

Merit Packaging Limited

ANNEXURE 'G'

SIGNIFICANT POLICIES

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RISK MANAGEMENT

PROCUREMENT

- For all local purchases there should be two-three suppliers of material unless justified otherwise.
- For imported material, the policy of two suppliers may vary considering the quantities and availability of source.

CUSTOMERS

- Sales to be made only to established well reputed companies.
- Receivables of a customer at any time should not exceed more than 8 months sales.

INVESTMENTS

- The payback period should not exceed 7 years.
- Debt/equity ratio after new investment should not exceed the 60:40 ratio as required by SBP

BANK FACILITIES

- For Running Finance facility the company should have at least three bankers of which one should be of Pakistani origin.
- The Running Finance utilization should normally not exceed 85% of approved limit.

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HUMAN RESOURCE MANAGEMENT INCLUDING PREPARATION OF A SUCCESSION PLAN

The policies are meant to set pattern of beliefs, attitudes and values within the company that not only reflect management's philosophy in dealing with employees, customers, suppliers, shareholders etc. but are also consistent set of guiding principles.

➤ COMPOSITION OF HR EXECUTIVE COMMITTEE

1. Managing Director
2. Director Finance
3. Management Representative
4. Production Manager
5. Finance Manager

➤ TASK OF THE COMMITTEE

Over all strategic planning for the company. The step includes:

1. Analyzing and evaluating environmental influences:
 - a. Legislation and political trends.
 - b. Economic conditions.
 - c. Social trends.
 - d. Technological advancement.
2. Identification of values and aspirations of the employees.
3. Identification and evaluation of company's strengths and weakness.
4. Determining objectives and plans for achieving them.
5. Evaluating progress towards implementation of plans and Strategies for improvement.

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PROCUREMENT OF GOODS AND SERVICES

1. The Procurement Department objective is to ensure planning and purchasing of material
 - Of good quality conforming to user department requirement
 - At competitive price
 - On time delivery
 - To maintain desired stock level
2. Procurement should preferably from reputed suppliers having strong standing in the market to ensure uninterrupted deliveries of goods.
3. Purchase of material of both local and imported should be based by purchase requisition and purchase order and other supporting documents. Petty cash purchases are based only on PR.
4. For each type of supplies there should be at least two sources of suppliers (exceptions allowed where only one supplier available).
5. Suppliers gift is strictly not allowed except for the new year related items.
6. Local material should be preferred over imported material if available of desired quality, quantity and economical, except for specific customer requirement.
7. Preference should be given to suppliers registered with Income Tax and Sales Tax authorities to encourage documentation the economy.
8. Payments should be made by cross cheque except for petty cash payment so as to fulfil taxation requirements.
9. Visits to be undertaken to evaluate supplier standing.

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MARKETING

Industry Outlook

Packaging industry in Pakistan presents challenging outlook because of commercial pressures, social and demographic changes, technological advancement and environmental concerns.

Packaging companies are responding to these pressures by "adding value" to the packaging. They still need to further innovate, invest and develop appropriate skills to meet these challenges as customers and consumers continue to demand more and more from packaging. Therefore, flexibility and adaptability are two key words for success.

Target Market

We would continue to focus our attention on existing market segments such as cigarettes, bulb, tea, biscuits whose need match our offerings. Besides, our endeavor to bring in new jobs, where volumes are high, would continue for a suitable product mix as it has a direct bearing on our margins.

Target Market Strategy

We have the capability and technical know how to deliver what our customers wants with maximum efficiency and reliability and by offering them the right price for their products which is key to survival in the existing cut-throat competition scenario.

Pricing Strategy

We remain competitive and that has helped us to consolidate our market base. Our new offset printing machines with inline coating facilities have helped us to maintain our margins. Turn around time for bigger volumes stands minimized on these high speed machines beside reduction in wastage.

Future Prospects

Packaging is a high volume / low margin business. Value added packaging is where the margins are slightly better. The future in packaging manufacturing sector lies with the customer focused companies on the one hand, and small agile, innovative companies on the other. Those caught in middle are vulnerable. Competition between industries will remain intense. Companies which are unable to reduce cost and timely delays, by employing better technology and simplifying logistics and inventory operations, will not be able to provide better response to customer demands.

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DETERMINATION OF TERMS OF CREDIT AND DISCOUNT TO CUSTOMERS

Merit offers a credit period of about 45 days except in extraordinary cases due to intense competition in the printing and packaging industry. Price discounts, if volume justifies, can also be considered.

