KITEX
Kitex Garments Limited
(CIN: L18101KL1992PLC006528)
Regd Office: Building No. VI/496, Kizhakkambalam,
Vilangu P.O, Aluva, Ernakulam - 683561, Kerala
Phone: 91 484 2585000, Fax: 91 484 2680604
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REPORT ADOPTED BY THE COMMITTEE OF INDEPENDENT DIRECTORS OF KITEX GARMENTS LIMITED ("COMPANY" OR "RESULTING COMPANY") AT ITS MEETING HELD ON FRIDAY, FEBRUARY 14, 2025 RECOMMENDING THE DRAFT SCHEME OF ARRANGEMENT BETWEEN THE KITEX CHILDRENSWEAR LIMITED ("DEMERGED COMPANY") AND KITEX GARMENTS LIMITED (RESULTING COMPANY) AND THEIR RESPECTIVE SHAREHOLDERS AND CREDITORS

1. DIRECTORS PRESENT

1. Mr. C.P.Philipose
2. Mr. A.K.Mathew
3. Mrs. Sumi Francis

2. BACKGROUND

(a) A meeting of the Committee of Independent Directors of the Company ("**Committee of Independent Directors**") was held on Friday, February 14, 2025 to consider and recommend to the board of directors of the Company ("**Board**") the draft Scheme of Arrangement ("**Scheme**") between **Kitex Childrenswear Limited (Demerged Company) and Kitex Garments Limited (Resulting Company)**, and their respective shareholders and creditors under Sections 230 to 232 and other applicable provisions of the Companies Act, 2013 and the rules and/ or regulations made thereunder (including any statutory modification(s) or re-enactment(s) thereof for the time being in force) ("**Act**"), and other applicable laws including the master circular bearing no. SEBI/HO/CFD/POD-2/P/CIR/2023/93 '*Master Circular on (i) Scheme of Arrangement by Listed Entities and (ii) Relaxation under Sub-rule (7) of rule 19 of the Securities Contracts (Regulation) Rules, 1957*' dated June 20, 2023, as amended from time to time or any other circulars issued by the Securities and Exchange Board of India ("**SEBI**") prescribing the compliance requirements for schemes of arrangement involving listed companies in each case, as amended from time to time, (collectively, the "**SEBI Scheme Circular**"), the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("**Listing Regulations**"), Section 2(19AA) and other relevant provisions of the Income-tax Act, 1961. The Scheme provides, *inter-alia* for:

(i) the demerger of Demerged Undertaking (*as defined in the Scheme*) (comprising of the Textile Business Undertaking (*as defined in the Scheme*)) from the Demerged Company and its transfer to and vesting into the Resulting Company and in consideration, the consequent issuance of equity shares by Resulting Company to all the equity shareholders of the Demerged Company in accordance with the Share Entitlement Ratio (*as defined in the Scheme*); and

(ii) matters consequential or connected therewith.

KITEX GARMENTS LIMITED
ERNAKULAM KERALA 683561
KIZHAKKAMBALAM

(b) The Resulting Company is incorporated under Companies Act, 1956 bearing Corporate Identity No. L18101KL1992PLC006528. The registered office is at Building No. VI/496, Kizhakkambalam, Vilangu P.O., Aluva, Vilangu, Ernakulam, Kunnathunad, Kerala, India, 683561. The equity shares of the Company are listed on the BSE Limited ("**BSE**") and National Stock Exchange of India Limited ("**NSE**"). The Demerged Company is an unlisted public company, limited by shares, incorporated under the Act bearing Corporate Identity No. U18101KL1991PLC006048 having its registered office at Building No. 494, Kizhakkambalam, Vilangu P.O., Aluva, Cochin, Vilangu, Ernakulam, Kunnathunad, Kerala, India, 683561.

(c) In terms of the SEBI Scheme Circular, a report from the Committee of Independent Directors recommending the draft Scheme is required, taking into consideration *inter alia* that the Scheme is not detrimental to the shareholders of the Company. This report of the Committee of Independent Directors is made in order to *inter alia* comply with the requirements of the Listing Regulations and the SEBI Scheme Circular.

