

REPORT ON RECOMMENDATION OF THE AUDIT COMMITTEE OF DISHMAN PHARMACEUTICALS AND CHEMICALS LIMITED ON THE DRAFT SCHEME OF ARRANGEMENT AND AMALGAMATION BETWEEN DISHMAN PHARMACEUTICALS AND CHEMICALS LIMITED, CARBOGEN AMCIS (INDIA) LIMITED AND DISHMAN CARE LIMITED

MEMBERS PRESENT

Mr. Sanjay S. Majmudar, Chairman of Audit Committee
Mr. Ashok C. Gandhi
Mr. Subir Kumar Das

SECRETARY

Mr. Tushar D. Shah, Company Secretary

PRESENT BY INVITATION

1. Mr. J.R.Vyas, Chairman & Managing Director
2. Mr. Arpit J. Vyas, Managing Director & Chief Financial Officer
3. Mr. Harshil Dalal, Sr. Vice President – Finance & Accounts

1. **Background**

1.1. A meeting of the Audit Committee of Dishman Pharmaceuticals And Chemicals Limited (“DPCL” or “Company”) was held on 24th February, 2016 to consider and recommend the proposed Scheme of Arrangement and Amalgamation involving the following:

- (i) Slump Sale of the Effluent Treatment Plants Undertaking (“ETP Undertaking”) from the Company to Carbogen Amciss (India) Ltd (“CAIL”), a wholly owned subsidiary of the Company, as a going concern, together with all its properties, assets, liabilities, rights, benefits and interest therein, without assigning value to individual assets and liabilities; (“Slump Sale”);
- (ii) Amalgamation of Dishman Care Ltd (“DCL”), a wholly owned subsidiary of the Company, with the Company and;
- (iii) thereafter amalgamation of the Company with CAIL,
- (iv) change in name of “Carbogen Amciss (India) Limited” to “Dishman Carbogen Amciss Limited”

Dishman Pharmaceuticals and Chemicals Limited

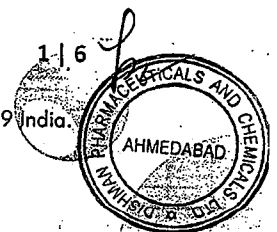
Registered Office: Bhadr-Raj Chambers, Swastik Cross Roads, Navrangpura, Ahmedabad – 380 009 India.

Tel: +91 (0) 79 26443053 / 26445807 Fax: +91 (0) 79 26420198

Email: dishman@dishmangroup.com Web: www.dishmangroup.com

Government Recognised Export House

CIN NO L24230GJ1983PLC006329



with effect from the Appointed Date 1st January 2015 implemented in terms of a Scheme of Arrangement and Amalgamation ("**Scheme**") among the Company, DCL and CAIL and their respective Shareholders and Creditors under Sections 391 to 394 read with Section 100 of the Companies Act, 1956, or under Section 230 to 234 of the Companies Act, 2013 and other applicable provisions of the Companies Act, 1956 or Companies Act, 2013, as applicable.

1.2. This report of the Audit Committee is made in order to comply with the requirements of SEBI Circular No CIR/CFD/CMD/16/2015 dated November 30, 2015 issued by the Securities and Exchange Board of India ("**SEBI Circular**").

1.3. The following documents were placed before the Audit Committee:

- the draft Scheme, duly initialled by the Chairman of the company for the purpose of identification;
- the Valuation Report & Share Exchange Report dated 23rd February, 2016 ("**Valuation Report**") prepared by Sharp & Tannan, Independent Chartered Accountants, describing the methodology adopted by them in arriving at the valuation of the ETP Undertaking and the Share Exchange Ratio (defined in clause 2.2 below) ; (Valuation Report as per Para 1(A)(4) of Annexure-I of SEBI Circular)
- Fairness Opinion dated 23rd February, 2016 prepared by Centrum Capital Limited, an Independent Merchant Banker providing the Fairness Opinion on the valuation of the ETP Undertaking and Share Exchange Ratio (defined in clause 2.2 below) recommended by Sharp & Tannan ("**Fairness Opinion**"); and
- An undertaking certified by one of the joint statutory auditors M/s. V. D. Shukla & Co., clearly stating the reasons for non-applicability of Para 1(A)(9)(a) of Annexure-I of SEBI Circular. The above is based on the Undertaking duly signed by the Managing Director & CFO.
- The Auditors' certificate dated 24th February, 2016 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 or the Accounting Standards issued by ICAI as applicable, and other generally accepted accounting principles as per para 1(A)(5) of Annexure 1 of SEBI Circular.

