

KEYNOTE

ANNEXURE-5

REPORT OF AUDIT COMMITTEE OF KEYNOTE FINANCIAL SERVICES LIMITED ("COMPANY") RECOMMENDING THE DRAFT SCHEME OF SELECTIVE REDUCTION OF CAPITAL OF COMPANY AT THE MEETING HELD ON FRIDAY AT 5.00 P.M. ON 8TH DECEMBER, 2023

1. BACKGROUND

A meeting of the Audit Committee of Keynote Financial Services Limited ("Company") was held on 8th December, 2023 to inter alia, consider and recommend the scheme of selective reduction of 14,51,702 (Fourteen Lakh Fifty One Thousand Seven Hundred Two) fully paid-up equity shares of Rs. 10/- (Rupees Ten) per equity share of the Company held by "Keynote Trust" from the share capital of the Company, without payment of any consideration to Keynote Trust and making corresponding adjustment by way of debit to (i) the paid-up equity share capital for Rupees 1,45,17,020/- and (ii) difference between the value of company's investment in Equity instruments of Keynote Financial Services Limited held by "Keynote Trust" and the Share Capital being extinguished will be credited to 'Capital Reserve Account' in compliance with the generally accepted accounting principles in India, to be implemented under section 66 read with Section 52 of the Companies Act, 2013 ("Act") and other applicable provisions of the Act and the rules thereof, including any amendments thereof, as applicable.

This Report of the Committee made in compliance with the requirement of the SEBI Master Circular No. SEBI/HO/CFD/POD-2/P/CIR/2023/93 dated June 20, 2023 on scheme of arrangements by listed entities ("SEBI Circular") issued by Securities and Exchange Board of India ("SEBI").

The following documents were placed before the Audit Committee:

1. Draft Scheme of capital reduction, duly initialed by the Company Secretary of the Company for the purpose of identification.
2. Certificate from the statutory auditors of the Company, M/s S M S R & CO. LLP Chartered Accountants with respect to non-applicability of submission of Valuation Report pursuant to the exemption provided in SEBI Master Circular No. SEBI/HO/CFD/POD-2/P/CIR/2023/93 dated June 20, 2023.
3. Certificate from the Statutory Auditors of the Company M/s. S M S R & CO LLP Chartered Accountant, conforming the 'non-applicability of Fairness Opinion Report' for proposed selective reduction of Capital.
4. A certificate from the Statutory Auditors of the Company, M/s. S M S R & CO. LLP Chartered Accountants, confirming that the proposed accounting treatment in the books of the Company relating to selective reduction of capital of the Company as set out in Clause – PART – II (C), under the heading "ACCOUNTING TREATMENT" of the draft scheme is in conformity with the applicable accounting

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KEYNOTE

standards and generally accepted accounting principles in India ("Auditors' Certificate").

- 5.. Certificate from the Statutory Auditors of the Company, M/s. S M S R & CO. LLP Chartered Accountants, with respect to non-applicability of approval only from the public shareholders pursuant to the exemption provided in the Para (A) 10(C) PART - I of SEBI Master Circular No. SEBI/HO/CFD/POD-2/P/CIR/2023/93 dated June 20, 2023.
6. Last Annual Report of the Company for the financial year ended at March 31, 2023 and the unaudited financial results for the quarter ended on September 30, 2023 along with the Limited Review Report.
7. Other applicable annexures for the Draft Scheme of Reduction of Share Capital.

2. SALIENT FEATURES OF THE SCHEME ARE AS FOLLOWS:

- The Scheme provides for.
 - a. Cancellation and extinguishment of 14,51,702 (Fourteen Lakh Fifty One Thousand Seven Hundred Two) fully paid-up equity shares of Rs. 10/- (Rupees Ten) each of the Company held by Keynote Trust for the sole benefit of the Company without payment of any consideration to Keynote Trust.
 - b. Upon the Scheme becoming effective, share capital representing 14,51,702 (Fourteen Lakh Fifty One Thousand Seven Hundred Two) equity shares of the Company held by Keynote Trust i.e Rs. 1,45,17,020/- (Rupees One Crore Forty Five Lakh Seventeen Thousand Twenty only) shall be cancelled, with adjustments by way of debit to (i) the paid-up equity share capital for Rupees 1,45,17,020/- and (ii) difference between the value company's investment in Equity instruments of Keynote Financial Services Limited held by "Keynote Trust" and the Share Capital being extinguished will be credited to 'Capital Reserve Account' in compliance with the generally accepted accounting principles in India.

