SERVOTEACH INDUSTRIES LTD.

(Formerly Known as Servotech Engineering Industries Limited.)

Regd. Off: 502, Triveni Krupa, Carter Rd. No. 3, Opp. Ambaji Mata Temple, Borivali (E), Mumbai – 400 066
Tel : +91- 22 - 28669600/ 28624357/58, Fax : +91-22 - 28083296, Email:- info@servotech-india.com
Website : servotechengineering.in
CIN:- L28933MH1994PLC081857

REPORT OF THE AUDIT COMMITTEE OF SERVOTEACH INDUSTRIES LIMITED ("COMPANY") RECOMMENDING THE DRAFT COMPOSITE SCHEME OF ARRANGEMENT AND AMALGAMATION AMONGST THE COMPANY AND SERVOTECH INDIA LIMITED AND THEIR RESPECTIVE SHAREHOLDERS AT ITS MEETING HELD ON 5TH APRIL, 2018 AT REGISTERED OFFICE OF SERVOTEACH INDUSTRIES LIMITED AT 2.00 P.M.

1. Rohit Talakchand Doshi	Chairman of the Meeting
2. Radheshyam Sitaram Lahoti	Member
3..Narendra Rameshchandra Gupta	Member

IN ATTENDANCE:
1. Mr. Shivpratap Singh - Chief Financial Officer
2. Ms. Sweety Bajpai - Company Secretary

Mr. Rohit Talakchand Doshi, occupied the Chair.

BACKGROUND

A meeting of the Audit Committee of the company was held on 5th April, 2018 to consider and recommend the proposed composite Scheme of Arrangement and amalgamation (Scheme) between Servotech India Limited (Transferor company) and Servoteach Industries Limited (transferee company) and their shareholders under Sections 230 to 232 read with Section 66 and other applicable provisions of the Companies Act, 2013.

The Transferor Company is an existing unlisted public Limited company incorporated under the provisions of the Companies Act, 1956.

The Transferee Company is an existing listed public Limited company incorporated under the provisions of the Companies Act, 1956.

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The Draft Composite Scheme of Arrangement and Amalgamation of Servotech India Limited [STIL] (the Transferor Company) with Servoteach Industries Limited [SIL] (the Transferee Company) and their Respective Shareholders ("the Scheme") was placed before the Audit Committee for its consideration and recommendation to the Board of Directors of the Company as required vide SEBI Circular No. CFD/DIL3/CIR/2017/21 dated March 10, 2017 ("Circular").

In view of the said circular, the Audit Committee of the Company considered, discussed and recommended the Composite Scheme and made this report after reviewing the following documents:

1. Draft Composite Scheme of Arrangement and Amalgamation;

2. Audited Financial Statements of STIL and SIL for the financial year 2014-15, 2015-16 and 2016-17 and Unaudited Financial Statements for the 9 months ended 31st December, 2017;

3. Valuation Report in the matter of Composite Scheme of STIL and SIL dated 5th April, 2018 issued by M/s. Suresh Shah & Co., Chartered Accountant;

4. Fairness opinion dated 5th April, 2018 issued by Systematix Corporate Services Ltd, Mumbai;

5. Certificate issued by M/s. Amit & Disha Associates, Chartered Accountants, Statutory Auditors of the Company as required under Para 1(A)(5)(a) of Annexure I of the Circular, to the effect that the accounting treatment contained in the Scheme is in compliance with all the Accounting Standards specified by the Central Government under Section 133 of the Companies Act, 2013 read with the rules framed thereunder or the Accounting Standards issued by ICAI, as applicable, and other generally accepted accounting principles.