Dishman Pharmaceuticals and Chemicals Limited

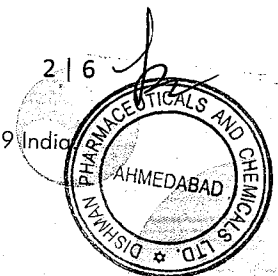
Registered Office: Bhadr-Raj Chambers, Swastik Cross Roads, Navrangpura, Ahmedabad – 380 009 India

Tel: +91 (0) 79 26443053 / 26445807 Fax: +91 (0) 79 26420198

Email: dishman@dishmangroup.com Web: www.dishmangroup.com

Government Recognised Export House

CIN NO L24230GJ1983PLC006329



2. Proposed Scheme of Arrangement and Amalgamation

2.1. The Audit Committee noted the rationale and the benefits of the Scheme, which, *inter-alia*, are as follows:

- Consolidation of the business and simplification of the group structure. Further, the amalgamation will provide a high level of synergistic integration to their operations and better operational management.
- Through the “One Company, Two Brands” strategy, the group has been delivering complex solutions suiting the diverse needs of the global customers. The proposed Scheme re-emphasises the strategy of “One Company, Two Brands” with both “Dishman” and “Carbogen Amcis” brands being reflected in the trade name of one company.
- Synergies arising out of consolidation of business will lead to enhancement of net worth of the combined business and reflection of true net-worth in the financial statements (as all assets, tangible and intangible, including those not recorded in the books of the amalgamating company, and liabilities of the amalgamating company shall be taken over by the amalgamated company and recorded at their respective fair values), and lead to improved alignment of debt and enhancement in earnings and cash flow.
- The amalgamated company would be able to better leverage on its large network base and have enhanced businesses potential and increased capability to offer a wider portfolio of products and services with a diversified resource base and deeper client relationships.
- It would result in financial resources being efficiently merged and pooled leading to more effective and centralised management of funds, greater economies of scale, stronger base for future growth and reduction of administrative overheads (i.e. cost rationalization), which are presently being divided and dissipated between multiple separate entities. The amalgamation shall lead to greater efficiency in management of the businesses, simplicity and reduction in regulatory compliances and cost.
- It will improve and consolidate internal controls and functional integration at various levels of the organisation such as information technology, human resources, finance, legal and general management leading to an efficient organisation capable of responding swiftly to volatile and rapidly changing market scenarios.

Dishman Pharmaceuticals and Chemicals Limited

Registered Office: Bhadr-Raj Chambers, Swastik Cross Roads, Navrangpura, Ahmedabad – 380 009 India

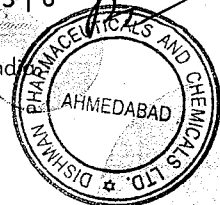
Tel: +91 (0) 79 26443053 / 26445807 Fax: +91 (0) 79 26420198

Email: dishman@dishmangroup.com Web: www.dishmangroup.com

Government Recognised Export House

CIN NO L24230GJ1983PLC006329

3 | 6



- It will facilitate debt consolidation which will improve the debt servicing abilities through improved cash flows.
- It would enhance the value of stakeholders through seamless access to strong corporate relationships and other intangible benefits of Dishman Pharmaceuticals and Chemicals Limited built up over approximately three decades of experience, enhanced scale of operations and sharper focus.

2.2. The audit committee reviewed the Valuation Report and noted that the Valuation Report recommended the consideration for Slump Sale and Share Exchange Ratio for amalgamation ("**Share Exchange Ratio**"), as under:

- (i) **Slump Sale** - The total consideration for transfer and vesting of the ETP Undertaking shall be Rs.15 Crores (Rupees Fifteen Crores).
- (ii) **Amalgamation of DCL into the Company** - No shares shall be required to be issued and allotted in respect of the equity shares held by the Company in DCL. The equity shares held by the Company in DCL shall be cancelled.
- (iii) **Amalgamation of the Company into CAIL** - Every equity shareholder of the Company would receive 1 (One) fully paid up equity share of CAIL of face value Rs.2/- (Rupee Two Only) each for every 1 (One) fully paid up equity share of Rs.2 (Rupee Two only) each held in the Company. The equity shares of CAIL held by the Company shall be cancelled.

2.3. The Audit committee noted the contents of para 6.3 of the valuation report, which are reproduced hereunder:

" Business Value of DPCL comprises of its :

- (i) *Existing business of manufacturing and supply of marketable molecules such as specifically chemicals, vitamins & chemicals and disinfectants along with Contract Research and Manufacturing Services.*
- (ii) *ETP Undertaking*
- (iii) *Value of investment in DCL which has the business of market research, business development and marketing of disinfectant products to be manufactured by DPCL.*
- (iv) *Value of investment in CAIL which has the business of research and development including regulatory filings, of pharmaceutical molecules for some of the overseas subsidiaries of DPCL.*
- (v) *Other Strategic Indian and Overseas Investments*

Dishman Pharmaceuticals and Chemicals Limited

Registered Office: Bhadr-Raj Chambers, Swastik Cross Roads, Navrangpura, Ahmedabad – 380 009 India

Tel: +91 (0) 79 26443053 / 26445807 Fax: +91 (0) 79 26420198

Email: dishman@dishmangroup.com Web: www.dishmangroup.com

Government Recognised Export House

CIN NO L24230GJ1983PLC006329



Prior to the proposed Scheme, DPCL holds 100% of the paid up capital of DCL and CAIL.

