

Business Intelligence (Private) Limited

8 Tickell Road Colombo 8 Sri Lanka

Telephone : +94 11 2015900

Fax : +94 11 2015950, 2015960

E-mail : bil@msl.lk

Company Reg. No.: PV 4598

22nd February 2024

Mr. Renuke Wijewardhane
Chief Regulatory Officer
Colombo Stock Exchange
World Trade Centre
Colombo 01

Dear Sir,

EX- PACK CORRUGATED CARTONS PLC - DISCLOSURE AS PER THE PROSPECTUS DATED 06th OCTOBER 2021 - VARIATION OF THE APPLICATION OF FUNDS RAISED THROUGH THE INITIAL PUBLIC OFFERING (IPO) IN RESPECT OF THE OBJECTIVES

We write on behalf of our client, Ex-Pack Corrugated Cartons PLC to communicate to you that the company proactively adapted to the evolving economic landscape following the IPO and has taken deliberate steps to reassess the strategy and explore alternative pathways to achieve the desired expansion in a more feasible manner than the objectives stated in the IPO. As per the Prospectus dated 6th October 2021, the objectives of the IPO funds raised (LKR 699,999,997.20) were to partly fund the setting up of a manufacturing facility as listed under table 1.2 of the Prospectus of Ex-Pack Corrugated Cartons PLC (Company) and given below.

Table 1-2 : Objectives of the Issue

DESCRIPTION	FINANCING REQUIREMENT (LKR)	INDICATIVE TIMELINES
Setting up manufacturing facility to enhance the current capacity of Ex-pack Corrugated Cartons Limited	2,980,064,000	Q3 of FY22 - Q2 of FY23

As outlined in the Prospectus the balance financing requirement was expected to be met via a bank borrowing facility (as outlined in the Prospectus under table 1.3 - funding plan).

In pursuance of the execution of the expansion plan and reference to the disclosure made on 11th March 2022 the Company acquired 2 Acres and 23.75 Perches of land which is located immediately adjacent to the existing Factory premises owned by the Company with an extent of 3 Acres, 1 Rood and 7.2 Perches. Due to the escalation of cost of construction in early 2022 the company had decided to retain the current facility of 145,000 sq ft located in 5 acres of land and construct another 150,000 sq ft of factory in the same plot of land. Thus, allowing the company to keep in line with the objective of the IPO of operating in across 300,000 Sqft factory premised in 10 acres of land.

Nevertheless, in response to the major economic crisis in Sri Lanka, the company deemed it necessary to restructure its objectives following the initial public offering (IPO). Company would like to highlight that its primary goal was to maintain business operations with minimal impact from external factors during the economic downturn. With unwavering dedication to this objective, the company successfully achieved healthy revenue and margin growth.

1 *ce*

Directors : Ms. C M Salgado FCIS J S Mather FCA

As the external environment gradually stabilized, the company re-evaluated the original IPO objectives. Subsequently, it has determined that the initially planned project requires strategic changes. This decision is based on the following reasons:

- **Inflation**

High inflation rates have further increased the costs of construction, raw materials, and labour costs, resulting in increased overall project costs and operational expenses. This situation potentially impacts the feasibility of establishing a new manufacturing facility.

- **Interest Rate**

The borrowing cost exceeding initial expectations has significantly raised project financing expenses. Consequently, increasing debt proportionately is deemed unviable, as it could negatively impact the optimum capital structure of the company.

- **Currency Fluctuations**

Significant fluctuations in the local currency may directly affect the costs of imported machinery, equipment, and raw materials essential for the new facility. This uncertainty poses challenges to financial planning and budgeting for the project.

- **Political Instability**

Over the last two years, the company has grappled with political instability, creating an uncertain business environment. Regulatory changes, tax adjustments, sudden policy shifts, or social unrest could disrupt the construction process and ongoing operations of the manufacturing facility.

Further, the Company would like to reiterate to investors that as disclosed in the prospectus, the IPO proceeds have been invested in Sharia-Compliant savings instruments during this interim period until the funds are deployed for the objectives of the IPO.

Restructured Objectives for IPO proceeds:

The Board of Directors diligently has explored alternative strategies & plans for utilizing the IPO funds in the best interest of the Company & its stakeholders. The decision has been made to re-structure the present factory floor of the Company located at No.79, Pattiwila Road, Gonawala, Kelaniya in order to increase its capacity and to facilitate the Machinery Replacement Plan (hereinafter referred to as the 'restructured objectives').

The company owns the current factory premises, and as part of the restructure, the existing warehouse will be relocated to a nearby site, optimizing workflow. Additionally, the finished goods stores will be moved to the Mezzanine floor, providing an enhanced production area of 25,000 sq. feet. The company plans to invest in new machinery to boost capacity by 50%, targeting a production of 3,000 metric tons.

The restructuring and expansion of the current production facility are estimated to cost the company LKR 260,000,000/-. This restructured approach is anticipated to save approximately LKR 2,877,000,000/- (inclusive of inflation and exchange devaluation) compared to the initial projections for Land & Building costs outlined in the Prospectus. The new machinery is projected to cost LKR 1,318,000,000/- compared to the original cost of LKR 1,623,160,000/- as per the Prospectus. The company is confident that the expected returns are far in excess of what is stated in the Prospectus. The Company would like to highlight that the newly proposed restructured objectives promises a significantly higher Internal Rate of Return (IRR) of 47%, compared to the previously projected 28% as outlined in the prospectus. For a detailed overview, refer to Annexure 1, which outlines the Investment Plan for the Original Objectives and the Restructured Objectives.

It has been disclosed that LKR 252,500,000/- equivalent to 36% of the IPO funds, was utilized for the purchase of land. However, the Company now intends to allocate the entire LKR 699,999,997.20 for the revised objective. Consequently, the company plans to utilize the remaining LKR 447,499,997.20 to initiate the restructured objective, following which the purchased land will be put up for sale. Subsequently, out of the

ce

funds generated from the sales proceeds, LKR 252,500,000/- will be earmarked for the revised objective. Remaining required balance funds of LKR 923,000,000/- would be secured through borrowings.

Company notes that as per the Prospectus the indicative timelines to achieve the objective of the issue was Q3 of FY22 - Q2 of FY23. Company was unable to inform with regard to the restructured objectives of the IPO proceeds earlier due to the persistent instability in Sri Lanka's economic landscape as described earlier until the latter part of 2023 and the Company faced challenges in finalizing its restructured objectives. Despite exhaustive exploration of alternatives throughout the financial year 2022/2023 and up to the close of 2023. This was primarily due to the dynamic nature of the situation and capital intensive industry, where facts were subject to frequent changes, rendering disclosure potentially counterproductive and prone to misguiding the public and the market alike. Despite the challenges, Company remains steadfast in its commitment to ensuring that all decisions align with safeguarding and promoting the best interests of its stakeholders. The anticipated timeline to pursue the restructured objectives and commence commercial production is Q3/Q4 of FY 2025/2026.

Subsequent to this disclosure to the CSE, the Company will obtain the approval of the Shareholders of the Company for the variation of the application of funds in respect of the objectives as per the Prospectus (as explained above) at the Extraordinary General Meeting to be scheduled shortly where due notice will be given to CSE and its shareholders.

Yours faithfully,

BUSINESS INTELLIGENCE (PRIVATE) LIMITED



DIRECTOR/SECRETARIES