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
Contact No. 09898031513 Website: www.charmsindustries.co.in E-mail: charmsltd@yahoo.com

REPORT OF THE COMMITTEE OF INDEPENDENT DIRECTORS OF CHARMS INDUSTRIES LIMITED("COMPANY") RECOMMENDING THE DRAFT SCHEME OF REDUCTION OF SHARE CAPITAL OF THE COMPANY AS ITS MEETING HELD ON SATURDAY 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 Independent Directors of the Company was held on Saturday, 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 Independent Directors of the Company is made to comply with the requirements as per SEBI Master Circular **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 Independent Directors of the Company;

   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 / resultant company;

   c) Draft Certificate from M/s. Ashit N. Shah & Co, Chartered Accountants, the Statutory Auditor of the Company dated _1st July, 2023 confirming that the accounting treatment in the Scheme is in Compliance; ***Not Applicable***

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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)

g) The scheme will help to achieve the rational structure which is commensurate with its remaining business and assets.

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- 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.

h) 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 need of scheme to reduce the capital and capital reserve of the company which has lost or is unrepresented by available tangible assets and to reflect the correct picture of the health of the Company.

- The writing off the losses has become inevitable for growth of the company and its shareholders.

- The reduction of capital in the manner proposed would enable the company to have rational structure which is commensurate with this remaining business and assets.

Hence, the proposed reduction will be for the benefit of the company and its respective members, creditors and employees.

3.1 IMPACT OF THE SCHEME ON THE SHAREHOLDERS:

- 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 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 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 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"). 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.

- 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 Rs.1/- each fully paid up. Further, no change will be effected in the proportion of the holding of the shareholders of the company.

- The cancellation of the shares is proportionately among the members of the Company and the same shall be utilized for adjusting the debit in Profit & Loss account.

- There is no detrimental impact on the shareholders.

- 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.

- The Financial restructuring will help the company to reflect the true shareholder value which would place the company in a position to raise capital in future.

4. RECOMMENDATION OF THE COMMITTEE OF INDEPENDENT DIRECTORS

Taking into consideration the proposed Scheme, Accounting Treatment Certificate, necessity, rationale and impact of the Scheme and cost benefits analysis, the Independent Directors confirms that the proposed scheme is not detrimental to the shareholders of the company and is in the best interest of the shareholders, creditors and all other stakeholders of the Company. Thus, the committee of Independent Directors do hereby recommend the

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proposed scheme to the Board of Directors of the company for its consideration and approval.

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

H.S. Gandhi

Harsad Gandhi
Chairmen of Independent Director Committee
DIN: 01056779

Place: Ahmedabad

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