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PROGRESS REPORT

Review Period: May 2018 – September 2018



TRI STAR POLYESTER LIMITED

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PROGRESS REPORT

TRI-STAR POLYESTER LTD.

Background

Continuing from the previous progress report, which covered the period from February, 2018 to April, 2018, this report aims to measure the progress the company has made towards the achievement of its expansion objectives for which the right issue of shares was made for the 4-month period from May, 2018 to September, 2018. The report communicates the developments during this period and measures progress against the financial plan developed and submitted as per SECP regulations.

Please refer to the previously submitted progress report in order to understand the rationale behind the right issue of shares made and the planned expansion.

Progress till Date

The progress is being measured for the 4-month period from May, 2018 to September, 2018 against the financial plan containing projections for the planned expansion.

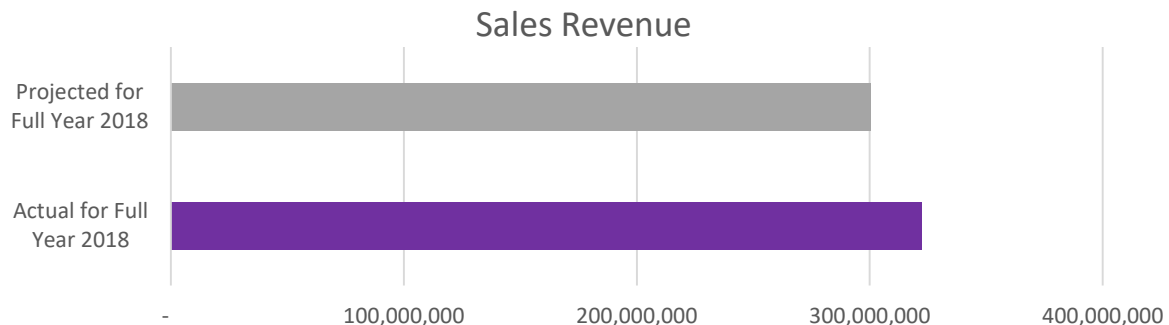
Operationally, the company made significant growth and expansion of its new business operations dealing in unstitched value added embroidered fabric and stitched garments under the brand name “Image”. The company made capital expenditure amounting to PKR 81.2 million during the financial year ending June, 2018. Further capital expenditure was made during the quarter ending September, 2018 amounting to PKR 2.4 million. The expenditure includes the acquisition of 50 stitching machines as planned.

In addition to this, the company managed to establish 2 new retail outlets by the end of June, 2018 out of the planned total of 6 new outlets for the financial years ending in 2018 and 2019. The total number of retail outlets at present is 6. The primary reason for delay in opening of retail outlets is the general fiscal and monetary imbalance prevailing within the economy for the past 6-8 months. This has forced the management to review its decision regarding establishment of more outlets for the time being. The management now awaits improved economic stability in order to make a proper decision regarding the sustainability of rental and other overhead commitments. In addition to this, the economic uncertainty has led to reduction in consumer spending and until consumer confidence is restored, there is much risk in establishment of new outlets.

Of the planned acquisition of 2 Schifli embroidery machines, as per last progress report, the company has already purchased 1 machine, and signed the purchase contract and made a down payment for another machine – shipment for which is expected soon.

Revenue and Costs

During the period July, 2017 to June, 2018, the company has managed to generate sales revenue of PKR 322,043,764. The financial plan projected a sales revenue for the year ending 2018 of PKR 300,181,917. This suggests that the company was able to generate sales revenue exceeding the projections.



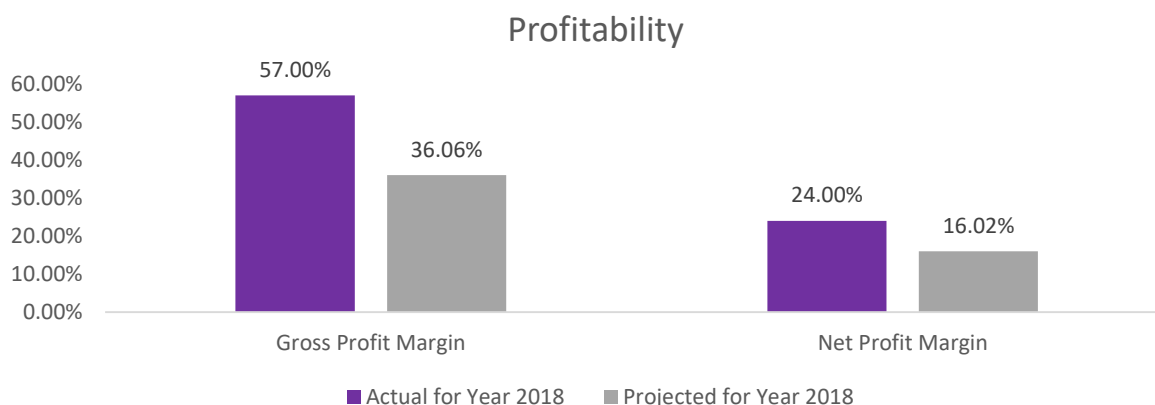
For the year ending 2019, the projected sales figure for the full year amounts to PKR 420,254,684 or PKR 105,063,671 for the 3-month period in comparison to the actual figure of PKR 87,944,411 – a variance of 16%. This is, primarily, due to the fact that the peak period in terms of sales volume occurs between the months of March and June i.e. falling between the 3rd and 4th quarter of the company's financial year.

The company is on the path to achieving its projected targets in terms of sales revenue. This, coupled with the lower than projected cost of sales figure, has led to a gross profit for the year ending 2018 of PKR 183,125,673. The company, during this period, exceeded its gross profit projection of PKR 108,233,267 by over 69%. Similarly, the actual gross profit for the following 3-month period is PKR 45,708,112 in comparison to a projection for the same period of PKR 38,477,134 with actual figures exceeding the projection by almost 19%.

