SHREE MANUFACTURING COMPANY LIMITED

Registered Office: Suite# 712, Prasad Chambers Opera House,
Mumbai, 400004
Email: shreemanufacturing@hotmail.com
Website: www.smcl.co.in; Phone: 022-66631999
CIN: L36999MH1976PLC286340

REPORT OF THE AUDIT COMMITTEE OF SHREE MANUFACTURING COMPANY LIMITED ("COMPANY") RECOMMENDING THE DRAFT SCHEME OF ARRANGEMENT AMONGST THE COMPANY AND THEIR RESPECTIVE SHAREHOLDERS DATED 26TH SEPTEMBER, 2018

To,
The Board of Directors
Shree Manufacturing Company Limited
Suite 712, Prasad Chambers,
Opera House, Mumbai City,
Maharashtra – 400 004

1. Background

1.1. A meeting of the Audit Committee of the Company was held on 26th September, 2018 to consider and recommend the proposed Scheme of Arrangement amongst the Company and their respective shareholders, under Sections 230 to 232 read with Sections 55, 66, 48 and other applicable provisions, if any of the Companies Act, 2013 ("Scheme")

1.2. This report of the Audit Committee is made in order to comply with the requirements of the Securities and Exchange Board of India (SEBI) (Listing Obligations and Disclosures Requirements) Regulations, 2015 and SEBI Circular number CFD/DIL3/CIR/2017/21 dated March 10, 2017 and as amended from time to time.

1.3. The following documents were placed before the Audit Committee:

a) Draft Scheme, duly initialed by the Director of the Company for the purpose of identification.

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b) Valuation Report dated 26th September, 2018 ("Valuation Report") prepared by SAGS &Associates, Independent Chartered Accountants, describing the methodology adopted by them in arriving at the share entitlement ratio; and

c) Fairness Opinion dated 26th September, 2018 ("Fairness Opinion") prepared by Corporate Capital Ventures Private Limited, a Category- I Independent Merchant Banker providing the Fairness Opinion on the share entitlement ratio as recommended by the Valuation Report

2. **Proposed Scheme of Arrangement**

2.1. The objectives / silent features of the draft Scheme includes:

The Board of directors at their meeting held on 15th September, 1999, after obtaining the consent from the Shareholders, issued and allotted 2,87,000 12% Cumulative Redeemable Preference shares of Rs. 100/- each aggregating to Rs. 2,87,00,000/- on conversion of term loan into Preference shares. The said preference shares were redeemable in three equal installments at the end of 5th, 6th and 7th year from the date of allotment i.e. redeemable in the year 2004-05, 2005-06 and 2006-07 respectively. The Board of Directors, after obtaining consent from the Preference Shareholders, at their meeting held on 24th December, 2005 have extended the time for redemption of Preference shares from 2006-07 to 2018-19.

Due to financial constraints, the company could not able to redeem these Preference shares on due dates and is still outstanding in the books of the Company.

Further the preference shares are liable to be redeemed within a period not exceeding twenty (20) years from the date of their issue.

As per the terms of these Preference shares, the last date for redemption is 14th September, 2019.

The arrears of dividend on cumulative preference shares is Rs. 638.63 Lakhs as on 31st March, 2018.

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As per the last audited Balance Sheet as at 31st March, 2018, the Company has accumulated losses of Rs. 10,24,27,459/- .

Due to heavy losses incurred by the Company during last few years, the capital of the company has been eroded and the net worth has become negative and the company is not in a position to raise the funds by way of issue of fresh shares for redemption of preference shares.

The promoter of the Company planned strategy to revive the Company with the financial help of Business associates.

The Board of Directors of the Company proposes to convert Preference shares into Equity shares in accordance with Sections 230-232 read with Sections 55, 66, 48 and other applicable provisions, if any, of the Companies Act, 2013.