The Scheme shall be effective from the date on which the certified copy of the order passed by the NCLT sanctioning the scheme and minutes of reduction is filed with the Registrar of Companies, Maharashtra, Mumbai ("ROC"),

- This Scheme is and shall be conditional upon and subject to:-
 - a. The approval by the Board and the members of the Company through special resolution;



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KEYNOTE

- b. The approval/No Objection Certificate by the creditors of the Company as prescribed under the Act and/or as may be directed by NCLT and/or any other appropriate authority as may be applicable;
- c. The Company obtaining the observation letter from the relevant stock exchange i.e the BSE Limited (designated Stock Exchange) for the implementation of the Scheme;
- d. sanction by the NCLT under Section 66 and any other applicable provisions of the Act;
- e. Certified copy of the order of the NCLT sanctioning the Scheme and the minute of reduction being filed with the Registrar of Companies, Maharashtra, Mumbai ("ROC") by the Company; and
- f. The requisite, consent, approval or permission of the Central Government or any other statutory or regulatory authority, if any, which by law may be necessary for the implementation of the Scheme.

3. (I) NEED/RATIONALE OF THE PROPOSED SCHEME OF REDUCTION OF CAPITAL:

The Audit Committee noted rationale of the proposed reduction of Capital of the Company as stated in the draft scheme placed before this Committee, which included the following:

- a) This Scheme of Selective reduction of capital is made by Keynote Financial Services Limited in accordance with the provisions of Section 66 of the Companies Act, 2013, read with the National Company Law Tribunal (Procedure for Reduction of Share Capital of Company) Rules, 2016 and other applicable provisions, if any. The primary objective of this scheme is to reorganize and selectively reduce the equity share capital of Keynote Financial Services Limited.
- b) Pursuant to the Scheme of Amalgamation of Cobal Investment Company Limited, Starline Ispat and Alloys Limited, Galaxy Leasing Limited, Keynote Finstock Limited, Plethora Investment Company Limited, and West Coast Lighterage Company Private Limited into the Company duly sanctioned by Hon'ble High Court of Judicature at Allahabad, vide order dated December 21, 2006, Hon'ble High Court of Judicature at Bombay vide order dated March 9, 2007 and Hon'ble High Court of Judicature at Guwahati vide order dated March 19, 2007 and becoming fully effective led to allotment of shares of the Company to the shareholders of the Transferor Companies. Accordingly, implementation of this Scheme would have lead to the Company holding shares of itself. Upon the Scheme becoming effective, these share were transferred to the trustees of the Keynote Trust ("Trust") This Trust was holding these shares for the exclusive benefit of the company and the shares held

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by the Keynote Trust are contingent on the Trust's existence. Therefore, to better represent Keynote Financial Services Limited Capital Structure, it is necessary to realign and reorganize the Share Capital by cancelling the Shares held by the Trust through the process of Capital reduction.

- c) Upon the Scheme becoming effective, the Company would be able to better represent its shareholding pattern. This Scheme would be value accretive to the shareholders as well, as their holding would yield better results.
- d) Upon the Scheme becoming effective, it would enable the Company to explore opportunities for the benefit of its Shareholders, including higher form of dividend payments, in terms of the applicable laws.
- e) The Scheme after full implementation, will result in making the Company's balance sheet leaner and rationalised.
- f) The Scheme, if approved by the shareholders and NCLT, would provide greater flexibility to the Company in raising funds either from the capital market or from any bank/ financial institutions in the form of equity or debt, depending on the business needs of the Company.
- g) The present reduction of the Equity Share Capital of the Company is also being carried out inter-alia to:
 - a. satisfy the need of the Company to re-adjust the relation between its capital and assets; and
 - b. represent the liabilities and assets of the Company in its books of accounts to be able to operate with the leaner balance sheet; and
 - c. ensure that the financial statements of the Company are realigned and reorganized as per Companies Act, 2013.
- h) The reduction of capital in the manner proposed would enable the company to have a rational structure which is commensurate with its remaining business and assets.
- i) The proposed reduction of the Equity Share Capital will be for the benefit of the Company and its Equity Shareholders, Creditors and all other concerned stakeholders as a whole.
- j) Upon the Scheme becoming effective and after obtaining the necessary approvals, consent, permissions, Keynote Trust whose Equity Shares are being cancelled in the manner prescribed under this Scheme will receive NIL consideration as against the said cancellation/ extinguishment of the Equity Share Capital, including but not

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limited to redemption amounts or exit consideration thereon (whether such consideration is the nominal value of the shares or higher), all outstanding dividends, and share premiums, if any.

