



Arman Financial Services Limited

501-504, SAKAR III, OPP. OLD HIGH COURT, OFF. ASHRAM ROAD, AHMEDABAD-380 014. GUJARAT, INDIA
PH. : +91-79-40507000, 27541989 FAX : +91-79- 27543666 e-mail : finance@armanindia.com Website : www.armanindia.com

**REPORT OF THE AUDIT COMMITTEE OF ARMAN FINANCIAL SERVICES LIMITED ("THE COMPANY")
RECOMMENDING THE DRAFT SCHEME OF ARRANGEMENT BETWEEN THE COMPANY AND ITS
SHAREHOLDERS FOR CONSOLIDATION OF DIFFERENT CLASS OF EQUITY SHARES OF THE COMPANY AT ITS
MEETING HELD ON SATURDAY, 13TH OCTOBER, 2018 AT REGISTERED OFFICE OF THE COMPANY SITUATED
AT 502-503, SAKAR-III, OPP. OLD HIGH COURT, OFF ASHRAM ROAD, AHMEDABAD-380014 AT 01.30 P.M.**

1. MEMBERS PRESENT:

- | | |
|----------------------|---------------------------------|
| 1) Shri K. D. Shah | Independent Director (Chairman) |
| 2) Shri Alok Prasad | Independent Director (Member) |
| 3) Shri R. K. Nagpal | Independent Director (Member) |

2. IN ATTENDANCE:

- | | |
|----------------------|-------------------|
| 1) Mr. Jaimish Patel | Company Secretary |
| 2) Mr. Vivek Modi | C.F.O. |

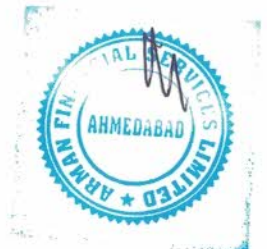
3. BACKGROUND

A meeting of the Audit Committee of the Company was held on Saturday, 13th October, 2018, to consider and recommend to the Board of Directors the proposed Scheme of Arrangement by consolidation of equity shares of different classes i.e. Ordinary Equity Shares ("Ordinary Equity") and Class 'A' Ordinary Equity Shares ("Class 'A' Equity"), to be implemented under Sections 230 and 66 and any other applicable provisions of the Companies Act, 2013 ("the Draft Scheme").

As per the requirements under the SEBI Circular No CFD/DIL3/CIR/2017/21 dated 10th March, 2017 read with SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (as amended from time to time), a report from the audit committee of the listed company recommending the Draft Scheme under Sections 230 and 66 and other applicable provisions of the Companies Act, 2013, taking into consideration inter alia, the valuation report and the fairness opinion, is required. This report of the Audit Committee has been prepared in order to comply with the aforesaid requirements.

4. THE FOLLOWING DOCUMENTS WERE PLACED BEFORE THE AUDIT COMMITTEE:

- Draft Scheme of Arrangement;
- Valuation Report dated 30th September, 2018 issued by the Independent Chartered Accountant, M/s. S V Pujara & Co., Ahmedabad ("Valuation Report");
- Fairness Opinion dated 12th October, 2018, issued by M/s Tipsons Consultancy Services Private Limited, a SEBI registered Merchant Banker ("Fairness Opinion");
- Pre & post arrangement shareholding pattern of the Company.





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5. DETAILS OF THE DRAFT SCHEME FOR CONSOLIDATION OF EQUITY SHARE CAPITAL

a. The paid-up Equity Share Capital of the Company is divided into two parts:

1. 57,47,824 Ordinary Equity and
2. 12,04,474 Class 'A' Equity.

As on September 30, 2018, 27.13% of Ordinary Equity of the Company and 100% of Class 'A' Equity of the Company were held by the Promoter and Promoter Group of the Company. The Ordinary Equity of the Company are listed on BSE Limited and National Stock Exchange of India Limited. The Class 'A' Equity are not listed.