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2. **Proposed Composite Scheme of Arrangement and Amalgamation:**

The Audit Committee noted the rationale and the benefits of the Scheme which, inter-alia, are as follows:

a. Continuous losses have substantially wiped off the value represented by the Share Capital thus the financial statements do not reflect the correct picture of the health of the Company.

b. For ensuring that the financial statements of the Company reflect the real picture and the Capital which is lost, is not continued to be shown on the face of balance sheet it is necessary to carry out reduction of capital of the Company.

c. Since writing off of losses has become inevitable for growth of the Company and its shareholders, the Company is now proposing to undertake a financial restructuring exercise whereby the Company would create a "Capital Restructuring Account" from its paid up Equity Share Capital.

d. The reduction of capital in the manner proposed would enable the Company to have a rational capital structure which is commensurate with its remaining business and assets.

e. This Composite Scheme of Arrangement and Amalgamation is presented with a view to achieve Restructuring of the Transferee company which would result in increase in the net worth of the Transferee Company and improvement in financial health as more business activities shall be brought into the Transferee Company thereby preventing it from becoming a sick company.

f. The restructuring of the Transferee Company proposed under the Scheme does not envisage any payment to any shareholder of any paid-up share capital.

g. Hence, the proposed reduction will be for the benefit of the Company and its shareholders, creditors and all concerned as a whole.

h. SERVOTEACH INDUSTRIES LIMITED and SERVOTECH INDIA LIMITED both are with a view to take advantage of consolidation in the current competitive environment, it is proposed to consolidate operations and amalgamate the two companies, which would result in benefits from economies of scale of operations and increased market share.

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i. Simplified group and business structure.

j. The existence of independent companies at times result in duplication of efforts and the integration and combination of such businesses will lead to greater and optimal utilization of resources. The amalgamation would, therefore, enable the Transferee Company to increase operations and confer a competitive advantage on the entire business. With integrated processes, the Transferee Company can achieve higher scales of operation.

k. Greater integration and greater financial strength and flexibility for the amalgamated entity, which would result in maximizing overall shareholder value, and will improve the competitive position of the combined entity.

l. Better efficiency in cash management of the amalgamated entity, and unfettered access to cash-flow generated by the combined business which can be deployed more efficiently to fund organic and inorganic growth opportunities, to maximize shareholder value.

m. The amalgamated company will have the benefit of synergy, optimum use of manpower for executing and management of various projects, expertise, and stability of operations and would help to achieve economies of scale through efficient utilization of resources and facilities.

n. Pursuant to the implementation of the Scheme, the objects of the Transferor Company and the Transferee Company can be conveniently, advantageously and economically carried on by a single entity.

o. The restructuring proposed under the Scheme will not affect the normal business operations of the Transferee Company, but would improve the same.

p. To achieve the desired objectives, a Scheme of Arrangement and Amalgamation has been arrived at by the Board of Directors of the aforesaid companies and it has been decided to make the requisite application before the Hon'ble National company Law Tribunal Mumbai bench, Mumbai under Sections 230 to 232 read along with Sections 66 of the Companies Act, 2013 for the sanction of the following Scheme of Arrangement and Amalgamation (hereinafter referred to as the 'Scheme') of the aforesaid companies.

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The salient features of the draft Scheme are as under:

a) The Scheme provides for the reduction of the equity share capital of SERVOTEACH INDUSTRIES LIMITED pursuant to Section 66 read with Sections 230 to 232 and other relevant provisions of the Companies Act, 2013;

b) The Scheme provides for the reconstruction of SERVOTEACH INDUSTRIES LIMITED pursuant to Sections 230 to 232 and other relevant provisions of the Companies Act, 2013.

c) The Scheme provides for the amalgamation of SERVOTECH INDIA LIMITED into SERVOTEACH INDUSTRIES LIMITED pursuant to Sections 230 to 232 of the Companies Act, 2013.

d) The Scheme also provides for various other matters consequential, supplemental and /or otherwise integrally connected

The Audit Committee reviewed the Valuation Report and noted the recommendations made therein. Further, the Fairness Opinion confirmed that the Share Exchange Ratio in the Valuation Report is fair to the shareholders of the Company.

3. **Recommendation of the Audit Committee**:

T8laking 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 **Servoteach Industries Limited**

SERVOTEACH INDUSTRIES LTD. MUMBAI

Chairman
Audit Committee
Place: Mumbai
Date: 5th April, 2018