

KENT R O SYSTEMS LTD

POLICY FOR DETERMINING MATERIAL SUBSIDIARY

Revision History

Date	Author	Section	Change Description	Reason for Change	Version
8 th Jan 2025	PK Trivedi	Complete Policy	New policy drafted	NA	v1.0

PK Trivedi

INTRODUCTION

The Board of Directors of **KENT R O SYSTEMS LIMITED** ("Company") has formulated this **Policy for Determining Material Subsidiaries** ("Policy") in compliance with **Regulation 16(1)(c)** of the **SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015** ("SEBI LODR Regulations"). This Policy ensures compliance with corporate governance principles for material subsidiaries as per **Regulation 24** of the SEBI LODR Regulations.

PURPOSE AND OBJECTIVE

The purpose of this Policy is to define governance frameworks for Material Subsidiaries to ensure compliance with applicable regulations, including:

1. Definition of Material Subsidiary as per SEBI LODR Regulations.
2. Requirement to have an Independent Director of the Company on the Board of unlisted Material Subsidiaries.
3. Restrictions on the disposal of shares/assets of Material Subsidiaries.
4. Mandatory Secretarial Audit for material unlisted subsidiaries incorporated in India under Regulation 24A(1) of SEBI LODR Regulations.
5. Matters to be reviewed by Audit Committee
6. Disclosure and reporting requirements for Material Subsidiaries.

The objective of this Policy is to:

1. Define and determine Material Subsidiaries of the Company.
2. Establish governance mechanisms, including review of financial statements, monitoring of significant transactions, and ensuring accountability of Material Subsidiaries.
3. Restrict the disposal of shares or assets in Material Subsidiaries without requisite approvals.
4. Ensure compliance with applicable disclosure and reporting requirements.



DEFINITIONS

1. **Audit Committee:** A committee constituted under the provisions of Section 177 of the Companies Act, 2013 and Regulation 18 of SEBI LODR Regulations.
2. **Consolidated Income:** Total income of the Company and its subsidiaries.
3. **Control:** Includes the right to appoint the majority of directors, or control management, or policy decisions, exercisable by a person or persons acting individually or in concert, directly or indirectly, as defined under the Companies Act, 2013 and SEBI Regulations including by virtue of their shareholding or management rights or shareholders agreements or voting agreements or in any other manner;.
4. **Holding Company:** A company that controls one or more subsidiaries.
5. **Independent Director:** A director who satisfies the criteria for independence as per Section 149(6) of the Companies Act, 2013 and SEBI LODR Regulations.
6. **Material Subsidiary:** A subsidiary whose **net income** or **net worth** exceeds **10%** of the consolidated income or net worth of the Company and its subsidiaries, as per the immediately preceding financial year's audited financial statements.
7. **Net Worth:** Defined as per Section 2(57) of the Companies Act, 2013, calculated based on the latest audited balance sheet.
8. **Significant Transaction or Arrangement:** Any individual transaction or arrangement exceeding **10%** of the total revenues, expenses, assets, or liabilities of the unlisted subsidiary during the preceding financial year.
9. **Subsidiary Company:** A company controlled by a holding company as defined under

Section 2(87) of the Companies Act, 2013.

GOVERNANCE FRAMEWORK FOR MATERIAL SUBSIDIARIES

1. Independent Director on the Board of Material Subsidiaries:

At least one Independent Director of the Company shall be appointed to the Board of an unlisted Material Subsidiary, whether incorporated in India or abroad. For this provision, notwithstanding anything else in this Policy, a Material Subsidiary shall mean a subsidiary whose income or net worth exceeds 20% of the consolidated income or net worth of the Company and its subsidiaries in the immediately preceding accounting year.

2. Audit Committee Review:

- The Audit Committee of the Company shall review the financial statements and investments made by the unlisted Material Subsidiaries.

3. Board Oversight:

- The minutes of meetings of the Board of Directors of unlisted subsidiaries shall be presented to the Company's Board.
- A statement of significant transactions or arrangements entered into by unlisted subsidiaries shall be periodically brought to the attention of the Company's Board.

4. Annual Review by Management:

- The management shall annually present a list of subsidiaries, along with the materiality assessment, to the Audit Committee.
- Monitoring of investments in subsidiaries shall be undertaken whenever such investments are made, and consolidated income shall be reviewed during finalization of consolidated accounts.

RESTRICTIONS ON DISPOSAL OF SHARES OR ASSETS OF MATERIAL SUBSIDIARIES

The Company shall not, without prior approval of shareholders through a special resolution:

1. Dispose of shares in a Material Subsidiary, reducing its shareholding (individually or together with other subsidiaries) to below 50% or resulting in the loss of control over the subsidiary.
2. Sell, dispose, or lease assets amounting to more than 20% of the assets of the Material Subsidiary.

Exceptions:

These restrictions shall not apply if the sale/disposal/lease is:

- Made under a Court/Tribunal-approved scheme of arrangement.
- Approved under Section 31 of the Insolvency and Bankruptcy Code, 2016, and disclosed to the stock exchanges within one day of approval.



SECRETARIAL AUDIT FOR MATERIAL UNLISTED SUBSIDIARIES

In compliance with Regulation 24A(1) of SEBI LODR Regulations, every listed entity and its material unlisted subsidiaries incorporated in India shall:

1. Conduct a Secretarial Audit by a Company Secretary in practice.
2. Annex the Secretarial Audit Report in the Annual Report of the listed entity.

DISCLOSURE REQUIREMENTS

1. The Company shall disclose this Policy on its website and provide a web link to it in the Annual Report.
2. Disclosures regarding Material Subsidiaries shall be made in the Corporate Governance Report as part of the Annual Report.

AMENDMENTS TO THE POLICY

The Company is committed to periodically reviewing and updating this Policy to ensure compliance with applicable laws, regulations, and best practices. Any amendments, modifications, or waivers to this Policy:

1. Shall be approved by the **Board of Directors** through a resolution.
2. Details of amendments, along with the amended policy shall be published on the Company's website promptly.