Payments are generally received in time but in exceptional and genuine cases slight delays are allowed.

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WRITE-OFF OF BAD / DOUBTFUL DEBTS, ADVANCES & RECEIVABLES

The company policy in respect of writing off bad/doubtful debt, advances and receivables are as follows:

- Amounts are only written-off if at-least three years period has elapsed since the receivables were created.
- The debt may be written-off only after frill exercises of follow up and after all means, including group companies help, have failed. Follow-up exercises are to be duly documented.
- Business relations with entities, whose amount have been written-off for consecutively three years, are discontinued.
- Bad debts can be approved by MD followed by ratification from BOD.

Advances to suppliers are in accordance with the market norms and given to parties which have a proven track record of successes. Bad debts written off should be subsequently notified to the Board of Director:

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ACQUISITION/ DISPOSAL OF FIXED ASSETS

ACQUISITION

- A Proposal Form is prepared justifying the requirement
- The capital expenditure is incurred after the Proposal Form is duly approved by Head of Department, Director Finance and Managing Director.

BUILDING

- New construction exceeding Rs.150,000 which will result in long term economic benefits and has life more than two years.
- Lower amounts are charged to expenses.

PLANT AND MACHINERY SPARES

- Any single item of spare parts costing above Rs.200,000 resulting in long term economic benefits and has life more than four years.

MACHINERY

- Any Machine costing which will result in long term economic benefits and has life of more than two years.

FURNITURE AND FIXTURES

- Any single item of costing above Rs.5,000 which will result in long term economic benefits and has life more than two years.

VEHICLE

- Car and Motorcycle.

OFFICE EQUIPMENT

- Any single item costing above Rs.15,000 which will result in long term economic benefits and has life more than two years.

COMPUTER EQUIPMENT

- Any single item resulting in long term economic benefits and has life more than two years.

FACTORY TOOLS AND EQUIPMENT

- Any single item costing above Rs.25,000 which will result in long term economic benefits and has life more than two years.

DISPOSAL

- A Disposal Form is prepared by Head of User Department justifying the disposal.
- All fixed assets to be disposed off are approved by Departmental Head, Director Finance and Managing Director.

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INVESTMENTS

Surplus funds of the company can be invested in safe and sound avenues providing reasonable rate of return. The investment proposal will be proposed by CFO and will be approved by the CEO.

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BORROWING OF MONEYS AND THE AMOUNT IN EXCESS OF WHICH BORROWINGS SHALL BE SANCTIONED / RATIFIED BY A GENERAL MEETING OF SHAREHOLDERS

- Funds are borrowed on short term basis for the working capital requirement and long term loans for investments duly approved by the BOD.
- Short term and long term borrowing including leasing will be obtained after approval of BOD.

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DONATIONS, CHARITIES & CONTRIBUTIONS AND OTHER PAYMENTS OF A SIMILAR NATURE

- Donations primarily should be made in areas relating to environment and welfare activities with prior approval of Managing Director.
- Donation to and organization whose trustees are directors or are related to Directors should be with prior approval by the Managing Director.
- Donation should preferably be given to the beneficiaries who have an organizational entity and the trustees are reputed and have good standing.
- All donations should have prior approval of the Managing Director.

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DETERMINATION AND DELEGATION OF FINANCIAL POWERS

1) Financial powers are as follows:

- a) Authorization of Purchase Orders (Two authorized persons).
- b) Opening of Letter of Credit (One director and one director finance).
- c) Signing agreement having financial commitments like Loan Leasing agreements (One director and one director finance).
- d) Cheque signatories (One director and one director finance).
- e) Authorization of despatches to customers (One authorized person)
- f) Gate pass (One authorized person)
- g) Authorization to sign material issue note (One authorized person)

2) The list of authorized signatories to sign cheques, request for preparation DD/Pay Order should be in black and white and be updated every year.

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TRANSACTIONS OR CONTRACTS WITH ASSOCIATED COMPANIES & RELATED PARTIES

- All transactions with the associated company of purchases, sales, services, should be in normal course and the rules of business of the both companies.
- Collection to be received from the associated company should be in accordance with the normal trade terms.
- Payment to associated companies should be made according to the normal business practice.

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HEALTH, SAFETY AND ENVIRONMENT

- We are committed to ensure safety and health of our people as well as safety of our products.
- We believe in environmental responsibilities and endeavor to work for a better environment both in and outside our work place.
- We are envisaging to work for acquiring ISO-14000 certification.