As expected, the company's operating costs, including distribution and selling expenses as well as administrative and general expenses, have risen sharply from approximately PKR 8 million in the year ending 2017 to PKR 81.5 million in the year ending 2018. These operating costs have exceeded the projected full year's figure of PKR 52,601,905. In the following three months, however, the total operating costs incurred amount to PKR 17,436,674 in comparison to projections for the period of PKR 21,015,707.

Profitability

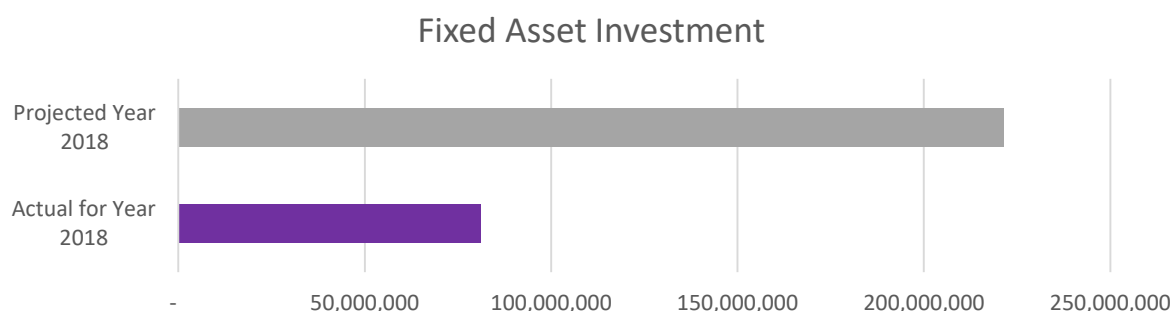
The company's gross profit margin of almost 57% is far higher than the projected margin for the year ending 2018 of 36.06%. Although, the operating costs exceeded the projections, the increased gross margin has more than absorbed these, leading to a total profit after tax for the year of PKR 77,800,009 in comparison to projected after tax profits of 48,089,253 which is a significant positive variance of almost 62%. Comparing the net profit margin which is 24% for the year with the projected margin for the period of 16.02%, it is clear that the company has not only managed to achieve its revenue targets, but has also successfully curbed its costs.



In the following three months ending September, 2018, the company achieved a gross profit margin of 52% in comparison to the projected margin of 37% for the period. Similarly, the actual net profit margin achieved during the three months ending September, 2018 is 27% in comparison to the projection for the period of 14.5%.

Non-Current Asset Investment

The book value of the company's overall non-current assets has increased for the year ending 2018 significantly, primarily, due to an increase in the book value of its property, plant and equipment. The company has made significant investment in fixed assets as part of its expansion plans, making a total capital cash outlay of PKR 81,217,592 during the year ending June, 2018. The company further invested PKR 2,376,667 in the three months following the June, 2018 yearend. The company continues to make progress towards its investment plans for the year which projected a total investing cash outlay of PKR 221,525,000. As discussed earlier, the capital expenditure, thus far, includes acquisition of 1 Schifli Embroidery machine, 50 stitching machines, establishment of 2 new retail outlets and a down payment for the second embroidery machine.



Once again, the economic instability has slowed down the company's fixed asset investment plans as a significant portion of the funds raised through the right issue of shares is tied up in meeting sharply

increasing working capital requirements – which continue to grow at an unprecedented pace. The last 6 months have been exceptionally challenging with significant rises in input costs. Cotton fabric, one of the major constituents of the company's final products, is internationally priced in USD. With devaluation of the Pak Rupee during this period of almost 35%, the cost of this input has increased by the same percentage. In addition to this, conversion has become increasingly costly with utilities and other charges substantially rising.

Equity and Liabilities

The company's accumulated loss has fallen to PKR 56,610,565 by the end of September, 2018 owing to a higher than projected net profit for the year. As per the initial financial plan, this loss was projected to fall to PKR 137,005,975 by the end of the financial year ending June, 2018, whereas, the actual figure for accumulated loss by the end of the financial year 2018 was PKR 80,271,826.

The company, in line with its expansion plan, made a one for one rights issue of shares during the financial year 2018 (in January, 2018), raising total capital of PKR 214,657,330. In addition to this, the company made a bonus issue of shares at 10% leading to a balance of PKR 450,780,390 in the paid up share capital head. The conversion of long term loan from associated and related parties into equity has been completed as of the date of writing of this report. The approval by SECP was communicated to the company in November, 2018. The loans have, therefore, now been converted into equity (ordinary share capital). This shows the sponsors' commitment to the company's success and their confidence in the company's growth.

Details of Share Capital	PKR
Balance as at 01 July, 2017	214,657,330
Bonus Issue of Shares at 10%	21,465,730
Rights Issue of Shares 1:1	214,657,330
Sponsors' Loan Converted into Ordinary Shares	118,011,620
Balance as at 30 November, 2018	568,792,010

In addition to the above, a cash dividend of 10% was declared in October, 2018 for the year ended 30 June, 2018.

Conclusion

The company has made significant progress towards achieving its planned expansion and has more than achieved the projected performance for the year. The company has managed to stay in line with sales targets (exceeding the projections for the year ending 2018) while continuing to curb direct costs in the face of rising input costs, thereby, leading to higher than projected margins.

The slowdown in the execution of expansion plans due to economic uncertainty and rising working capital requirements is expected to reverse once there is better economic predictability. Additionally, based on performance to date, it is expected that the company will be able to generate sufficient cash flow with conversion of current assets into cash to meet the required capital expenditure in the coming periods.

A trend analysis presented below shows that the company is likely to continue to outperform its projected figures.

