REPORT OF THE AUDIT COMMITTEE OF CES LIMITED RECOMMENDING THE SCHEME OF ARRANGEMENT OF CES LIMITED AND CES TECHNOLOGY SERVICES PRIVATE LIMITED AND THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS

Members Present:

1. Mr. Tummala Muralikrishna
2. Mr. Duruvasan Ramachandra

In attendance:

Mr. Suraj Kumar Garg, Company Secretary
Mr. Srinivas Raju Kucherlapati, Chief Financial Officer.

Background

- At the Board meeting of the company held on 08.04.2022, the board in-principle approved the proposal of Scheme of Arrangement, subject to such approvals as may be required as per various regulations and enactments as may be applicable.

- A meeting of Audit Committee of the company was held on 16th May, 2022 to consider and recommend the draft Scheme of Arrangement taking into consideration, inter-alia, the Valuation Report, pursuant to Sections 230 to 232 and other applicable provisions of the Companies Act, 2013, the rules and/ or regulations made there under (including any statutory modification(s) or re-enactment(s) thereof for the time being in force) ("Companies Act") and other applicable laws including the master circular no. SEBI/HO/CFD/DIL1/CIR/P/2021/0000000665 issued by the Securities and Exchange Board of India ("SEBI") on November 23, 2021 (as amended from time to time), SEBI Circular CFD/DIL3/CIR/2017/21 dated March 10, 2017 or any other circulars issued by SEBI applicable to schemes of arrangement from time to time ("SEBI Scheme Circular" and such scheme, the "Scheme"), together with provisions of the Income Tax Act, 1961.

- The Company is incorporated under the provisions of the Companies Act, 1956. The equity shares of the Company are listed on BSE Limited.

- In terms of the SEBI Circular applicable to schemes of arrangement, a report from the Audit Committee recommending the draft Scheme is required, taking into consideration inter alia the Valuation Report (as defined hereinafter), and commenting on the need for the Scheme, rationale of the Scheme, synergies of business of the entities involved in the Scheme, impact of the Scheme on the shareholders and cost benefit analysis of the Scheme. This report of the Audit Committee is made in compliance with the requirements of the SEBI Scheme Circular issued by SEBI pursuant to the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("SEBI LODR Regulations").

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Need for the Scheme of Arrangement

The Demerged Company is predominantly engaged in the business of Information Technology (IT) and Information Technology Enabled Services (ITES). Both the businesses have excellent forays into the markets and hence there is every need for expanding each of the businesses by segregating the two businesses into two different undertakings. Both the IT and ITES businesses are two different areas of business, and need separate set of expertise, hence it is necessary to divide the two businesses and be operated as separate entities so each of the businesses can be dealt with different set of management with focus solely on each of the business respectively. Further upon the scheme becoming effective and delisting the demerged company's shares from the Stock exchange will help the demerged company to reduce the cost and also make it easy for the demerged company to raise funds that are required for expansion of the remaining business of the demerged company. The proposed restructuring is in the interest of the shareholders, creditors, employees, and other stakeholders in each of the companies.

Rationale of the Scheme

i) CES Limited ("Demerged Company") is predominantly into the business of IT and ITES.

ii) The Scheme in the present case provides for demerger of ITES undertaking including with all the related assets and liabilities of Demerged Company into CES Technology Services Private Limited ("Resulting Company") which is wholly owned subsidiary of Demerged Company and also delisting of the shares of the Demerged Company from the stock exchange(s).

iii) The Demerged Company has excellent forays into the markets and with an objective to increase their market share; the promoters seek investment by external investors/partners. The Demerged Company wants to delink the ITES business completely from all other activities hence considered prudent to demerge ITES business of the Demerged Company.

iv) The Demerged Company is a publicly listed Company having its equity shares listed on BSE Limited. Though the Demerged Company is listed Company the demerged company has only 26 shareholders. Further the shares of thedemerged company are not frequently traded. As the shares of the demerged company are not frequently traded the shareholders of the demerged company could not get the benefit of listing the shares on the Stock Exchange, however the demerged Company is incurring huge cost in compliance, being a listed Company, further the demerged company also contemplate to expand the remaining business for which the demergedcompany may require to raise capital from investors. Hence, the promoters seek to delist the shares of the demerged Company from Stock Exchanges, which will not only help the demerged company to reduce the cost but also make it easy for the demerged company to raise funds that are required for expansion of the remaining business of the demerged company.

v) The Scheme provides for segregation of the assets, liabilities (including resources deployed) related to the divisions being vested by way of demerger and also provide for delisting of the share of the demerged company from stock exchanges.

vi) Such segregation and delisting would result in having a structure ready for external investments in Demerged Company and the Resulting Company.

vii) The Scheme of Arrangement would benefit the shareholders, employees and other stakeholders of the Demerged Company and the Resulting Company and in no way the proposed scheme is detrimental to the shareholders of the listed entity.