- b. This Draft Scheme is for consolidation of Equity Share Capital of the Company by issuing fresh Ordinary Equity to the shareholders holding 100% Class 'A' Equity, in accordance with Section 230 read with Section 66 of the Companies Act, 2013 and does not envisage transfer or vesting of any of the properties and/or liabilities of the Company to any person or entity.
- c. The Draft Scheme is subject to the approval by the requisite majority of the members and / or creditors of the Company, in number and value, as may be directed by National Company Law Tribunal ("NCLT") under the Companies Act, 2013 or under applicable law(s).
- d. The Draft Scheme shall be effective with effect from the date as approved by the NCLT ("Effective Date"). Upon the Draft Scheme being effective, the same shall be binding on the Company and all concerned parties without any further act, deed, matter or thing.
- e. The Ordinary Equity has been valued as per the pricing norms prescribed under Regulation 164 of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 ("ICDR Regulations"). The Class 'A' Equity has been valued at 65% of the value the Ordinary Equity, i.e. 35% less than the price of the listed Ordinary Equity. This price difference is primarily due to the differential voting rights and zero liquidity of the Class 'A' Equity vis-à-vis the listed Ordinary Equity. On the Effective Date, the two kinds of Equity Share Capital will be consolidated and the holders of Class 'A' Equity would receive such number of Ordinary Equity as may be determined based on the valuation described above.
- f. Upon implementation of the Draft Scheme, the 12,04,474 Class 'A' Equity will be cancelled leading to a reduction in Class 'A' Equity and increase in Ordinary Equity. The authorized share capital of the Company will remain Rs. 15,00,00,000/-. The order of the NCLT sanctioning the Draft Scheme shall also be deemed to be an order under section 66 of the Companies Act, 2013 confirming the cancellation.
- g. The holders of Class 'A' Equity will be allotted 7,82,908 fresh Ordinary Equity, as part of the Draft Scheme. It is proposed that the allotment of 7,82,908 fresh Ordinary Equity pursuant to the Draft Scheme, will be made substantially in accordance with the preferential issue guidelines prescribed under Chapter V of the ICDR Regulations, as and wherever applicable.





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RATIONALE FOR DRAFT SCHEME

- a. Since the Class 'A' Equity is not listed, its value is overlooked by the stock exchanges while calculating the market value of the Company, thereby reducing the Company's market capitalization value. Due to absence of appropriate laws and guidelines for treatment of unlisted portion of the equity share capital (with differential rights), neither the stock exchanges, nor the potential investors take into account the value of Class 'A' Equity while determining the market valuation of the Company.
- b. On implementation of the Draft Scheme, the dividend rights of the holders of the Ordinary Equity will increase, which will also increase the book value of their shareholding.
- c. The Draft Scheme does not involve any financial outlay / outgo and therefore, would not affect the ability or liquidity of the Company to meet its obligations / commitments in the normal course of business.
- d. The Draft Scheme is not unreasonable and does not unfairly discriminate against or prejudice a class of shareholders. On consolidation of Class 'A' Equity and issuance of fresh Ordinary Equity, the surplus amount will be transferred to the Securities Premium Reserve, increasing the reserves and surplus of the Company. Further, on implementation of the Draft Scheme, the book value of the Ordinary Equity will increase by 19.3% per share.

6. RECOMMENDATION OF THE AUDIT COMMITTEE

The Audit Committee reviewed the aforesaid documents and after relying upon inter alia the Fairness Opinion and the Valuation Report, the Audit Committee was satisfied with the Draft Scheme to consolidate the Equity Share Capital of the Company by issuing fresh Ordinary Equity to the holders of Class 'A' Equity at the following, proposed exchange ratio:

"On the Effective Date, each of Class 'A' Ordinary Equity Shares would be consolidated into Ordinary Equity Shares and the holders of Class 'A' Ordinary Equity Shares would receive 65 (sixty five) Ordinary Equity Shares against 100 (one hundred) Class 'A' Ordinary Equity Shares, where the Ordinary Equity Shares are valued as per the pricing norms provided under the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009."

The Committee unanimously recommends the Draft Scheme of Arrangement for consolidation of equity shares of different classes i.e. Ordinary Equity and Class 'A' Equity to the Board of Directors of the Company for further consideration.

Date: 23.10.2018
Place: Ahmedabad

For and on behalf of Audit Committee
of Arman Financial Services Limited



K. D. Shah
Chairman, Audit Committee
DIN-00024305