

Report of the Audit Committee of Mirza International Limited recommending the draft Composite Scheme of Arrangement of RTS Fashions Private Limited, Mirza International Limited and Redtape Limited and their respective Shareholders and Creditors

Present:

Sl. No.	Name	Designation
1.	Mr. Sudhindra Kumar Jain	Chairperson of the Audit Committee
2.	Ms. Saumya Srivastava	Member of the Audit Committee
3.	Mr. Sanjay Bhalla	Member of the Audit Committee
4.	Mr. Sajiv Gupta	Member of the Audit Committee

Mr. Rajeev K Goel, Advocate, Legal Counsel of the Company was present at the meeting along with Ms. Priyanka Pahuja, Company Secretary of Mirza International Limited.

1. Background of the proposed Scheme of Arrangement:

- 1.1** A meeting of the Audit Committee ("Audit Committee") of Mirza International Limited (the "Company") was held on 10th December, 2021, inter-alia, to consider and, if thought fit, recommend to the Board of Directors, the proposed Composite Scheme of Arrangement of RTS Fashions Private Limited, Mirza International Limited and Redtape Limited and their respective Shareholders and Creditors.

The Composite Scheme of Arrangement is framed in terms of the provisions of Sections 230 & 232 of the Companies Act, 2013, read with Section 66 of the Companies Act, 2013, the Companies (Compromises, Arrangements and Amalgamations) Rules, 2016, together with Sections 2(1B) and 2(19AA) of the Income Tax Act, 1961 and the Master Circular No. SEBI/HO/CFD/DIL1/CIR/P/2021/0000000665 dated 23rd November, 2021, issued by the SEBI ("the SEBI Scheme Circular"), as amended, and other applicable provisions, if any.

The Composite Scheme of Arrangement provides for:

- i.** Amalgamation of RTS Fashions Private Limited (the Transferor Company) with and into Mirza International Limited (the Transferee Company);
- ii.** De-merger of Branded Business/REDTAPE Business (the Demerged Business) of Mirza International Limited (the Transferee Company) into Redtape Limited (the Resulting Company) on going concern basis; and

- iii. Various other matters incidental, consequential or otherwise integrally connected with the aforesaid Amalgamation and De-merger.

In terms of the SEBI Scheme Circular, a report from the Audit Committee is required recommending the draft Scheme, taking into consideration, inter alia, the Valuation Report (as defined hereinafter), and commenting on need for the amalgamation and de-merger, the rationale of the Scheme, impact of the Scheme on the Shareholders, cost benefit analysis of the Scheme and synergies of business of the entities involved in the Scheme. This Report of the Audit Committee is made in order to comply with the requirements of the SEBI Scheme Circular.

1.2 The Salient features of the Scheme:

The Scheme of Arrangement, inter-alia, provides the following:

- i. On Amalgamation, all assets and liabilities including Income Tax and all other statutory liabilities, if any, of RTS Fashions Private Limited will be transferred to and vest in Mirza International Limited.
- ii. On De-merger, all assets and liabilities including Income Tax and all other statutory liabilities, if any, of Branded Business/REDTAPE Business (the Demerged Business) of Mirza International Limited will be transferred to and vest in Redtape Limited on going concern basis.
- iii. On Amalgamation, all the employees of the Transferor Company in service on the Effective Date, if any, shall become the employees of the Transferee Company on and from such date without any break or interruption in service and upon terms and conditions not less favorable than those subsisting in the Transferor Company on the said date.
- iv. On De-merger, all the employees of the Transferee Company employed in the activities relating to the Demerged Business, in service on the Effective Date, if any, shall become the employees of the Resulting Company on and from such date without any break or interruption in service and upon terms and conditions not less favorable than those applicable to them in the Demerged Business of the Transferee Company, on the Effective Date.
- v. Appointed Date for the Scheme will be 1st January, 2022, or such other date as the Hon'ble National Company Law Tribunal or any other competent authority may approve.
- vi. Share Exchange Ratio for Amalgamation:

