



## K2 Systems Limited

### REPORT OF THE AUDIT COMMITTEE OF M/S K2 SYSTEMS LIMITED DATED 26.09.2013

#### PRESENT:

Mr. B. Nageshwar Rao	-	Chairman
Ms. Boga Sharathdhruthi	-	Member
Mr. Raju Srinivasa Rao Kolar	-	Member

#### 1. BACKGROUND:

The Company has placed before the Audit Committee the Scheme of Arrangement relating to reduction of Capital, consolidation, conversion of unsecured loan into equity and fresh infusion of funds under Section 391 to 394 of the Companies Act, 1956 for recommendation as required under SEBI Circular No. CIR / CFD / DIL / 5 / 2013 dated 4<sup>th</sup> February 2013.

The report of the Audit Committee is made in order to comply with the requirements of the circular after considering the following:

1. Scheme of Arrangement (the Scheme)
2. Valuation Report dated 06.09.2013 from Independent Auditor
3. Fairness opinion dated 08.09.2013 from Merchant Banker

#### 2. PROPOSED SCHEME OF ARRANGEMENT:

The Audit Committee, on the perusal of above documents, discussed the matter and was of the opinion that:

1. The reason for reduction was logical as the Company has eroded its entire Net Worth.
2. The infusion of fresh funds will improve the financial strength and would help in the revival of the Company.
3. The Board appointed M/s Chanamouli & Co., Independent Chartered Accountants to prepare a Valuation Report. The Committee hereby accepts the same which seems to be logical as per Accounting Standards.

4. The Board appointed M/s Quintessence Enterprises Private Limited, a SEB registered Merchant Banker for Fairness opinion on the report. The Committee hereby accepts the same.

#### Salient Features of the Scheme-

1. The Scheme provides for reduction of Capital from Rs. Rs.3,94,00,000/- divided into 39,40,000 equity shares of Rs.10 each to Rs.39,40,000/- equity shares of Re. 1 each by setting off accumulated losses of Rs.3,54,60,000/-
2. After reduction, the paid-up capital is to be consolidated into 3,94,000 equity shares of Rs. 10 each aggregating to Rs. 39,40,000/-.
3. The Scheme provides for conversion of unsecured loans amounting to Rs.46,23,820/- into equity by issue of 4,62,382 equity shares of Rs. 10 each.
4. Further, the Company to infuse fresh funds by way of preferential allotment of 25,50,000 equity shares of Rs. 10/- each at par to the strategic investors.
5. The appointed date is 1<sup>st</sup> April, 2013.

#### 3. RECOMMENDATION OF THE AUDIT COMMITTEE:

The Audit Committee hereby recommends the Scheme for favorable consideration of the Stock Exchange(s) and SEBI.

For and on behalf of the Audit Committee  
K2 Systems Limited

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*Naseem Paw*

Chairman of Audit Committee

Place: Hyderabad  
Date: 26.09.2013