Synergies of business of the entities involved in the scheme

i) The Demerged Business and Remaining Business carried on by Demerged Company have significant potential for growth. The nature of risk and competition involved in each of these units are distinct from other and consequently demerged business and remaining business is capable of attracting a different set of business leaders, employees, investors, strategic partners, lenders and other stakeholders. That the Demerged Business and Remaining Business should be bifurcated and should have independent entities for each undertaking.

ii) The ITES business have huge potential and needs a focused management for each activity and hence it is felt necessary to carry on the business of ITES in a separate entity.

iii) In order to have greater and complete focus to the operations of each of demerged business and remaining business and evolve strategies for growth and expansion of activities of demerged business and remaining business separately, apart from attracting investors into each of the Demerged Business and Remaining Business, Demerged Company proposes to re-organize and segregate, by way of de-merger, its business.

iv) Demerged Business and Remaining Business has tremendous growth and profitability potential, especially the Remaining Business is at a stage where they require focused leadership and management attention.

v) It is believed that the proposed segregation will create enhanced value for all stakeholders and allow a focused strategy in operations, which would be in the best interest of Demerged Company, its all stakeholders, creditors and all persons connected with Demerged Company.

vi) It is believed that the delisting of shares of the Demerged Company from the Stock Exchange(s) will reduce the compliance cost incurred by the Demerged Company and

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will also make it easy for the demerged company to raise finances that are required for expansion of the remaining business of the demerged company.

vii) The Scheme of Arrangement also contemplates the cancellation of shares held by the Demerged Company in Resulting Company thereby reduction of share capital of the Resulting Company and also cancellation of the investments made by the Demerged Company in the Resulting Company.

viii) The Scheme of Arrangement also contemplates the reduction of the share capital of the Demerged Company

ix) The Scheme of Arrangement will also provide scope for independent collaboration and expansion without committing the existing organization in its entirety.

x) With aforesaid objective, it is proposed to De-merge, the Demerged Company's ITES business from the Demerged Company to Resulting Company and also delist the shares of the demerged company from the stock exchanges.

xi) The Demerged Company and Resulting Company are of the opinion that the Scheme of Arrangement would benefit the shareholders, employees and other stakeholders of the Demerged Company and Resulting Company.

Impact of the scheme on the shareholders

The Scheme is expected to be beneficial to the shareholders of the Company leading to opportunity for growth and value creation in the long run and maximizing the value and returns to the shareholders, achieving cost and operational efficiencies. The equity shares will be issued by the Company on account of the Scheme which will result in dilution of the existing share holding in the Company and the shareholders of the Company in turn will benefit on account of a) synergies which are expected to accrue to the Company; b) creation of efficient management and administration which will in help in creating the future ready organ gram and c) focused alignment of business verticals of the Company. The Audit Committee also noted that the Scheme is subject to the majority approval of the public shareholders of the Company.

Cost benefit analysis of the scheme

The Demerged Company is a publicly listed Company having its equity shares listed on BSE Limited. Though the Demerged Company is listed Company the demerged company, it has only 26 shareholders. Further the shares of the demerged company are not frequently traded. As the shares of the demerged company are not frequently traded the shareholders of the demerged company could not get the benefit of listing the shares on the Stock Exchange, however the demerged Company is incurring huge cost in compliance, being a listed Company, further the demerged company also contemplate to expand the remaining business for which the demerged company may require to raise capital from investors. Hence, the promoters seek to delist the shares of the demerged Company from Stock Exchanges, which will not only help the demerged company to reduce the cost but also make it easy for the demerged company to raise funds that are required for expansion of the remaining business of the demerged company.

The Scheme provides for segregation of the assets, liabilities (including resources deployed) related to the divisions being vested by way of demerger and also provide for delisting of the share of the demerged company from stock exchanges. Such segregation and delisting would result in having a structure ready for external investments in Demerged Company and the Resulting Company.

Documents placed before the Audit Committee

a) Draft Scheme of Arrangement, duly initialled by Mr. Mohana Rao Kancharla, Wholetime Director of the Company for the purpose of identification;

b) Registered Valuer's Report dated 13th May, 2022 (Valuation Report) issued by Mr. Anandkumar Gawade, Chartered Accountants & Registered Valuers (vide Registered valuer number - IBBI/RV/05/2019/10746), describing, inter alia, the methodologies adopted by them in arriving at the recommended Share Exchange Ratio and setting out the detailed computation of Share Exchange Ratio for the proposed Demerger.

c) Fairness opinion dated 13th May, 2022 issued by Finshore Management Services Limited, SEBI Registered merchant banker (SEBI Registration No. INM000012185) on valuation of assets/shares done by the valuer for the listed entity and unlisted entity.

d) Auditors Certificate dated 16th May, 2022, issued by P C N & Associates., 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 there under or the Accounting Standards issued by ICAI, as applicable, and other generally accepted accounting principles.

e) Other presentations, reports, documents and information made to/ furnished before the Audit Committee pertaining to the draft Scheme.

