

CHARMS INDUSTRIES LIMITED

(CIN: L72900GJ1992PLC017494)

Reg. Office: 108-B/109Sampada Building, Mithakhali Six Roads, Opp-Hare Krishna Complex,
B/H Kiran Motors, Ahmedabad-380009 Gujarat

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REPORT OF THE AUDIT COMMITTEE OF CHARMS INDUSTRIES LIMITED (THE "COMPANY") RECOMMENDING THE DRAFT SCHEME OF REDUCTION OF SHARE CAPITAL OF THE COMPANY AT ITS MEETING HELD ON 1ST DAY OF JULY, 2023 AT 108-B/109 SAMPADA BUILDING MITHAKHALI SIX ROADS OPP. HARE KRISHNA COMPLEX B/H, KIRAN MOTORS AHMEDABAD - 380009.

To,

The Board of Directors

Charms Industries Limited

108-B/109 Sampada Building, Mithakhali Six Roads,

Opp. Hare Krishna Complex B/h, Kiran Motor,

Ahmedabad - 380009.

1. BACKGROUND

1. The meeting of the Audit Committee of the Company was held on 1st Day of July, 2023 to consider and recommend the draft scheme of capital reduction of Charms Industries Limited in terms of the provisions of section 66 of Companies Act, 2013("Scheme"),(including any statutory modification(s) or re-enactment thereof for the time being in force and the rules made there under (the "Act"), Regulation 37 of SEBI (LODR) Regulation, 2015 and specifically the Hon'ble National Company Law Tribunal (Procedure for Reduction of Share Capital of Company) Rules, 2016 ("Reduction Rules"), which permits the Company to undertake a reduction of its share capital.
2. This report of the Audit Committee is made to comply with the requirements as per SEBI Master Circular No. **SEBI/HO/CFD/POD-2/P/CIR/2023/93** dated June 20, 2023, issued under the Securities and Exchange Board of India (SEBI) (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended from time to time.
3. The following documents were placed before the Committee of Audit Committee;
 - a) Draft Scheme of Reduction of Capital;
 - b) Draft Undertaking regarding non-applicability of para 4(b) of SEBI Master circular no. **SEBI/HO/CFD/POD-2/P/CIR/2023/93** dated June 20, 2023, that the Valuation Report is not required in cases where there is no change in the shareholding pattern of the listed entity.
 - c) Draft Certificate from M/s. Ashit N. Shah & Co, Chartered Accountants, the Statutory Auditor of the Company dated 1st July, 2023, with respect to submission of Valuation report, as per SEBI Master Circular **SEBI/HO/CFD/POD-2/P/CIR/2023/93** dated June 20, 2023 confirming that the accounting treatment in the Scheme is in Compliance;

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- d) Draft certificate by the statutory auditor regarding non-applicability of sub para 10(a) and (b) of Part IA para-SEBI Master Circular no. **SEBI/HO/CFD/POD-2/P/CIR/2023/93** dated June 20, 2023 regarding **approval of shareholders to scheme though e-voting.**
- e) Other Annexure for the draft scheme of Reduction of Capital.

