

**REPORT OF THE AUDIT COMMITTEE OF ARCHIDPLY INDUSTRIES LIMITED
("COMPANY") RECOMMENDING THE DRAFT SCHEME OF ARRANGEMENT
AMONGST THE COMPANY, ARCHIDPLY DÉCOR LIMITED AND THEIR
RESPECTIVE SHAREHOLDERS DATED 30TH MAY, 2018**

To,
The Board of Directors
Archidply Industries Limited
Plot No. 7, Sector-9, Integrated Industrial Estate,
Sidcul, Pant Nagar, Udham Singh Nagar, Rudrapur,
Uttarakhand-263153

1. Background

- 1.1. A meeting of the Audit Committee of the Company was held on 30th May, 2018 to consider and recommend the proposed Scheme of Arrangement amongst the Company, Archidply Décor Limited and their respective shareholders, under Section 230-232 read with Section 52 and Section 66 and other applicable provisions 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:
- Draft Scheme, duly initialed by the Director of the Company for the purpose of identification.
 - Valuation Report dated 30th May, 2018 ("Valuation Report") prepared by Suresh Shah & Co., Independent Chartered Accountants, describing the methodology adopted by them in arriving at the share entitlement ratio; and



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- c) Fairness Opinion dated 30th May, 2018 ("Fairness Opinion") prepared by Saffron Capital Advisors 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 Audit Committee noted the rationale and benefits of the Scheme which, inter alia, are as follows:

- In order to achieve geographical operational efficiencies and unlock shareholders value, the management of AIL has proposed to separate each business undertaking based on the commercial objectives and relevant geographies of the undertaking into separate company. Therefore with a view to effect such reorganization the present scheme is proposed for Transfer of Chintamani Undertaking into Archidply Décor Limited (ADL)
- In order to concentrate its growth efforts in a focused manner, introduce different strategies for growth and different focus for alliance / ventures and to enable direct Equity participation from investors and the Demerged Company has determined to create a focused entity and accordingly proposes the transfer and vesting of the Demerged Undertaking (as defined hereinafter) in the Resulting Company by way of a Demerger (as hereinafter defined) undertaken through this Scheme (as hereinafter defined) under the provisions of Sections 230 to 232 read alongwith Section 52 and Section 66 and other relevant provisions of the Act.
- The above transfer will be carried out by demerging Chintamani unit from AIL to ADL as per the provisions of Section 2(19AA) of the Income Tax Act, 1961 (IT Act).
- Upon the effectiveness of this scheme, ADL will be listed on the stock exchanges where shares of AIL are listed i.e. BSE and NSE, subject to the approval of respective stock exchanges

2.2. The salient features of the draft Scheme includes:

- The nature of risk, competition and capital intensity involved in demerged undertaking and remaining undertaking of AIL is distinct from each other. Consequently, each undertaking of AIL is capable of addressing independent business opportunities, deploying different technologies and attracting different sets



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of investors, strategic partners, lenders and other stakeholders. Hence as part of an overall business reorganization plan, it is considered desirable and expedient to reorganize and reconstruct AIL by demerging the Demerged Undertaking to ADR in the manner and on the terms and conditions contained in this Scheme.

- The Demerger is likely to enable the business and activities comprised in the demerged undertaking and remaining business and activities of AIL to be pursued and carried on with greater focus and attention through two separate companies each having its own administrative set up. Independent management of each of the undertakings will ensure required depth and focus on each of the businesses and adoption of strategies necessary for the growth of respective businesses. The structure provides independence to the management in decisions regarding the use of their respective cash flows for dividends, capital expenditure or other reinvestment in their business.
- It will facilitate each business to independently pursue their growth plans through organic / inorganic means.
- It will enhance management focus and operational flexibility and it will create a platform to enhance financial flexibility to pursue next stage of growth.
- The restructuring proposal is thus aimed at protecting and maximizing value for the shareholders of the AIL. This scheme is in the interest of the shareholders; creditors and all other stakeholders of AIL and shall not in any manner be prejudicial to the interests of shareholders and creditors. The restructuring under this Scheme would enable focused business approach for the maximization of benefits to all stakeholders and capitalize on the opportunity for growth.

2.3. 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:

For every Four (4) fully paid equity shares of Rs. 10/- each held in Archidply Industries Limited (AIL) the Demerged Company, One (1) fully paid equity share of Rs.10/- each of Archidply Décor Limited (ADL) the Resulting Company.



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3. 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 **Archidply Industries Limited**

Sd/-
Chairman
Audit Committee

Place: Bangalore
Date: 30th May, 2018

For ARCHIDPLY INDUSTRIES LTD.,

Company Secretary