



# PANASONIC APPLIANCES INDIA CO. LTD.,

(formerly Panasonic Home Appliances India Co. Ltd.)

Corporate Office : 21-C, South Phase, 5th Cross Street, Guindy Industrial Estate, Guindy, Chennai - 600 032.

Phone: +91-44-22258701 Fax: +91-44-22258730 E-mail: info@panasonicindia.in

Website : www.panasonicappliances.in, www.21timesbetter.com

## Report of the Audit Committee of the Panasonic Appliances India Co. Limited

### Members:

Mr. Mr. Justice S Natarajan Chairman

Mr. A.Ragavendra Rao Member

Mr. K.Subramanian Member

### 1. Background

The Board of Directors of Panasonic Appliances India Co. Limited ("Company") is contemplating to undertake a Scheme of Arrangement ("Scheme") under section 391 read with section 78, 100 to 104 of the Companies Act, 1956 between the Company and its shareholders and creditors.

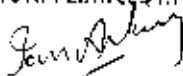
Recently, SEBI vide its circular no CIR/CFD/DIU/5/2013 ("Circular") dated February 4, 2013 has amongst other requirements sought a report from the Audit Committee of the listed company recommending the Scheme whenever a listed company makes an application under clause 24(f) of the Listing Agreement.

In view of the above Circular, members of the Audit Committee of the Company discussed and approved the draft Scheme vide a resolution passed in the meeting dated February 13, 2013, and have made its earlier report dated February 13, 2013 submitted to the Stock Exchanges as part of revised procedure for obtaining NOC from the Stock Exchanges. Subsequent to this as per the requirement of SEBI, the Company has obtained a revised Net worth Certificate from the Auditor dated May 30, 2013 based on the Audited financial statements for the Nine months period ended December 31, 2012 and Fairness Opinion from the Merchant Banker dated May 31, 2013 which along with other necessary documents were placed before the Audit Committee Meeting held on June 01, 2013 for perusal of the Audit Committee. The Audit Committee issued this revised report, after perusing the following necessary documents:

- Draft Scheme;
- Annual Report for the financial year 2011-2012 and Audited financial statement for 9 months ending December 31, 2012;
- Certificate obtained from the statutory auditors of the Company on the accounting treatment prescribed in the Scheme; and
- Net worth certificate, pre and post Scheme, obtained from the statutory auditors of the Company based on the Audited financial statement for 9 months ending December 31, 2012.
- Fairness Opinion from Quintessence Enterprises Private Limited, Merchant Banker.
- Undertaking from the Company in respect of non-applicability of Postal Ballot and the Certification from the Auditor certifying the same.

It should be noted that no valuation report is required for undertaking the proposed Scheme as the Scheme is being undertaken for right sizing the balance sheet of the Company by adjusting the Securities Premium Account of the Company against its profit and loss account and as such no share swap arrangement is contemplated in the draft Scheme.

For PANASONIC APPLIANCES INDIA CO. LTD.,

  
Tom Antony  
C.F.O & Company Secretary

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## 2. Scheme

### 2.1 Transaction proposed in the Scheme

The Audit Committee noted that pursuant to the Scheme, out of the entire balance/amount of Rs 17,37,21,600 (Seventeen Crores Thirty Seven Lakhs Twenty One Thousand Six Hundred Only) available in the Securities Premium Account of the Company as on December 31, 2012, an amount of Rs 13,50,00,000 (Thirteen Crores Fifty Lakhs Only) shall be utilized and adjusted against the total loss amounting to Rs. 18,59,39,400 (Eighteen Crores Fifty Nine Lakhs Thirty Nine Thousand and Four Hundred Only) standing in the profit & loss account of the Company.

The amount of Rs.13,50,00,000, to be adjusted and set off as above, shall consist of Rs.9,50,00,000 (Nine Crores Fifty Lakhs Only) of unabsorbed losses and Rs.4,00,00,000 ( Four Crores Only) of unabsorbed depreciation.

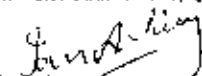
Post giving effect to the aforesaid transaction, there would be a balance of Rs.3,87,21,600 (Three Crores Eighty Seven Lakhs Twenty One Thousand Six Hundred Only) in the Securities Premium Account and the accumulated losses which shall stand in the books of the Company shall be an outstanding amount of Rs. 5,09,39,400/- (Five Crores Nine Lakhs Thirty Nine Thousand and Four Hundred Only).