Upon the Scheme being effective and dissolution of DCL and DPCL, the equity shares held by DPCL in DCL and CAIL shall be cancelled and stand extinguished.

After the amalgamation of DCL with DPCL and thereafter DPCL with CAIL, investment of DPCL in CAIL gets replaced by business value of CAIL (i.e. asset and liabilities of CAIL) in the books of the combined entity.

Therefore, post amalgamation, CAIL will have the following components of value :

- (i) Existing business of DPCL which are into manufacturing and supply of marketable molecules such as specially chemicals, vitamins & chemicals and disinfectants along with Contract Research and Manufacturing Services.*
- (ii) Existing business of DCL of market research, business development and marketing of disinfectant products to be manufactured by DPCL, which shall have been amalgamated with DPCL.*
- (iii) Value of existing business in CAIL of research and development, including regulatory filings, of pharmaceutical molecules for some of the overseas subsidiaries of DPCL.*
- (iv) Value of the ETP Undertaking earlier transferred from DPCL by way of Slump Sale on a going concern basis.*
- (v) Other Strategic Indian and Overseas Investments*

Thus fair and intrinsic value of one share of DPCL (consolidated) shall be same as the post amalgamated fair and intrinsic value of one share of the combined entity. Pursuant to Amalgamation, the shareholding of CAIL shall be the mirror image of DPCL's shareholding pattern."

2.4. The Audit Committee also took note of the Net worth Certificate issued by M/s. V. D. Shukla & Co., Chartered Accountants, certifying the pre and post scheme Net worth of CAIL. The Audit Committee also noted that, as per the draft Scheme, the excess, if any, of the fair value of the equity shares issued by CAIL pursuant to the proposed Scheme over the face value of the equity shares issued shall be credited to Securities Premium Account.

2.5. Further, the Fairness Opinion confirmed that the Share Exchange Ratio in the Valuation Report is fair to the shareholders of the Company, DCL and CAIL.

Dishman Pharmaceuticals and Chemicals Limited

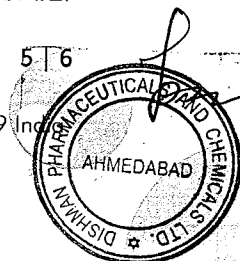
Registered Office: Bhadr-Raj Chambers, Swastik Cross Roads, Navrangpura, Ahmedabad – 380 009 India

Tel: +91 (0) 79 26443053 / 26445807 Fax: +91 (0) 79 26420198

Email: dishman@dishmangroup.com Web: www.dishmangroup.com

Government Recognised Export House

CIN NO L24230GJ1983PLC006329



2.6. The equity shares of Carbogen Amcis (India) Limited are proposed to be listed on BSE Ltd. and National Stock Exchange of India Ltd. Upon the Scheme becoming effective, Carbogen Amcis (India) Limited shall be renamed as "Dishman Carbogen Amcis Limited".

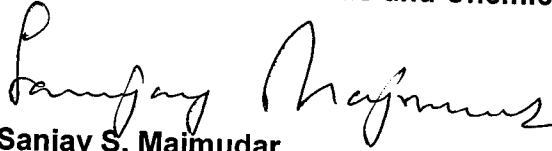
3. **Recommendation of the Audit Committee**

On the basis of the above, the Audit Committee recommends the draft Scheme, taking into consideration the Valuation Report & Share Exchange Ratio, to the Board of Directors of the Company for its approval and for favourable consideration by the Stock exchange(s) and Securities and Exchange Board of India.

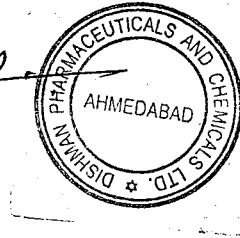
By Order of the Audit Committee

For and on behalf of

Dishman Pharmaceuticals and Chemicals Limited



Sanjay S. Majmudar
Chairman, Audit Committee



Date: Ahmedabad

Place: 24th February, 2016

Dishman Pharmaceuticals and Chemicals Limited

Registered Office: Bhadr-Raj Chambers, Swastik Cross Roads, Navrangpura, Ahmedabad – 380 009 India.

Tel: +91 (0) 79 26443053 / 26445807 Fax: +91 (0) 79 26420198

Email: dishman@dishmangroup.com Web: www.dishmangroup.com

Government Recognised Export House

CIN NO L24230GJ1983PLC006329