(d) The following documents were placed before the Committee of Independent Directors:

(i) Draft Scheme;

(ii) The draft certificate dated February 14, 2025 from M/s. MSKA & Associates, Statutory Auditor of the Company, confirming the accounting treatment mentioned in the Scheme is in compliance with the applicable Indian Accounting Standards as specified under Section 133 of the Act read with the Companies (Indian Accounting Standard) Rules, 2015 and other Generally Accepted Accounting Principles in India;

(iii) Share entitlement ratio report dated February 14, 2025 issued by Bansi S. Mehta Valuers LLP, Registered Valuer (IBBI Registration Number: IBBI/RV-E/06/2022/172) ("**Registered Valuer**") *inter-alia*, recommending the Share Entitlement Ratio in connection with the proposed Scheme ("**Share Entitlement Ratio Report**");

(iv) Fairness opinion dated February 14, 2025 issued by ICICI Securities Limited, an Independent SEBI registered, Category I Merchant Banker registered with SEBI (SEBI Registration Code for the Merchant Banker: MB/INM000011179), for providing a fairness opinion on the valuation carried out by the Registered Valuer in the Share Entitlement Ratio Report, i.e., with respect to the Share Entitlement Ratio in connection with the proposed Scheme ("**Fairness Opinion**"); and

(v) Other presentations, documents and information made to/furnished before the Committee of Independent Directors, pertaining to the draft Scheme.

The Committee of Independent Directors reviewed the aforesaid reports, noted the recommendations made therein and approved aforementioned reports and documents with the Share Entitlement Ratio with respect to the proposed Scheme and recommended the same for approval of the Board.

KITEX GARMENTS LIMITED
ERNAKULAM
KERALA
683561
KIZHAKKAMBALAM

3. **SALIENT FEATURES OF THE SCHEME**

(a) The Committee of Independent Directors considered and observed that the draft Scheme provides for the following:

(i) the demerger of Demerged Undertaking from the Demerged Company and its transfer and vesting into the Resulting Company;

(ii) the consequent issuance of the New Equity Shares (*as defined in the Scheme*) by Resulting Company to the equity shareholders of the Demerged Company; and

(iii) matters consequential or connected therewith;

pursuant to Sections 230 to 232 of the Act and other applicable provisions thereof read with Section 2(19AA) of the Income-tax Act, 1961, and the SEBI Scheme Circular.

(b) As consideration for the demerger of Demerged Undertaking, Resulting Company shall issue and allot New Equity Shares to the equity shareholders of the Demerged Company based on Share Entitlement Ratio in proportion to their shareholding in the Demerged Company, in the following manner:

Upon the effectiveness of this Scheme and in consideration of the transfer and vesting of Demerged Undertaking into Resulting Company pursuant to provisions of this Scheme, Resulting Company shall, without any further act or deed, issue and allot equity shares to the equity shareholders of the Demerged Company, or to their respective heirs, executors, administrators or other legal representatives or the successors-in-title, as the case may be, whose names appear in the Register of Members as on the Record Date in the following ratio:

"For every 100 (Hundred) equity shares of face and paid-up value of Rs 100/- (Indian Rupees Hundred only) each held in the Demerged Company, 9,706 (Nine Thousand Seven Hundred and Six) equity shares of face and paid-up value of Re. 1/- (Indian Rupee One only) each of Resulting Company to be issued to the equity shareholders of the Demerged Company."

(c) Post effectiveness of the Scheme, Resulting Company shall apply for and procure the listing of its New Equity Shares on the stock exchanges in terms of and in compliance with the SEBI Scheme Circular.

(d) The "**Appointed Date**" for the purpose of the Scheme means the opening of business hours on April 01, 2025 or such other date as approved by the National Company Law Tribunal, Kochi ("**NCLT**").

(e) The "**Effective Date**" means the last of the dates on which the certified true copies of the order of the Tribunal sanctioning the Scheme are filed with the Registrar of Companies, Kerala by both Companies.

KITEX GARMENTS LIMITED
ERNAKULAM
KERALA
683561
KIZHAKKAMBALAM

4. **<u>RATIONALE AND NEED FOR THE SCHEME</u>**

The Committee of Independent Directors noted the rationale and need for the Scheme, as provided hereunder:

(a) The Resulting Company is pioneer in apparel business and the world's second-largest manufacturer of cotton and organic cotton ready-to-wear garments for infants and children aged 0-24 months. The demerged Company also having a division specialised in the Textile manufacturing. In order to strengthen the value proposition for customers, unlock significant long-term valuation and upside value creation for the shareholders (through focused management, clearer choices of capital allocation, etc.) and to provide investors, strategic partners, lenders and stakeholders the flexibility to participate in some or all of these distinct businesses, the Resulting Company proposes to acquire the Textile Business Division of the Demerged Company in the manner contemplated under the Scheme, as detailed below:

   (i) the transfer of the Demerged Undertaking of the Demerged Company (i.e., the undertaking engaged in Textile Business) to Resulting Company;

(b) The Scheme will ensure long-term value creation and is in the best interest of the Companies and their respective shareholders, employees, creditors and other stakeholders.

