

EX-PACK CORRUGATED CARTONS PLC
Company No. PQ 00250068
No. 11 A, Milepost Avenue, Colombo 03, Sri Lanka

CIRCULAR TO SHAREHOLDERS
EXTRAORDINARY GENERAL MEETING OF THE COMPANY

Dear Shareholder/s,

To seek the approval of the shareholders of the Company, as set out in the Prospectus of Ex-Pack Corrugated Cartons PLC dated 6th October 2021 for the variation of the application of funds raised through the Initial Public Offering (IPO) in terms of the aforesaid Prospectus in respect of the Objectives

This is further to the disclosure made to the Colombo Stock Exchange (CSE) on 22nd February 2024 regarding the captioned matter and the shareholders were notified therein that the Company will initiate steps to convene an Extraordinary General meeting to obtain the consent of the shareholders to proceed with same.

In this connection, the Board of Directors of Ex-Pack Corrugated Cartons PLC has decided to hold an Extra-ordinary General Meeting (EGM) as a Virtual Meeting on 05th April 2024 at 2.30 p.m, in line with the guidelines issued by the Colombo Stock Exchange (CSE) for hosting of virtual EGM for the captioned purpose.

As notified in the CSE disclosure dated 22nd February 2024, 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

Ex-Pack Circular to the SH-EGM – March 2024 - Deviation of the objectives of the IPO

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.

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.

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 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. The anticipated timeline to pursue the restructured objectives and commence commercial production is Q3/Q4 of FY 2025/2026.

The proposal comparison summary and the detailed summary of the IPO objectives and the restructured objectives as set out in detail under Annexure 1.

The Company seeks the approval of the Shareholders of the Company as an Ordinary Resolution to pursue with the alternative Strategy/Plan (which is detailed above) and summarized below in the form of a resolution.

"IT IS HEREBY RESOLVED TO APPROVE the variation of the application of funds raised through the Initial Public Offering (IPO) in terms of the Prospectus dated 6th October 2021 given under table 1.2 of the Prospectus and to pursue with the new objectives to re-structure the present factory floor owned by the Company (located at No. 79, Pattiwila Road, Gonawala, Kelaniya) in order to increase its capacity and to facilitate the machinery replacement plan as per the cost outlined under Annexure 1 and morefully detailed in the circular to the shareholders. Further the anticipated timeline to pursue the restructured objectives and commence commercial production - Q3/Q4 of FY 2025/2026"

**By Order of the Board,
EX-PACK CORRUGATED CARTONS PLC**



**Company Secretaries
Business Intelligence (Private) Limited
20th March 2024**

Encls : 1. Annexure 1.

2. Notice of Meeting & Proxy
3. Guidelines and Registration Process to join the EGM virtually
4. Registration Form for the EGM
5. Request form for a copy of the Circular to the Shareholders , notice of meeting & proxy