

# Al-Abid Silk Mills Ltd

PHONES : (92-21) 32560040  
FAX No. : (92-21) 32564718  
E-MAIL : mail@alabid.com  
URL : www.alabid.com  
A/39, S.I.T.E, MANGOPIR ROAD, KARACHI.  
P.O. BOX: 3677 S.I.T.E., KARACHI.

Date: 21-06-2019

Pakistan Stock Exchange  
Stock Exchange Bldg,  
Stock Exchange Road,  
Karachi

For the kind attention of : Mr. Hafiz Maqsood Munshi, Manager  
Companies & Securities Compliance-RAD

Subject: Independent Auditors' Report for the year ended June 30, 2018

Dear Sir,

Kindly refer to your earlier letter No. C-632-232 dated 15-Jan-2019. Now we've received your letter No. Gen-950 dated 4-March 2019.

Our company has been one of the largest if not the largest exporters of home textile until 2012. There after, as known to all, textile has gone generally throughout Pakistan in turmoil due to various factors which present government is trying to correct. Some factors among others are as below:

- ⇒ High cost of doing business than the competing countries as we have been exporting 100% of our production so we were confronted mainly by lower cost of competing countries.
- ⇒ Infrastructure left a lot to desire, shortage of gas, shortage of water which is essential for our value added textile exports.
- ⇒ Above all, due to law & order situation with 2010 onward, practically visits of our buyers to Pakistan dwindled completely. No buyer was willing to visit Pakistan - some for their own reasons and some got travel ban from their own company and advice from their countries.
- ⇒ Frequent changes in interest rate, stoppage and difficulties in getting drawbacks, all worked against export oriented textile industry.

21/6/19

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- ⇒ Practically, according to general report, more than 300 textile mills had to stop production throughout Pakistan due to these non-conducive circumstances for business which was consequent to above factors effecting cash flow etc.

As far as Al-Abid is concerned, one could say is the company which introduced actual value added textile to Pakistan was established in 1970 for production well over 40-years going ahead, at one time we were among the blue chips on Stock Exchange. However, the fact remains that our entire plant even today is very much there. We were having due to above circumstances financial constraints for which we are making efforts with the banks and we are pleased to inform that with major banks, settlement has already agreed, namely:

- Habib Bank Ltd
- Habib Metropolitan Bank
- United Bank Ltd
- Allied Bank Ltd
- Summit Bank Ltd
- Meezan Bank Ltd
- Faysal Bank Ltd

We are expecting after this settlement restructuring from the remaining banks to go into operation. However, as known to all, the banks' formalities are very lengthy and very time consuming.

It will not be out of place to mention that due to law and order situation, our even more than 20-years old buyers abruptly left although they did not want and they repeatedly showed their interest to start business with us again even they have been prepared to finance.

We are also enclosing herewith a letter of Ombudsman of IKEA clearly stating that abrupt departure is not in accordance with the practice of the company which they did due to the circumstances already mentioned above. It is not only IKEA our oldest customer but many other leading customers of ours like Wal-Mart, JC Penney left us without making agreement, so that we can replace them. Not only that, they left their goods also with us without lifting, as these were produced according to their specifications which was again a huge setback.

Above we have mentioned the circumstances which brought us in this situation and you had to according to your regulations serve us with this notice. Nevertheless, we would like to give you the following information:-

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- 1) Company is still maintaining the staff for compliance with SECP, Stock Exchange and other relevant authorities.
- 2) Company is publishing and also putting on website quarterly, half yearly, annually balance sheets and also distributing to all relevant.
- 3) The Annual General Meeting is carried out regularly - not a single year has been missed.
- 4) Security staff is also being maintained.
- 5) As far as our compliance is concerned, we are trying our level best to comply with all relevant requirements.
- 6) Balance sheets which are also supplied to Stock Exchange and to all concerned revealed that directors are continuously giving personal loans to the company to maintain every thing so that when restructuring is done, we can go into production without any bottlenecks.
- 7) Regularly the Annual Listing Fee of Stock Exchange is paid by us.

Now as far as winding up cases are concerned, first of all, we would like to point out that we have no creditor whether secured or un-secured who has floating charge on the company for winding up.

We would like to further inform you that as far as some remaining banks and unsecured creditors are concerned, none of them has floating charge on the company. All secured creditors have specific charge limited to specific assets and none of the creditors or shareholders has 10% shareholding or more than 10% shareholding. Major shareholding is with the sponsors.