(c) The proposed restructuring pursuant to the Scheme, is expected, *inter alia*, to result in the following benefits:

   i. The demerger would facilitate focused growth, operational efficiencies, business synergies and increased customer focus in relation to the Textile Business Division

   ii. Each business would be able to address independent business opportunities, pursue efficient capital allocation and attract different set of investors, strategic partners, lenders and other stakeholders.

   iii. Combining similar business activities under a single entity shall optimize business operations, achieve economies of scale, create operational efficiency, common pool of production and better utilisation of resources

   iv. facilitating the pursuit of scale and independent growth plans (organically and inorganically) with more focused management, flexibility and liquidity for the shareholders;

   v. insulating and de-risking the businesses from one another;

   vi. unlocking value for the over-all business portfolio through better price discovery of individual platforms. Consequently, the proposed restructuring is expected to open-up windows to unlock value through potential divestments and acquisitions to achieve the scale of business in respective subsidiaries as well;

KITEX GARMENTS LIMITED
ERNAKULAM
KERALA
683561
KIZHAKKAMBALAM

vii. providing scope for mitigation of overlapping services and enhancing the focus on independent business growth strategies and expansion for each of the business undertakings.

The Committee of Independent Directors was of view that the rationale and benefits of the Scheme justify the proposed arrangement/ demerger.

5. VALUATION METHODS EVALUATED FOR ARRIVING AT SHARE ENTITLEMENT RATIO

(a) For the purpose of arriving at the recommended Share Entitlement Ratio, the Share Entitlement Ratio Report was obtained by both Companies in terms of the SEBI Scheme Circular.

(b) The independent registered valuer appointed to determine the recommended Share Entitlement Ratio for the proposed demerger pursuant to the Scheme and has not expressed any difficulty while determining the same.

(c) The independent valuer has arrived at Share Entitlement Ratio in connection with the Scheme as outlined in the Share Entitlement Ratio Report.

6. SCHEME IS NOT DETRIMENTAL TO THE SHAREHOLDERS OF THE COMPANY

The committee members discussed and deliberated upon the rationale and salient features of the Scheme, Share Entitlement Ratio Report, Fairness Opinion and other documents presented to it.

The committee members noted that the New Equity Shares are being issued to the shareholders of the Demerged Company by Resulting Company as consideration for the demerger of the Demerged Undertaking, which will be listed on BSE and NSE.

Further, the Scheme will facilitate creation of value for the shareholders of the Company by combining similar business activities under a single entity which would optimize business operations, achieve economies of scale, create operational efficiency, common pool of production and better utilisation of resources.

In light of the aforementioned rationale of the Scheme and other related matters, the Committee of Independent Directors is of the informed opinion that the proposed Scheme is not detrimental to the interests of the shareholders of the Company including minority shareholders.

7. RECOMMENDATION OF THE COMMITTEE

In view of the above, the Committee of Independent Directors after due deliberations and due consideration of all the terms of the draft Scheme, Share Entitlement Ratio Report, Fairness Opinion, Auditor's Certificate, benefits to shareholders, recommends the draft Scheme for favourable consideration and approval of the Board, stock exchange(s), SEBI and other appropriate authorities.

KITEX GARMENTS LIMITED
ERNAKULAM
KERALA
683561
KIZHAKKAMBALAM

Further, as mentioned in Para 6, the Committee of Independent Directors is of the informed opinion that the proposed Scheme is not detrimental to the interests of the shareholders of the Company including minority shareholders.

For and on Behalf of the Committee of Independent Directors
of Kitex Garments Limited

C P Philipose
Chairman of the Committee of Independent Directors
DIN: 01125157

Date: February 14, 2025
Place: Kizhakkambalam

KITEX GARMENTS LIMITED
KIZHAKKAMBALAM
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683561