Recommendation of the Audit Committee

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

Taking into consideration the draft Scheme, Valuation Report, Fairness Opinion, need for the Scheme, rationale of the scheme, synergies of business of the entities involved in the scheme, impact of the Scheme on the shareholders, cost benefit analysis of the Scheme, and other relevant documents, as placed, the Audit Committee recommends the draft Scheme for favourable consideration and approval by the Board of Directors of the Company, Stock Exchanges, SEBI and other appropriate authorities.

On behalf of the Audit Committee of
CES Limited

Tummala Muralikrishna
Chairman of Audit committee
DIN: 01889806

Place: Vijayawada
Date: 16-05-2022

REPORT OF THE INDEPENDENT DIRECTORS OF CES LIMITED RECOMMENDING THE SCHEME OF ARRANGEMENT OF CES LIMITED AND CES TECHNOLOGY SERVICES PRIVATE LIMITED AND THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS

Independent Directors Present:

1. Mr. Tummala Muralikrishna
2. Mr. Duruvasan Ramachandra

In attendance:

1. Mr. Suraj Kumar Garg, Company Secretary
2. Mr. Srinivas Raju Kucherlapati, Chief Financial Officer.

The quorum was present at the Meeting and remained till the conclusion of the Meeting.

Background

- A meeting of Committee of Independent Directors of the company was held on 16th May, 2022 to consider and recommend the draft Scheme of Arrangement taking into consideration, inter-alia, the Valuation Report, pursuant to Sections 230 to 232 and other applicable provisions of the Companies Act, 2013, the rules and/ or regulations made there under (including any statutory modification(s) or re-enactment(s) thereof for the time being in force) ("Companies Act") and other applicable laws including the master circular no. SEBI/HO/CFD/DIL1/CIR/P/2021/0000000665 issued by the Securities and Exchange Board of India ("SEBI") on November 23, 2021 (as amended from time to time), SEBI Circular CFD/DIL3/CIR/2017/21 dated March 10, 2017 or any other circulars issued by SEBI applicable to schemes of arrangement from time to time.

- In terms of the SEBI Circular applicable to schemes of arrangement, a report from the Committee of Independent Directors recommending the draft Scheme is required, taking into consideration, inter alia, that the scheme is not detrimental to the shareholders of the listed entity.

Documents placed before the Committee of Independent Directors:

a) Draft Scheme of Arrangement, duly initialled by the Mr. Mohana Rao Kancharla, Wholetime Director of the Company for the purpose of identification;

b) Registered Valuer's Report dated 13th May, 2022 (Valuation Report) issued by Mr. Anandkumar Gawade, Chartered Accountants & Registered Valuers (vide Registered valuer number - IBBI/RV/05/2019/10746), describing , inter alia, the methodologies adopted by them in arriving at the recommended Share Exchange Ratio and setting out the detailed computation of Share Exchange Ratio for the proposed Demerger.

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c) Fairness opinion dated 13th May, 2022 issued by Finshore Management Services Limited, SEBI Registered merchant banker (SEBI Registration No. INM000012185) on valuation of assets/shares done by the valuer for the listed entity and unlisted entity.

d) Auditors Certificate dated 16th May, 2022, issued by P C N & Associates, 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 there under or the Accounting Standards issued by ICAI, as applicable, and other generally accepted accounting principles.

e) Other presentations, reports, documents and information made to/ furnished before the Audit Committee pertaining to the draft Scheme.

Rationale of the Scheme

The Committee of Independent Directors noted that the Scheme envisages the following:

i) CES Limited ("Demerged Company") is predominantly into the business of IT and ITES.

ii) The Scheme in the present case provides for demerger of ITES undertaking including with all the related assets and liabilities of Demerged Company into CES Technology Services Private Limited ("Resulting Company") which is wholly owned subsidiary of Demerged Company and also delisting of the shares of the Demerged Company from the stock exchange(s).

iii) The Demerged Company has excellent forays into the markets and with an objective to increase their market share; the promoters seek investment by external investors/partners. The Demerged Company wants to delink the ITES business completely from all other activities hence considered prudent to demerge ITES business of the Demerged Company.

iv) The Demerged Company is a publicly listed Company having its equity shares listed on BSE Limited. Though the Demerged Company is listed Company the demerged company has only 26 shareholders. Further the shares of thedemerged company are not frequently traded. As the shares of the demerged company are not frequently traded the shareholders of the demerged company could not get thebenefit of listing the shares on the Stock Exchange, however the demerged Company is incurring huge cost in compliance, being a listed Company, further the demerged company also contemplate to expand the remaining business for which the demergedcompany may require to raise capital from investors. Hence, the promoters seek to delist the shares of the demerged Company from Stock Exchanges, which will not onlyhelp the demerged company to reduce the cost but also make it easy for the demerged company to raise funds that are required for expansion of the remaining business of the demerged company.

