



PIONEER EMBROIDERIES LIMITED

REPORT OF THE AUDIT COMMITTEE OF PIONEER EMBROIDERIES LIMITED ("COMPANY")
RECOMMENDING THE DRAFT COMPOSITE SCHEME OF ARRANGEMENT BETWEEN PIONEER
EMBROIDERIES LIMITED ("DEMERGED COMPANY"), PIONEER REALTY LIMITED ("RESULTING
COMPANY") AND THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS AT ITS MEETING HELD ON
21ST OCTOBER, 2022.

Present	
Mr. Joginder Kumar Baweja	Chairman of the Meeting
Mr. Harsh Vardhan Bassi	Member
Mr. Gopalkrishnan Sivaraman	Member

In Attendance	
Mr. Deepak Sipani	Chief Financial Officer
Mrs. Ami Thakkar	Company Secretary

1. BACKGROUND:

1.1 The meeting of the Audit Committee was held on 21st October, 2022 to consider and, if thought fit, recommend the proposed Scheme of Arrangement ("Scheme") between **Pioneer Embroideries Limited** ("Demerged Company" or "PEL") and **Pioneer Realty Limited** ("Resulting Company" or "PRL") and their respective Shareholders and Creditors, wherein the Embroidery & Bobbin Lace (ELD), known as "**ELD Business**" of the Demerged Company would stand transferred to and vested in the Resulting Company with effect from the appointed date i.e. April 1, 2022 in accordance with the terms of the Scheme and pursuant to the provisions of Sections 230 to 232 read with section 66 and other applicable provisions of the Companies Act, 2013 ("Act") and the rules and regulations made thereunder, as amended from time to time (including any statutory modification(s) or re-enactment thereof for the time being in force) and regulation 11, 37 and 94 of the Securities and Exchange Board of India (Listing Obligation and Disclosure Requirements) Regulation, 2015 ("SEBI LODR Regulations") and the Master Circular no. SEBI/HO/CFD/DIL1/CIR/P/2021/0000000665 dated November 23, 2021 (as amended from time to time) issued by the Securities and Exchange Board of India ("SEBI Circular") and other applicable provisions, if any. The Scheme was placed before the Audit Committee for its consideration and recommendation to the Board of Directors of the Company.

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- 1.2 **“Demerged Company”** was incorporated as a public limited company, vide Certificate of Incorporation dated 25th October, 1991 under the Companies Act, 1956 in Maharashtra. The equity shares of the Demerged Company is listed on BSE Limited, National Stock Exchange of India Limited (collectively referred to as “Stock Exchanges”) and the Demerged Company has already made an application for delisting to Calcutta Stock Exchange Limited since 2007. The matter is pending with SEBI.
- 1.3 **“Resulting Company”** is a Public Limited Company incorporated under the Companies Act, 1956 on 29th March, 2007 in Maharashtra. PRL is a 100% subsidiary of PEL.
- 1.4 This report of the Audit Committee is made in order to comply with the requirements of SEBI LODR Regulations and SEBI Circular after perusing inter-alia the following documents:
- 1.4.1 Draft Scheme of Arrangement, duly initiated by the Company Secretary of the Company for the purpose of identification.
- 1.4.2 Valuation report dated 20th October, 2022 from M/s Nishant Soni & Associates, Registered Valuer (IBBI Registration No. IBBI/RV/06/2019/10745).
- 1.4.3 Fairness Opinion dated 20th October, 2022 prepared by Chartered Capital and Investment Limited an Independent SEBI registered Category-1 Merchant Banker, providing fairness opinion on the valuation of the shares and the share entitlement ratio as recommended in the Valuation Report (“Fairness Opinion”).
- 1.4.4 Certificate obtained from the Statutory Auditors of the Company viz. M B A H & Co., Chartered Accountants on the compliance of accounting treatment prescribed in the Scheme.
- 1.4.5 Audited financial statements of the Demerged Company and the Resulting Company for the year ending March 31, 2022, March 31, 2021 and March 31, 2020.
- 1.4.6 Shareholding Pattern – Pre and post the Scheme of Arrangement