2. SALIENT FEATURES OF THE DRAFT SCHEME:

- a) As per the provision of section 66 of the Companies Act, 2013 read with National Company Law Tribunal (Procedure for reduction of share capital of Company) Rule, 2016 and other applicable provisions, if any, upon the Scheme coming into effect from the effective date after securing necessary approvals and permission to cancel the amount of accumulated losses incurred against the Share capital by Rs 3,69,54,900/- (Three Crore Sixty-Nine Lakh Fifty-Four Thousand Nine Hundred Only)
- b) The Scheme seeks to reduce or otherwise alter the issued, subscribed and paid-up share capital of the Company and the same will therefore remain reduced as a result of the Scheme, on the Effective Date and after securing necessary approvals and permissions the Company shall reduce its fully paid-up equity share capital from Rs. 4,10,61,000/- divided into 41,06,100 Equity Shares of Rs.10/- each fully paid-up to Rs. 41,06,100 divided into 41,06,100 equity shares of Re.1/- each fully paid up by cancelling the capital which has lost or is unrepresented by available tangible assets, to the extent of Rs.9/- per share upon each of the 41,06,100 equity shares which have been issued by reducing the paid-up value of all the shares in the capital of the Company from Rs.10/- per share to Re.1/- per share.
- c) The company also propose to cancel the capital reserve account of Rs.31,46,530 by adjustment in debit balance of Profit & Loss Account and therefore the total amount of adjustment in debit balance of Profit & Loss Account is aggregating to Rs. 4,01,01,430/-.
- d) The reduction will be to the extent of Rs.9/- per share upon each of the 41,06,100 equity shares which have been issued by reducing the paid-up value of all the shares in the capital of the Company from Rs.10/- per share to Re.1/- per share with effect from the effective date.
- e) The debit balance of Profit & Loss Account of the Company will be written off to the extent of amount which has lost or is unrepresented by available tangible assets in the financial statements of the company.
- f) Further, the audit committee reviewed that the accounting treatment certificate and noted that the accounting treatment in the scheme is in line with generally accepted accounting principles. (IND AS)

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- g) The scheme will help to achieve the rational structure which is commensurate with its remaining business and assets.
- The Scheme shall be effective from the date on which the certified copy of the order passed by the NCLT sanctioning the Scheme and certified copy of order of reduction is filed and registered with the Registrar of Companies, Gujarat
 - The Scheme is and shall be conditional upon and subject to:
 - The requisite consents, sanctions and approvals under the applicable law of the Central Government or Stock Exchanges or any other agency, department or authorities concerned including but not limited to approvals and sanctions required under the SEBI Master Circular Ref, **SEBI/HO/CFD/POD-2/P/CIR/2023/93** dated June 20, 2023 issued by SEBI under the Listing Regulations, as may be required by law in respect of this Scheme, being obtained;
 - The requisite resolutions under the applicable provisions of the said Act being passed by shareholders of the Company for any of the matter provided for or relating to the Scheme as may be necessary or desirable.
 - The sanctions of the Tribunal under sections 66 of the Act in favor of the Company and the necessary order being obtained.
 - Certified or authenticated copies of the Order of the Tribunal sanctioning the Scheme being filed with the Registrar of Companies, Gujarat, at Ahmedabad by the Company.
 - The Certified or authenticated copies of the Order of the Tribunal sanctioning the Scheme and Minute thereof being registered by the Registrar of Companies, Gujarat, at Ahmedabad ("RoC") and a certificate of registration of the minute of order issued by the RoC.

3. PROPOSED SCHEME

The Audit Committee reviewed and considered the proposed scheme on the following grounds:

3.1 NEED AND RATIONALE FOR THE REDUCTION OF SHARE CAPITAL

- The proposed scheme is considered necessary to undertake a scheme of Capital Reduction so as to give a true and realistic view of the value of the shares and present liner balance sheet of the Company.
- The balance in Profit & Loss Account (debit) as at 31st March, 2023 was Rs. 4,12,35,570 (Rupees Four Crore Twelve Lakh Thirty-Five Thousand Five Hundred Seventy Only).
- The proposed reduction of the equity share capital of the Company is being undertaken in accordance with the provisions of Section 66 of the Companies Act, 2013 and the rules made thereunder and specifically the Rules, which permit a company to undertake a reduction of its share capital in any manner, read with the SEBI (Listing Obligations and Disclosure Requirements)

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Regulations, 2015 ("SEBI LODR"/ Listing Regulations"), SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 ("SEBI ICDR") and the SEBI Circular (as defined hereinafter).

