

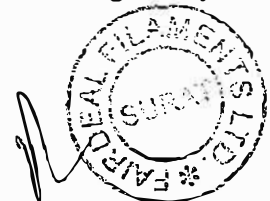
**Fairdeal**
Filaments Ltd.

REPORT OF THE AUDIT COMMITTEE OF FAIRDEAL FILAMENTS LIMITED ("THE COMPANY") RECOMMENDING THE DRAFT SCHEME OF MERGER BY ABSORPTION OF FAIRDEAL FILAMENTS LIMITED BY SHAHLON SILK INDUSTRIES LIMITED AND THEIR RESPECTIVE SHAREHOLDERS IN ACCORDANCE WITH THE PROVISIONS OF SECTION 230 TO 232 AND OTHER APPLICABLE PROVISIONS OF THE COMPANIES ACT, 2013.

To,
The Board of Directors
Fairdeal Filaments Limited
3rd Floor, Dawer Chambers,
Nr. Sub-Jail, Ring Road,
Surat

1. Background

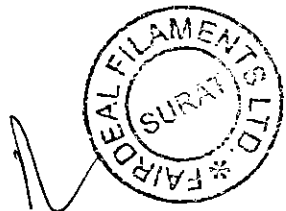
- 1.1 A meeting of the Audit Committee of the Company was held on August 22, 2018 to consider and recommend the proposed Scheme of Merger by Absorption of Fairdeal Filaments Limited ("FFL"/ "the Company") by Shahlon Silk Industries Limited ("SSIL") and their respective shareholders under 230 to 232 of Companies Act, 2013 and other applicable provisions of the Companies Act, 2013 ("Scheme").
- 1.2 The Scheme inter alia provides for Merger by absorption of FFL by SSIL. The Equity Shares of the Company is listed on BSE limited. The Company will be filing the Scheme of Merger along with necessary information/documents to the BSE limited.
- 1.3 This report of Audit Committee is made in order to comply with the requirement of Securities and Exchange Board of India ("SEBI") circular No. CFD/DIL3/CIR/2017/21 dated 10th March, 2017 as amended from time to time and read with SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.
- 1.4 The following documents were placed before the Audit Committee:
 - a) Draft Scheme of Merger by Absorption, prepared by M/s. Rajani Associates, Solicitors
 - b) Valuation Report dated August 17, 2018 issued by CNK & Associates LLP, Independent Chartered Accountant.
 - c) Fairness Opinion Report dated August 21, 2018 issued by Mark Corporate Advisors Private Limited; a SEBI registered Merchant Banker providing the Fairness Opinion on the share entitlement recommended in the Valuation Report prepared by CNK & Associates LLP, Valuer.
 - d) Certificate dated August 21, 2018 obtained from the Statutory Auditors of the Company i.e. Rangoonwala Associates, Chartered Accountants to the effect that the accounting treatment contained in the Scheme is in compliance with all the applicable Accounting Standards prescribed under Section 133 of the Companies Act, 2013 and other generally accepted accounting principles in India.



2. Proposed scheme

2.1 The audit committee noted the rationale and the benefits of the Scheme which, inter-alia, are as follows:

- a) The Appointed Date of the Scheme is 1st April, 2018 and Effective date is the last of the dates on which the certified copies of the Order(s) of National Company Law Tribunal ("NCLT"), or any other authority sanctioning this Scheme is filed with the Registrar of Companies, Ahmedabad.
- b) Under the Proposed Scheme, all assets and liabilities of Fairdeal Filaments Limited of whatsoever nature and wherever situated shall without any further act or deed be transferred to and vested in Shahlon Silk Industries Limited with effect from the appointed date.
- c) In consideration of transfer and vesting of FFL into SSIL in terms of the Scheme, SSIL will issue fully paid up equity shares of face value of Rs. 10 each to the registered fully paid up equity shareholders of FFL as on the record date defined in the scheme. As per the Valuation Report prepared by the Chartered Accountants, CNK & Associates LLP the share exchange ratio determined was 1:1 i.e. 1 (one) equity share of Rs.10 each credited as fully paid up in Transferee Company for every 1 (one) equity share of Rs.10 each fully paid up held by them in the Company on basis of the valuation of the assets and liabilities of the Company carried out by them as provided in their report.
- d) FFL and SSIL, belonging to the same group of management, are largely engaged in the similar kind of business activities i.e. manufacturing of fabric on water jet looms. In addition to above, SSIL is also involved in manufacturing of fabric on air jet looms and rapier looms, which will be beneficial to the merged entity in diversifying its product portfolio pursuant to the Scheme coming into effect. FFL and SSIL both carry out yarn preparatory facilities like sizing, texturising, twisting, crape, etc.
- e) As on March 31, 2018, SSIL has a net worth of Rs.61,71,32,000 (Rupees sixty one crores seventy one lakhs thirty two thousand) and FFL has a net worth of Rs.19,16,98,000 (Rupees nineteen crores sixteen lakhs ninety eight thousand). The combined entity will have net worth of around Rs.80,65,90,000 (Rupees eighty crores sixty five lakhs ninety thousand) which will enable the merged entity with more negotiation power for debt finance considering its size and financial strength further the merged entity will have option of equity financing.
- f) The merger will result in a value creation for the shareholders and stakeholders of FFL and SSIL as the combined amalgamated company will have improved efficiency, market share, financial structure, larger cash flows and stronger consolidated revenue and profitability.



2.2 The Audit Committee reviewed the Fairness Opinion and noted the recommendations made therein. Further, the Fairness Opinion confirmed that the Scheme is fair and reasonable to the Shareholders of the Company.


2.3 The Audit Committee reviewed the Accounting treatment certificate issued by Rangoonwala Associates, Chartered Accountants, the Statutory Auditors of the Company and noted that the accounting treatment as specified in the scheme is in compliance with all the applicable Accounting Standards prescribed under Section 133 of the Companies Act, 2013 and other generally accepted accounting principles in India.

2.4 The Equity Shares of SSIL to be issued and allotted to the Equity Shareholders of FFL pursuant to the Scheme of Amalgamation shall be listed on BSE Limited (subject to trading approval granted by BSE Limited).

3. Recommendation of Audit Committee

Audit committee after due deliberations and consideration of all the terms of the draft scheme, Valuation Report, Fairness Opinion and the specific points mentioned above, recommended the Scheme for favourable consideration by the Board of Directors of the Company, BSE Limited and Securities and Exchange Board of India.

By Order of Audit Committee
For and on behalf of Fairdeal Filaments Limited



Rajendra Kundanlal Desai
Chairman of Audit committee
Place: Surat
Date: 22.08.2018