The objectives of the financial restructuring are as under:

a. Continuous losses have wiped off the value represented by the Capital, reserves and surplus and the financial statements accordingly do not reflect the correct picture of the health of the Company.

b. Further, conversion of the preference share capital into Equity Share Capital is carried out for creating a stable capital structure for future.

c. Since conversion of Preference shares into equity shares has become inevitable for the growth of the Company and its shareholders, the Company is now proposing to undertake a financial restructuring exercise.

d. The Company proposes to convert the existing preference shares into Equity shares as the Company wants to keep the working capital and cash flow liquidity of the Company intact.

e. The Company has not paid the Accumulated dividend on the Preference Shares since issue of Preference shares. The cumulative outstanding amount of accumulated dividend on preference shares as on 31st March, 2018 was Rs. 638.63 Lakhs. All the Preference Shareholders have given their consent for conversion of their shares into Equity shares and forgo the accrued dividend. The Accumulated Preference Share

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dividend including interest, penalties accrued on default of the payment of dividend, accrued, shall be forgone by the Preference Shareholders.

f. The Company is having issued and paid up Preference Share Capital of Rs. 2,87,00,000/-. As per the consent received from the Preference Shareholders, the Company proposes to convert aforesaid Preference Share Capital into Equity Share Capital. The Preference Shareholders will also forgo the dividend accumulated and due of Rs. 638.63 lakhs as on 31st March, 2018. The Conversion shall result in avoiding redemption and hence keeping the Working Capital intact. As the company is facing liquidity crunch and right now it is not in a position to redeem the amount of the preference shareholders, it is therefore decided to convert the preference shares into equity shares otherwise the liability on the company in terms of payment of dividend to them will continue to accrue.

g. The conversion of Preference capital in the manner proposed would enable the Company to have a rational capital structure which is commensurate with its remaining business and assets.

h. The restructuring / conversion of Preference shares into Equity shares will also not cause any prejudice to the creditors of the Company. For the sake of clarity, it is specified that the conversion in Share Capital does not involve either the diminution of any liability in respect of any unpaid capital or the payment to any shareholder of any paid-up capital nor is any call being waived. The Creditors of the Company are in no way affected by the proposed restructuring by way of the conversion of capital as there is no reduction in the amount payable to any of the creditors, no compromise or arrangement is contemplated with the creditors. Further, the proposed adjustment would not in any way adversely affect the ordinary operations of the Company or the ability of the Company to honour its commitments or to pay its debts in the ordinary course of business.

i. There is no cash outflow from the Company.

j. Hence, the proposed conversion will be for the benefit of the Company and its shareholders, creditors and all concerned as a whole.

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2.2 The Audit Committee reviewed the Valuation Report and noted the Recommendations made therein. Further the Fairness Opinion confirmed that the share entitlement ratio in the Valuation Report is fair to the shareholders of the Company.

The share entitlement ratio recommended by the Independent Chartered Accountants - Valuer - Valuation Report and confirmed by the Independent Merchant Banker - Fairness Opinion is as follows:

- 1 Equity Share of the Company (Shree Manufacturing Company Limited) of Rs. 10/- each fully paid up for every 1.025 Preference Shares of Rs. 100 each fully paid up held in the Share Capital of the Company on the Record Date (as defined under the Scheme); i.e. 28,00,000 Equity shares of Rs. 10/- each at a price of Rs. 10.25/- per share shall be issued and allotted for 2,87,000 Preference shares of Rs. 100/- each aggregating to Rs. 2,87,00,000/-

Recommendation of the Audit Committee

Taking into consideration the draft Scheme, Valuation Report, Fairness Opinion and other documents, as placed, the Audit Committee recommends the draft Scheme to the Board of Directors of the Company for its consideration and approval.

By Order of the Audit Committee
For and on behalf of **Shree Manufacturing Company Limited**

SHREE MFG. CO. LTD.

Chairman
Audit Committee

Place: Mumbai
Date: 11th October, 2018