

REPORT OF THE AUDIT COMMITTEE OF ALGOQUANT FINTECH LIMITED AT ITS MEETING HELD ON FRIDAY, MARCH 10, 2023 RECOMMENDING THE SCHEME OF ARRANGEMENT AMONGST GROWTH SECURITIES PRIVATE LIMITED, ALGOQUANT INVESTMENTS PRIVATE LIMITED AND ALGOQUANT FINTECH LIMITED AND THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS.

Members Present:

Sr. No.	Name of Audit Committee Members	Designation
1.	Mr. Amit Gupta	Independent Director
2.	Mr. Himanjal Jagdishchandra Brahmhatt	Non-Executive Director
3.	Mr. Gyaneshwar Sahai	Independent Director

1. Background

- 1.1 A meeting of the Audit Committee of Algoquant Fintech Limited (“Company”) was held on March 10, 2023, to, *inter alia*, consider and if thought fit, recommend to the Board of Directors of the Company (“Board”), the draft Scheme of Arrangement amongst Growth Securities Private Limited (“Demerged Company”), Algoquant Investments Private Limited (“Amalgamating Company”) and Algoquant Fintech Limited (“Resulting Company” / “Amalgamated Company”) (together referred to as “Companies”) and their respective shareholders and creditors (“Scheme”), which entails (i) Demerger of Stock Broking Business Undertaking (*as more explicitly defined in the Scheme*) of the Demerged Company into the Resulting Company and (ii) Amalgamation of Amalgamating Company into and with the Amalgamated Company and (iii) Reorganisation of Equity Share Capital of the Resulting Company / Amalgamated Company, in the manner set out in the Scheme; pursuant to the provisions of Sections 230 to 232 read with Section 66 and other applicable provisions of the Companies Act, 2013 (“Act”) and the rules made thereunder including but not limited to the Companies (Compromises, Arrangements and Amalgamations) Rules, 2016, read with Section 2(19AA), Section 2(1B) and other applicable provisions of the Income Tax Act, 1961.
- 1.2 This report of the Audit Committee is made in compliance with the requirement of the Master Circular no. SEBI/HO/CFD/DIL1/CIR/P/2021/0000000665 dated November 23, 2021, as amended from time to time (“SEBI Circular”), issued by the Securities and Exchange Board of India (“SEBI”). In terms of the SEBI Circular, a report from the Audit Committee is required, recommending the draft Scheme, taking into consideration, *inter alia*, the Valuation Report (*as defined below*).
- 1.3 The following documents were placed before the Audit Committee for its consideration:
- (a) draft Scheme, duly initialled by the Director / Company Secretary of the Company for the purpose of identification.
- (b) valuation report dated March 09, 2023, issued by Mr. Manish Manwani, a Registered Valuer (Securities or Financial Assets) IBBI Registration No. – IBBI/RV/03/2021/14113, for the determination of Share Entitlement Ratios (*as defined hereunder*) under the draft Scheme (“Valuation Report”);



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- (c) fairness opinion dated March 10, 2023, prepared by BOB Capital Markets Ltd, an Independent SEBI registered Category-I Merchant Banker, confirming that the Share Entitlement Ratios in the Valuation Report are fair to the Companies and their respective shareholders and creditors (“**Fairness Opinion**”); and
- (d) Draft Auditors’ certificate dated March 10, 2023, confirming that the accounting treatment contained in the draft Scheme is in compliance with all the applicable accounting standards specified by the Central Government under Section 133 of the Act read with applicable rules, and/or the accounting standards issued by the Institute of Chartered Accountants of India and other generally accepted accounting principles.

2. Observations of Audit Committee on the Scheme

2.1 Need for the Scheme

The management of the Companies are of the view that the stock broking industry is poised for substantial growth which can be better capitalized as an integrated listed entity, which has a robust balance sheet, potential for a wider customer reach and a more acceptable structure from a regulatory and compliance standpoint. Further, the proposed consolidation through demerger of Stock Broking Business Undertaking of the Demerged Company into the Resulting Company will result into overall enhanced efficiencies and the consolidation of Amalgamating Company would aid in rationalizing the Promoter holding thus leading to a simplified and streamlined organisation structure. The consolidated organization is also expected to create more value for all the stakeholders.

