Annexure – 4

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REPORT OF THE AUDIT AND RISK MANAGEMENT COMMITTEE OF UFO MOVIEZ INDIA LIMITED RECOMMENDING THE DRAFT COMPOSITE SCHEME OF ARRANGEMENT AND AMALGAMATION

Members Present:

1.	Mr. Sanjeev Aga	-	Chairman & Independent Director
2.	Mr. S. Madhavan	-	Independent Director
3.	Mr. Varun Laul	-	Director

Certified True Copy
For UFO Moviez India Limited

In Attendance:

1.	Mr. Kapil Agarwal	-	Joint Managing Director
2.	Mr. Ashish Malushte	-	Chief Financial Officer
3.	Mr. Rajesh Mishra	-	CEO – Indian Operations
4.	Mr. Sameer Chavan	-	Company Secretary

S.S.Chavan
Company Secretary

1. **Background**

1.1 A meeting of the Audit and Risk Management Committee of UFO Moviez India Limited ("**Company**" or "**Transferee Company**") was held on November 1, 2017, to consider and recommend to the Board of Directors of the Company the draft composite Scheme of Arrangement and Amalgamation between UFO Moviez India Limited ("**UFO**" or "**the Company**"), Qube Cinema Technologies Private Limited ("**QCTPL**"), Qube Digital Cinema Private Limited ("**QDCPL**"), Moviebuff Private Limited ("**MPL**") and PJSA Technosoft Pvt. Limited ("**PJSA**") and their respective shareholders ("**Scheme**"), to be implemented under Sections 230 to Section 232 read with other applicable provisions of the Companies Act, 2013.

1.2 UFO ("Company" or "Transferee Company 2" or "Transferor Company 3") is a public limited company incorporated on June 14, 2004 under the Companies Act, 1956 and its registered office is situated at Valuable Techno Park, Plot No 53/1, Road No 7, Marol MIDC, Andheri East, Mumbai – 400 093. The CIN of UFO is L22120MH2004PLC285453. The equity shares of UFO are listed on BSE Limited and National Stock Exchange of India Limited. UFO is engaged inter alia in the business of digital cinema distribution and in-cinema advertising.

1.3 Qube Cinema Technologies Private Limited ("QCTPL" or "Demerged Company") is a private limited company incorporated on January 01, 1986 under the Companies Act, 1956 and its registered office is situated at 42, Dr. Ranga Road, Mylapore, Chennai 600004. The Corporate Identity Number (CIN) of QCTPL is U92490TN1986PTC012536. QCTPL is engaged in the business of providing technology in film, video and audio, including digital cinema distribution, editing, production and sound.

1.4 Qube Digital Cinema Private Limited ("QDCPL" or "Resulting Company" or "Transferee Company 1" or "Transferor Company 2") is a private limited company incorporated on October 11, 2017 under the Companies Act, 2013 and its registered office is situated at 42, Dr. Ranga Road, Mylapore, Chennai 600004. The CIN of QDCPL is U93000TN2017PTC119019. QDCPL will be engaged in the same business as that of QCTPL i.e. providing technology in film, video and audio, including digital cinema distribution, editing, production and sound.

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1.5 Moviebuff Private Limited ("MPL" or "Transferor Company 1") is a private limited company incorporated on November 4, 1996 under the Companies Act, 1956 and its registered office is situated at 42, Dr. Ranga Road, Mylapore, Chennai 600004. The CIN of MPL is U22300TN1996PTC036847 . MPL is engaged in the business of operating a backend platform for dynamically creating and playing back customised content at scheduled times.

1.6 PJSA Technosoft Pvt. Limited ("PJSA" or "Transferee Company 3") is a private limited company incorporated on October 17, 2017 under the Companies Act, 2013 and its registered office is situated at 2602, Wing C, Oberoi Splendor, Opp. Majas Depot, JVLR, Andheri East, Mumbai – 400 060. The CIN of PJSA is U74999MH2017PTC300940. PJSA will be engaged in the business of Providing IT and IT related services.

1.7 This report of the Audit and Risk Management Committee is made in order to comply with the requirements of Circular CFD/DIL3/CIR/2017/21 dated March 10, 2017 issued by the Securities and Exchange Board of India ("**SEBI Circular**").

1.8 The following documents were placed before the Audit and Risk Management Committee:

(a) Draft composite Scheme of Arrangement and Amalgamation.