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v) The Scheme provides for segregation of the assets, liabilities (including resources deployed) related to the divisions being vested by way of demerger and also provide for delisting of the share of the Demerged Company from stock exchanges.

vi) Such segregation and delisting would result in having a structure ready for external investments in Demerged Company and the Resulting Company.

vii) The Scheme of Arrangement would benefit the shareholders, employees and other stakeholders of the Demerged Company and the Resulting Company and in no way the proposed scheme is detrimental to the shareholders of the listed entity.

Synergies of business of the entities involved in the scheme

i) The Demerged Business and Remaining Business carried on by Demerged Company have significant potential for growth. The nature of risk and competition involved in each of these units are distinct from other and consequently demerged business and remaining business is capable of attracting a different set of business leaders, employees, investors, strategic partners, lenders and other stakeholders. That the Demerged Business and Remaining Business should be bifurcated and should have independent entities for each undertaking.

ii) The ITES business has huge potential and needs a focused management for each activity and hence it is felt necessary to carry on the business of ITES in a separate entity.

iii) In order to have greater and complete focus to the operations of each of demerged business and remaining business and evolve strategies for growth and expansion of activities of demerged business and remaining business separately, apart from attracting investors into each of the Demerged Business and Remaining Business, Demerged Company proposes to re-organize and segregate, by way of de-merger, its business.

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v) It is believed that the proposed segregation will create enhanced value for all stakeholders and allow a focused strategy in operations, which would be in the best interest of Demerged Company, its all stakeholders, creditors and all persons connected with Demerged Company.

vi) It is believed that the delisting of shares of the Demerged Company from the Stock Exchange(s) will reduce the compliance cost incurred by the Demerged Company and will also make it easy for the demerged company to raise finances that are required for expansion of the remaining business of the demerged company.

vii) The Scheme of Arrangement also contemplates the cancellation of shares held by the Demerged Company in Resulting Company thereby reduction of share capital of the Resulting Company and also cancellation of the investments made by the Demerged Company in the Resulting Company.

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viii) The Scheme of Arrangement also contemplates the reduction of the share capital of the Demerged Company

ix) The Scheme of Arrangement will also provide scope for independent collaboration and expansion without committing the existing organization in its entirety.

x) With aforesaid objective, it is proposed to De-merge, the Demerged Company's ITES business from the Demerged Company to Resulting Company and also delist the shares of the demerged company from the stock exchanges.

xi) The Demerged Company and Resulting Company are of the opinion that the Scheme of Arrangement would benefit the shareholders, employees and other stakeholders of the Demerged Company and Resulting Company and in no way the proposed scheme is detrimental to the shareholders of the listed entity.

Valuation Report

The Committee of Independent Directors noted from the Valuation Report issued by Mr. Anandkumar Gawade, Chartered Accountants & Registered Valuers (vide Registered valuer number - IBBI/RV/05/2019/10746) and the fairness opinion issued by Finshore Management Services Limited, SEBI Registered merchant banker (SEBI Registration No. INM000012185).

Pursuant to demerger the share exchange ratio shall be as under:

Summary of Valuation Analysis:

	Net Assets Rs	**No of Shares**	**Per share NAV Rs**	**NAV Rounded Off Rs**
IT Division	53,07,02,695	3,64,00,000	14.58	14
ITES Division (Demerged Division)	26,27,63,186	3,64,00,000	7.22	7

Exchange Ratio:

	Fair Value per share Rs	**Ratio**
IT Division	14	2
ITES Division (Demerged Division)	7	1

Accordingly, CES Technologies Services Private Limited (ITES Division) will issue 1 share to each shareholder of CES Ltd for 2 shares held in CES Ltd.

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Recommendation of the Committee of Independent Directors

The Committee of Independent Directors upon discussion decided and after taking into consideration the draft Scheme, Valuation Report, Fairness Opinion and other relevant documents, as placed, the Committee recommends the draft Scheme for consideration and approval by the Board of Directors of the Company, Stock Exchanges, SEBI and other appropriate authorities and that the scheme is not detrimental to the shareholders of the listed entity.

On behalf of the Committee of Independent Directors of
CES Limited

Tummala Muralikrishna
Chairman of Audit committee
DIN: 01889806

Place: Vijayawada
Date: 16-05-2022