2.2 Rationale for the Scheme

- a) The Resulting Company / Amalgamated Company proposes to enter into this Scheme with the Demerged Company and the Amalgamating Company, to consolidate their service capabilities thereby increasing efficiencies in operations and use of resources for improving overall customer satisfaction, optimization of working capital utilization, to pool their human resource talent for optimal utilization of their expertise, to integrate the marketing and distribution channels for better efficiency, to have a larger market footprint domestically, and furthermore, to simplify and streamline the group holding structure.
- b) The management of the respective companies is of the view that the arrangement proposed in this Scheme is, in particular, expected to have the following benefits:
 - (i) Consolidation of the complementing strengths will enable the Resulting Company / Amalgamated Company to have increased capability for offering diversified products and services on a single platform. Its enhanced resource base and client relationships are likely to result in better business potential and prospects for the consolidated entity and its stakeholders.
 - (ii) The combined financial strength is expected to further accelerate the scaling up of the operations of the Resulting Company / Amalgamated Company. Deployment of resources in a more efficient manner is likely to enable faster expansion of the business operations of the Resulting Company / Amalgamated Company. Amongst others, the demerger of Stock Broking Business Undertaking of the Demerged Company into the Resulting Company will enable the consolidated entity to have



an extensive pan India network for deeper market penetration and enhancement of the overall customer satisfaction, engagement and retention.

- (iii) The consolidation of funds and resources will lead to optimization of working capital utilization and stronger financial leverage, improved balance sheet, and consolidation of cross location talent pool.
- c) The Scheme envisages demerger of the Stock Broking Business Undertaking (*as more explicitly defined in the Scheme*) and vesting of the same in the Resulting Company pursuant to Part B of the Scheme, to enable the Resulting Company and the Demerged Company to achieve optimum growth and development of their respective business operations post such demerger. The nature of risk and opportunities involved in both the businesses is divergent and capable of attracting different sets of investors. The management of the respective companies believe that both the businesses (i.e., Real Estate Business (*as defined in the Scheme*) and Stock Broking Business (*as defined in the Scheme*) will benefit from dedicated management, operations and investment strategy leading to development, expansion and growth for maximization of stakeholder's value.
- d) Amalgamation of the Amalgamating Company to Amalgamated Company pursuant to Part C of the Scheme, will lead to a simplified and streamlined holding structure and help in easing and rationalizing the compliances.
- e) The management of the respective companies is of the view that the Scheme is in the interest of the customers, employees, lenders, shareholders and all other stakeholders of the respective companies. Furthermore, the Scheme will enable the synergies that exist between the businesses carried out by the Companies in terms of services and resources to be used optimally for the benefit of their stakeholders.

2.3 Cost-Benefit Analysis of the Scheme

The said Scheme would entail the benefits and synergies as explained in para 2.2 above to the Companies.

2.4 Synergies of business of the entities involved in the Scheme

The management of the respective companies is of the view that this Scheme is in the interest of the customers, employees, lenders, shareholders and all other stakeholders of the respective companies. Furthermore, the Scheme will enable the synergies that exist between the businesses carried out by the Participating Companies in terms of services and resources to be used optimally for the benefit of their stakeholders.

2.5 Salient Features of the Scheme

The Audit Committee considered and observed the following salient features in relation to the draft Scheme –

- (a) The draft Scheme provides for (i) the Demerger of Stock Broking Business Undertaking (*as more explicitly defined in the Scheme*) of the Demerged Company into the Resulting Company and (ii) Amalgamation of Amalgamating Company into and with the Amalgamated Company (including cancellation of inter-company investments held by the Companies) and (iii) Reorganisation of Equity Share Capital of the Resulting Company / Amalgamated Company, in the manner set out in the draft Scheme.