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- a. The Transferee Company-Mirza International Limited will issue 22 (twenty-two) Equity Shares of ₹2 each, credited as fully paid up, to the Shareholders of the Transferor Company for every 10 (ten) Equity Shares of ₹10 each held in the Transferor Company-RTS Fashions Private Limited.
- vii. Share Exchange Ratio for De-merger:
 - a. The Resulting Company-Redtape Limited will issue 1 (one) Equity Share of ₹2 each, credited as fully paid-up, to the Shareholders of the Transferee Company for every 1 (one) Equity Share of ₹2 each held in the Transferee Company-Mirza International Limited.
- viii. Upon the Scheme becoming effective, the pre-Scheme issued and paid-up share capital of the Resulting Company which consists of 50,000 Equity Shares of ₹2 each aggregating ₹1,00,000, will be cancelled. 50,000 9% Compulsorily Redeemable Preference Shares of ₹2 each, credited as fully paid-up, aggregating ₹1,00,000, will be issued in place of such cancelled equity share capital.
- ix. BSE Limited will act as the Designated Stock Exchange for the purposes of the Scheme of Arrangement.
- x. The Scheme shall be effective subject to the following:
 - a. Approval of the Scheme by the BSE Limited and National Stock Exchange of India Limited ("Stock Exchanges") and the Securities and Exchange Board of India ("SEBI"), pursuant to SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (as amended) and the SEBI Scheme Circular.
 - b. Approval of the Scheme by the requisite majorities of Shareholders and/or Creditors of each of the Scheme entities as may be directed by the Hon'ble NCLT.
 - c. Approval of the Scheme by the public shareholders through e-voting in terms of Para 'A' '10(b)' of Part-I of the SEBI Scheme Circular.
 - d. Sanction of the Scheme by the NCLT having jurisdiction over the Scheme entities.
 - e. Filing of the certified copies of the NCLT Order(s) sanctioning the Scheme to the respective jurisdictional Registrar of Companies by the Scheme entities.

1.3 The Equity Shares of the Company are listed on BSE Limited and National Stock Exchange of India Limited. The Company will be filing the Scheme along with necessary information/documents with both



these Stock Exchanges for their approval under Regulation 37 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

1.4 The Report of Audit Committee is made in order to comply with the requirements of the SEBI Scheme Circular, after considering the following:

- i.** Draft Composite Scheme of Arrangement, duly initialed by the Company Secretary of the Company for the purpose of identification.
- ii.** The Report on Valuation of Shares & Share Exchange Ratio dated 10th December, 2021, issued by Mr. Sandeep Kumar Agrawal, Chartered Accountant and the Registered Valuer in respect of Securities or Financial Assets, registered with the Insolvency and Bankruptcy Board of India (IBBI) vide Registration No. IBBI/RV/06/2019/10705, to the Company, stipulating, inter alia, the methodology adopted, the valuation arrived at and Share Exchange Ratio recommended for the proposed amalgamation and de-merger ("Valuation Report").
- iii.** Fair Value Certificate dated 4th December, 2021, calculating the fair value of shares of Mirza (UK) Limited (the step down wholly owned subsidiary of the Transferor Company), issued by M/s. CapShire UK LLP, Chartered Accountants, London, UK.
- iv.** Fairness Opinion Report dated 10th December, 2021 on the Report on Valuation of Shares & Share Exchange Ratio issued by Turnaround Corporate Advisors Private Limited, a SEBI Registered Category I Merchant Banker to the Company, providing its opinion on the fairness of the Share Exchange Ratio recommended in the Valuation Report ("Fairness Opinion").
- v.** Draft Certificate, in the prescribed format, by the respective Statutory Auditors of the Companies under the Scheme pursuant to Para 'A' '5' of Part-I of the SEBI Scheme Circular 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 thereunder and other Generally Accepted Accounting Principles.
- vi.** Pre-Scheme Shareholding Pattern of the Transferor Company; pre and post Scheme Shareholding Pattern of the Transferee Company and the Resulting Company.
- vii.** Audited Financial Statements of the Transferor Company and the Transferee Company for the financial years ended 31st March 2019, 31st March 2020 and 31st March, 2021.



viii. Un-Audited Financial Statements (subjected to the limited review by the Statutory Auditors) of the Transferee Company for the half year ended 30th September, 2021.

ix. Audited Financial Statements of the Transferor Company for the half year ended 30th September, 2021.

x. Audited Financial Statements of the Resulting Company for the period ended 9th December, 2021.

2. Detailed Rationale of the Scheme:

Mirza International Limited is engaged in design, development, manufacturing, marketing, trading, export and retailing of leather footwear, sports shoes, garments & apparels, leather goods and accessories, and other related activities. The Company also owns and operates a leather tannery for captive consumption. Mirza International Limited has the following business verticals:

i. Private Label/White Label Business: The Company is engaged in design, development, manufacturing, export and sale of leather footwear to various Private Labels in United Kingdom, United States of America (USA), European and Non-European Countries. Private Label Business is pre-dominantly export wholesale made-to-order (MTO) business.

ii. Branded Business/Redtape Business: The Company is engaged in design, development, trading, marketing and retailing of leather shoes, sports shoes, garments & apparels and other accessories under 'REDTAPE' and other Brands owned by the Company. 'REDTAPE' is a well-known brand in leather and sports footwear, garments & apparels. Branded Business is pre-dominantly domestic retail business.

iii. Leather Tannery Business: The Company owns and operates one of the most modern tanneries in India which is engaged in procuring and processing of leather. Tannery is backward integration for captive consumption and acts as the backbone for the Private Label Business.