2. PROPOSED SCHEME OF ARRANGEMENT

- 2.1 The Audit Committee noted that the Scheme envisages demerger of the ELD Business Undertaking (including the brand name “Hakoba” held through its subsidiary”), on a going concern basis.
- 2.2 The Audit Committee considered and observed that the draft Scheme provides for the following **Need/ Rationale and Benefits of the Scheme**:
- 2.2.1 PEL at present carries on two businesses - Embroidery & Bobbin Lace (ELD), known as **“ELD Business”** comprising of manufacturing, exporting and retailing of embroidery fabric, laces and apparels and Specialized Polyester Filament Yarn (SPFY) comprising manufacturing and exporting of value-added Specialized Polyester Filament Yarn.
- 2.2.2 The Demerged Company is evaluating the development of ELD Business and SPFY Business owned by it in a dissimilar manner as both have a separate requirements/ nature of funding, working capital cycle, pricing policies, manpower, managerial

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- expertise, focus and skill sets, market intelligence and sourcing capabilities, and is exploring opportunity to leverage its unique strengths to raise funds accordingly.
- 2.2.3 Post demerger, both the companies would be focused on individual businesses as pure-play entities. The ELD Business owns “Hakoba” through its subsidiary, a brand of repute in the B2C space, while the SPFY business has a strong B2B brand “Silkolite”, both of which can now get more directed attention for growth.
- 2.2.4 For the purpose of further expansion of ELD Business and SPFY, management is exploring options to attract willing investors, strategic partners, financial institution and bankers. Therefore, both the businesses shall not have any linkages with each other. Further, management can utilize the funds availed by securing the assets for that particular business activities.
- 2.2.5 Thus, through this Scheme, the Demerged Company is unlocking the value and creating liquidity avenues for the shareholders of the Demerged Company from both the businesses as post the implementation of the Scheme, the Shareholders would be owning shares of both the companies as the shares of Resulting Company are also proposed to be listed on BSE and NSE.
- 2.2.6 With this objective in mind and intent of realigning the business operations of Demerged Company, enable the management and Board of Directors of Demerged Company & Resulting Company chart out independent strategies for their respective commercial operations in order to maximize value creation for their respective stakeholders and enhance focus of management for the respective businesses, it is proposed to transfer and vest ELD Business Undertaking in the Resulting Company through the Scheme (hereinafter defined), resulting into remaining business and assets including SPFY shall be held and owned by PEL (“Demerger”).
- 2.2.7 Pursuant to this Scheme, all the shareholders of Demerged Company will get shares in Resulting Company and there would be no change in the economic interest for any of the shareholders of Demerged Company pre- and post- implementation of the Scheme as the existing shareholding in the Demerged Company would be split in both the Demerged and Resulting Companies.

2.3 The Committee has noted that the transfer and vesting shall achieve the following benefits for the Demerged Company and the Resulting Company:

- a. The Demerger will enable better and more efficient management, control and running of the ELD and SPFY activity individually;
- b. The Demerger will enable both Demerged Company and Resulting Company to achieve and fulfill their objectives more efficiently and offer opportunities to the management of both the companies to pursue growth and expansion opportunity;
- c. The realigned structure will enable the management to attract investors / partners in both the business in sync with respective objectives and goals;
- d. The Scheme shall be beneficial for the interest of the Companies, their shareholders, creditors and employees.

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- e. Enhancing operational efficiencies, ensuring **synergies** through pooling of the financial, managerial, and technical resources, personnel capabilities, skills, expertise and technologies; and
- f. Enhancing shareholder value by creating leaner and focused organizations

2.4 The Committee has noted that upon the Scheme becoming effective, there will not be any adverse effect on the Shareholders of the Demerged Company. The Scheme will not, in any manner be prejudicial to the interest of the concerned shareholders, creditors, employee or key managerial personnel or any stakeholder or general public at large.