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- (b) The Appointed Date means the opening of business hours on 01st April, 2023 or such other date as may be approved by the National Company Law Tribunal, Ahmedabad Bench (“NCLT” / “Tribunal”), with effect from which the Scheme will be deemed to be effective in the manner described in the Scheme.
- (c) The effectiveness of this Scheme is conditional upon and subject to the following:
- (i) receipt of an ‘observation letter’ or a ‘no-objection letter’ from the BSE Limited (“Stock Exchange”) on the draft Scheme, as required under applicable laws, are, in form and substance, acceptable to the Demerged Company, Amalgamating Company and the Company, each acting reasonably and in good faith;
 - (ii) approval from requisite majority of such classes of shareholders, secured creditors and unsecured creditors of each of the Companies which are part of the Scheme and such other persons/ authorities, as may be required under applicable laws or as may be directed by the NCLT
 - (iii) the Scheme being approved by the shareholders of the Company, provided that the votes cast by public shareholders of the Company in favour of the Scheme are more than the number of votes cast by public shareholders against it, through e-voting in terms of the SEBI Circular;
 - (iv) the sanction to the Scheme by the NCLT under the relevant provisions of the Act;
 - (v) compliance with such conditions as may be imposed by the NCLT;
 - (vi) the receipt of such other approvals including, approvals of any governmental authority as may be necessary under applicable laws or under any material contract to make the Scheme or the relevant Part of the Scheme effective or on the expiry of any statutory time period pursuant to which such approval is deemed to have been granted; and
 - (vii) the certified copy of the order of the NCLT sanctioning the Scheme (wholly or partially) being filed with the Registrar of Companies by each of the Companies.
- (d) Upon Part B of the Scheme becoming operative on the Effective Date, with effect from the Appointed Date, transfer of the Demerged Undertaking shall be accounted for in the books of the Company using the “Pooling of interests” method in accordance with Appendix C to Ind AS 103 — Business combinations of entities under common control, prescribed under Section 133 of the Companies Act, 2013 read with the Companies (Indian Accounting Standards) Rules, 2015, as may be amended from time to time.
- (e) The following share entitlement ratio has been determined for the allotment of the equity shares of the Company having face value of INR 2 each to the shareholders of Demerged Company as on the Part B Record Date (*as defined in the Scheme*), in consideration for the demerger:

“727 (Seven Hundred Twenty Seven) equity shares of AFL of INR 2.00/- each, fully paid-up for every 100 (One Hundred) equity shares of GSPL of INR 10.00/- each, fully paid-up.”



- (f) Upon Part C of the Scheme becoming operative on the Effective Date, with effect from the Appointed Date, the Company shall account for the amalgamation of Amalgamating Company in its books of accounts in accordance with principles as laid down in Appendix C to the Indian Accounting Standards 103 (Business Combinations) notified under Section 133 of the Act and under the Companies (Indian Accounting Standards) Rules, 2015, as may be amended from time to time.
- (g) The following share entitlement ratio has been determined for the allotment of the equity shares of the Company having face value of INR 2 each to the shareholders of Amalgamating Company as on Part C Record Date (*as defined in the Scheme*), in consideration for the amalgamation of Amalgamating Company with and into the Company:

“8278 (Eight Thousand Two Hundred Seventy Eight) equity shares of AFL of INR 2.00/- each, fully paid-up for every 100 (One Hundred) equity shares AIPL of INR 100.00/- each, fully paid-up.”

- (h) Upon Part D of the Scheme becoming operative on the Effective Date, the Bonus Shares shall be issued by way of capitalization of the sum standing to the credit of the Securities Premium Account and Retained Earnings Account of the Resulting Company / Amalgamated Company, in any manner as may be deemed fit by its Board of Directors.

The following bonus ratio has been determined for issue and allotment of Bonus Shares of the Resulting Company / Amalgamated Company having face value of INR 2 each to its shareholders as on Part D Record Date (*as defined in the Scheme*):

“1 (One) new bonus fully paid-up equity shares having face value of INR 2/- (Indian Rupees Two) (“Bonus Shares”) for every 2 (Two) equity shares of AFL having face value of INR 2/- (Indian Rupees Two) each held by a shareholder of AFL as on Part D Record Date.”