### 2.2 Rationale of the Scheme

Based on the study of the documents, the Audit Committee understands that the rationale for undertaking the proposed Scheme is as under

- a. Post incorporation, the Company was engaged in the business of manufacturing electric rice cookers and mixer – grinder (i.e. Manufacturing Business). The Company expanded its scope of business by importing various products comprising of kitchen appliances, beauty and health care products (i.e. Importing Business) from its Holding Company ('Panasonic Corporation, Japan') and has been receiving sales promotion support from the Holding Company for undertaking such Importing Business.
- b. As part of global strategy, the Holding Company has the practice of unifying all sales and marketing operations (whether for Importing Business or Manufacturing Business) in one company to ensure focused marketing efforts, increased market penetration and better customer reach. Therefore, in order to achieve a similar structure in India, the Holding Company envisaged and proposed the unification of all sales and marketing operations (for both Importing Business or Manufacturing Business) through Panasonic India Private Limited, an Indian subsidiary of the Holding Company, with the objective of engaging itself in the business of import, sales, marketing of consumer electronic and electrical products under the brand name 'Panasonic'.

For PANASONIC APPLIANCES INDIA CO. LTD.,

  
Tom Antor,  
C.F.O & Company Secretary  
True copy

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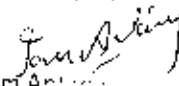
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- c. While the aforesaid unification of sales and marketing operations still needs to be fully achieved, as a first step, since April 1, 2011, the Importing Business of Company has been discontinued and subsequently been migrated to Panasonic India Private Limited, with the overall objective of achieving the global strategy and leveraging on sales and marketing infrastructure of Panasonic India Private Limited, its dealer and distribution network, larger advertising/ sales promotion spends etc.
- d. The migration and discontinuance of the Imported Business from the beginning of the financial year 2011-2012 has resulted in underutilization of infrastructure and incurrence of continued fixed costs without full corresponding income being generated from such Importing Business to which such fixed costs and infrastructure were associated and related.
- e. The Company during the financial year 2011-2012 laid down certain goals and landmarks wherein a sales target of 1 million cookers was proposed with a view to retain and preserve the market share. Due to competition and pricing policies adopted by other competitors, the Company was forced to reduce the selling price substantially in alignment with the pricing mechanism adopted by other competitors.
- f. Due to the reduction in the pricing of the cookers and the migration of the Importing Business to another company (as explained above) the financial position of the Company was severely affected, thus resulting in the Company recording heavy losses of Rs.12,76,97,826 (Twelve Crores Seventy Six Lakhs Ninety Seven Thousand Eight Hundred and Twenty Six Only) during the financial year 2011-2012 which has in turn impacted the net worth of the Company. The adverse financial position was further contributed due to the frequent strikes in the State of Andhra Pradesh (a major market for the Company) and the inability to effectively utilize the manufacturing capacities particularly expansions undertaken recently for the purposes of achieving the sales target.

The impact of aforesaid factors has continued even in the present financial year 2012-2013, wherein a loss of Rs.10,34,38,348 (Ten Crores Thirty Four Lakhs Thirty Eight Thousand Three Hundred and Forty Eight Only) has already been recorded for period ended December 31, 2012. The total consolidated/accumulated loss as on December 31, 2012 now stands as Rs. 18,59,39,400 (Eighteen Crores Fifty Nine Lakhs Thirty Nine Thousand and Four Hundred Only) ("Accumulated Losses").

- g. The Scheme is being undertaken to facilitate the proposed corporate restructuring exercise, wherein a portion of the Securities Premium Account would be utilized/adjusted against the Accumulated Losses of the Company. The Scheme will enable the company to right size its balance sheet and the proposed restructuring along with other business measures including introduction of new products, reduction of fixed costs, renewal of production line up, more indigenization of imported components to reduce production cost etc is expected to improve the profitability of the company. The Appointed Date of the Scheme is January 1, 2013.

For PANASONIC APPLIANCES INDIA CO. LTD.,

  
Terrence Anthony  
CEO & Company Secretary  
Date: 09/11/12

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### 3. Recommendation of the Audit Committee

The Audit Committee understands that the Scheme is not prejudicial to the interest of any shareholders, bankers, creditors or any third party and no compromise or sacrifice is sought from the stakeholders with respect to their claims against the Company.

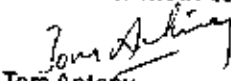
Given the current financial status of the Company, the rationale for undertaking the proposed Scheme and based on the study of the necessary documents (stated above), the Audit Committee hereby recommends the draft Scheme for favorable consideration by stock exchanges and SEBI.

Sd/-

**Justice S Natarajan**  
Chairman

For PANASONIC APPLIANCES INDIA CO. LTD.,

Date: June 01, 2013  
Place: Chennai

  
Tom Antony  
C.F.O & Company Secretary

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