RTS Fashions Private Limited is engaged in purchase, sale and trading of soling and packing material and other related activities. The Transferor Company, through its step down wholly owned subsidiary-Mirza (UK) Limited, is engaged in design, development, marketing and distribution of leather footwear, leather goods and accessories in UK, USA and other European Markets.

Mirza (UK) Limited is a London based company formed under the laws of United Kingdom. Mirza (UK) Limited [Mirza UK] is a step down wholly owned subsidiary of RTS Fashions Private Limited, India. Mirza UK is



engaged in marketing and distribution of leather footwear, leather goods and accessories including the products of Mirza International Limited, in UK, USA and other European Markets.

Mirza UK has an experienced and dedicated team engaged in design and development of leather footwear, leather goods and accessories for UK and other Overseas Markets. Mirza UK does design and development of shoes which are finally manufactured in India in the factories of Mirza International Limited and sold to various overseas customers under various brands. Thus, Mirza UK is one of the main driving forces of the Private Label Business of Mirza International Limited.

In order to streamline various activities of Mirza Group, unlock the true value of its businesses, achieve management efficiencies and accelerated growth, the Management is proposing to consolidate entire overseas business into Mirza International Limited; and to hive off Branded Business/REDTAPE Business into a separate company.

- i. Amalgamation:** Following are some of the specific advantages of the proposed Amalgamation of RTS Fashions Private Limited with Mirza International Limited:
 - a.** The proposed amalgamation of the Transferor Company with the Transferee Company would result in business synergy and pooling of resources into a single entity.
 - b.** The proposed amalgamation will enable the integration of the business activities being carried on by the Transferor Company- RTS Fashions Private Limited and its step down wholly owned subsidiary- Mirza (UK) Limited with and into the Transferee Company-Mirza International Limited. It would be advantageous to combine the activities and operations in a single company and to build strong capability to effectively meet future challenges in competitive business environment. Amalgamation will enable Mirza International Limited to leverage the expertise and resources of Mirza (UK) Limited and strengthen its sales and distribution in overseas markets.
 - c.** The proposed Amalgamation would result in pooling of physical, financial and human resource of these Companies for the most beneficial utilization of these factors in the combined entity.
 - d.** The proposed Scheme of Amalgamation will result in usual economies of a centralized and a large company including elimination of duplicate work, reduction in overheads, better and more productive utilization of financial, human and other resource and enhancement of overall business efficiency. The proposed Scheme will enable these Companies to combine their managerial and operating strength, to build a wider capital and financial base and to promote and secure overall growth.



- e. The Amalgamation will result in significant reduction in multiplicity of legal and regulatory compliances which at present is required to be made separately by the Transferee Company as well as by the Transferor Company.
 - f. The proposed Amalgamation would enhance the shareholders' value of the listed Transferee Company.
 - g. The proposed Scheme of Amalgamation will have beneficial impact on the Transferor and the Transferee Companies, their shareholders, employees and other stakeholders and all concerned.
- ii. De-merger:** Following are some of the specific advantages of the proposed De-merger of Branded Business/REDTAPE Business of Mirza International Limited into Redtape Limited:
- a. Mirza International Limited has two distinct business (a) Private Label/White Label Business which is pre-dominantly export wholesale made-to-order (MTO) business; and (b) Branded Business/REDTAPE Business which is pre-dominantly domestic retail business. Whereas the leather tannery is backward integration for captive consumption and acts as the backbone for the Private Label Business.
 - b. REDTAPE Business is completely independent from the Private Label Business. In REDTAPE Business, the Company buys entire quantity of garments/apparels and significant quantity of footwear from various third party manufacturers. The Company, then, retails the same pan India through physical stores and on-line marketing. Since the Private Label Business and REDTAPE Business have different characteristics and nature, it is proposed to segregate both these businesses into separate companies.
 - c. It is, accordingly, proposed to hive-off Branded Business/REDTAPE Business from the Transferee Company into the Resulting Company, which, upon de-merger, will be owned by the shareholders of the Transferee Company in the same manner and proportion in which they own shareholding in the Transferee Company.
 - d. The proposed De-merger will enable the Transferee Company and the Resulting Company to raise necessary funds, invite strategic investors and other stakeholders for their respective businesses.
 - e. It will impart better management focus, will facilitate administrative convenience and will ensure optimum utilization of various resources by these Companies.
 - f. The proposed De-merger will unlock immense possibilities of both these businesses. It will provide scope for independent expansion of various businesses. It will strengthen, consolidate and stabilize

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the business of these Companies and will facilitate further expansion and growth of their business.