- (i) Upon the Scheme becoming operative on the Effective Date, Amalgamating Company shall stand automatically dissolved without being wound up, as an integral part of the Scheme;
- (j) Upon the Scheme becoming operative on the Effective Date, the authorised share capital of Amalgamating Company as on the Effective Date shall stand transferred to and be merged/ amalgamated with the authorised share capital of the Company, and the fee, if any, paid by Amalgamating Company on their respective authorised share capital shall be set off against any fee payable by the Company on such increase in its authorised share capital, consequent to the amalgamation.

The Audit Committee reviewed and noted that -

The draft Scheme does not fall within the purview of related party transactions in terms of General Circular No. 30/2014 dated July 17, 2014, issued by the Ministry of Corporate Affairs (“MCA”) since the same is subject to the sanction of the NCLT, and the provisions of Section 188 of the Act are not applicable.



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Further, there are common promoters in the Company, Demerged Company and Amalgamating Company. Promoter and Promoter Group holds 65.90%, directly or indirectly, in the Company and holds entire 100% shareholding in the Demerged Company. Furthermore, entire 100% shareholding in the Amalgamating Company is held by Promoter and Promoter owned/controlled entity. In terms of the Scheme, equity shares of the Company are proposed to be issued and allotted to the shareholders of Demerged Company and Amalgamating Company. In view of the aforesaid paragraph and in terms of Paragraphs 10(b)(i) and 10(b)(ii) of the SEBI Circular, the Scheme shall be acted upon only if the votes cast by the public shareholders of the Company in favour of the Scheme are more than the number of votes cast by the public shareholders against it.

The consideration as set forth in the draft Scheme will be discharged on an “arm’s length basis”. The share entitlement ratios for the shares to be allotted pursuant to the Scheme are based on the Valuation Report and the Fairness Opinion. The aforementioned Valuation Report and Fairness Opinion have duly been considered by the Audit Committee.

Further, O P Bagla & Co. LLP, Chartered Accountants, the statutory auditors of the Company have confirmed that the accounting treatment as specified in the draft Scheme is in accordance with the applicable Indian Accounting Standards issued by the Institute of Chartered Accountants of India and as notified by the MCA, read together with Section 133 of the Act and the Companies (Indian Accounting Standards) Rules, 2015.

2.6 Impact of the Scheme on the Shareholders

The Audit Committee reviewed the Valuation Report and the Fairness Opinion for determination of share entitlement ratios under the draft Scheme.

The shareholders of the Demerged Company and the Amalgamating Company will receive equity shares in the Resulting Company/ Amalgamated Company in accordance with Clause 13 and Clause 21 respectively of the Scheme.

Further, the existing equity share capital of the Resulting Company / Amalgamated Company held by the Amalgamating Company, shall stand cancelled in terms of the Clause 22 of the Scheme. The cancellation of equity share capital will be effected as part of the Scheme in accordance with provision of Section 66 of the Act and the order of the NCLT shall be deemed to be the order under the applicable provisions of the Act for continuing the cancellation of share capital.

Furthermore, in terms of Clause 25 of the Scheme, Bonus Shares shall be issued to the shareholders holding equity shares of INR 2/- each of Resulting Company / Amalgamated Company, as on Part D Record Date, in the ratio defined in the Scheme.

The Audit Committee is of the informed opinion that the draft Scheme is in the best interests of the Company and its shareholders. The impact of the draft Scheme on the shareholders, including, the public shareholders would be the same in all respects and no shareholder is expected to have any disproportionate advantage or disadvantage in any manner. The Scheme is not in any manner prejudicial or against public interest and would-serve the interest of all shareholders, creditors or any other stakeholders.



3. **Recommendations of the Audit Committee**

Taking into consideration the draft Scheme and its rationale and benefits, the Valuation Report, the Fairness Opinion, and other documents, as placed before the Audit Committee, and the interest of the shareholders of the Company, the Audit Committee after due deliberation, unanimously recommends the draft Scheme to the Board of the Company, Stock Exchange, SEBI and other appropriate authorities for their favourable consideration and approval.

For and on behalf of Audit Committee of Algoquant Fintech Limited



Amit Gupta
(Chairman of Audit Committee)

Place: New Delhi

Date: March 10, 2023