II. SYNERGIES OF THE BUSINESS OF THE ENTITIES INVOLVED IN THE SCHEME

The Proposed selective reduction of share capital would enable the Company to rationalize its capital structure and to better represent its shareholding pattern. As there is only one Company involved in the selective reduction of share Capital, there is no such synergies of the business of the entities involved in the scheme. The Company may avail the business opportunities in the future.

III. IMPACT OF THE SCHEME ON THE SHAREHOLDERS

Upon Confirmation of the Scheme by the NCLT, there will be cancellation and extinguishment of 14,51,702 (Fourteen Lakh Fifty One Thousand Seven Hundred Two) fully paid-up equity shares of Rs. 10/- (Rupees Ten) each of the Company held by Keynote Trust for the sole benefit of the Company without payment of any consideration to Keynote Trust.

Shareholding Pattern Pre and Post the Scheme of Reduction of Share Capital is as follows:

Pre – Capital Reduction				Post – Capital Reduction		
Entity	No. of shares	Share holding %	Voting %	No. of shares	Share holding %	Voting %
Promoter	39,60,368	56.43	72.53	39,60,368	71.14	72.53
Public other than Keynote Trust / IEPF	14,,99,696	21.37	27.47	14,,99,696	26.94	27.47
Keynote Trust *	14,51,702	20.68	0	NA	NA	NA
Investor Education & Protection Fund **	1,06,573	1.52	0	1,06,573	1.92	0
TOTAL	70,18,339	100.00	100.00	55,66,637	100.00	100.00



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It is observed that on implementation of proposed Scheme of Reduction of Share capital there is no change in 'Voting Rights' percentage of shareholders of the Company.

There is no detrimental impact on the shareholders of the Company. The proposed reduction of Capital would help in improving the financial position of the Company. Further, the proposed capital reduction shall result in an increase in proportionate shareholding of other shareholders of the Company, including public shareholders.

The Scheme would not affect any legal or other proceedings by or against the Companies.

IV. COST BENEFIT ANALYSIS OF THE SCHEME

The proposed selective capital reduction will help the Company to better represent the shareholding of the Company. The Scheme of Capital Reduction does not involve any payout to any shareholder.

- **The Audit Committee reviewed and noted that -**
 - a. The Scheme does not envisage any payment to "Keynote Trust" against cancellation of their fully paid-up equity shares in the Company.
 - b. Upon effectiveness of the Scheme, the paid-up equity share capital of the Company shall become Rs. 5,56,66,370 /- (Five Crores Fifty Six Lakh Sixty Six Thousand Three Hundred Seventy only) divided into 55,66,637 (Fifty Five Lakh Sixty Six Thousand Six Hundred Thirty Seven) equity shares of Rs. 10/- (Rupees Ten) each.
 - c. The proposed accounting treatment in the books of the Company relating to the reduction of share capital as set out in PART – II under the heading "ACCOUNTING TREATMENT" of the draft scheme is in conformity of the applicable accounting standards specified under section 133 of the Companies Act, 2013.
 - d. The selective capital reduction will not cause any prejudice to the creditors of the Company as there will not be any reduction in the amount payable to the respective creditors if any.
- After an independent assessment of the draft Scheme and taking into consideration the Auditor's Certificate, need, rationale, impact of the scheme and Cost benefit analysis, the members of the Audit Committee formed an opinion that the implementation of the proposed scheme is in the interest of the Company and its shareholders, creditors and other stakeholders.



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4. Recommendation of the Audit Committee

The Audit Committee hereby approves and recommends the Scheme for favorable consideration by the Board, Stock Exchange(s) and other appropriate authorities.

For and on behalf of Audit
Committee of Keynote Financial Services Limited



Shishir Dalal
(Chairman of Audit Committee)

Date : 8th December, 2023
Place : Mumbai



CERTIFIED TRUE COPY

For Keynote Financial Services Limited



Company Secretary

Keynote Financial Services Limited

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