2.5 SALIENT FEATURES OF THE SCHEME:

The Audit Committee has reviewed and noted the following salient features of the Scheme

- 2.5.1. "Appointed Date" shall mean the opening of the business hours as on 1st April, 2022 or such other date as may be decided by the National Company Law Tribunal or any other appropriate authority as may be applicable;
- 2.5.2. "Effective Date" means the opening hours of the day on which the last of approvals/conditions specified in Clause **Error! Reference source not found.** of this Scheme are obtained or complied with. Any references in this Scheme to the date of "coming into effect of this Scheme" or "effectiveness of this Scheme" or "Scheme taking effect" or "upon the scheme becoming effective" shall mean the Effective Date;
- 2.5.3. "Record Date" means the date to be fixed by the Board of Directors of the Resulting Company in consultation with the Board of Directors of the Demerged Company for the purpose of determining the shareholders of the Demerged Company who shall be entitled to receive Consideration under Clause 11, pursuant to the Scheme;
- 2.5.4. Upon the coming into effect of the Scheme and in consideration of the transfer & vesting of Demerged Undertaking of the Demerged Company in the Resulting Company in terms of the Scheme, the Resulting Company shall, without any further application, act, instrument or deed, issue and allot to "Equity Shareholders of PEL", whose names appear in the register of members and records of the depository as member of the Demerged Company, on the Record Date or to their respective heirs, executors, administrators or other legal representatives or the successors-in-title as the case may be, *4 (Four) Equity Share of Rs.10/- (Rupees Ten) each fully paid up of the Resulting Company for every 10 (Ten) Equity Share of Rs.10/- (Rupees Ten) each fully paid up held in Demerged Company such that the shareholding in the Resulting Company on such issuance of shares is the mirror image of the shareholding in the Demerged Company ("New Equity Shares")*.
- 2.5.5. The Resulting Company shall apply for listing of its New Equity Shares issued in terms of Clause 11.2 of the Scheme on both BSE and NSE, which have nationwide terminal, in

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terms of and in compliance with the SEBI Circular. The New Equity Shares allotted by the Resulting Company pursuant to the Scheme shall remain frozen in the depositories system until listing/trading permission is given by the designated stock exchange (BSE Limited).

2.5.6. For the purpose of the allotment of the Resulting Company New Equity Shares pursuant to this Scheme, in case any shareholders holding in the Demerged Company is such that the shareholder becomes entitled to a fraction of a share of the Resulting Company, the Resulting Company shall not issue fractional shares to such shareholder but shall consolidate all such fractions and round up the aggregate of such fractions to the next whole number and issue consolidated shares to one of the Directors as trustee (nominated by the Resulting Company in that behalf, who shall hold such shares, with all additions or accretions thereto, in trust for the benefit of the respective shareholders to whom they belong for the specific purpose of selling such shares in the market at such price or prices and at any time within a period of 90 days from the date of listing of shares of Resulting Company New Equity Shares, post allotment, as the trustee may, in its sole discretion, decide and distribute the net sale proceeds (after deduction of the expenses Incurred and applicable income tax) to the respective shareholders in the same proportion of their fractional entitlements. Any fractional entitlements from such net proceeds shall be rounded off to the next Rupee. It is clarified that any such distribution shall take place only on the sale of all the shares of the Resulting Company pertaining to the fractional entitlements.

2.5.7. Upon the Scheme becoming effective and upon allotment of New Equity Shares by the Resulting Company, 50,000 Equity Shares of Rs. 10/- each of the Resulting Company held by the Demerged Company, forming part of the Demerged Undertaking, shall without any application or deed, stand cancelled, extinguished and annulled on and from the Effective Date and the paid up equity share capital of the Resulting Company to that effect shall stand cancelled and reduced without any payments to the Demerged Company ("Resulting Company Cancelled Shares"). This cancellation shall amount to reduction of the capital of the Resulting Company to this limited extent.