We regret the delayed reply to your notice which we request you to kindly condone as we were trying to give you specific information and we were involved with major banks to reach the settlement agreement which we have. Once the restructuring is done by the remaining banks, we will go in operation and hope that Al-Abid will again join the club of blue chips as we are confident that all our big buyers are willing to come back and start



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their business with us. In the meantime, the local market has also expanded from which we also expect to get a very sizeable share. The new government which has come in power is very much for textile industry for employment and foreign exchange earnings and we do hope once we are back in regular production, we will be employing again 7000 workers and again earning 100 million Dollars annually as in the past which is very much required by the country. We are working on the situation vigorously as it is not only the shareholders' interest but also major stake of sponsors. We certainly need support of our stock exchange to have understanding of the situation.

Thanking you,

Sincerely yours



Naseem A. Sattar  
Chief Executive

Enclosures:

IKEA Ombudsman letter dated 19-May-2014

Copy to:

The Director (CSD) – SECP  
The Additional Director (AD-SMD) – SECP  
The Acting Chief Regulatory Officer – PSX  
M/s. Muniff Ziauddin & Co.

Naseem Sattar

From: Thomas Czernin-Morzin (thomas@czernin.com)  
Sent: Monday, May 19, 2014 2:18 AM  
To: naseem.sattar@alabid.com; 'Jessica Anderen'; 'Rehan Ahmedari'; 'Calvin Woolley'  
Subject: Al-Abid

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Dear Mr. Sattar,

First of all, please excuse my late reply caused by recent travelling and the fact that it took some time to go through all documentation.

I understand and respect the fact that there is a need to come to a conclusion before the summer vacation period.

For me it was and is a big surprise that your feedback and understanding of the last years of cooperation, was that much different to the view Ikea has on the same period of time.

To mention the most important differences; you wrote that Ikea has never tried to conclude a long-term business plan with Al-Abid, while Ikea felt a lack of willingness to develop and invest in new technologies from Al-Abids side.

You felt that Ikea's purchasing team in Pakistan was treating you unfair, 'creating' a faulty picture about Al-Abid production possibilities, while Ikea is of the opinion to have done its utmost

support Al-Abid in the difficult last 3 years of cooperation.

You mentioned as well that Al-Abid has been always 100% IWAY compliant, while Ikea lists major IWAY violations as one of the reasons for closing the business relation.

In September 2012 Ikea detected as well registered deliveries in the system, which have never taken place. This actions have been explained by the difficult financial situation at Al-Abid, but where clearly in breach of agreed cooperation procedures.

In February 2013 Ikea tried to support Al-Abid with the aim to obtain a loan from the national bank in Pakistan. It seems that this loan never became reality. The reasons behind are not yet clear to me.

You mentioned in your letter about quality problems in 2012/13 but estimated them as minor in comparison to the turnover. Ikea has seen the quality problems as one of the major reasons

to question mark the cooperation and registered claims amounting to over a million dollars in 2013.

Ikea reported than in May 2013 still outstanding receivables over half a million dollars from accumulated quality claims.

By January 14, 2014 there has been

still payment requests by Ikea and in April a decision has been taken to handle the request over to Ikea's legal department.

You felt as well that your financial difficulties are a direct result of Ikea withdrawing orders and articles, while Ikea had

growing concerns regarding the worsening competitiveness

of Al-Abid over the last years. Ikea feels to have given frequent feedback over the past years regarding this fact and discussed as well possible future scenarios.

You mentioned as well that there has never been any exit plan agreed and that the discontinuation of business has been very abrupt and without any prior notification.

I could not find any written and agreed exit plan either, but recognized surprisingly different figures between Ikea and your records.

A clear exit plan is an integrate part of ending up a long-term business relation, aiming to give the business partner a chance to reconstruct the business and try to find new buyers.

As Ikea has been over 24 years in a successful cooperation and partnership with Al-Abid and yourself, I think it is important to try to align the different views and to review the closing down process once more. Ending of business relations are always difficult and paired with emotions, but I strongly believe that it should be always approached in the light of the past, long-term partnership.

Therefore I strongly recommend to set-up a meeting between you Mr. Sattar, Jessica and Calvin. It is than up to Jessica to invite other members of her team.

I offer to facilitate the meeting and propose to hold it before summer vacations in Älmhult or at any other place convenient for you.

The goal of the meeting should be to get one common view/conclusion regarding the last 3 years of cooperation and reasons for exiting the business as well as time given to Al-Abid to prepare and execute this steep fall in production volumes.

Further there is a need to discuss the pending financial claim from Ikea's side (Ikea agreed to stop all legal actions until we meet ) and review any possibility and precondition for Al-Abid to eventually quote Ikea articles during next upcoming quotations.

Best Regards

Thomas Czernin-Morzin  
Supplier Ombudsman, IKEA Group

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