(b) Valuation Reports dated November 1, 2017 issued by the Independent Valuer, Walker Chandiok & Co. LLP ("**Valuation Reports**").

(c) Fairness Opinion dated November 1, 2017 issued by Axis Capital Limited, an independent Category-I Merchant Banker ("**Fairness Opinion**").

(d) Certificate from M/s. S.R. Batliboi & Associates LLP, statutory auditors of the Company confirming that the Scheme is in compliance with applicable accounting treatment notified under the Companies Act, 2013 and other generally accepted principles.

2. **Proposed Scheme of Amalgamation**

2.1 Any term which has not been defined in this Report shall have the meaning ascribed to it under the attached Scheme.

2.2 The Audit and Risk Management Committee noted the facts, rationale and benefits of the proposed demerger, which are, *inter alia*, as follows:

(a) UFO and QCTPL are engaged in similar businesses. Considering the existing entertainment and advertising market dynamics in India and the tremendous prospects for services in global markets, both QCTPL and UFO believe that the proposed merger of the two companies will lead to robust growth opportunities in India and globally.

(b) UFO has developed an efficient satellite delivery mechanism for the transmission of content into non-DCI theatres using MPEG4 technology. QCTPL, on the other hand, uses MPEG2 technology for non-DCI theatres and has also developed its own DCI compliant servers. The merged entity will thus have all the complementary technologies at its disposal. Going forward, it is

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expected that the combined entity will develop and deploy both DCI and non-DCI systems that incorporate the best features of the multiple technologies available to the company. Such a best-of-breed system will serve the interests of both the film industry with the highest levels of security, ease-of-use and reliability; and advertisers with centrally controlled ad scheduling that blends seamlessly with locally controlled movie selection and playback.

(c) In-cinema advertising is one of the fastest growing media in the country today. Both UFO, with ~4000 advertising screens, and QCTPL, with ~3300 advertising screens, have been running large advertising networks. The two companies have a complementary network profile with QCTPL having a deeper penetration in South India and UFO having a similar presence in rest of India. By combining the two networks, the merged business will be able to offer a pan India in-cinema advertising network covering over 7300 screens, significantly improving the overall value proposition for clients. The two companies also have complementary strengths in terms of client base, presenting attractive cross-sell opportunities

(d) Further, the proposed merger would bring about synergies of operations and benefits of scale by minimizing the duplication of administrative functions, combining some infrastructural requirements and unifying legal and regulatory compliances.

(e) QCTPL has developed a self-service single-window content and digital rights management platform for movies called Qube Wire. This service is currently in the process of commercialization but is already in operation on a limited-scale serving select clients. UFO, in addition to its screen network in India, also has a network of screens overseas. Apart from Qube Wire, QCTPL has other products with global potential and the combined network, post-amalgamation, will allow faster monetization of Qube Wire and other QCTPL products, both within India and internationally.

(f) This merger will also facilitate the exit of the private equity investors in QCTPL who have been invested for a number of years and provide an opportunity for the employees and shareholders of QCTPL to become part of a listed entity.

(g) Thus, with the aforesaid objectives, it is proposed to demerge the QCTPL Business of QCTPL into QDCPL, merge MPL into QDCPL, undertake the purchase of the QDCPL Sale Shares of the Sellers who no longer wish to participate in the QCTPL Business, amalgamate QDCPLwith UFO and thereafter slump sale the IP Business from UFO into PJSA pursuant to the composite Scheme.

2.3 The salient features of the draft Scheme are, *inter alia*, as under:

(a) The draft Scheme provides for the following:

(i) Demerger of the entire business of QCTPL except business relating to certain identified contracts with overseas studios ("Demerged Undertaking") into QDCPL on a going concern basis ("Demerged Business") and the issuance of equity shares by QDCPL to the shareholders of QCTPL ("QCTPL Demerger");

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(ii) Amalgamation of MPL into QDCPL and the issuance of equity shares by QDCPLto the shareholders of MPL and consequent dissolution of MPL without winding up ("MPL Merger");

(iii) Upon giving effect to QCTPL Demerger and MPL Merger and upon issuance of shares by QDCPL to shareholders of QCTPL and MPL, specific non-promoter shareholders of QDCPL, who no longer wish to participate in the Demerged Undertaking of QDCPL (as mentioned in point (i)), to sell their holding in QDCPL aggregating to 53.20% of the share capital of QDCPL to the Company and UFO and India Advantage Fund S4 I, a fund managed by ICICI Venture Funds Management Company Limited ("Investor") ("Purchase of QDCPL Sale Shares");