There will be an automatic reduction of capital of the Resulting Company pursuant to this Scheme which shall be given effect as an integral part of the Scheme under section 230 to 232 of the Act and the consent given to the Scheme by the shareholders and the creditors of the Resulting Company shall be deemed to be their consent, as required under Section 66 of the Act to such reduction of capital of the Resulting Company and the Resulting Company shall not be required to convene any separate meeting for the purpose. The order of the NCLT sanctioning the Scheme shall be deemed to be an order under Section 66 of the Act. Notwithstanding the reduction of subscribed and paid-up equity share capital of the Resulting Company, the Resulting Company shall not be required to add "And Reduced" as a suffix to its name.

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- 2.5.8. Upon the Scheme becoming effective and upon allotment of New Equity Shares by the Resulting Company, the existing paid-up equity share capital of the Demerged Company shall be reduced by reducing the number of shares such that the shareholders in the Demerged Company whose names appear in the register of members and records of the depository as member of the Demerged Company, on the Record Date or to their respective heirs, executors, administrators or other legal representatives or the successors-in-title as the case may be, shall be such that the shareholding in the Demerged Company on such reduction of shares shall be reduced to 6 (Six) Equity Share of Rs.10/- (Rupees Ten) each fully paid up of the Demerged Company for every 10 (Ten) Equity Share of Rs.10/- (Rupees Ten) each fully paid up held in Demerged Company and balance shares i.e. 4 (four) Equity Shares of Rs. 10/- each shall stand cancelled, extinguished and annulled on and from the Effective Date and the paid up equity share capital of the Demerged Company to that effect shall stand cancelled and reduced without any further act or deed ("Demerged Company Cancelled Shares") and without any payment towards the same. This cancellation shall amount to reduction of the capital of the Demerged Company to this limited extent. The Directors shall be eligible to take all the steps to effectuate such reduction in compliance with the Applicable Laws and as may be applicable and relevant for the Demerged Company.
- 2.5.9. The proposed reduction is to keep the shareholding in both the Companies relevant to the worth of both the Undertakings of the Demerged Company. The reduction of capital of the Demerged Company pursuant to this Scheme shall be given effect as an integral part of the Scheme under section 230 to 232 of the Act and the consent given to the Scheme by the shareholders and the creditors of the Demerged Company shall be deemed to be their consent, as required under Section 66 of the Act to such reduction of capital of the Demerged Company and the Demerged Company shall not be required to convene any separate meeting for the purpose. The order of the NCLT sanctioning the Scheme shall be deemed to be an order under Section 66 of the Act. Notwithstanding the reduction of subscribed and paid-up equity share capital of the Demerged Company, the Demerged Company shall not be required to add "And Reduced" as a suffix to its name
- 2.6 The Audit Committee reviewed the Valuation Report placed before it and noted the recommendations made therein and have also noted that the value.
- 2.7 Further, the Fairness Opinion placed before the committee, confirmed that the Share Entitlement Ratio in the Valuation Report is fair to the shareholders of the Company.
- 2.8 The Committee also noted that the Scheme is beneficial to the shareholders and other stakeholders of the Company as the Company can concentrate on its core business of SPFY with undivided care and attention leading to its optimum growth and improve its rating and will attract investment.

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3. RECOMMENDATION:

The Audit Committee having considered and taken note of the afore-mentioned draft Scheme and its rationale, objects and benefits, the Valuation Report, the Fairness Opinion, certificate on accounting treatment and other documents hereby recommends the same to the Board of Directors of the Company for favorable consideration and approval, and be filed with SEBI, the BSE Ltd and National Stock Exchange of India Limited their favorable consideration.

BY ORDER OF THE AUDIT COMMITTEE
FOR AND ON BEHALF OF PIONEER EMBROIDERIES LIMITED

Mr. Joginder Kumar Baweja
Chairman of the Audit Committee meeting
DIN: 01660198
Place: Mumbai
Date: 21st October, 2022



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