

Cable : "SUHAIL JUTE" Rawalpindi
Fax : 92-51-5146538
E-mail : suhailjute@hotmil.com

H.O. Rawalpindi Phone : (051) 5146534-6
Nowshera Phone : (0923) 644274-5
Fax : (0923) 644332



Suhail Jute Mills Limited

(Manufacturers of Hessian Cloth, Twine & Bags)

Ref. No. 002/PSx/334

Dated 08-06-2021

Mr. Hafiz Maqsood Munshi
Manager, Companies and Securities Compliance-RAD
Pakistan Stock Exchange Limited
Stock Exchange Building, Stock Exchange Road
KARACHI-74000

Dear Sir,

PROGRESS REPORT

We refer to your letter of 1 June 2021 bearing reference GEN-1020 on the captioned matter.

As directed, we are submitting a Progress Report on the measures taken with regard to the resumption of business operations of the Company.

BACKGROUND

As you are aware, the Company was forced to suspend its business in July 2010, due to an unprecedented natural calamity in the form of floods, which completely inundated the production facilities and machinery and destroyed stocks of raw material, finished goods and stores and spares.

The Company immediately took steps to successfully rehabilitate the damaged machinery and facilities and initiated a Plan to restructure the finances of the Company through a merger of (Colony) Sarhad Textile Mills Limited and Suhail Jute Mills Limited

As pointed out in our numerous earlier submissions, the merger was conceived, *inter alia*, so that assets may be freed up for timely disposal to provide financial resources for future revenue generation. (REFERENCE: Clause 4.4 of the Court sanctioned Merger Plan).

Throughout the interim period of the Merger process, the sponsors continued to meet all expenses of keeping the Companies 'alive' so as to effectuate the merger plan. The injection of funds was originally planned for the period required to complete the legal and regulatory requirements for the merger but due to extensive delays in the merger process the injection of funds had to be continued and had amounted to an unforeseen and huge sum of RS.204.16

Head Office:- 14-B.Civil Lines, P.O. Box No. 341, Rawalpindi (Pakistan).
Mills :- Kabul River Railway Station, Mardan Road, Nowshera, N.W.F.P.

9/6/21

Million at the time of the completion of the merger. This injection of funds by the sponsors was entirely voluntary and could not be made in one tranche. The funds were made available by the sponsors on an 'as needed' basis for the purposes of keeping the entities in existence, safeguarding the assets, rehabilitating the flood damaged machinery and facilities and maintaining the machinery and facilities in good working order, at significant expense, so as to facilitate a revival of operations. The production facilities and the machinery had been fully rehabilitated and properly maintained over this entire period.

Significantly, as part of the approved merger plan, the sponsors converted an amount in excess of RS 167 million of their existing debt into ordinary shares of Suhail Jute Mills. This too was a major risk and sacrifice, as the equity taken by the sponsors in exchange for debt would only become financially viable if the company could be revived and began to generate income. It is also significant that the debt comprising advances to CSTM was converted to equity at the swap ratio of 1: 25.60. The 932,769 shares received as a consequence of this swap have a nominal value of RS 9.33 million, as against debt amounting to Rs 167.24 million. This sacrifice and risk was a major contribution by the sponsors for the benefit of the minority shareholders. The actual financial implications of this sacrifice cannot be ignored. It may be best considered in the light of the fact that the issued capital of the merged Company has a nominal value of Rs. 43.3 million; the effect of the RS 167 Million of debt, swapped for shares by the sponsors to the Company is that, in real terms, the actual financial stake of the sponsors in the company's equity is far in excess of the nominal value of their holdings. The fact that the financial stake has been further augmented by the injection of additional funds as advances to the Company is also to be taken into consideration.

It is submitted that the prolonged suspension of operations is attributable to the time taken in the judicial and regulatory processes related to the merger, that was wholly beyond the Company's control. A process that ought to have taken six months, as prescribed in the Companies Ordinance 1984, took almost 6 years.

The delay in the completion of the merger was entirely beyond the Company's control, and was the principal reason the company was unable to raise working capital financing and revive operations earlier.

PROGRESS AFTER FINALISATION OF MERGER PROCESS

It is important to note that the company has a fully operational 17-18 ton per day Jute manufacturing plant with all ancillary facilities, that has been kept in sound working order at considerable expense. The demand exists for its principal product, Jute gunny bags, as it is the most environmentally friendly and suitable storage medium for wheat stocks acquired by the Government.

This function of acquiring and storing wheat stocks is both a strategic requirement and a vital price stabilization tool that the Government uses and one cannot foresee any deviation in the

practice. Moreover, due to the closure of several jute manufacturing units in the intervening 10 year period of the company's cessation of production, the demand and supply are in a better state of equilibrium than earlier, assuring that there is a stable demand for jute bags that can be sold at beneficial prices.

The Company's ability to restart commercial activity is dependent upon the raising of adequate financing to meet the obligations to institutional and other creditors and for having available adequate working capital to finance production.

The Company, by virtue of the merger, has identified surplus assets, mainly land, that could be disposed off to raise the requisite amount of financing. The 92 Acres of Land in Khyber-Pakhtunkhwa Province includes Land acquired under Section 4 of the Land Acquisition Act, which has certain strictures on its end-use. Because of this the Land cannot be sold under the normal market mechanisms. By the same token the universe of potential buyers is also limited. Nevertheless, the Company through a committee of Directors has been actively engaged with interested parties since the first Quarter of 2019 in order to achieve this objective. Due to the complexities of the transaction involved and the economic uncertainties arising from the effect of the Covid-19 situation the Company has not as yet succeeded in disposing off assets and raising financing in a manner that suits our needs

However, efforts are continuing and we remain hopeful that the improving environment will be conducive to achieving our objectives. The Company will also be looking into alternative modes, such as entering into Joint Ventures that meet the Company's needs.

Once a sale has materialised and working capital is secured, the Company plans to deploy the funds towards servicing the production facilities, hiring of workers, importation of raw material and running of trial production, before full commercial production can be revived.

As the proposed sale of assets is dependent on market conditions and the period required to secure credit lines cannot be determined with any degree of certainty at this juncture, it is expected that the plan outlined above will take between 12 to 18 months to implement after the sale of Land materialises.

We trust the above is in order, and we shall be pleased to provide any further information or explanations that may be required.

Yours Truly

For, Suhail Jute Mills Limited



SOHAIL FAROOQ SHAIKH

CHIEF EXECUTIVE