(iv) Post completion of Transfer of QDCPL Sale Shares, amalgamation of QDCPL into the Company and the issuance of equity shares by the Company to the shareholders of QDCPL and consequent dissolution of QDCPL without winding up ("QDCPL Merger"); and

(v) Slump Sale of the business relating to certain new software, technologies and processes of QCTPL which are currently in the process of commercialization from the Company (post transfer to the Company pursuant to the QDCPL Merger) ("Transferred Undertaking") into PJSA and payment of a lump sum consideration by PJSA to the Company ("Slump Sale").

(b) Each of the aforesaid transactions form an integral and indivisible part of the composite Scheme and the said transactions shall be deemed to occur in the sequence set out herein below and none of the said transactions shall be considered to be consummated, unless each of the other transactions are also consummated and the Scheme is approved by the SEBI, the Stock Exchanges and the National Company Law Tribunals (NCLTs), as the case may be. It is the intention of QCTPL, QDCPL, MPL, PJSA and UFO that each of the transactions contemplated under Part II, Part III, Part IV and Part V of the Scheme constitute a single transaction and the Scheme shall be implemented only if the Scheme is approved in its entirety.

(i) With effect from the Appointed Date 1, Part II (relating to demerger of the QCTPL Undertaking of QCTPL into QDCPL) and Part III of the Scheme (relating to amalgamation of MPL into QDCPL) shall be deemed to have been operative from the Effective Date 1.

(ii) With effect from the Appointed Date 2, Part IV of the Scheme (relating to amalgamation of QDCPL into UFO) shall be deemed to have been operative from the Effective Date 2; and

(iii) With effect from the Appointed Date 3, Part V of the Scheme (relating to slump sale of the Transferred Undertaking of UFO into PJSA) shall be deemed to have been operative from the Effective Date 3.

(c) None of the transactions contemplated under the Scheme i.e., QCTPL Demerger, MPL Merger, Purchase of QDCPL Sale Shares, QDCPL Merger and Slump Sale, shall be considered to be consummated, unless each of the other transactions are also consummated and the Scheme is approved by the SEBI, the stock exchanges and the NCLTs, as the case may be.

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(d) As consideration for the QDCPL Merger, shareholders of QDCPL (except the Company) shall be issued 13 (Thirteen) equity shares of INR 10/- each, credited as fully paid-up, of the Company for every 17 (Seventeen) equity share of INR 10/- each fully paid-up held by such equity shareholder in QDCPL (as on the record date fixed under the Scheme). The Company shall grant 13 (Thirteen) employee stock options to the employees of QDCPL for every 17 (Seventeen) employee stock option of QDCPL held by such employees.

(e) As consideration for the Slump Sale, PJSA shall pay the Company an aggregate lump sum amount of Rs. 235 Mn, subject to any adjustment as on the Effective Date 3. The consideration shall be discharged by PJSA by issuing equity shares of INR 10/- each fully paid up to the Company.

(e) The Company shall account for the QDCPL Merger and the Slump Sale in its books of account in accordance with applicable Indian Accounting Standard as notified under section 133 of the Act, read together with paragraph 3 of The Companies (Indian Accounting Standard) Rules, 2015, including the provisions of IND AS 103 on Business Combinations and the other accounting principles generally accepted in India.

(f) The Scheme is subject to the approvals and sanctions as mentioned in the Scheme.

2.4 The Audit and Risk Management Committee reviewed the Valuation Reports along with the Fairness Opinion and noted the recommendations made therein. The Audit and Risk Management Committee also noted the draft certificate obtained from the Statutory Auditor of the Company, on the accounting treatment, prescribed in the draft Scheme, as required under the SEBI Circular.

3. **Recommendation of the Audit and Risk Management Committee**

3.1 The Audit and Risk Management Committee has considered and noted the aforementioned documents and *inter alia* taking into consideration the rationale and benefits of the draft Scheme, the Valuation Reports and the Fairness Opinion, recommends the draft Scheme to the Board of Directors of the Company for their favourable consideration and approval.

Dated: November 1, 2017
Place: Mumbai

Sanjeev Aga
Chairman of the Audit and Risk Management Committee

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