- g. The proposed De-merger will have beneficial impact on the Transferee Company and the Resulting Company, their employees, shareholders and other stakeholders and all concerned.
 - iii. The Scheme of Arrangement is proposed for the aforesaid reasons. The Board of Directors of the Transferor Company, the Transferee Company and the Resulting Company are of the opinion that the proposed Scheme is in the best interest of these Companies, their Shareholders and other stakeholders.
3. The Audit Committee reviewed and noted the Share Exchange Ratio recommended in the Valuation Report and confirmed the following Exchange Ratio:
- i. **Share Exchange Ratio for Amalgamation:** The Transferee Company-Mirza International Limited will issue 22 (twenty-two) Equity Shares of ₹2 each, credited as fully paid up, to the Shareholders of the Transferor Company for every 10 (ten) Equity Shares of ₹10 each held in the Transferor Company-RTS Fashions Private Limited.
 - ii. **Share Exchange Ratio for De-merger:** The Resulting Company-Redtape Limited will issue 1 (one) Equity Share of ₹2 each, credited as fully paid-up, to the Shareholders of the Transferee Company for every 1 (one) Equity Share of ₹2 each held in the Transferee Company-Mirza International Limited.
 - iii. **Re-organization of Pre-Scheme capital of the Resulting Company:** The Resulting Company-Redtape Limited will issue 1 (one) 9% Compulsorily Redeemable Preference Shares of ₹2 each, credited as fully paid-up, for every 1 (one) Equity Share of ₹2 each held in the Resulting Company. Pre-Scheme issued and paid-up share capital of the Resulting Company consisting of 50,000 Equity Shares of ₹2 each aggregating ₹1,00,000, will stand cancelled.
4. The Audit Committee reviewed and confirmed the accounting treatment in the Scheme which has been certified by the respective Statutory Auditors of the Companies in the Scheme.
- i. Pursuant to the Scheme, amalgamation of the Transferor Company with the Transferee Company will be accounted for by the Transferee Company in its books of accounts in accordance with accounting prescribed under "pooling of interest" method in Appendix C of Indian Accounting Standard (Ind AS) 103 - Business Combinations as notified under Section 133 of the Companies Act, 2013, read together with the Companies (Indian Accounting Standard) Rules, 2015. Para 2.9 of Part 2 of the Scheme details out the accounting treatment for amalgamation.



ii. Pursuant to the Scheme, de-merger of the Demerged Business of the Transferee Company into the Resulting Company will be accounted for by the Transferee Company and the Resulting Company in its/their respective books of accounts in accordance with the applicable provisions of the Companies Act, 2013, Accounting Standards prescribed under section 133 of the Companies Act, 2013, and Generally Accepted Accounting Principles in India (Indian GAAP), as the case may be. Para 3.11 of Part 3 of the Scheme details out the accounting treatment for de-merger.

5. The Fairness Opinion confirmed that the Share Swap Ratio as recommended by the Registered Valuer, is fair and reasonable.

6. Impact of the Scheme on the Shareholders:

The proposed Scheme is expected to streamline various activities of Mirza Group, unlock the true value of its businesses, achieve management efficiencies and accelerated growth, by consolidating entire overseas business into Mirza International Limited through amalgamation; and hiving off Branded Business/REDTAPE Business into the Resulting Company through de-merger.

The Audit Committee also noted that the Scheme is subject to the majority approval of the public shareholders of the Company. The Audit Committee was of the opinion that the Scheme is not detrimental to the interests of the shareholders of the Company.

7. **Need for the Amalgamation:** As per the detailed rationale for the Scheme set out in Point 2 above.

8. Cost benefit analysis of the Scheme:

The Consideration (as defined in the Scheme) represents a fair value of the business as substantiated by the fair equity shares swap ratio recommended in the Valuation Report and Fairness Opinion obtained by the Company in relation to the amalgamation and de-merger. The Scheme would entail some costs towards implementation. However, the benefits of the Scheme over a longer period are expected to far outweigh such costs for the stakeholders of the Scheme entities.

9. Synergies of business of the entities involved in the Scheme:

The synergies of business of the entities involved in the Scheme are set out in Point 2 above.

10. Recommendations of the Audit Committee:

The Audit Committee after due deliberations and due consideration of all the terms of the draft Composite Scheme of Arrangement, Equity Share Exchange Ratio/Valuation Report, Fairness Opinion, Detailed Rationale of the Scheme, Accounting Treatment for the Scheme, impact of the



Scheme on the Shareholders and other stakeholders and cost benefit analysis of the Scheme and the specific matters mentioned above, recommends the draft Scheme of Arrangement for favourable consideration by the Board of Directors of the Company, the Stock Exchange(s), SEBI and other applicable regulatory authorities.

This report of the Audit Committee is made in order to comply with the requirements of the SEBI Scheme Circular after considering the necessary documents.

**By Order of the Audit Committee of
Mirza International Limited**



**Sudhindra Kumar Jain
Chairman of the Audit Committee**

Date: 10th December, 2021
Place: Kanpur