- The Company's shares are listed in Bombay Stock Exchange (herein referred as "BSE" and/or "the Stock Exchange").
- The proposed reduction of the equity share capital of the Company would not have any adverse effect on the creditors of the Company or the Company's ability to full fill its commitments or meet its obligations in the ordinary course of business.
- The Scheme does not provide any cash pay out to affect the Reduction of Capital; therefore, the scheme will not adversely affect the liquidity and/or financial position of the Company.
- The Company has been incurring continuous losses and the chances of recovery are remote. Hence it is prudent to write off part of the debit balance in Profit & Loss account to the extent of Rs.3,69,54,900/- by cancelling the capital which has lost or is unrepresented by available tangible assets to the extent of Rs.9/- per share upon each of the 41,06,100 equity shares which have been issued by reducing the paid-up value of all the shares in the capital of the Company from Rs.10/- per share to Re.1/- per share, in accordance with the provisions of Sections 66 and other applicable provisions of the Companies Act, 2013 (hereinafter referred to as "the act") and cancellation of Capital reserve of Rs.31,46,529/- aggregating adjustment of Rs. Rs. 4,01,01,430/- in debit balance of Profit & Loss Account. The resultant paid-up capital of the Company will be Rs.41,06,100/- divided into 41,06,100 equity shares of Re.1/- each fully paid-up.
- The financial restructuring will help the Company to reflect better its operational efficiency, improvements in the future years and reflect the true share value.

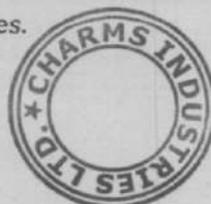
3.2 SYNERGIES OF THE BUSINESS OF THE ENTITIES INVOLVED IN THE SCHEME:

The proposed scheme relates to Capital Reduction of the Company and therefore the comments on synergies of the business is not applicable.

3.3 IMPACT OF THE SCHEME ON THE SHAREHOLDERS:

- The proposed reduction of the equity share capital of the Company would not have any adverse effect on the shareholders of the Company or the Company's ability to fulfil its commitments or meet its obligations in the ordinary course of business.
- The shareholders on such reduction in Issued, Subscribed and Paid-Up Equity Share Capital of the Company on the record date will get 1 (One) equity shares of Re.1/- (rupee One Only) each fully paid-up against 1(One) equity shares of Rs.10/- (Rupees Ten Only) each fully paid up.
- After such approval, the paid-up equity share capital of the Company on Effective date shall become **Rs.41,06,100/-** divided into **41,06,100** Equity Shares of Re.1/- each fully paid up.
- There is no detrimental impact on the shareholders and this reduction shall further allow the creation of distributable reserves for dividend which are held up due to accumulated losses.

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- Further, it is specified that the reduction 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.

3.4 COST BENEFIT ANALYSIS OF THE SCHEME

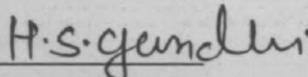
- The Financial restructuring will help the company to reflect the true shareholder value.
- There is no payment/ pay-out involved to any of the shareholder or other stakeholders.

4. RECOMMENDATION OF THE AUDIT COMMITTEE

Taking into consideration the proposed Scheme, Accounting Treatment Certificate, necessity, rationale and impact of the Scheme and cost benefits analysis, the Audit Committee confirms that the proposed scheme is not detrimental to the shareholders of the company and is in the interest of the Company and its shareholder, and all other stakeholders. Thus, the Audit Committee hereby recommends the proposed scheme to the Board of Directors of the Company for its consideration and approval for reduction of share capital of the Company as per draft scheme of Charms Industries Limited in terms of the provisions of section 66 of Companies Act, 2013 ("Scheme").

The Committee also unanimously approved the draft scheme of capital reduction of Charms Industries Limited and recommended the same for favourable consideration by the board of directors of the Company.

By Order of the Audit Committee
For and on **Charms Industries Limited**


Harsad Gandhi
Chairman of Audit Committee
DIN: 01056779



Place: Ahmedabad