June-04	31,047
Transfer to revenue reserve	<u>34,500</u>
Un-appropriated profit carried forward	<u>59,860</u>

Subsequent Effect

Proposed final dividend on 13,798,512 shares of Rs. 5/- each @ Re.1 Per share.
Transfer to general reserves Rs. 45 million.

PAPERSACK OPERATIONS

During the year under review, sales of papersacks amounted to Rs. 349.9 million, as compared to preceding year's sales of Rs. 355.6 million – a marginal decline of 1.6% – resulting in an operating profit of Rs. 20.6 million, as compared to preceding year's operating profit of Rs. 40.9 million – a decrease of 49.7%. The operating profit came under considerable pressure, mainly due to increasing raw material prices and unfavorable duty structure, coupled with tough competition amongst the local papersack & woven polypropylene (WPP) sack manufacturers.

After considerable efforts on part of your company's management to convince the National Tariff Commission (NTC), the Government of Pakistan rationalized the rate of custom duty on sack kraft paper – our industrial raw material – and on Polypropylene Granules at 10% in the Federal Budget 2004~05. However, this fair and impartial decision, which was derived after holding public hearings and considering opinions of all parties concerned, was unilaterally revoked within a short span of 2 months, and duty on our raw material was increased to 15%, while duty on Polypropylene Granules was maintained at 10%, thereby tilting the scale in favor of WPP sacks. Subsequently, the management again approached the Government of Pakistan and received assurances that the anomaly would be addressed, and the disparity would be removed.

However, despite assurances and earlier favorable recommendations of NTC, the Government of Pakistan has maintained the duty on Sack Kraft Paper at 15%, while the duty on Polypropylene Granules has been further reduced to 5% in the recent Federal Budget 2005~06, thereby encouraging the use of an environmentally unfriendly product, in complete disregard of providing level playing field to the competing industries.

Exports: During the year under review, export sales amounted to Rs. 6.0 million – showing a marginal increase of 0.6%.

FUTURE OUTLOOK

The cement sector is showing strong growth and the production & consumption of cement can be expected to increase during this year and beyond, due to increasing cement capacities, better economic growth indicators and expected spending in PSDP. This should result in the increased market for cement bags in Pakistan. However, a substantial chunk of the market in the northern regions and the export market of Afghanistan has already been taken by WPP sacks. In addition, the increased competition in the market, continuing increase in paper prices, anomaly in duty structure and depressed papersack selling prices, have squeezed the margins for the Company.

Your Company's management is monitoring all these factors and taking necessary steps including taking up our case with Government authorities to remove the disparity / anomaly in the duty structure and exploring new markets, and is hopeful of meeting the challenges of the future with your support and encouragement.

LAMINATES OPERATIONS

The Sales during the year under review went up from Rs. 484.31 million to Rs. 567.41 million an increased of 17%. This rise is mainly due to increase in sales volume.

The export of Decorative and Industrial Laminates grew by 26% from Rs. 59.93 million to Rs. 75.70 million. The rise in export is the result of the concerted efforts of the management.

Cost of sales increased by 12 % from Rs. 437.77 million to 489.35 million mainly due to increased sales. Gross profits increased from Rs. 46.54 million to Rs. 78.06 million and operating profit increased from Rs. 9.67 million to Rs. 30.83 million. Increased sales especially of high margin products and improved management of available resources contributed towards the growth.

FUTURE OUTLOOK

Many factors are likely to affect the division in the future including rising prices of raw materials like Phenol Crystal etc. Furthermore, the reduction in the rate of duty draw back by a sharp 64% will also affect the profitability of the division. However, the management is hopeful that increases in sales volume, as a result of growth in the construction industry, will reduce impact of such negative factors

CORPORATE GOVERNANCE

The Directors of your Company confirm compliance with the Corporate and Financial Reporting Framework of the Securities and Exchange Commission of Pakistan's Code of Corporate Governance for the following :-

- a) The financial statements prepared by the management of the Company present fairly the Company's state of affairs, the results of its operations, cash flows and changes in equity.
- b) Proper books of accounts of the Company have been maintained.

- c) Appropriate accounting policies have been consistently applied in preparation of financial statements and accounting estimates are based on reasonable and prudent judgment.
- d) International Accounting Standards, as applicable in Pakistan, have been followed in preparation of financial statements and any departure there-from has been adequately disclosed.
- e) The system of internal control is sound in design and has been effectively implemented & monitored.
- f) There are no significant doubts upon the Company's ability to continue as a going concern.
- g) There has been no material departure from the best practices of Corporate Governance, as detailed in the listing regulations.
- h) Information about taxes and levies is given in the notes to the accounts.
- i) Value of investments in provident fund based on un-audited accounts for the year ended June 30, 2005 amounted to Rs. 58.286 million (Audited 2004 : Rs.53.366 million).
- j) There has been no trading in the shares of Company carried out by its Directors, CE and CFO, Company Secretary and their spouses and minor children during the year ended June 30, 2005.
- k) Key financial data for the last six years and pattern of shareholding is annexed.
- l) During the year under review, four meetings of the Board of Directors were held:

Directors	Attended	
Mr. Rafiq M. Habib	3	
Mr. S. Z. Kazmi	4	
Mr. Kersi D. Kapadia	4	
Mr. Mohamedali R. Habib	1	
Mr. Ali S. Habib	3	
Mr. Anis Wahib Zuberi	4	NIT Nominee
Mr. Mansoob A. Akhtar	4	NIT Nominee
Mr. Mazhar Valji	1	(in place of Mr. Muhamedali R. Habib)

- m) The following changes have taken place in the Board of Directors since the last review. Mr. Aijaz Rahim was co-opted as a Director on June 08, 2005, for remaining period of the tenure in place of Mr. Anis Wahab Zuberi, who resigned on June 08, 2005. The board places on record its appreciation to Mr. Anis Wahab Zuberi for the services he rendered to the Company and welcomes Mr. Aijaz Rahim.

PLANS FOR THE MERGER OF THE COMPANY

The plan for merger of the company, as approved in principle by the Board of Directors, is under process.

EARNING PER SHARE

Earning per share after taxation is Rs. 4.31 (2004 : Rs. 4.78).

MATERIAL CHANGES

There have been no material changes since June 30, 2004 other than plans for the merger of the Company as disclosed above and the Company has not entered into any commitment, which would affect its financial position at that date.

APPOINTMENT OF AUDITORS

The retiring auditors Ford Rhodes Sidat Hyder & Co, Chartered Accountants, being eligible, offer themselves for reappointment.

EMPLOYEES' RELATIONS

The relations between the Management and Workers continued to remain cordial throughout the year. The Directors would like to place on record their appreciation for the efforts and hard work put in by the management, staff members, employees and workers.

ACKNOWLEDGEMENT

The Management wishes to acknowledge the continuous support of the institutions and the cement units associated with your Company. The Management would like to thank them for their cooperation and assures them of its commitment to continue to provide world class quality service and products.

**On behalf of the
Board of Director**

S. Z. Kazmi
Chief Executive

Karachi : September 12, 2005.